



Beyond the Plateau in U.S.–India Relations

The Heritage Foundation and the Observer Research Foundation

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About the Authors

From the Observer Research Foundation, New Delhi

Sunjoy Joshi, Director

C. Raja Mohan, PhD, Head, Strategic Studies and Distinguished Fellow

Vikram Sood, Vice President, Center for International Relations

Rajeswari Rajagopalan, PhD, Senior Fellow

From The Heritage Foundation, Washington, D.C.

James Jay Carafano, PhD, Vice President, Foreign and Defense Policy Studies, E. W. Richardson Fellow

Walter Lohman, Director, Asian Studies Center

Lisa Curtis, Senior Research Fellow

Derek Scissors, PhD, Senior Research Fellow

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(202) 546-4400 | heritage.org

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Abstract

Few relationships among major powers have been transformed so comprehensively in recent years as that between India and the United States. Yet, there is a growing sense in both New Delhi and Washington that the much-heralded partnership has not lived up to its promise. In short, the relationship has plateaued. This Special Report by the Observer Research Foundation in New Delhi and The Heritage Foundation in Washington, D.C., is about understanding this paradox and finding ways to rekindle the strategic enthusiasm between the two countries. The sections in this report offer specific proposals for advancing bilateral cooperation in various sectors, such as the economy, defense, regional security in East and Southwest Asia, nonproliferation, and counterterrorism.

Introduction

In real terms, there is no denying the extraordinary progress in the engagement between India and the United States over the past two decades. Throughout, and even after, the Cold War, the world's two largest democracies remained estranged. In the first decade after the end of the Cold War, the two countries quarreled over nuclear nonproliferation; the U.S. role in the India–Pakistan disputes, especially the question of Jammu and Kashmir; terrorism; trade and finance; regional security in the Middle East and Asia; and multilateral issues. India's defiance of the international community by conducting five nuclear tests in May 1998 put the two nations on a confrontational footing. The U.S. led the international sanctions against India and demanded a rollback of India's nuclear and missile programs. New Delhi refused but embarked on a substantive and consequential dialogue on security issues with Washington.

President Bill Clinton visited India in 2000, the first American presidential visit to the country in more than two decades, despite the unresolved

differences over India's nuclear program. As a non-signatory to the Nuclear Nonproliferation Treaty, India's pursuit of nuclear weapons and testing of nuclear devices in 1974 and 1998 put it at odds with U.S. nonproliferation policies, and made New Delhi a target of the international nonproliferation regime. Clinton's recognition of the need to deal with India on an exceptional basis was translated into reality by George W. Bush. President Bush removed the Kashmir dispute as an irritant in the relationship, de-hyphenated U.S. dealings with India and Pakistan, and invested much political capital at home and abroad to end India's prolonged nuclear isolation. President Barack Obama, despite his reservations on the civil nuclear deal initiated by the Bush Administration in 2005, extended its logic by supporting India's membership in the various international export-control groupings. He also backed New Delhi's permanent membership of the United Nations Security Council.

Beyond these high-profile initiatives, the sustained engagement between three different U.S. Presidents and two Indian prime ministers has laid

the foundation for a strong partnership. Considering that the two countries did not cooperate for decades and were near strangers in the middle of the 20th century, the scale and scope of their current bilateral engagement is truly impressive. While Washington has a bigger, stronger economic relationship with China, its economic relationship with India involves fewer political problems. While the U.S. military engagement with Pakistan is deeper than that with India, New Delhi—unlike Islamabad—has not, in any way, undermined the American effort in Afghanistan. More than 30 forums of bilateral U.S.–India consultations are currently underway. The trade and investment relationship has gathered momentum. India, which previously never bought major defense equipment from the U.S., has imported nearly \$10 billion worth in the past few years. India's armed forces exercise more with the U.S. military than with any other country's military. Their law enforcement and intelligence agencies have rapidly expanded counterterrorism cooperation. This is rapid acceleration from a near-zero base, by any measure. Understanding the current sources of frustration between the two countries, then, becomes necessary for charting out the road map for the future.

At least four factors help explain the paradox of unprecedented progress and continuing disappointment in India–U.S. bilateral relations. The first is rooted in strategic culture. American post–Cold War foreign policy has been characterized by quickly shifting priorities and short spans of intense attention. On the other hand, few countries are as slow as India in shifting from one frame of reference to another. Those Americans who demand that India do more on the foreign policy and security fronts tend to forget that the United States was equally slow in adapting to the global changes at the dawn of the last century. Although the United States was the number one industrial power by the end of the 19th century, it took nearly half a century and two world wars before it assumed international responsibilities commensurate with its size. India, on the other hand, must recognize that opportune moments in the United States must be seized to consolidate forward movement. After having invested a great deal of personal political capital on seeing the nuclear deal through in the face of stiff domestic opposition, a general lack of purpose during a large part of the second term of the Manmohan Singh government

may have impacted precious national opportunities, not limited merely to the relationship with the United States.

Instead of an approximation of a traditional alliance relationship founded on presumed common geostrategy, New Delhi and Washington should focus on pragmatic cooperation on the basis of the intersection of their narrower respective interests.

The second factor is rooted in the reality that significant sections of the vast bureaucracies in both countries remain tied to default positions toward the other that are not conducive to a deeper bilateral partnership. It must be borne in mind that the dramatic changes in India–U.S. relations were driven from the top by political leaders on both sides and pushed through the customary inertia of reluctant bureaucracies by a few energetic decision makers. The same forces of habitual inertia may have struck back after the heady days of conceptualizing and implementing the civil nuclear initiative between 2005 and 2008. Both New Delhi and Washington need continuous tending of the bilateral relationship at the highest political level. In both democracies, it is not unusual that political leaders find it difficult to devote sustained attention to a single issue. The inability to do so in the past few years has had a negative effect on India–U.S. relations. The cycles of political clarity and activism in New Delhi and Washington have not been in sync.

Third, there have been genuine policy missteps in both New Delhi and Washington with unintended negative consequences for the bilateral relationship. The first year of the Obama Administration saw the United States try to construct stronger relations with Pakistan and China without reference to India's sensitivities and interests. The assumption in Washington that the road to peace in Afghanistan demanded Indian political concessions to Pakistan raised genuine concerns in New Delhi that President Obama was abandoning President Bush's neutrality on the question of Kashmir. Similarly, President Obama's attempt to accommodate China's rise

through “strategic reassurance” and collaboration on regional and global issues generated deep apprehensions in New Delhi about the potential consequences of a Sino–U.S. duopoly in Asia.

To be sure, President Obama corrected the direction and reaffirmed the importance of India in the American worldview. But there was no denying the damage in New Delhi and the perceived need to hedge against significant reversals in the U.S. policy toward India. In New Delhi, the Congress Party, which returned triumphant in the 2009 elections, believed that economic populism was the key to its political success. This, in turn, resulted in a de-emphasis of economic reforms, and public discussion of some of the old foreign policy approaches, such as non-alignment. There is some recognition in New Delhi of the costs of these strategic errors, and the Indian government is working on reviving economic reforms and rejuvenating its foreign policy. Yet, there is no denying that the past three years generated many anxieties among India’s friends in the United States and beyond about New Delhi’s political commitment to the partnership. India’s parliamentary management of the nuclear-liability legislation also created difficulties for the U.S. nuclear industry, which was hoping to make big investments after the historic civil initiative.

Finally, there has undoubtedly been some exaggeration of the possibilities in the bilateral relationship. In both of these large democracies, making the case for a fundamental change in the structure and direction of bilateral relations in the face of considerable skepticism arguably raised expectations that could not be met. Realists on both sides, however, know that India was never going to be an Australia or Japan to the United States. Instead of an approximation of a traditional alliance relationship founded on presumed common geostrategy, New Delhi and Washington should focus on pragmatic cooperation on the basis of the intersection of their narrower respective interests.

If the India–U.S. relationship was imagined in the past decade in abstract terms and lofty possibilities, the reality today is that both New Delhi and Washington need each other even more than before. In the 2000s, the United States was at the peak of the unipolar moment. What drove Washington to re-craft the relationship with New Delhi was not the prospect of immediate gain or an urgent need for Indian partnership, but the perceived value of

a long-term strategic investment in India. For New Delhi, the affections of George W. Bush and the civil nuclear initiative constituted an unexpected and significant political bonus at a moment when India’s international trajectory was on an upward trend. Today, when Washington and New Delhi find themselves in more difficult circumstances, their bilateral partnership acquires greater salience. It is no longer aspirational, but an important mutual need.

At the core of the revitalized relationship must be a strengthened economic engagement. The economic crisis in the United States and the slowdown in India’s growth have increased the value of a deepening partnership. Plenty of good ideas are around; these include the conclusion of a bilateral investment treaty, the negotiation of a free trade agreement, promotion of energy security at a moment the U.S. is likely to emerge as a major exporter of natural gas, and liberalization of American work visas for Indian service professionals. These proposals, however, must be related to a renewed commitment to economic liberalization on both sides. Despite the intense politicization of economic policy in both countries, it should be possible to find many convergences and work on them. At the political and strategic level, India, like so many other nations after the Cold War, has often worried about unconstrained American power. At this juncture, though, India must concern itself more with the consequences of a potentially precipitous decline in American power or the loss of U.S. political will.

India needs an America strong enough to protect its own multiple global and regional interests. As the U.S. continues its role as chief defender of the global commons, India must do its share, particularly in the Indo–Pacific region. The U.S.–Indian partnership is indispensable to regional peace, security, and prosperity. In two critical regions—Southwest Asia and East Asia—the convergence of Indian and American interests has been stronger than ever before. These include the:

- Management of the regional consequences of growing Iranian power, especially in the Persian Gulf, where India has huge stakes;
- Dampening of religious and sectarian extremism that is gathering traction;

- Stabilization of Afghanistan;
- Promotion of economic modernization and political moderation in Pakistan;
- Encouragement of responsible Chinese behavior and peaceful management of its territorial disputes;
- Prevention of the neutralization of the Chinese periphery;
- Avoidance of the breakdown of the nuclear order in East Asia; and
- Security of the maritime commons of the Indo-Pacific.

All these challenges demand innovative thinking, more intensive bilateral political consultation, and stronger policy coordination. The authors of this *Special Report* are hopeful that it will help begin this critical task.

India, the United States, and Southwest Asia

New Delhi and Washington have made much headway in better understanding each other's interests in Southwest Asia—Iran, Afghanistan, and Pakistan—in the past few years. When President Obama took office in January 2009, there was a real danger that competing approaches to the region by the new Administration and the Indian government might generate irreconcilable tensions and undermine the basis for the bilateral strategic partnership that emerged in the Bush years. These divisive issues included potential American mediation on the territorial dispute between India and Pakistan over Kashmir, the perception in Washington that India might be part of the problem in Afghanistan, and the deep American concerns about India's attitudes toward Iran. Prudence on both sides and the political determination in both capitals to advance the bilateral relationship helped India and the United States avoid these pitfalls and effectively manage and reduce the bilateral differences. The second term of the Obama Administration offers possibilities to move from the management of differences to building enduring cooperation in Southwest Asia.

Iran. There was much misunderstanding in Washington of the nature of India's relationship with Iran, and insufficient appreciation in New Delhi of President Obama's attempt to craft a different American approach to Iran. Washington appreciates New Delhi's need to maintain a reasonable relationship with Iran, which shares borders with Afghanistan and Pakistan, is a major source of hydrocarbons, provides India access to Western Afghanistan and Central Asia, and is a potential partner for New Delhi in coping with the consequences of internal change in Afghanistan after the withdrawal of American combat troops. New Delhi in turn appreciates American concerns about the consequences of a nuclear Iran for the balance of power in the Gulf and the Middle East. India has implemented the United Nations sanctions against Iran and has decreased its imports of Iranian oil. As a result, it has avoided American sanctions. Unlike Russia and China, India has not sought to use Iran as a bargaining chip in its relations with the United States.

While the sanctions have been effective and put Iran's economy under considerable strain, Iran is unlikely to surrender its nuclear weapons program

easily. While the use of force must remain an option of last resort, negotiation with Tehran is the preferable way of halting it and establishing a stable balance of power in the Gulf and the Middle East. The problem that Iran poses is not just one of nuclear proliferation. As the Middle East faces the turbulence generated by the Arab awakening and the schism between the Shia and Sunni communities is exacerbated across the region, both Washington and New Delhi will benefit from framing the Iran challenge within this larger context. Focusing on the regional balance of power would open a much broader template and generate new possibilities for collaboration between New Delhi and Washington. Because the use of force will greatly complicate the prospects for forging this balance of power, a mature U.S.–India partnership on the issue puts the onus on both countries to facilitate a peaceful end to Iran's nuclear program. For the sake of U.S.–India cooperation, it is necessary for New Delhi to understand that the U.S. will not tolerate a nuclear-armed Iran.

Afghanistan. The re-election of Barack Obama has eliminated any uncertainty about the impending withdrawal of U.S. combat troops by 2014. Everything else, however, seems shrouded in uncertainty. The pace of this withdrawal in 2013 and 2014; the size, structure, and legal basis for the residual force to be left by the U.S.; and the credibility of the U.S. and its allies for delivering an annual funding of around \$4 billion to support the Afghan National Army and police are all undetermined. If the political support in the U.S. and among its allies begins to evaporate, many of the current assumptions about the NATO strategy for stabilizing Afghanistan could unravel. The defining political moment in Afghanistan is unlikely to wait until 2014. As the country begins to see substantive withdrawal of U.S. forces, there could be much dynamism in the ground situation beginning in the summer of 2013.

Put another way, U.S. policy could change significantly amidst the changing political dynamic in Afghanistan and the shifting mood in Washington. India was surprised by the “surge and exit” strategy announced by President Obama in December 2009. Since then, though, India has been quite reconciled to the possibility that the U.S. will leave Afghanistan sooner rather than later. New Delhi seeks clarity and finality in the U.S. strategy toward Afghanistan

that will help define India's own adaptation. New Delhi is acutely conscious of the possibility that the decade-long American involvement in Afghanistan could end in failure, which in turn could dramatically boost the jihadist forces in the Afghanistan–Pakistan region and threaten peace and stability across and beyond the subcontinent.

Although India and the United States share the goal of stabilizing Afghanistan, they differ on how to achieve it. On the key question of political reconciliation with the Taliban, New Delhi is more skeptical than Washington. Many in New Delhi see renewed American reliance on the Pakistani army to deliver the Taliban to the negotiating table and to crack down on terrorist networks based in Pakistan's territory as a triumph of hope over experience. The contradictions between the interests of Kabul, Washington, and New Delhi, on the one hand, and those of Rawalpindi, on the other, seem real after the experience of the past decade. There is some concern in India that in its attempt to leave Afghanistan as quickly as possible, the U.S. might offer too many concessions to the Pakistani army in Afghanistan.

For the sake of U.S.–India cooperation, it is necessary for New Delhi to understand that the U.S. will not tolerate a nuclear-armed Iran.

Pakistan. Whatever the initial Indian reservations about President Obama's understanding of the India–Pakistan dynamic, New Delhi today acknowledges the President's willingness to take India's sensitivities into account. Obama's decision to avoid injecting himself into India–Pakistan disputes allowed Indian Prime Minister Manmohan Singh to initiate and sustain an engagement with Islamabad, despite much domestic resistance at home after the attacks on Mumbai in November 2008. This patient effort has produced some impressive results in the form of an agreed roadmap between the two

countries for normalizing trade relations and liberalizing the visa regime. President Obama has been supportive of limited India–Pakistan rapprochement and more open than the previous Presidents in confronting the sources of international terrorism in Pakistan.

While President Obama's first term was productive, there are some potential dangers in the second term that need to be flagged. Despite much disillusionment in the United States regarding Pakistan's support for stabilizing Afghanistan, the Obama Administration appears to have no alternative but to engage the Pakistani army to facilitate the withdrawal of U.S. forces from Afghanistan by 2014, promote political reconciliation with the Taliban, and leave Afghanistan in reasonable shape. There is some concern in New Delhi that these imperatives might result in a renewed temptation to appease the Pakistan Army through a variety of measures that might conflict with India's interests.

This concern is rooted in India's historic wariness about the U.S.–Pakistan relationship. While Washington's policy of de-hyphenation (developing separate policies toward India and Pakistan) has helped ease these concerns, the time has come for New Delhi and Washington to construct a new approach. Despite their strong interests in the stability of Pakistan, India and the United States have never engaged in a productive dialogue on Pakistan itself. During the Cold War, the two sides argued endlessly about Pakistan, and in the last decade chose to put it aside. There is now, however, an opportunity to begin a productive India–U.S. dialogue on Pakistan's future. The current, profoundly negative, trends in Pakistan demand that India and the U.S. find ways to work together to promote political moderation, economic modernization, and democratic transformation in Pakistan. There is no divergence between New Delhi and Washington on these goals, and neither has the power to unilaterally alter Pakistan's current trajectory. It is only by coordinating their respective approaches toward Islamabad that New Delhi and Washington can help engineer a positive evolution of Pakistan.

Partnership in East Asia

Regarding East Asia, there is a basic incongruence in U.S.–India relations. The U.S. sells a broad strategic rebalance, complete with a role for India, while Indian diplomats stress direct Indian interests. It is around the two countries' specific interests, not grand strategic vision, that a sustainable partnership must be built. In some cases, there will be a compelling degree of convergence of interests; in others, too little to pursue. In the spirit of partnership, a limited number of cases will require each side to prioritize the partially shared interest of the other.

Given the high stakes for the United States in the Western Pacific and the Indian commitment demonstrated by more than 20 years of concerted engagement in the region, there should be plenty of areas in which the two countries would find it in their mutual interest to cooperate. The U.S. interests in East Asia include free trade and liberal investment regimes, managing the consequences of China's rise, and promoting human liberty. India also is interested in promoting free trade and investment, as well as maintaining peaceful, productive India–China relations and effectively managing its northeastern border.

Regional Trade and Investment. The confluence of U.S. and Indian trade and investment interests in the region means that each should facilitate the other's involvement in regional trade discussions. India already has a free trade agreement (FTA) with the Association of Southeast Asian Nations (ASEAN). It has economic partnership agreements with Japan and South Korea. It also has a seat in the 16-nation Regional Comprehensive Economic Partnership (RCEP) negotiations formally launched in November 2012. The U.S. will not have a seat in the RCEP for the foreseeable future due to the political differences and economic mismatch with some of ASEAN's less-developed members. Conversely, India is outside the American-led Trans-Pacific Partnership (TPP). The two sides should work to achieve observer status in the negotiations to which they are not party. This will help each side better understand the other's negotiating positions and the interests and objectives of each grouping, as well as ease suspicion regarding their competing interests.

For similar reasons, the U.S. and India should make membership for India in the organization of

Asia–Pacific Economic Cooperation (APEC) a priority. Both RCEP and TPP have been formally identified by APEC as building blocks toward the long-term goal of a free trade area of the Asia–Pacific (FTAAP). Membership in APEC will be a requirement for inclusion in that agreement. Furthermore, APEC standards will only grow in importance as that long-term vision comes into view. India should be both a contributor to those standards and stakeholder in them.

China's Rise. Common U.S.–India ground on balancing China's rise is often exaggerated by the strategic community—especially in the U.S. First, while clearly engaged in balancing behavior vis-à-vis China, neither side consistently pursues a “balancing” strategy. Both are also extremely careful for fear of complicating their relationships with China.

From the Indian perspective, China is, first, a neighbor—a relatively strong one that the Indian foreign policy establishment is loath to provoke. All analysts testify to the searing impact of the 1962 conflict on India's current policy calculations. Second, China is economic opportunity. It is India's largest trading partner, and each country has nascent, growing investment interests in the other.

The American policy of containing China ended 40 years ago. The U.S.–China relationship may have experienced discomfort since, but it has steadily progressed in terms of interaction and interdependence. And, it has remained peaceful. On the economic front, in fact, China is a far more important partner to the U.S. than India. China is America's number two trading partner, while India is number 13—the difference almost tenfold in dollar terms. In diplomatic terms, the U.S.–China relationship is resilient and broad, if short on concrete results.

The U.S. and India may both have a mixed policy vis-à-vis China, but because it is mixed, they are often out of cycle, each protective of its own prerogatives in pursuit of its own narrow interests. The Indian side, in particular, is sensitive to being perceived as caving to American strategic interests, while the American relationship with China is so encompassing of its bureaucracies' energies that it has an independent dynamic all its own.

The U.S. and China have basic conflicting interests. These include the status of Taiwan and China's provocations in what it calls its “near seas,”

particularly the South China Sea and East China Sea. On Taiwan, the differences between the U.S. and China are currently obscured by a Taiwanese domestic political situation—election of a China-friendly government—that is felicitous to both sides’ near-term interests. Over the longer term, however, there is nothing in Taiwanese politics to suggest that the most ambitious of China’s goals—unification—is a prospect. Taiwanese President Ma Ying-Jeou was re-elected in 2012 on a platform swearing off unification. The political opposition in Taiwan is directly founded on this issue. In fact, judging by recent elections, opposition politics in Taiwan is only maturing and strengthening, which means Taiwan is likely to remain staunchly opposed to unification. For this reason, U.S.–China differences over Taiwan will remain.

The Chinese have repeatedly identified their extralegal, expansive claims to the South China Sea as a “core” geographical interest on par with Taiwan–China unification. The U.S. interest is principally the freedom-of-navigation equivalent to freedom on the high seas. Historically, freedom of the seas has proved a powerful driver of American foreign policy—going back to its founding. More concretely, nearly half of global trade and 80 percent of Northeast Asia’s energy supplies transit the South China Sea. These are resources critical to the global supply chains that power much of the global economy and upon which American prosperity relies.

In the East China Sea, China’s chief antagonist happens to be an indispensable American ally—Japan. American sympathies, the strength of the Seventh Fleet, and its treaty commitments put it squarely on the side of the Japanese.

The keys to successful American management of these conflicts with China are its forward-deployed armed forces, its alliance structure, and vigorous diplomacy. India cannot contribute in the first two instances. On the latter, its influence is marginal. Since the 1992 inauguration of India’s “Look East” policy, despite thorough involvement in the diplomatic architecture of the region, India’s presence in the region has continued to lag behind that of China. According to ASEAN’s accounting, local data, from 1998 to 2010, China’s share of ASEAN trade rose from 3.5 percent to 11.3 percent, while India’s share rose from 1.2 percent to 2.7 percent.¹ Total direct investment inflows from China to ASEAN from 2003 to 2009 were more than twice those from

India. Although 2010 shares were much more closely matched,² they were not nearly enough to make up the accumulated difference.

The success of India’s “Look East” policy, to the extent it complicates Chinese diplomacy in Southeast Asia is good for the U.S. Its measured engagement in the Western Pacific and commercial interests in the South China Sea help put the problems there in an international light. Its statements about freedom of navigation in the South China Sea serve as useful political statements limiting Chinese ambitions. And, although in the strict legal sense, India’s position is currently closer to the Chinese interpretation regarding navigation in exclusive economic zones, there is room for more explicit alignment of U.S. and Indian positions on China’s extensive extra-legal nine-dash maritime claims.

How helpful the U.S. can be to India’s relationship with China also is limited. The U.S. has its own long list of priorities in its relationship with the Chinese. The U.S. could refrain from giving the Chinese a leg up in South Asia—as it did in the 2009 U.S.–China Joint Statement endorsing U.S.–China cooperation there. But beyond this, the U.S. may be unwilling to carry any water for India in Beijing. It is unclear how the U.S. would position itself if conflict broke out between China and India. The U.S. Ambassador to India, Nancy Powell, recently endorsed India’s claim to Arunachal Pradesh, but Washington maintains ambiguity on the disputed border with China in Kashmir (referred to as the Western Sector).

Human Liberty and Development. It can be said that the most idealistic phase of Indian foreign policy was abandoned in the mid-1960s with the ending of the Nehruvian era.³ In the case of Southeast Asia, India’s foreign policy became more pragmatic with the 1993 opening to Burma. Given the worsening human rights situation there at that time and for many years to come, the Indian change constituted a major shift in approach from measured support for liberty to direct influence with the generals in Rangoon—predominantly out of concern for development and security in India’s northeast.

In the broadest sense, India has largely failed regarding influence in Burma. Burma–China trade is four times greater than Burma–India trade. As for investment, Burma reports China’s share of foreign direct investment at 33 percent, India’s at less than 1 percent.⁴ The closer one gets to India’s “gateway to the east” on the Burmese border, the worse

the numbers get. Only 0.15 percent of India–Burma trade occurs there.⁵ Historian Thant Myint-U, who travelled extensively throughout Burma for his 2011 book *Where China Meets India: Burma and the New Crossroads of Asia*, characterizes “contemporary Indian influences” in Burma as “practically non-existent.”⁶

On the other two scores, the U.S. should help India. It can assist in the development of new, rebuilt trade routes and help to substantiate India’s connectivity with Southeast Asia—both of which contribute to Indian border security. Development of infrastructure beneficial to India’s strategic position in Burma should be a regular matter of consultations and coordination among the U.S., India, Japan, and Australia. By coordinating plans and assistance and bringing in institutional forces, such as the Asian Development Bank, attention to the Burma–India border can become a greater priority in the U.S.–India relationship.

Where India can meet U.S. interests is in the area of human liberty. Enabled by distance and a global perspective of its own interest, U.S. policy on Burma has until recently revolved almost exclusively

around human rights issues. Continued progress on human rights, in fact, will be necessary for sustained American engagement in Burma. To the extent that American assistance in Burma is a priority for India, fostering an environment that will keep the U.S. engaged there is also in India’s interest.

India may lack economic and diplomatic influence in Burma, but given its historic, cultural, and ethnic connections, it can be a helpful voice for democratic reform there. Burma has opened up new avenues for dialogue for all comers. India can use these avenues to promote a more vigorous, positive engagement with the democratic opposition and vocal support for political (and economic) reforms already endorsed by the Burmese government.

A back-to-basics interest-based approach to U.S.–India cooperation in East Asia will mean singling out areas of little common interest and setting them aside in the cause of cooperation on intersecting ones. It will require each side to stretch to meet the goals of the other in some areas where there is marginal mutual interest. In so doing, it will enable cooperation in areas, like economics and trade, where there are real shared interests.

Counterterrorism Cooperation

The international counterterrorism effort, particularly since 9/11, has had remarkable success in containing and degrading several terrorist groups across the world, especially al-Qaeda. This has been possible following the U.S. initiative, at considerable human and financial cost, against terrorism culminating in the elimination of Osama bin Laden on May 2, 2011. Although al-Qaeda has suffered substantial degradation and leadership loss in the past decade, the terror threat still exists. The other key factor that contributed to this degradation was the network of alliances and partnerships that the U.S. was able to create in countering terrorism across continents.

Although the U.S. counterterrorism strategy was at times contentious within the international community, there have been some significant universally accepted lessons. First, the gravity of the terrorist threat and its transnational nature is now well understood. Second, the nature of the terrorist threat has become more complex and diffuse to the point that terrorists find shelter in more secure niches in urban surroundings as well as in the cyber world. Third, there is need to innovate and use cutting-edge technology to outsmart terrorist groups. Finally, the need to forge partnerships between international stakeholders is now clear.

Frequent U.S.–India interactions and training courses between the investigating agencies of both countries have deepened their cooperation and understanding in countering terrorism. There is now a broader political consensus in New Delhi and Washington post–November 2008 stressing continued robust and comprehensive bilateral cooperation to counter new and complex threats.

The Evolving Threat. Post-9/11, terrorists and terror groups have evolved, despite setbacks, in terms of their reach, range, organization, and methods, including their use of modern technology. Operational capabilities have improved and local groups have become global threats, while smaller groups have networked with other groups to magnify their capabilities and threats. Some of the attacks on Pakistani military establishments have created the fear that these may be trial runs to attack the country's nuclear sites.

Different extremist and terrorist groups today dominate or influence a larger geographical area than in the past. This phenomenon is apparent in

Afghanistan and Pakistan. Al-Qaeda has moved toward the Arab world and Africa, closer to U.S. strategic interests in the region, but other problems remain in Pakistan and Afghanistan. For instance, Pakistan's attitude toward the Taliban and the Haqqani network, along with other groups targeting India, has remained suspect. The picture is further complicated by the power struggles and uncertainties in the Arab world, which are exacerbated by the rivalry between Iran-led Shia groups and groups allied with Sunni Saudi Arabia. The violence and turbulence in the region has allowed terrorist groups, including al-Qaeda, to move quickly into Syria and other countries.

India's Four Key Concerns. It is now well established that most of the terrorism in India has had its origins and bases in Pakistan with the patronage of some elements of the state, which additionally keeps the terror infrastructure intact. The terrorist group that concerns India the most is Lashkar-e-Tayyiba (LeT).

The LeT has been involved in some of the most serious terrorist attacks in India in the recent past, backed by enormous resources and patronage of the Pakistani security services. Even after the November 2008 terror attacks in Mumbai, the LeT remained untouched by Pakistan and has been successful in reorganizing its structure to prevent any crackdown. The LeT's growth is noticeable in three areas: (1) expanding and strengthening its alliances with pan-Asian groups in countries such as Sri Lanka, Nepal, the Maldives, and Bangladesh; (2) the recruitment and training of foreigners, mainly from the U.S. and Europe, using well-established religious contacts; and (3) fundraising programs focusing on West Asia, the United Kingdom, other parts of Europe, and the U.S.⁷ The LeT's footprints are found today in over 30 countries, including the U.S., and the group has become more sophisticated in its operations and use of technology.

The second Indian concern has been the close proximity of terrorist groups to the Pakistan Army and its intelligence wing, the Directorate of Inter-Services Intelligence (ISI). The Pakistan Army's and ISI's involvement in fomenting insurgency and terrorism in India's northeast, as well as in Kashmir and beyond in India's heartland, is well documented. Pakistan's unwillingness to act

against its own radical extremist groups intensifies this concern.

India's third concern is the growing radicalization in Pakistan, often directly encouraged by the state authorities, or indirectly encouraged by its inability to counter the expanding radicalism. Religious places and groups promoting extremist ideology and politics have increased in number and moved from fringe areas to center stage in Pakistan. The state's multi-layered association with such groups has remained unchanged, despite the growing evidence of threats from these groups to Pakistan itself. Instead, the state is more involved in co-opting these groups as instruments of influence in domestic politics. The inability or the unwillingness of the moderates and liberals or the political parties to condemn radicalism is worrying.

Disentangling state sponsorship of terrorism in and by Pakistan will be one of the biggest global challenges in coming years.

The steady radicalization of the armed forces, including its intelligence agencies, will create far more complex threats to both India and the U.S. in the future. The October 2009 attack on Pakistan's General Headquarters (GHQ) in Rawalpindi; the May 2011 attack on the Mehran naval base in Karachi; and the August 2012 attack on the Kamra Aeronautical Complex near Islamabad show the extent of infiltration of the armed forces by terrorist elements. Disentangling state sponsorship of terrorism in and by Pakistan will be one of the biggest global challenges in coming years.

Finally, homegrown terrorism in India and the emergence of the Indian Mujahideen (IM), along with various modules of LeT and Jaish-e-Mohammad (JeM), are an indication of the growing influence of terrorist ideologies and groups among Indian Muslim communities that have established cross-border links throughout the region.

Areas of Cooperation. India-U.S. cooperation in counterterrorism increased significantly after 9/11. The U.S.-India Cyber Security Forum was set up in 2002, but experienced setbacks that have dampened some of the enthusiasm for cooperating

in this particular arena. The 2008 terrorist attacks in Mumbai and the extent of help sought and given by the U.S. in the investigations, as well as diplomatic efforts by India, culminated in the Bilateral Counterterrorism Cooperation Agreement in 2010. Other joint initiatives include interactions between security and intelligence officials, exchange visits of senior leadership of security and intelligence units, joint training exercises, and U.S. assistance to India in enhancing critical investigation skills.

A key component of this cooperation has been the State Department's Anti-Terrorism Country Assistance Plan for India for training more than 2,000 officials from various intelligence, police, paramilitary, and security agencies. These Indian officials have undergone training in forensic analysis, evidence gathering, bomb blast investigations, human rights, extradition, and prosecution. In 2012, training capsules widened to include air and seaport security. There is now a strong working relationship between the U.S. Computer Emergency Readiness Team and India's Computer Emergency Response Team.

Issues of Contention. Despite the successes in U.S.-Indian counterterrorism cooperation, the true potential of this relationship remains unfulfilled. There are several reasons for this gap between expectations and achievement—some of them are historical, a few because of divergent perceptions, and the rest caused by structural mismatch.

Indian policymakers, strategists, and analysts are unable to reconcile their perception of U.S. policy on terrorism and its attitude toward Pakistan. Washington's over-eagerness to accommodate Pakistani demands and perceptions accompanied by an inability or unwillingness to penalize Pakistan, despite the harsh reality of Pakistan's continued support for terrorism, remains inexplicable to most Indians. This continued support by the U.S. has emboldened Pakistan to resist demands to dismantle its terrorist infrastructure.

The U.S. handling of the case of Pakistani-American David Headley, who conspired with LeT in the 2008 Mumbai attacks, also disappointed Indian counterterrorism professionals. The U.S. reluctance to allow India free access to Headley only strengthened Indian doubts about U.S. credibility in prosecuting terrorism cases linked to Pakistan. The alacrity with which Headley was allowed a plea bargain and the refusal to facilitate Indian investigation of

his links to LeT and his role in the Mumbai attacks remain sore points in New Delhi.

Finally, there is a mismatch in structure and capacity of Indian and U.S. nodal agencies of cooperation. Capacity deficiencies, archaic methods of training, and poor instructors within the police force have made it difficult for India to raise a strong and capable security bulwark against terrorism. Indian institutions remain ill-equipped to make full use of cooperation from the U.S., which

has led to less than optimal results from bilateral cooperation.

Despite flaws, contradictions, and challenges, it is acknowledged by both New Delhi and Washington that robust and comprehensive counterterrorism cooperation will help to contain terrorist threats and also strengthen the overall bilateral relationship. A full-scope, sustained, and multilayered counterterrorism dialogue is one of the best ways to safeguard both nations.

Defense Cooperation

The U.S. has been clear about the importance of India in its recently formulated “rebalancing” strategy in Asia, with former U.S. Defense Secretary Leon Panetta going so far as to call India the “lynchpin” of its new Asia policy. Americans on both sides of the political aisle increasingly identify India as a like-minded country with similar security concerns to those of the U.S. and thus see merit in going the extra mile to explore cooperation on common defense-related interests.

While U.S.–India ties have expanded rapidly on a number of fronts over the past decade, with the defense sector being no exception, there is still much room for improving military-to-military engagement and augmenting defense trade. General suspicion of U.S. intentions and deep-seated post-colonial fears of U.S. hegemony persist within the Indian bureaucracy. Still, the U.S. has signed nearly \$10 billion in defense contracts with India over the past few years, and holds regular joint exercises across all services at increasing levels of complexity.

America is one of the largest arms sellers to India, along with France, Israel, and Russia. Moscow is still viewed as New Delhi’s most reliable partner when it comes to acquiring the most critical of capabilities. India’s decision in the spring of 2011 to buy French, rather than American, fighter jets to fulfill its order for 126 medium multirole combat aircraft (MMRCA) marked a lost opportunity to advance the strategic partnership, but should not be viewed as a major setback in defense ties. Cooperation on other procurements has been realized since.

Indian strategic planners often see eye to eye with their U.S. counterparts on threats in the Asia-Pacific region, but are reluctant to develop combined approaches to mitigate these threats. This is due in part to India’s desire to keep its foreign policy options open and avoid irritating other countries, namely Russia, on whom it depends for sensitive military equipment. There also is a perception in Washington that New Delhi is focused primarily on technology acquisition rather than discussing strategically significant issues with U.S. counterparts. The complex nature of the Indian military acquisition process and its lack of connection to overall strategic planning have also contributed to limiting the scope of U.S.–India military planning discussions.

India clearly has no interest in developing a defense relationship with the U.S. of the kind that the U.S. has developed with its treaty allies. The two countries’ long history of suspicion and the U.S. record of imposing nuclear sanctions against India mean that changes in India toward greater defense cooperation with the U.S. will come more slowly than the U.S. may have initially hoped. This, of course, necessarily impacts technology release.

There has been some recent progress on the issue of high-technology transfers, however. The U.S. has identified India as one of the countries that will benefit from the Pentagon’s ongoing efforts to reform rules and regulations that govern U.S. defense exports. Last July, Secretary Panetta said that Washington wanted to work with New Delhi to streamline each country’s respective bureaucratic processes to encourage more defense trade, and designated his deputy, Ashton Carter, as the point person for the job. While no concrete progress has been announced to date, the two sides have been able to air their grievances at the highest level, and the initiative has reportedly spurred a more energetic dialogue among the various U.S. government agencies that deal with U.S. export-control policies.

One issue that has been a hurdle to improving Indo–U.S. defense relations is Indian reluctance to sign end-use monitoring agreements that the U.S. requires for ensuring protection of its sensitive technology. Despite intensive talks and U.S. prodding, India has balked at signing three key defense cooperation agreements: the Logistics Supply Agreement (LSA), the Communications Interoperability and Security Memorandum of Agreement (CISMOA), and the Basic Exchange and Cooperation Agreement for Geo-spatial Cooperation (BECA). Viewing such pacts as overly intrusive, some Indian military officials believe that the U.S. would use the agreements to surreptitiously examine Indian equipment, while others are concerned that, since Pakistan has signed some of the same agreements with the U.S., Indian security could be inadvertently compromised.⁸

In 2009, India and the U.S. reached a broad agreement on end-use monitoring of defense equipment that allows the two countries to predetermine the timing and location of inspections.⁹ This kind of specialized agreement could provide a framework

for finding compromise solutions on other defense cooperation agreements in the future.

The China Factor. While U.S. policymakers may have initially assumed that shared concerns about China would pave the way for more robust U.S.–India military engagement, Indian officials appear to be formulating a more complicated response to deal with the uncertainties surrounding a rising China. Indian officials calculate that it is in their interest to expand defense ties in certain ways that meet their interests and under specific circumstances; however, they will not be receptive to every U.S. overture in the cause of presumed common geopolitical interests. In an effort to minimize the chances of provoking Beijing or disrupting India's close defense ties with Moscow, New Delhi will move cautiously in deepening defense ties with the U.S. American officials must temper their expectations of India accordingly.

India is pursuing a robust diplomatic strategy vis-à-vis China, emphasizing peaceful resolution of its border disputes and growing trade and economic ties, and at the same time embarking on an ambitious military modernization campaign and deployments with clear implications for its rivalry with Beijing.

India has watched Chinese behavior in the Western Pacific over the past several years with wariness. There have been a number of incidents in which Chinese naval or paramilitary vessels and aircraft have challenged or harassed American, Japanese, Vietnamese, and Philippine vessels in the South China Sea, East China Sea, and Yellow Sea far beyond China's territorial limits. The U.S. Director of National Intelligence, James Clapper, told a Senate committee in January 2012 that “we judge that India is increasingly concerned about China's posture along their disputed border and Beijing's perceived aggressive posture in the Indian Ocean and Asia-Pacific region.”¹⁰

Indian officials also have concerns about Chinese efforts to strengthen its military infrastructure in the Tibetan Autonomous Region (TAR) over the past decade and more. The Chinese have also stepped up the level and complexity of their military exercises and extended rail and road networks and constructed airfields in the region—steps that could

potentially facilitate Chinese military operations against India in Arunachal Pradesh if a border conflict were to erupt.

To meet these challenges, India is steadily building up its naval capabilities, paying particular attention to enhancing the Eastern Naval Command's role in India's overall naval strategy. India is currently constructing two aircraft carriers and a second nuclear submarine, which will be commissioned within the next decade. The U.S. should help to build India's capacity to monitor and protect maritime routes in the Indian Ocean and beyond. There are signs that India is growing more comfortable with the idea of a U.S. military presence in the Indian Ocean region, which could facilitate greater U.S.–India operational cooperation.¹¹

India has also set ambitious plans to modernize and strengthen its air force. The Indian Air Force plans to procure more than 800 fighter jets in the next two decades. It is raising four more squadrons of SU-30 MKI fighters, two for the eastern sector and two for the western part of the country. While India relies mainly on the Russians, Europeans, and Israelis for its fighter aircraft needs, New Delhi and Washington should discuss in greater depth India's air fighter needs and whether the U.S. has a role to play in facilitating India's strategic objectives. The U.S. is working with India to meet India's other aircraft needs, including completing contracts for the sale of C-17 and C-130 transport aircraft and P-81 maritime reconnaissance aircraft. India also intends to purchase Boeing Apache attack helicopters for \$1.2 billion as well as Chinook heavy-lift helicopters.

Like the Bush Administration before it, the Obama Administration posits the convergence of U.S. and Indian strategic interests. Yet Indian leaders' aversion to close military partnerships and continued suspicions of the U.S.—especially within India's political left—will limit the pace and scope of the burgeoning U.S.–India defense relationship. For this reason, the defense partnership between the two countries may not follow a traditional path and may contain more hurdles than U.S. policymakers originally envisioned; however, their mutual security interests, the unpredictable implications of China's rise, and the desirability of American-made weaponry makes growing defense cooperation likely.

Nonproliferation and Nuclear Security

Since the end of the Cold War, the challenges facing the international nonproliferation regime have grown manifold. The threat of nuclear terrorism along with other regional challenges, such as the Iranian and North Korean nuclear programs, and Chinese engagement in proliferation to Pakistan, Iran, and North Korea, have added to the complexities. However, the biggest problem is the continuing crisis of the regime itself. Disagreement among major powers has resulted in the current status of the regime.

India and the U.S. have several common interests when it comes to nonproliferation. For both countries, the spread of nuclear weapons is a direct threat. Traditionally, India has been a critic of the global nonproliferation regime while the U.S. has been a strong advocate of it. While it has been a critic of the nonproliferation regime, India has never supported the spread of nuclear weapons. Many of the differences between New Delhi and Washington have, however, been removed in the past 10 years, beginning with the Bush Administration. With the U.S.–India nuclear deal, India has become more integrated into the global nuclear order and has been more forthcoming in supporting the nonproliferation regime. Under the Obama Administration, there have been further advances with export-control regimes. Nevertheless, differences persist over how to prevent Iran from acquiring a nuclear weapons capability.

Nuclear Terrorism. One promising area for expanded U.S.–India cooperation is the prevention of nuclear terrorism. Given the level of terrorist activity in the region and India’s vulnerability to Pakistan-based and state-supported terrorism, as well as the question of the safety of Pakistan’s nuclear assets, there is strong concern in New Delhi about the possibility of nuclear terrorism. Furthermore, New Delhi is concerned about partial state support to terrorist groups that might be interested in gaining access to Pakistan’s nuclear arsenal. The vulnerability of Pakistan’s nuclear arsenal is a growing concern, especially given the number of Pakistani Taliban attacks on Pakistan’s military facilities.

A few years ago, the U.S. had put in place contingency plans for the recovery of Pakistan’s nuclear weapons in the event of a crisis of governance or, worse, an extremist takeover of the country. India

and the U.S. must institute measures that would ensure that nuclear weapons are in responsible hands. Helping to strengthen Pakistan’s command-and-control structure is an important task. In the unlikely event of a Taliban takeover, India and the U.S. would have to work with both the civilian and military institutions to gain complete control of the weapons, failing which, India and the U.S. would have to physically take control of the weapons and neutralize them.

With the U.S. set to draw down forces in Afghanistan, India’s concerns about the potential for nuclear terrorism in the region will only grow. The U.S., and India to a lesser extent, are also concerned about the possibility that Iran might transfer its emerging nuclear capabilities to terrorist groups, such as Hezbollah. There is strong potential for India and the U.S. to increase their cooperation to deal with this common threat, including establishing certain contingency measures in the event of a catastrophic development, as well as preparing means to secure vulnerable nuclear facilities.

The vulnerability of Pakistan’s nuclear arsenal is a growing concern, especially given the number of Pakistani Taliban attacks on Pakistan’s military facilities.

Strengthening Nuclear Security Architecture. Nuclear security and strengthening the nuclear architecture has become an important agenda for both India and the U.S. New Delhi has actively participated in the Nuclear Security Summits, an initiative of the Obama Administration. India has endorsed two major international initiatives—the Convention on the Physical Protection of Nuclear Material, signed and ratified in 2005 and 2007, respectively, and the International Convention for the Suppression of Acts of Nuclear Terrorism, signed and ratified by India in 2006. In addition, India has supported the Code of Conduct on the Safety and Security of Radioactive Sources and Supplementary Guidance on the Import and Export of Radioactive Sources. India’s current approach may be dictated by the increasingly precarious security environment in

South Asia, particularly the nuclear security challenges in Pakistan.

With India having progressed a great deal on the nuclear security legal framework, it now must focus on building the institutional framework. At the Nuclear Security Summit in Washington in 2010, India declared the establishment of a center of excellence—the Global Center for Nuclear Energy Partnership. India already has signed memoranda of understanding (MoUs) with the U.S. and Japan, and France also has extended support in this regard. New Delhi views the security of nuclear materials as essentially a national responsibility, but there exists abundant opportunity for global cooperation to advance nuclear security goals and standards, particularly in tracking illicit transshipment of materials and technology. India and the U.S. must take the initiative in making nuclear security a major avenue for cooperation among established nuclear powers and emerging powers that are increasingly seeking civil nuclear energy cooperation.

It also is in the interest of the global nonproliferation community to have India inside the tent rather than outside.

In the North Korean case, throughout the past two decades, China has appeared keener on ensuring that the regime there survives than on preventing North Korea from developing nuclear and missile technologies. Thus, as the Six-Party Talks went on fruitlessly, North Korea came ever closer to being a de facto nuclear state. North Korea is still continuing to develop both its nuclear capabilities as well as its delivery capabilities, and there is little indication that it will give up these efforts. The situation has implications not only for Japan and South Korea, but also for India, which is affected by cooperation between Islamabad and Pyongyang.

Similarly, Pakistan's development of nuclear weapons and delivery systems with the help of China is a major concern. What has been even more dangerous has been Islamabad's engagement in further proliferation of these technologies and items to countries of concern, such as Iran and North Korea. Thus, China's proliferation record constitutes one of the biggest

nonproliferation challenges affecting the geopolitics from South Asia to the conflict-prone Middle East.

The dramatic expansion of Pakistan's nuclear arsenal is of concern to both Washington and New Delhi. India, however, is wary of attempts in the United States to use this expansion to emphasize nuclear arms control limited to South Asia. According to independent estimates, Pakistan now has more nuclear warheads than India and it is dramatically expanding its fissile material stockpile. This expansion could give Pakistan a larger nuclear arsenal than, not just India, but also Britain and France. Pakistan's intention to further expand its nuclear arsenal and fissile material stockpile is indicated by its objection negotiating the Fissile Material Cutoff Treaty (FMCT). Pakistan has singlehandedly scuttled the FMCT negotiations in the Conference on Disarmament for the past two years. In addition, there are suspicions that Pakistan is building tactical nuclear weapons, which further enhances the dangers in South Asia. India and the U.S. need to come to an understanding about how to tackle Pakistan's aggressive nuclear expansion.

Status of the Global Nuclear Nonproliferation Regime. The troubles regarding Pakistan, Iran, and North Korea point to a large weakness facing the nuclear nonproliferation regime led by the five major nuclear powers.¹² There is increasing disagreement among some of the major powers, especially Russia and China, on the one side, and the U.S., on the other. This is evident in a number of areas but especially in the crisis over Iran. The inability of the regime to tackle threats such as Iran and North Korea is an indication of the weakness of the regime. This weakness may result in further proliferation, particularly if the Iranian and North Korean nuclear weapons programs are not brought under control. Therefore, it will be difficult to sustain the nuclear nonproliferation regime in the absence of limited consensus between the five major nuclear states. States that conclude that the nonproliferation regime is unable to stem the nuclear programs of Iran and North Korea will be forced to defend themselves, which will create its own spiral effect in the region and beyond. For instance, Japan's perception of a regime unwilling to take effective steps against North Korea could force Tokyo to contemplate its nuclear options. Such a circumstance will require ever-more assertive assurances regarding the application of America's nuclear umbrella.

It is inevitable that the shifting balance of power will call for reform of the nonproliferation architecture. Accordingly, Washington's desire to make India part of the technology export-control regimes should be pursued with greater vigor. India has interests in being part of the architecture and in setting the rules of the road. Its interests in being part of the normative exercise is seen as helpful in boosting New Delhi's image as a responsible power and establishing its leadership credentials and global governance role.

It also is in the interest of the global nonproliferation community to have India inside the tent rather than outside, given that it is an advanced nuclear power with sophisticated technologies in areas such as the fast-breeder reactor, plutonium, and use of thorium in civil nuclear applications. Since President Obama's visit to India in November 2010, the U.S. has sought to promote India's membership in the Wassenaar Arrangement (WA), the Australia Group (AG), the Nuclear Suppliers Group (NSG), and the Missile Technology Control Regime (MTCR). While India appears to be generally satisfied with the level of support that the U.S. has given in this regard, it is important that New Delhi's membership of these export-control mechanisms is successfully completed by 2014.

At the multilateral level, India could collaborate with the U.S. on global security initiatives, such as the Container Security Initiative (CSI) and the Proliferation Security Initiative (PSI). While India needs to address its own inhibitions in joining some of these measures, the U.S. could help by resolving some of the outstanding issues. India and the U.S. need to continue dialogue to resolve the differences over the PSI as well as the Convention for the Suppression of Unlawful Acts Against the Safety of Maritime Navigation (SUA Convention). These differences are not unbridgeable, but bridging them will take some effort.

New Deterrence. With the emergence of new technologies in space and cyberspace, the conventional notions of nuclear deterrence have been challenged. Militaries are dependent on information network systems not just for command and communication, but also for controlling and employing advanced weapon systems, including nuclear arsenals. The use of a cyber weapon or an anti-satellite (ASAT) weapon can cripple the information networks that guide nuclear warheads. The Stuxnet computer virus is a useful example of how a cyber attack can be effectively used to disrupt the functioning of such systems. Creating deterrence in space as well as in cyberspace is difficult due to technological as well as geopolitical realities. India and the United States must create a joint study group to explore the challenges of sustaining nuclear deterrence amidst the unfolding technological challenges.

China and the Global Nonproliferation System. China's importance in the global system has been growing as a result of its dramatic economic growth, although it has been reluctant to become involved in global arms control measures. With China's growing assertive posturing on a range of international security issues, one could potentially see new challenges in Beijing's approach to arms control and nonproliferation policies—including toward the FMCT, the Iranian and North Korean nuclear programs, as well as the next Nuclear Nonproliferation Treaty Review Conference in 2015. The Chinese positioning on each of these issues will have a significant impact on regional and global security, in addition to its bearing on individual country nuclear profiles and objectives, including that of India, the U.S., Japan, and Russia. Gaining greater clarity on Chinese positions and bringing China fully on board nonproliferation goals is thus critical.

Economic Relations

Economic exchange between countries involves goods, services, capital, labor, and knowledge. While India and the U.S. have enjoyed some success, the two countries still face serious challenges on all fronts.¹³ The U.S. can advance the relationship by returning to previous liberal policies concerning Indian services trade and labor movement. The reforms offered by the Indian government in autumn 2012 are a step forward in investment but India can do more, starting with partly removing trade and legal obstacles to American agriculture and pharmaceuticals. An excellent start would be for the U.S. to liberalize its shale gas exports, so that India can fairly compete to be a recipient, in exchange for India liberalizing its poultry imports.

These and other desirable policy changes can be incorporated into a bilateral investment treaty (BIT). However, achieving a sound BIT to serve as the foundation for the relationship will be a difficult, lengthy process, especially given the track record of government-to-government negotiations at the national level. The bilateral relationship should not wait for a BIT—there is too much unrealized gain for both sides that can be uncovered by individuals, companies, and local governments.

Trade. It is vital that the trade goal be an ideal set of rules, not an ideal set of results. The ability of American firms to compete in India, for example, should neither be ruined nor assured by government action, but by their own competitiveness. So far, India–U.S. goods trade has seen rapid growth, but on top of a very small base. While Indian gross domestic product (GDP) is roughly the same as the combined GDP of Saudi Arabia, the Netherlands, and Taiwan, each of these three ranks ahead of India in trade with the United States. Indian–U.S. goods trade of \$58 billion in 2011 should be close to the \$100 billion between the U.S. and South Korea.¹⁴

Goods trade does not reflect comparative advantage. The U.S. is capital-rich and land-rich, India is labor-rich. Due to skills and education gaps, India does not make full use of its labor, but the comparatively high cost of American labor and the raw size of the Indian labor force, even in some high-margin sectors, leave huge potential gains from trade. Yet the top Indian export to the U.S. and the top American export to India were both jewelry, at a combined \$10 billion.

Because most Indian manufacturing potential is underdeveloped, large-scale exports to the U.S. have not yet materialized. However, it is absurd that two completely different economies with a combined population of 1.5 billion should engage chiefly in jewelry trade. Jewelry is not important in any other U.S. trade relationship. Nor do other top American exports to India reflect comparative advantage. Here, New Delhi is the chief culprit. According to the World Bank, India has been the world's chief imposer of protectionist measures in recent years. Targets include chemicals and audio-visual products, both potentially important in bilateral trade.¹⁵

There are also high trade barriers where there is strong Indian demand, in agriculture, health care, and energy. Agricultural products see bound tariff rates over 100 percent. American fruit and poultry exports are inhibited or blocked altogether.¹⁶ Indian responses that agriculture is too vulnerable to be liberalized are undermined by repeated policy choices that inhibit agricultural productivity. On the other side, American demands in agriculture would be on far stronger grounds if the U.S. did not have its own few, but glaring, exceptions to open agriculture trade.

It is vital that the trade goal be an ideal set of rules, not an ideal set of results. The ability of American firms to compete in India should neither be ruined nor assured by government action, but by their own competitiveness.

In addition, weak Indian patent protection in pharmaceuticals inhibits imports, reduces the incentive to tailor drugs, and harms American firms as industry leaders. India is chronically short of electric power, yet equipment imports are restricted. Firms not producing in India often cannot compete for tenders. For solar equipment and materials, an American strength, India requires joint ventures.¹⁷

India was arguably the chief obstacle to the Doha Round in autumn 2008;¹⁸ the U.S. has arguably been the chief obstacle since. The best way to enhance goods trade may be to bypass the national

governments. American and Indian states may have their own trade barriers, but they can offset national policies that interfere with comparative advantage.

For example, Indian food imports from the U.S. have soared in the past 10 years, in part due to higher prices but also because of much larger import volumes.¹⁹ Indian states can neutralize national trade barriers with incentives, and many are big enough to qualify as high-priority customers. “Shopping trips” to the U.S. by Indian state officials can help create long-term and price-competitive farm trade relationships. Further, U.S. state representatives should visit India to demonstrate the flexibility of American supply.

In services trade, not only has volume climbed, but India has entered the top five as both a provider of American services imports and a destination for American services exports. Just as encouraging, services trade reflects comparative advantage: Indian services imports from the U.S. are led by education, while exports to the U.S. are led by support services. However, obstacles to Indians obtaining U.S. visas are growing. If American firms are to be discouraged from outsourcing, the U.S. should make it easier for Indian job seekers to obtain work visas to come to the U.S.²⁰

Investment. India and the U.S. are gradually tapping the immense potential for investment collaboration. Two-way investment between the U.S. and India surpassed \$30 billion by the end of 2010. The U.S. is the fifth-largest source of foreign direct investment (FDI) in India and has also led in offshoring services to India.²¹

The slow advance was reinforced by India’s recent measures aimed at increasing foreign investment in aviation, broadcasting, power, and retail. Indian companies had previously been granted permission to invest up to 400 percent of net worth in overseas ventures. Listed Indian companies can now allocate half their net worth to overseas portfolio investment.²² Despite a prior period of stagnation, reform did cut the proportion of FDI inflows requiring explicit national government approval from 62 percent in 2001 to 14 percent in 2010. The proportion entering through the automatic route grew from 22 percent to 74 percent. Average annual FDI into India rose from \$1.72 billion between 1991 and 2000 to \$19.73 billion from 2006 to 2010.²³

FDI from the U.S. between fiscal year (FY) 2000 and FY 2011 amounted to \$9.44 billion, or 7.3 percent

of the total direct investment into India. The share of FDI from the U.S. fell from 20 percent between 1991 and 2000. However, the India–Mauritius tax treaty has led to a surge of foreign investment through Mauritius, the top source from 2000 to 2011.²⁴ Some of this is American. India’s investments in the U.S. have accelerated. Indian companies’ green field investments²⁵ between 2004 and 2009 amounted to nearly \$5.5 billion. During FY 2009 and FY 2010, one-fifth of Indian companies’ global transactions were in the U.S.²⁶

Continuing the process requires more subnational involvement, as well as restraint from New Delhi and Washington. Many American states compete for foreign investment—Indian firms and their American partners should contact interested states to determine how the local investment environment can be improved.

It would be ideal if current Indian reforms ultimately did include insurance. India’s insurance sector has only 50 insurers and \$50 billion in premiums, versus an American market of 1,000 insurers and premiums exceeding \$700 billion. A broader step would be to permit foreign investors to invest in any asset class they choose. New Delhi currently steers investors away from certain assets, sometimes employing outright quotas.²⁷ There should also be little or no distinction between FDI and portfolio investment—investors should be allowed to choose their method of investment freely. At the state level, holdings in land banks could be offered to prime foreign investors, short-circuiting the problems presently plaguing multinationals.²⁸

Labor. The combined American and Indian labor markets involve close to 700 million people—making them a major global issue. Unfortunately, American policy has deteriorated. In 2010, legislation substantially increased fees for H-1B and L-1 visa applications, explicitly targeting Indian IT companies. That same year, approval of L-1 visas, used to transfer Indian employees to the U.S., fell by 27 percent.²⁹

New Delhi, too, may be headed in the wrong direction regarding American and other foreign workers. A new law bans foreigners from accepting employment at a salary less than \$25,000 per year. Certain jobs are no longer eligible for visas under any circumstances, though almost any position an Indian company would offer an American requires a skill absent in India’s labor market. The tightening

affects 70,000 foreign workers, with India's struggling power sector hit the hardest.³⁰

As of 2010, there were over 2.9 million people of Indian origin living in America, 69 percent more than in 2001. Sixty percent of lawful permanent Indian-born residents in America work in managerial positions. Fifteen percent of Silicon Valley start-up companies are run by ethnic Indians, many of whom are in the U.S. on a work visa. Of ethnic Indians living, but not born in the U.S., 30 percent work in science and engineering. Despite recent restrictions, over half of American H1-B and L visas—generally issued to immigrants with technical skills—are allotted to Indians.³¹

Given the skill of most Indian immigrants, there are two prime areas for U.S. action: (1) legislation that assists (or at least stops inhibiting) recruitment of talent in science, engineering, and mathematics; and (2) a return to the 2008 status quo on L and H-1B visa approvals and fees. Beyond Washington, American universities should press for labor reform that permits highly trained people to be exempt from immigration quotas, and American firms should do the same for L and H-1B visa reform. A better-trained and -educated Indian workforce is vital not only to India's future but to some extent the world's. The U.S. role is obviously secondary but should include encouraging quality improvement in Indian labor and maintaining an open American labor market.

India can also do better. Visa fraud is a problem—Indian companies must strictly adhere to American regulations. This will demonstrate integrity and clarify gains brought by Indian workers. The Indian government would stand on firmer ground with the U.S. if its own labor market were more open. This would also have direct benefits for India. For example, if American physicians could work more easily in India, it would boost medical tourism, adding jobs for Indians.³²

Knowledge. Movement of knowledge is still largely from the U.S. to India, so issues arise on the American side. Because of differences in the legal systems, India–U.S. friction is inevitable. However, positions on intellectual property (IP) have converged—the goal should be to protect and extend that trend.

The “2012 Special 301 Report” by the United States Trade Representative published in April 2012 kept India on the Priority Watch List, which lists

countries where the U.S. has notable concerns about the protection of intellectual property. (No comparable Indian document exists.) In addition to general allegations of IP piracy by Indian individuals and companies, the report focuses on patent nullification, application backlog, compulsory licensing, and unauthorized use of corporate data in chemicals and pharmaceuticals. The report's authors, unfortunately, take for granted the substantial improvement in the past 15 years.³³

The Indian Copyright Act and the Trade Marks Act were amended in 1999, the Designs Act in 2000, and the Patents Act three times after 1998. India signed the Patent Cooperation Treaty and Paris Convention in 1998, and the Budapest Treaty in 2001. MoUs have been signed with multiple developed economies and the World Intellectual Property Organization (WIPO).³⁴ The signing with WIPO goes beyond World Trade Organization (WTO) norms, indicating acceptance of IP protection as a desired goal. There is even an Indian patent MoU with the U.S.

India–U.S. IP disputes are now blown out of proportion. At this point, the Indian central government must avoid backsliding on enforcement of existing laws or issuing regressive laws, such as compulsory licensing requirements.

The result: India went through a WTO review in 2011 and the Secretariat's report showed no major compliance faults, including with regard to patent nullification, compulsory licensing, and protection of test data.³⁵ India's IP framework has improved and there is even a case it is no longer weak by international standards.

The problems are now more with enforcement, not the law per se. Changing law to adhere to international commitments is quicker and easier than enforcing newly enacted law. There remain serious issues with approval delays, streamlining dispute settlements, policing counterfeiting and substandard drugs. There are also systemic problems with the justice system that are not specific to IP.³⁶ Much of this is better understood as a local problem, not a national one, given New Delhi's limited ability to improve IP enforcement that occurs locally.

In general, however, India–U.S. IP disputes are now blown out of proportion. At this point, the Indian central government must avoid backsliding on enforcement of existing laws or issuing regressive laws, such as compulsory licensing requirements. To maintain the positive momentum, India should consider a few suggestions in the 301 Report. IP violations, including unauthorized disclosure of corporate secrets by regulators, cannot be excused by industrial policy. Progress on remaining issues will come mostly from better implementation by Indian states. The U.S. must recognize this, and American

companies and officials should focus on improving Indian states’ capacities rather than seeking more laws.

India should move forward with proposed economic reforms, and can do better on trade liberalization and, to a lesser extent, IP protection. The U.S. should match its own rhetoric by returning to more liberal visa policies, thus making the American services and labor market more open to India. These steps may be politically contentious, but they are simple in nature and will benefit hundreds of millions of people in both countries.

Deepening the Partnership

The U.S.–India relationship has travelled a long distance in the past 10 years, but still falls short of reaching its full potential. This *Special Report* has laid out the obstacles in pushing the relationship to the next level. In the first section, “India, the United States, and Southwest Asia,” for instance, the authors note that there is a fear in New Delhi that, in the Obama Administration’s haste to withdraw U.S. forces from Afghanistan, it will be tempted to “appease the Pakistan Army through a variety of measures that might conflict with India’s interests.” In the second section, “Partnership in East Asia,” the authors also make note of a “fundamental incongruence” in U.S.–India relations since the U.S. focuses on broad strategic vision, while India tends to be more inward looking and focused most intently on regional concerns. The two sides can adapt to this inconsistency in approach by building on overlapping interests and setting aside areas in which they share little common interest.

Despite differences over Pakistan, Washington and New Delhi share several common objectives in the realm of counterterrorism. There also may be opportunities for the two countries to cooperate anew in the Middle East in the aftermath of the “Arab Spring.” Since both Washington and New Delhi are concerned about the shifting regional balance of power in the region and the possibility for Islamist extremists to take advantage of the political chaos, it seems natural that they would enhance their consultation and collaboration on fast-moving events in this part of the world. While there have been some hiccups in recent years regarding the Indo–U.S. defense and economic relationships, this paper proposes several ideas for reinvigorating those ties, although these actions will require senior leadership on both sides to overcome bureaucratic resistance.

Perhaps the area of Indo–U.S. relations that has been the most disappointing to U.S. policymakers across the political spectrum has been the lack of follow-through on the Indian side on the much-touted civil nuclear deal. The Indian parliament’s passage of legislation on nuclear liability in August 2010, which virtually shuts out American and other companies, foreign and domestic, from participating in India’s nuclear power generation industry, took U.S. policymakers and industry leaders off guard. There are continuing discussions between Indian and U.S.

industry on civil nuclear projects and some hope that a mutual solution can be found to overcome the problems with the Indian legislation; however, only time will tell whether U.S. companies will benefit from the deal.

Nonetheless, there are other pressing areas in the field of nuclear nonproliferation that are ripe for U.S.–Indian cooperation. Both Washington and New Delhi face the specter of nuclear terrorism and need to take immediate steps to mitigate this threat. There also are clear benefits to bringing India into the global nuclear nonproliferation regime.

It is unclear which direction the second Obama Administration is likely to take regarding relations with India, especially given that President Obama can no longer count as his advisers two of India’s biggest supporters—Hillary Clinton and Leon Panetta. The authors of this *Special Report* have sought to inject some fresh thinking into the debate that lays out new initiatives that should help propel the U.S.–India relationship to the next level:

India, the United States, and Southwest Asia. Throughout the past six and a half decades, Southwest Asia has been at the center of political discord between India and the United States. During the past decade, New Delhi and Washington have learned to manage their differences. They must now move toward substantive cooperation in Southwest Asia.

- **Iranian nuclear crisis.** New Delhi and Washington must begin sustained bilateral consultations on all aspects of the Iranian nuclear issue. The two countries have no differences on the objective of preventing Iran from acquiring nuclear weapons, but they do differ on how best to realize this goal. A more purposeful Indian engagement with Tehran on nuclear issues could help contribute to the resolution of the nuclear crisis. Whether the nuclear crisis is resolved or not, New Delhi and Washington must begin to think together about the emerging challenges to stability in the Persian Gulf and find ways to promote a sustainable regional balance of power.

- **U.S. withdrawal from Afghanistan.** As the withdrawal of U.S. combat troops from Afghanistan begins, Washington and New Delhi

must intensify their bilateral consultations and ensure a measure of coordination between their respective policies toward Afghanistan. Pakistan's legitimate interests in Afghanistan must indeed be protected in any new political arrangement there. Defining those interests, however, must not be in opposition to those of India and other neighbors and Afghanistan's own unity and territorial integrity. Washington needs to put aside the residual hesitations on the trilateral engagement that has been initiated between India, Afghanistan, and the United States.

- **Indo-Pakistani relations.** India must persist with its current dialogue with Pakistan, and build on some of the recent gains—in trade and people-to-people connections. U.S. and international pressure on Pakistan to crack down on *all* the sources of international terrorism on its soil would contribute to the India-Pakistan peace process as well as to Afghanistan's stability.
- **Indo-U.S. promotion of regional integration and stability.** New Delhi and Washington must explore ways to coordinate their policies toward Pakistan—in promoting civilian primacy over the military, providing secure borders to the nation in the east and the west, and contributing to accelerated economic growth. In particular, India and the United States have a shared interest in deepening regional integration in the northwestern subcontinent—among Afghanistan, Pakistan, and India. The U.S. proposed “New Silk Road” concept is welcomed in India. Returning Afghanistan and Pakistan to their historic roles as land bridges between the subcontinent on the one hand, and Central Asia and Persian Gulf on the other, should be an important joint strategic objective for New Delhi and Washington. Building and making these connections operational will be expensive and require long-term focused and substantive coordination.

Cooperation in East and Southeast Asia. Both the U.S. and India share concerns about China's rapid rise, particularly its intense military modernization campaign and its willingness to assert its interests on the high seas in increasingly aggressive ways. Yet both countries have complex relationships with China that include a desire to build

on economic and trade ties and to avoid provoking China into a defensive position. There are actions that New Delhi and Washington could take in the region that would not directly target Chinese interests, yet would strengthen their cooperation in ways that would put any crisis involving China in a new perspective:

- **Enhance U.S. and Indian participation in regional trade forums.** The U.S. and India should facilitate one another's involvement in regional trade discussions. For example, the U.S. should help India achieve observer status in the Trans-Pacific Partnership, while India should help the U.S. gain observer status in the 16-nation Regional Comprehensive Economic Partnership that was launched in November 2012. The U.S. and India should also make membership for India in APEC a priority.
- **Use current dialogues and create new ones to explore overlapping interests.** There has been positive momentum in the U.S.-India-Japan trilateral dialogue. There should also be a U.S.-India-Australia trilateral dialogue, ultimately leading to the resurrection of the Japan-proposed Quad Dialogue. In 2007, senior foreign ministry officials from these three countries, plus Japan, met on the sidelines of a regional forum. However, further formalization of the dialogue was scrapped due to Chinese objections. India and the U.S. should also find ways to more closely coordinate policies with ASEAN and Southeast Asian nations.
- **Offer comprehensive support for India's territorial claims.** Washington should support India unequivocally in its territorial claims vis-à-vis China, in order to discourage Beijing from trying to change the territorial status quo, which could lead to border conflict.
- **Increase Indian connectivity to Southeast Asia.** The U.S. can assist India in developing new trade routes, particularly to Burma, and help substantiate India's overall connectivity with Southeast Asia. The U.S., India, and other countries, such as Japan and Australia, should consult with each other on development of infrastructure beneficial to India's strategic position in

Burma. Coordinating plans and assistance and bringing in institutional forces, such as the Asian Development Bank, to these meetings can help highlight Burmese–Indian border issues.

- **Magnify India’s voice for promoting democratic principles in Burma.** India can be a powerful voice for democratic reform in Burma. India should promote a more vigorous, positive engagement with the democratic opposition, and vocal support for political and economic reforms already endorsed by the Burmese government. Sharing India’s experience in conducting elections and censuses as well its framework of federalism and local government will be of immense value to the political classes in Burma as they seek to construct a durable democratic polity.

Counterterrorism Cooperation. Despite the flaws, contradictions, and challenges, it is acknowledged by both New Delhi and Washington that robust and comprehensive counterterrorism cooperation will benefit both countries, not only in terms of containing the threats posed by terrorist groups, but also by strengthening the overall bilateral relationship. The following steps will help overcome the present hurdles and fulfill the promise of safeguarding the security interests of the U.S. and India:

- **Increase counterterrorism intelligence cooperation.** No anti-terrorist battle and, ultimately, the war on terror, can be won without intelligence cooperation among the intelligence agencies of democratic countries affected by this scourge. Detection of terrorist cells and their deterrence and destruction remains the primary goal of the security and intelligence agencies. As part of this effort, New Delhi needs to cut through the bureaucratic web and red tape to ensure that federal agencies take the lead on international counterterrorism cooperation.
- **Expand dialogue and training exchanges.** There is a need to expand participation in Indo–U.S. engagements on terrorism at the dialogue and training level. Both countries must initiate fora where mid-level officers can benefit from the dialogue as well as the training courses conducted in and outside India. The training courses can incorporate capsules on perception and media

management and emerging threats and lessons learned from recent terrorist incidents in any part of the world. This will enhance the level of engagement and help to remove scepticism on the part of Indian and U.S. officials about each other’s intentions and capabilities.

- **Increase frankness in counterterrorism dialogue.** The stakeholders in improving counterterrorism ties need to improve the frankness and openness of their dialogues. Some success has been noted in the exchanges between police officers on tactics, techniques, and procedures. A greater interaction among U.S. and Indian officials with the media and think tanks of both countries can help bring about additional transparency, better understanding of the issues involved, clearing of misperceptions, and even possibly “out of the box” solutions in some cases.
- **Include the corporate sector.** Never has there been a greater need to involve the private sector in empowering the state’s efforts to counter terrorism. Business corporations are affected severely by terrorist violence. But they are also capable of showing greater resilience in times of crisis and helping to create enabling tools to counter such attacks. The U.S. has considerable experience in outsourcing research, intelligence, hardware and software, security, and training to the private sector. The private sector can also be empowered to act as “First Responders” in case of an attack. In incidents such as the 2008 Mumbai attacks, the first responders could have been the staff of the hotel where the terrorists were holed up. India can learn a great deal from the U.S. in this regard. The inclusion of corporate-sector engagement in the dialogues will at once broaden and deepen Indo–U.S. counterterrorism cooperation.

Defense Cooperation. The U.S. has been forthright in its desire to see India play a pivotal role in its strategy of rebalancing toward East Asia. U.S.–India defense ties have expanded rapidly over the past decade, but have experienced some recent turbulence, including India’s decision to purchase French, rather than American, jet fighters. Still, U.S.–India defense contracts continue to move forward and the two sides conduct joint exercises on a regular basis. There are still deep-seated suspicions of U.S.

intentions in the region, particularly within the Defense Ministry, but also among the Indian public at large, that must be overcome. Following are some suggestions for clearing these obstacles and meeting the full potential of the military-to-military relationship:

- **Increase high-technology defense trade.** The establishment of the mechanism through which the U.S. Deputy Secretary of Defense will interface directly with India's National Security Advisor to explore ways to expedite high-technology defense trade is a welcome step. It is important to maintain momentum on this initiative and prevent the two leaders from getting sidetracked and handing the initiative over to their respective bureaucracies. The two sides need to find a compromise solution for protecting sensitive U.S. technology and equipment that would allow deeper defense trade between the two nations. The 2009 agreement on end-use monitoring of defense equipment, which allows the two countries to predetermine the timing and location of inspections, could be used as a basis for reaching other compromise solutions on defense agreements.
- **Assist India in building maritime capabilities.** The U.S. should help to build India's capacity to monitor and protect maritime routes in the Indian Ocean and beyond. There are signs that India is growing more comfortable with the idea of a U.S. military presence in the Indian Ocean region, which could facilitate greater U.S.-India operational cooperation. Additionally, the U.S. should consider engaging the Indian navy in such areas as anti-submarine warfare training and ocean surveillance capabilities. Improvements in these areas would help to reassure India, especially in the event of a growing Chinese naval presence in the Indian Ocean region.
- **Develop joint code of conduct for the high seas.** The U.S. and India, along with Australia and Japan, should take the lead in developing a code that establishes conduct of naval vessels and other maritime activities in the region, and an action plan for dealing with violations of such a code. The four powers should consider what the best forum for developing or managing such

a code would be: perhaps an enhanced version of the Indian Ocean Naval Symposium (IONS), or a new forum with conditions of entry based on capabilities, interests, willingness to contribute, and a demonstrated willingness to abide by the rules.

- **Convince the Indian public of the benefits of Indo-U.S. defense cooperation.** Indian leaders should make every effort to convince a skeptical bureaucracy and public that long-held suspicions of U.S. power are unmerited, and explain how the American commitment to Asia serves India's own fundamental security interests.
- **Recognize limits to defense partnership.** For its part, the U.S. will have to recognize the limits to the partnership, and India's need to maintain its "strategic autonomy." At the same time, the U.S. can build confidence among Indian defense officials and military strategists by addressing India's specific security concerns, for example, by reassuring India that the U.S. will remain engaged in Afghanistan long after 2014, and by pursuing more consistent counterterrorism policies toward Pakistan.

Nonproliferation and Nuclear Security. India and the U.S. share several common interests when it comes to nuclear nonproliferation. Despite the heavy lifting by the Bush Administration to implement the Indo-U.S. civil nuclear initiative, however, Indian suspicions linger regarding the U.S. history of sanctioning India for its nuclear programs. There are ways to build confidence between the two countries on the nuclear issue, especially when these actions will directly benefit the core national security interests of both nations:

- **Incorporate India into diplomatic efforts to address Iranian and North Korean nuclear threats.** To date, neither country has been dissuaded from pursuit of nuclear weapons. Incorporating India into these efforts, including expansion of the current Six-Party dialogue format, may be helpful in reducing the tensions and antagonism contributing to the deadlock. Stability in both of these regions is important to India, which would have a strong incentive to become an active partner in finding a solution.

- **Increase cooperation in deterring nuclear terrorism.** The two sides should establish certain contingency measures in the event of a catastrophic nuclear development. They can do this by enhancing intelligence cooperation that seeks both to anticipate and respond to potential nuclear terrorist incidents.
- **Establish a Contact Group on Nonproliferation.** The group could explore pathways to strengthening the international nonproliferation architecture and dealing with the challenges to multilateral arms control negotiations. Given the stalemate at the Conference on Disarmament (CD), finding alternate venues for discussing how to strengthen nonproliferation and other security architectures is a necessity. The need for multiple levels of dialogue structures—bilateral, regional, global—is a recognized reality. There is also a need for periodic conversation to address the perceptual differences between technocrats, scientists, the bureaucracy and the political leadership. A Contact Group on Nonproliferation could significantly contribute to these processes, while also helping to break the deadlock at the CD. Lastly, this group could tackle some of these issues specifically within the U.S.–India context.
- **Establish a joint training center on nuclear safety.** Such a center could train security forces from developing countries in preventing nuclear accidents or catastrophes. India has a large nuclear establishment and could spearhead such an effort with U.S. assistance.
- **Explore nonproliferation challenges amidst cyberspace developments.** India and the U.S. could set up a joint study group to explore the challenges of sustaining nuclear deterrence amidst unfolding space and cyberspace developments.

Economic Cooperation. Trade in goods and services between the U.S. and India grew to over \$100 billion in the past decade, while investment is flowing in both directions. Strengthened economic engagement must be at the core of the revitalized relationship. Rather than scaling back the Indo–U.S. economic and trade relationship in the face of the economic crisis in the U.S. and the deceleration of India’s growth, the two sides should be motivated to

pursue with even more vigor a deepening economic partnership. The economic steps that both India and the U.S. need to take may be contentious from a domestic political perspective, yet they would benefit hundreds of millions in both countries:

- **Continue Indian economic reform.** India should move forward with economic reforms that remove trade and legal obstacles to American agriculture and pharmaceuticals. India made some progress with reforms this past fall when the government introduced measures aimed at increasing foreign investment in aviation, broadcasting, power, and retail. It would be beneficial for India to also permit broader foreign investment in the insurance sector. To maintain India’s positive momentum regarding reforms of protection of intellectual property, New Delhi should consider a few suggestions in the recent “2012 Special 301 Report.”
- **Open doors for Indian workers.** Washington needs to return to previous liberal policies concerning Indian services trade and labor movement. Given the skill of most Indian immigrants, the U.S. Congress should introduce legislation that makes it easier to recruit talent in science, engineering, and mathematics. Returning to the 2008 status quo on L and H-1B visa approvals and fees would make it easier for Indian job seekers to obtain work visas for the U.S.
- **Negotiate a bilateral investment treaty.** The two sides can incorporate these and other changes into a BIT. This will be a difficult and lengthy process.
- **Encourage state governments to invest in the trade relationship.** While the BIT negotiations proceed, both countries need to recognize the strength and economic potential of each other’s strong democratic, federal, and decentralized governance structures. They should move beyond the national capitals of Washington and New Delhi to actively and productively engage with each other at the level of the states in order to give greater momentum to the economic relationship. American and Indian states can act together in a concerted manner to complement and supplement national policies creating

mutually beneficial frameworks. The process can be stimulated by the two governments encouraging more and more interaction at the subnational level. Many American states compete for foreign investment. Indian firms and their American partners should engage with the interested states to determine how the local investment environment can be improved. Similar engagements on the Indian side would also yield quicker results.

Conclusion

This *Special Report* has laid out suggestions for carefully deepening the U.S.–India partnership over the next few years, across a range of shared interests. The current plateau in the relationship represents a reality check and opportunity to shed accumulated assumptions. It is also an opportunity for a course correction in the relationship that will strengthen

its long-term viability and benefit both sides. The next round of the U.S.–India Strategic Dialogue that is set to take place in New Delhi this summer offers an excellent occasion to build on these initiatives with the aim of moving the relationship closer to its full potential.

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214 Massachusetts Avenue, NE
Washington, DC 20002

(202) 546-4400
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