

U.S.-India Relations: Convergence of Interests

The upcoming visit to the United States by Indian Prime Minister Manmohan Singh comes at a time of unprecedented cooperation between the two countries. Since taking charge last year, India's Congress-led government has continued the close relationship put in place by its predecessors. Expectations from the visit, set to occur from July 18-21, are high. The two leaders are expected to discuss all major aspects of U.S.-India cooperation including economic, energy, and defense cooperation. India is especially keen on a broader U.S. role in meeting its energy shortage through extending cooperation on civilian nuclear issues. The Bush Administration is seeking to expand its strategic ties with India by expanding its military and security connections.

Meanwhile, despite U.S. domestic concern about outsourcing of jobs to India, bilateral economic ties continue to grow at a moderate pace. But there are also sticky issues that will involve difficult negotiations. These include India's increasing ties to pariah regimes in Sudan, Venezuela and Iran to secure energy resources, transfer of civilian technology to India, and sale of sensitive U.S. defense technologies. These negotiations will inevitably be made one proposal at a time, and will require flexibility on both sides.

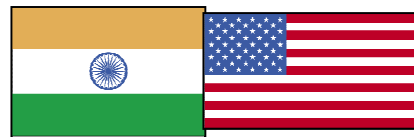
From Non-alignment to Convergence: For many years, relations between the United States and India were lukewarm and had little consistent substance. By the mid-1950's, Pakistan had joined the U.S. alliance structure, and India had forged a durable relationship with the Soviets. In 1956 the American Secretary of State, John Foster Dulles, called India's position of non-alignment "immoral". Under President Richard Nixon, the United States decided to tilt toward Pakistan. But since the early 1990s, despite the setback of India's 1998 nuclear tests, Indian and American interests have slowly converged.

Bilateral relations got a major boost when President Clinton visited India in 2000, and again when sanctions imposed against India after the May 1998 tests were waived in September 2001 by President George W. Bush. The U.S. has since increased military-to-military cooperation, engaged in joint counterterrorist operations, and established multiple committees to examine sticking points and areas of opportunity in the relationship. On January 12, 2004 the U.S. administration and the former Vajpayee government in India announced the *Next Steps in Strategic Partnership* (NSSP) initiative. This initiative opened a strategic dialogue including issues such as cooperation on missile defense and non-proliferation, stronger export controls, and closer

cooperation on the use of technology transferred from the United States.

As part of the agreement, India undertook to strengthen its export control regime. This in turn was expected to lead to expanded Indian access to American technology, including products that had previously been off limits because of their "dual use" for missile or nuclear purposes. The experience of the first year and a half suggests that export licensing has been significantly liberalized, but that the export control process is still a frustrating one to many would-be Indian purchasers. India and the United States are close to an agreement on the specifics of India's strengthened export control regime, and this plus greater Indian understanding of how to navigate the complicated U.S. export control process is likely to lead to increased trade in this area.

Export controls are being relaxed: The U.S. has lifted practically all bans on exports for India's civilian space program. In September 2004, the U.S. removed the Indian Space Research Organization (ISRO), the Indian civilian space agency, from its Export Entity List. This list, established by the Department of Commerce, prohibits the transfer of technology to organizations known or believed to be involved in missile and/or nuclear development. U.S. companies can now export technologies and goods to the Indian space program without having to acquire a license unless the items are known to be aiding missile development. This government-to-government interaction has been supplemented by the U.S. government permitting private corporations to bid for joint contracts with the Bangalore-based space program; In fact, just prior to the June 2004 India-United States Conference on Space

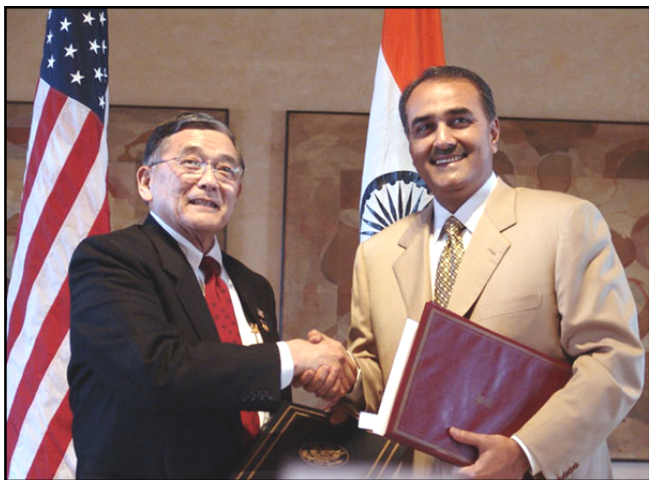


Science, Applications & Commerce, the U.S. allowed Boeing to begin joint development of a communications satellite with India. The prospects for future cooperation continue to grow: during the conference, Deputy Assistant Secretary Lee Morin stressed that collection of earth observation data, such as the effects of natural disasters and droughts, as one of the many areas where the two countries can cooperate.

Economic forces behind growing ties: Economic ties have played a major role in bringing the two countries together. India is entwining its economy with the rest of the world, and especially with the U.S. Software exports are growing at a rate of 50% a year, and around two-thirds of them to the U.S. Indians on temporary work visas also make up a good chunk of the information technology workforce in Silicon Valley; India gets about nearly a third of these work

permits. Indian Americans, an increasingly rich and influential community, are lobbying on behalf of India in Washington and investing in their native land. Despite the economic upswing, the outsourcing issues continues to play out, with domestic forces discontent about U.S. jobs being re-located to cheap overseas labor markets like India,

U.S.-India trade pales in comparison with Sino-U.S. trade, but it is growing rapidly. According to Indian trade statistics, two-way bilateral trade in merchandise goods and commodities has increased from paltry \$ 5.6 billion in 1990 to approximately \$ 18 billion in 2003 -- a jump of over 221%. India still doesn't attract anything close to the U.S. investments going to China, but there are still plenty of opportunities. The pace of India's reforms has slowed down since last year but even with this modest pace, it is regarded as one of the most attractive destinations for foreign investors.



U.S. Secretary of Transportation Norman Y. Mineta and India's Minister of State for Civil Aviation Praful Patel sign the U.S.-India Open Skies Agreement in New Delhi, India, on Thursday, April 14, 2005. *State Department photo.*

In January 2005, the U.S. and India signed an *Open Skies Agreement* that will facilitate greater trade and economic cooperation between the two countries. Before the agreement, Indian airlines were limited to a few major U.S. cities – Chicago, Los Angeles, New York and Newark. Now they can now fly directly to these cities, as well as to other regional hubs like Houston and Minneapolis. U.S. airlines, meanwhile, are permitted to fly non-stop to Indian cities. The agreement also removes restrictive requirements on cargo flights between the two countries.

Military ties are growing, but suspicions linger on both sides: Historically, the U.S. share in the composition of Indian military hardware has been minimal. Indian security planners have had a strong predisposition to make their own equipment, despite the time and expense this involved, in order to build up India's technological capability. Because of Cold War politics, Russia has traditionally been the largest supplier of military equipment, and remains so to this day, although its share is much reduced. The bulk of the Indian Air Force, for instance, is made up of British *Jaguars*, French *Mirage* and Russian *Mig* combat jets. But improving relations and Indian force requirements have

slowly prompted the two sides to increase their defense ties. Recently, the Indian government announced a requirement for 126 advanced fighter aircraft. The United States, in a historic first, has offered the F/A-18 E/F *Super Hornet* and potential co-production. In addition, The U.S. government has sold sophisticated *Firefinder* radar systems to the Indian Army and has also given the green signal to Israel to sell sophisticated arms systems to New Delhi. This includes approving India's purchase of the Israeli-made *Phalcon* airborne warning and control system (AWACS), making India one of the few countries to have this military capability. Washington had earlier refused to approve a similar sale to China.

This month's visit by Indian Defense Minister Mukherjee put the defense relationship into high profile. On June 28th, Secretary Rumsfeld signed a 10-year defense agreement that spelled out some of the new forms of cooperation the two countries have begun. A key part of the agreement is the establishment of a new working group on co-production. An actual decision on proposed sales and co-production will still need to be made, and proposed sales must still have enough support to avoid a blocking vote in the U.S. Congress. But this agreement puts cooperation with India into a new and more favorable category.

But there is also a strong lobby within the Indian policy establishment that remains wary of buying defense equipment from the U.S. In the 1980s and 1990s, the U.S. agreed to cooperate with India in its development of an indigenously built Light Combat Aircraft (LCA), which was to incorporate important U.S. components such as GE engines and advanced avionics. The project was plagued with delays in the approval of export licenses from the United States, in addition to production delays in India. The Clinton Administration cut off all U.S. military supply after the nuclear tests in May 1998. The economic component of these sanctions was waved starting in late 1998. In September 2001, the remaining nuclear sanctions were lifted by President Bush, and since then military supply to India has resumed, subject to the usual requirements for policy approval and export licensing, including components for the LCA.

Reliability of supplies a major concern of Indians: Indian planners have had two major reservations about purchases of major military equipment from the United States: cost and reliability. The reliability issue derives from India's experience with U.S. supply cutoffs as well as its understanding of how these have affected other customers. Besides the LCA example mentioned above, the United States backed out of a long-standing contractual obligation to supply fuel to the U.S.-built Tarapur nuclear power plant in 1978, when the newly passed Nuclear Nonproliferation Act imposed new requirements for fuel supply that India was not willing to meet.

Skeptics also point to the interruption of supplies for India's fleet of *Sea King* helicopters, when the British firm Westland was prevented from selling spare parts to India as a result of the sanctions imposed by the U.S. government after the 1998 tests. (The British firm was covered by the extra-territorial application of US laws since the helicopters are licensed from Sikorsky, a U.S. company).

The disruption practically grounded almost 60 percent of the *Sea King* fleet operated by the Indian Navy. The United States also interrupted military supply to both sides when India and Pakistan went to war in 1965. At the time, the U.S. action was much more damaging to Pakistan than to India. And of course the Indians are well aware of the impact on Pakistan of the U.S. cutoff of military supply in 1990.

The Road Ahead: The Bush Administration's offer of co-production of sophisticated combat jets is clearly intended as a significant signal – politically, commercially and strategically. The offer sends a sign to the Indian leadership that it is serious about working with India, resolving outstanding export control issues and is keen to develop its relationship with India independently of what it does with Pakistan. There is also another reason for America to expand its strategic ties with India: China. Some strategists in Washington are beginning to think of India as a counterweight to China. These notions are premature; at the current time, there is not an active U.S. attempt to contain China by bolstering surrounding countries. Nor does India wish to hurt improving trade relations with its more populous neighbor. But, as China's energy needs increase, this could strain relations with both the U.S. and India, as the two Asian countries compete for energy sources and China has shown a desire to purchase American energy companies. Though not definite, if certain pieces fell together, the dream of the U.S. and Indian China-hawks, a "strategic partnership" between the two great democracies for balancing purposes, could bolster the U.S.- India relationship.

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