

PANEL DISCUSSION REPORTS

**INDIA-U.S.  
RELATIONS**

13<sup>th</sup> January 2017



Centre for Economy Development and Law



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The Panel Discussion on India-U.S. Relations is intended as a space to delve into the fabrics of the bilateral relationship, focalizing on areas of trade and development. The economic as well as political aspects of the strategic and policy shifts in both the countries stimulate a scholarly dialogue engaging expert panel.

## PANEL DISCUSSION REPORT

### **RAPPORTEUR:**

AMEYA M. R.

### **PANEL MEMBERS:**

Mr. M K BHADRAKUMAR, IFS (Former Indian Ambassador and writer)  
Dr. ANIL KUMAR P (Asst. Prof., University College, Thiruvananthapuram)  
Dr. UMA PURUSHOTHAMAN (Asst. Prof., Central University of Kerala)

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# **PANEL DISCUSSION REPORT ON INDIA-U.S. RELATIONS: THE ROAD AHEAD IN TRADE AND DEVELOPMENT**

The bilateral relationship between India and the United States has evolved through multiple stages ever since independence of the Indian state. In the relatively amiable situation that pervades today, several areas of opportune association are there from energy to economics, defence to development. The panel discussion on India-U.S. Relations organised by the Centre for Economy, Development and Law, on January 13, 2017 at Government Law College, Thrissur, from 10.30 am to 1.30 pm sought to bring in analytical understanding of the subject.

The panel chaired by Mr. M K Bhadrakumar, IFS consisted of Dr. Anil Kumar P and Dr. Uma Purushothaman.

## **THE BILATERAL RELATIONSHIP SINCE THE END OF COLD WAR**

Initiating the panel discussion, Dr. Anil Kumar P deliberated the evolutionary aspects of India-U.S. Relations in the post-cold war period. The end of the Cold war freed Indo-U.S. relations from the constraints of global bipolarity. A sea-change in the bilateral relation with more positive interactions becoming the norm is visible since then. India's full support of counter-terrorism operations around 2001 is notable at this point. After 2001, India-U.S. relation that was earlier described as 'estrangement' transformed into 'engagements' not only in economy and trade, but also in the military terms. The new framework for India-U.S. defence relations signed by the then Defence Minister Pranab Mukherjee on June 28<sup>th</sup>, 2005 and the joint statement issued during the time of Prime Minister Manmohan Singh mark the forging of a strategic partnership between the countries. A number of independent factors and developments created the climate for such a change:

1. The end of Cold War
2. Shared values and strategic interests
3. The China factor

The consequent rearrangement of inter-state allies at the end of Cold War allowed both India and the U.S. to revisit their relationship and redefine it so as to address the contemporary opportunities and challenges. The absence of a kind of 'security umbrella' after the demise

of the Soviet Union and shifts in international politics triggered this. Secondly, a set of shared values such as a democratic political system and strategic interests like that of countering terrorism enhanced the relation between the two. Several new threats emanating from non-state actors, use of weapons of mass destruction, natural disasters, illegal narcotics transportation etc. demanded greater global cooperation. Since no single nation, however strong, can deal with these issues alone countries that share common interests drifted into new partnerships. Finally, the image of India and the United States underwent a radical change. Similarly, the opening up of Indian economy to global market also positively affected the bilateral relationship.

Dr. Anil put forward his observation that the transformation in India-U.S. relation emerged from a fairly long process and its origin can be clearly traced back to Indira Gandhi's interest in a more constructive and flexible relationship with Washington. Later Rajiv Gandhi took forward her projects; his visit to the U.S. in 1985 resulted in a greater defense cooperation between the two. At the end of Cold War, Narasimha Rao took significant steps especially in economic terms in the wake of India's financial crisis of 1991. But the link was broken with India's second nuclear explosion in 1998. The next landmark in India-U.S. relations is when George W. Bush in 2001 sought a closer relationship while considering China as a possible counterweight. Prior to assuming his office in January 2001, he declared that he would alter the bilateral relationship in order to permanently entrench a large, vibrant and successful democracy that is India, among U.S. friends and allies. The Indian government responded with enthusiasm. At the time of the 11<sup>th</sup> September 2001 attack on American mainland, Indian government immediately offered virtually any military support to U.S. in responding to the attack.

This brief historical survey of India-U.S. relation reveals certain things:

1. India and the U.S. have been engaged in a rather steady relationship over the past two decades interrupted only by the nuclear test of 1998.
2. Almost all the major political formations in both the countries have been involved in encouraging the bilateral ties.
3. Every Indian government has tried to work with U.S. on nuclear matters.
4. Stronger military-to-military links have been pursued ever since Narasimha Rao. After 2001 attack, this included regular military training as well.

While discussing the context in which India-U.S. relationship is strengthening, naturally the focus shifts to China. India is open towards relationship with China also because it has recognised that permanently associating with a particular country will not benefit its interest to play a global role at a time when multiple power centres arise in international politics. A close look at India's foreign policy will doubtlessly show its 'soft balancing' strategy where countries engage in temporary alliances. This is identified as a good platform for India to bargain with all the major powers in international politics. Pakistan also is following the same strategy. Triangular relationships like that of India-U.S.-China are possible through this strategy. Venu Rajamony had presented this concept borrowing original ideas from Robert A. Pape and T V Paul. Political realists explain this kind of soft balancing as a tool for states in the post cold war era to balance against unipolar might, in which they leverage international institutions, economic state craft and diplomatic arrangements to counter balance the hegemon or competitor.

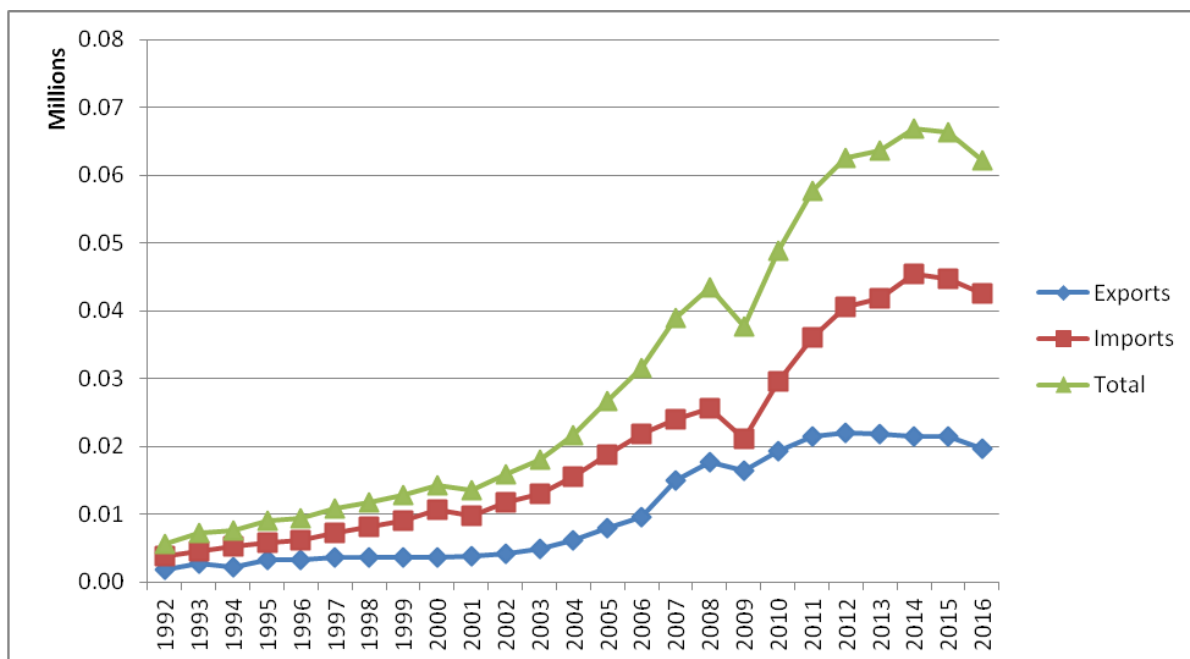
Dr. Anil Kumar's argument was that, India is pursuing the realistic soft-balancing strategy while counterweighing power dynamics are playing in subtle ways. Interplay between power disparities, compelling international situations, and strategic economic, technological dependence shape the state's choice of balancing strategy. The higher the power disparity and dependence, better the chances of choosing the soft-balancing strategy to ensure its security.

Concluding with an analytical note, Dr. Anil Kumar referred to different readings of impacts of the relationship with United States in India's neighbourhood. Considering the very strong trade relationship between U.S. and China, there is space for serious doubt whether the security concerns of India will be addressed in our favour by U.S. And also, he said, the very democratic foundation of both India and U.S. can be disturbing to China. India and U.S. are playing well against China in issues of regional security, based on the shared interests in the Indian Ocean region and regional organisations, he remarked.

### **TRADE RELATIONS BETWEEN INDIA AND THE U.S.**

Dr. Uma Purushothaman entered into the discussion from the generally accepted fact that the trade relations between India and the United States enhanced after the market reforms in India during early 1990s. The trade relation has contributed to the strategic partnership as

well. The U.S. ranks first among India’s export destinations, accounting for 15.3% of India’s total export in 2015-‘16. India gains a huge surplus in these trades as per statistical data.



U.S.-India Bilateral Trade (Image 1.01)

Through presenting graphical representations on India-U.S. bilateral trade (Image 1.01), she noted that U.S. imports to India has come down slightly during the past couple of years but still high above Indian exports to U.S. There was a steep increase in bilateral trade during 2010-14 and thereafter a decreasing tendency is observed.

U.S. direct investment in India (Image 1.02) has grown rapidly from 806 million USD in 2004 to 4.12 billion USD today. Through fluctuations over the years, U.S. FDI is more consistent since 2010 as compared to 2006-10. Dr. Uma also noted Indian investment in companies and treasury bonds in the U.S. Amidst these, there are many areas of debate related to bilateral trade. The access for Indian workers to the U.S. economy is primary of them. This serious issue has several times formed India’s negotiation in the World Trade Organisation (WTO) and taken the U.S. to the dispute settlement body.

The Indian American community is an influential economic interest group, including settlers and students, amounting to almost 1% of the U.S. population. People of Indian origin continue to occupy prominent political posts in U.S. administration as well. Indian Americans are able to advocate political interests with their economic power. Organisations

like The U.S.-India Political Action Committee (USINPAC) take part in U.S. Presidential elections by conducting interactive dialogues between the contestants and so on.



U.S. FDI to India in last ten years (Image 1.02)

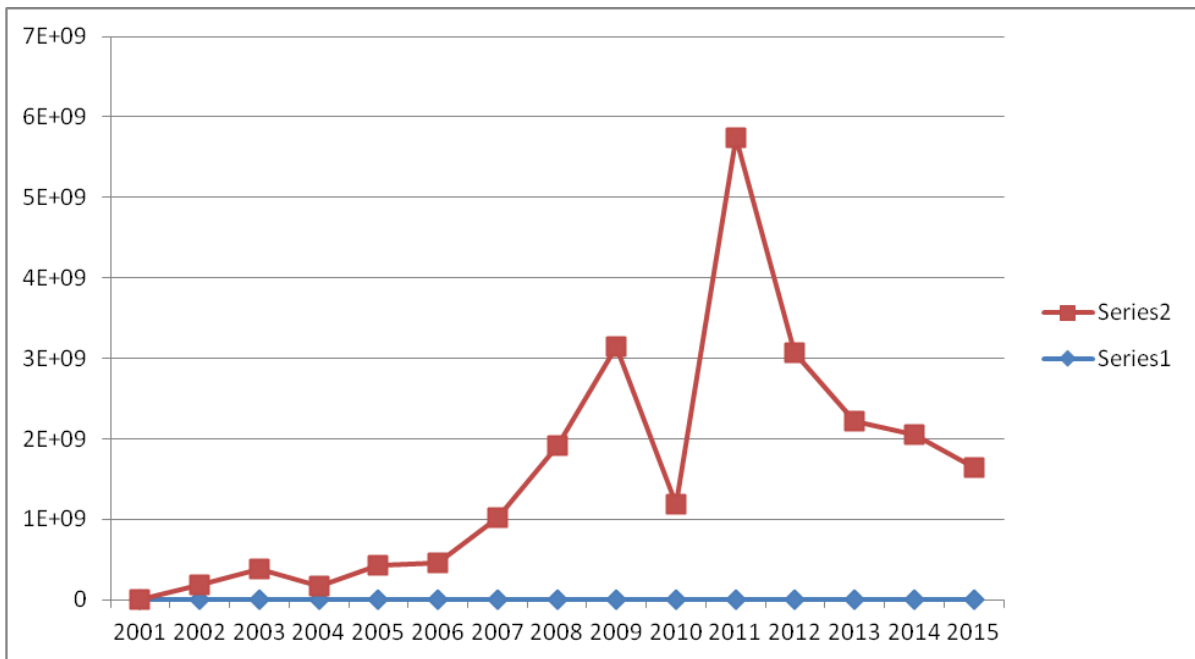
Coming to the factor developmental assistance, India has been in total the largest recipient of U.S. financial aid over the last 56 years. Israel ranks the second but it would be lifted to the first if military aid is considered. Most of this aid is given for population policies, reproductive health, environmental protection, education, agriculture etc. Dr. Uma brought to the notice of the listeners a recent White House press release that states,

The United States and India recognize the importance of efforts to expand financial inclusion as a means to fostering inclusive economic growth. Recently, building on a U.S. commitment of \$10 million made in November 2014, the two sides formalized a bilateral partnership with the Indian Ministry of Finance to establish a shared vision for India's inclusive digital economy. This new partnership will work with over 35 U.S., Indian, and international companies and organizations to expand acceptance by merchants of digital payments to advance our shared financial inclusion goals.<sup>1</sup>

This obviously opens critical links to the demonetisation policy adopted by the Indian government on November 8, 2016, potential enough for serious fact finding and contemplation.

<sup>1</sup> <https://www.whitehouse.gov/the-press-office/2016/06/07/fact-sheet-us-india-economic-cooperation-and-people-people-ties>

Dr. Uma then focused on the defence trade between India and U.S. Defence trade is a clear indicator of not only the economic but also the overall strategic relation between two nations. India-U.S. defence trade (Image 1.03) has increased from \$ 12 billion last year to \$ 14 billion this year. The Donald Trump government is likely to continue encouraging the tendency, she observed. And also, if the confrontational attitude of Trump towards China persists and the U.S. needs to contain China, it will strengthen partnership with India considering physical proximity. This can make India their natural ally if other obstacles are overcome. In addition to these, if the relationship between the U.S. and Russia is enhanced, India will be able to benefit from a triangular relationship with the two in areas of finance and technology. Recently, the U.S. State Secretary of Defence Ashton Carter finalised India’s designation as a “major defence partner” of the United States. All these apparently suggest further heights in India-U.S. defence trade.



FMS (authorizations) to India: 2001-15 (Image 1.03)

The element of uncertainty brought in by the election Donald Trump cannot be neglected. However, Dr. Uma expressed her hope that it will be of lesser concern outside pharmaceutical industry which has been enjoying gross U.S. FDI in the last few years. In her opinion, the major areas of future global economic cooperation will include trade, defence and civil aviation.



## **TRAGECTORY OF THE RELATIONSHIP SINCE INDIA'S INDEPENDENCE**

Mr. Bhadrakumar talked about the historical aspects of the India U.S. relations and its development. He stated that it has always been a cherished desire of the Indian elite to be part of the Western community. He narrated a conversation between the former ambassador to Soviet Union Sarvepalli Radhakrishnan and the then Soviet Minister Aleksandr Vasilevsky at a time when the UN had passed resolutions on the Kashmir issue completely against India's interest and hope. Mr. Radhakrishnan asked for the help of Soviet Union, which was duly noted by Mr. Vasilevsky, and ever since then the Soviet Union consistently exercise their veto in support of India. Considering the historical aspects, if the relationship between India and the U.S. did not take place, it was a matter of choice and decision from the American side. India got rebuffed in her early attempts to connect with the U.S.; but the second term of President Bill Clinton (1997-2001) showed clear changes and the visit in the year 2000 being a landmark event.

The reasons behind this change of attitude of the U.S. can be many. The economic reforms piloted by Manmohan Singh under the political umbrella provided by the then Prime Minister Narasimha Rao is a significant one. India began to be marked as a potential market. And also, China which was emanating in a triangular relationship with the Soviet Union and the West started pulling away from the relationship. By the mid 1990s much change were brought to the international relationship between the Russia, China and the Western world. This was another factor in the American calculus - the newly opened access to the Sino-Russian contour where the U.S. set out to play the requirement game for balancing. They began looking at India in terms of partnership and the hostility started slowly subsiding. Three years after the end of the Cold War, Russia wanted to send cryogenic engines to India but the Americans objected it. The decision by Narasimha Rao to prioritise the relationship with the U.S. was strongly pushed by the economic crisis of the time that pressed India to seek economic assistance from the International Monetary Fund (IMF). From the American side, it was a mixture, including the likelihood of India becoming a major power in the conceivable future and also the changing correlation of forces regionally and internationally in terms of China's rise and Russia's drift away from the Western world.

Mr. Bhadrakumar critically observed that, even if we safeguard the India-U.S. relationship with much rhetoric such as democracy and shared values, it is a transactional relationship at the core. Because of the same reason it is going to face serious difficulties in the Trump era.

Trump has indisputably stated his “America first” policy in foreign relations and the revival of national economy in order to benefit the natives most. For the American military industrial complex, export of weapons is very important and hence evermore the chances of increase in defence trade with India. He also challenged the assumption that India will be used as a counterweight to China, on the basis of the fact that Indian GDP is merely one fifth of China’s and also considering the strong economic interdependence developed between the U.S. and the China. Mr. Bhadrakumar went on to forecast that the U.S. under Trump will demand China to help them rebuild their transportation and infrastructure, through very robust negotiations which may ultimately satisfy China with their expanded investment in the U.S. If such a relationship takes off India will not figure anywhere in the premises. He reflected that, the kind of transformation that Narasimha Rao had envisioned while redefining the bilateral relationship with the U.S. has failed to be delivered. The lauded cumulative U.S. investments and India’s export basket of stones and pharmaceuticals are not promising to deliver the developmental requirements of their “indispensable partner” as the U.S. calls it.

Discussions further drew responses from the experts. The pros and cons of soft-balancing strategy and the necessity to stick on to it were questioned by the participants. Concerns about the defence trade and uncertainty relating to employment and development claims were also raised. It was clear from the discussion that the relationship between India and the U.S. cannot be analysed in isolation from other international players.

The session concluded by 1.30 with formal thanks from Mr. Abhilash Gopinath, the coordinator of the centre.