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INNOVATIVE INDIA AND THE UNITED STATES

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INDIA: A Strategic Partner **of the United States**

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Perhaps the most innovative foreign policy initiative of the Bush Administration is a proposal recently enacted into law by the U.S. Congress to make a nuclear cooperation deal with India. The U.S. has, in principle, declared India a legitimate exception to U.S. law on nuclear nonproliferation. There are a few more procedural steps required before the actual negotiations leading to a U.S. nuclear agreement. This includes an Indian agreement with the International Atomic Energy Agency (IAEA) on safeguards for the reactors defined as civilian by the Indian authorities. In addition, the 45-nation Nuclear Suppliers Group (NSG) must by consensus agree to a similar exception for India before Washington can proceed with more detailed negotiations with India.

The proposal first became public on July 18, 2005 when President Bush and the visiting Prime Minister of India, Manmohan Singh, signed a joint statement pledging the Bush Administration to amend U.S. law and international protocols that prevent nuclear assistance or sales to countries which have not signed the 1970 Nuclear Nonproliferation Treaty (NPT). India did not sign the NPT. The U.S. proposal was reaffirmed a year later on March 2, 2006 in a visit of Prime Minister Manmohan Singh to the U.S. This rather dramatic departure from previous policy underscored how far India had come with the U.S. to be viewed as a player of international significance.

Each country was signaling to the other that it was prepared for a much closer and deeper strategic relationship with the other. With this in mind, Senator Joseph Biden (D-DE) noted, rightly in my view, that the nuclear deal is the most significant foreign policy legislation of the Bush Administration. The American opponents of the agreement argued that the risks to nuclear

proliferation far outweighed the potential security benefits of such a deal. The weight of congressional opinion, however, was not on their side. Even opponents of the bill, such as Senator Barbara Boxer (D-CA), went to some length to explain that they were for a much closer U.S. relationship with India, but that this was not the most appropriate way to advance bilateral ties.

This agreement, and the assumptions on which it is based, reflect a dramatic change in the often-strained Indo-U.S. relationship from the time of India's independence in 1947 until the mid 1990s. In the 1950s, India refused to join the various containment alliances against the USSR in an unsuccessful effort to keep the Cold War out of South Asia. What made the situation worse for the Indians was that its antagonistic neighbor Pakistan joined two of those containment alliances (SEATO and CENTO) and received substantial military assistance from the U.S. In the 1960s and 1970s, India mired in low growth and political instability, virtually sank off the foreign policy radar screen of the United States as a marginal player on the world scene. In the 1980s, it took a critical view of the U.S. efforts against the USSR in Afghanistan while the U.S. again cultivated India's next-door neighbor Pakistan as a frontline state in what was the last gasp of the Cold War.

India Emerges as a Critical Geo-Strategic Player

Four developments over the past decade have led the U.S. and other world powers to pay more attention to India in geo-strategic terms. This has enhanced Indian assertiveness in foreign policy. These four developments or factor are: 1) introduction of market reforms in India; 2) the end of the Cold War; 3) India's nuclear tests in 1998; and 4) 9/11 and the Global War on Terrorism.

First, and perhaps most important, is the significant increased rate of growth in the Indian economy since the adoption of market reforms in the early 1990s when India also began cautiously to embrace globalization. The results seem to have justified the decision to open up the Indian economy. India has come so far in the last decade that it is regularly compared with the other Asian dynamo, China. And like a rising China, a rising India is of significance to the United States for both strategic and economic reasons.

How dramatically the Indian economy has grown over the past decade is outlined as follows:

- a) The average annual increase in GDP from 1994 to 2004 was double the earlier annual average growth level of about 3.5 percent. Over the past few years, its annual economic growth rate has varied between eight and ten percent, the second highest in the world after China. Often not recognized is that India's real GDP has grown faster than all the Asian "miracle" economies of East Asia, except China, since 1992.
- b) Trade has quadrupled since the introduction of market reforms in the mid-1990s, with a total of over \$255 billion in two-way trade anticipated in the 2006-2007 fiscal year. Growing at an especially fast pace are service exports, especially information technology. The leading edge has been Business Process Out-sourcing, presently with \$17 billion in exports, but expected to grow to at least \$50 billion in exports over the next three years, a large part of that to the United States. Some trade analysts argue that such exports might

be much larger as India begins to take ever-larger chunks of the legal and medical outsourcing. Moving up the ladder of outsourcing is possible because of strategic educational decisions made at India's independence to put a budgetary emphasis on higher education, especially in the sciences and engineering. Several elite engineering schools at the level of MIT or CALTECH established at that time produce about 8,000 graduates a year. A few dozen very high quality universities in India's more progressive states produce probably three times this number of science and engineering graduates every year. There are in addition a very substantial number of second level schools of varying quality that produce some 200,000 to 220,000 graduates in the hard sciences and engineering each year. Many of these schools are in fact little more than hyped-up trade schools and many need to be upgraded significantly if India is to meet the booming demand for highly qualified personnel. With the growing American linkage to India's information services, a close symbiotic relationship is developing between the U.S. economy and the various forms of information technology that India is developing.

- c) India's hard currency holdings moved from just a few billion dollars in 1990 to close to \$160 billion in 2006, a 20 percent jump from 2005 and continues to expand at this pace.
- d) Many Indian analysts argue that this faster growth is the major reason for the unprecedented reduction of poverty over the past decade (at estimated rate of one to two percent a year). This, of course, has a direct impact on political stability. It is instructive to note that India is the only large democracy where the poor have a better voting record than the rich, suggesting that the historically disadvantaged in India have faith in the country's democratic system to respond to their demands.

India's New International Relationships

India's foreign policy has over the past decade been shaped very largely by economic issues. Economic expansion has opened up markets for Indian products; allowed India to acquire sophisticated technology to keep its products internationally competitive; and attracted foreign direct investment. In addition, development has increased India's energy needs compelling Delhi to pursue secure overseas sources of oil and gas for continued growth. India already imports two-thirds of its energy needs.

With this new economic orientation, the United States has come to play a critical role in India's development. The U.S. is the country's largest investor, its largest trading partner and, its major source of high technology. Two-way Indo-U.S. trade is now \$27 billion, a jump of almost 25 percent over the past year and the U.S.-India Business Council predicts that this figure could triple over the next decade as India invests tens of billions of dollars in upgrading its infrastructure.

Thus, the second development that has altered India's international standing was the end of the Cold war, which removed the U.S. as a potential problem for India and opened up real possibilities of cooperation between the two democracies. The U.S. in the early 1990s cancelled its military supply links to Pakistan. At the same time, India and China, with whom India had fought a war in the early 1960s over a disputed border, moved closer together. Indian

foreign policy became more flexible, giving it room for maneuver to develop a new foreign policy and to develop a closer relationship with the U.S.

Nuclear India

The third and most visible expression of the expansion Indian power was the India's simultaneous testing of nuclear devices in May 1998 and missiles that could serve as platforms for nuclear weapons. India became a *de facto* nuclear weapons power, but still deprived by international protocols of receiving dual use technology or any kind of nuclear related assistance because it was not a NPT signatory. This put India in an international legal limbo that impeded its efforts to reorient foreign policy in a more pragmatic economic direction.

The new nuclear deal with the U.S. would change this situation dramatically. The nuclear deal also underscores the point that the U.S. does not see India as a threat to nonproliferation and, in fact, does not perceive a nuclear armed India as a threat to U.S. interests (a proposition that the opponents of the deal would strongly disagree with, arguing that this deal, which removes penalties on India for possessing nuclear weapons, undermines the whole nonproliferation regime and thus a threat to U.S. interests).

Global War on Terrorism

Active participation in the global war on terrorism can be viewed as the fourth positive development for Indian foreign policy. After 9/11, India was the first country to support this anti-terrorist effort. The Indian public has generally backed the U.S. on this, with the prominent exception of Iraq, which they do not perceive to be part of the terrorist threat. Although India has not played the pivotal role of its neighbor Pakistan, its security links to the U.S. have never been as robust as they are now.

One of the reasons that President Bush planned a rather long visit to India in 2005 (March 1 – 4) was to signal the new importance that the U.S. gives to India. Another might be that the President is assured a generally friendly reception. India is one of the few major states where polls show that the President is genuinely a popular figure. The visit of Prime Minister Manmohan Singh to the United States almost a year later similarly signaled the President's views of the growing importance of the U.S. to India. Both visits were summed up by the joint statements at the conclusion of the two summit meetings expressing support for U.S. assistance to India's civilian nuclear program.

India's New Foreign Policy

These four developments, combined with the jolt to its foreign policy caused by the end of the Cold War, have dramatically altered the Indian approach to foreign policy. India has transformed itself from a porcupine to a tiger in international relations, to use the colorful description used by one of India's most prominent foreign policy analysts. In its former "porcupine" phase, it was slow-footed, prickly and basically reactive. With the new orientation, India has become more self-confident, outward looking and pro-active or something of a "tiger", at least in comparison to what it had been before.

Perhaps the most dramatic example of this new approach was India's coercive diplomacy against Pakistan in late 2001. It involved high stakes manipulation of the nuclear risk to mobilize the

U.S. and other international powers to pressure Pakistan to stop cross-border movement of anti-Indian militants who in December 2001 had tried to launch an attack on the Indian parliament in New Delhi. That approach worked as the U.S. put enormous pressure on Pakistan to stop the movement of radicals across the Line of Control that separates Indian and Pakistan held Kashmir.

Still another significant example of its more pragmatic stance is the decision to side with the U.S. in the IAEA board to vote for resolutions warning Iran to cooperate with the IAEA. While these decisions have aroused a heated political debate in India, the Manmohan Singh Government has clearly calculated that good relations with the U.S. far out-balance any negative fallout from Iran.

Indian foreign policy can be viewed as concentric circles with the South Asian region composed of Pakistan, Afghanistan, Bangladesh, Nepal and Sri Lanka as the innermost and most important. India, the dominant regional power, has consistently sought to limit the involvement of third parties in the region's security, with Pakistan being the major culprit. Recently, India has aggressively sought to bring the various states closer together as a tactic to achieve the larger strategic goal. As long as Indo-Pakistani relations were strained, there was no real chance for regional cooperation.

The improving regional situation, especially in the past few years, has been motivated very largely by economic considerations. India's neighbors have, like India, put economic growth at the top of their respective policy agendas. One important way for its neighbors to achieve this is to take advantage of India's huge and growing market. This was witnessed in January 2004 when, at a South Asian summit, the regional leaders agreed to an incremental lowering of tariffs with the eventual objective of a free trade zone among the South Asian states. That process is due to start next year. In line with this development, Pakistan and India have embarked on a comprehensive discussion of their outstanding differences, including the most sensitive issue of the disputed state of Kashmir. The two sides, moreover, have honored a cease-fire at the Line of Control between Indian and Pakistani-held Kashmir that went into effect in late 2003.

The second ring of foreign relations is with Southeast and East Asia. It is these regions that some of the significant changes in Indian foreign policy have taken place. Relations with China have moved from tense to constructive over the past decade. The end of the Cold War reduced the perceived threat of China in India and the Chinese concerns about Indian involvement in attempts to encircle it. The border dispute has been put on a backburner, while the two countries have moved on other issues, the most significant of which has been trade. Two-way trade between the two countries stands at \$20 billion and in the past few years has grown at almost 30 percent a year.

Nonetheless, there remains considerable, if presently muted, suspicion of China in India. India's greater assertiveness in Southeast Asia is almost certainly animated by an undeclared rivalry with China. Although India has never seriously considered any containment policy against China, it is developing its own political equities in Southeast Asia by promoting trade and defense contacts. A major reason for the U.S. strategic relationship with India is to build an economically and militarily strong India for balance of power purposes in Asia. The logic is that

a strong India will serve U.S. interests, whether or not there is a military relationship. In fact, India does not want to be considered aligned with the U.S. against China.

Perhaps the most innovative aspect of India's foreign policy over the past decade has been an aggressive "look East" policy, which included a conscious effort to improve relations with Japan, South Korea, and Australia, all of which like the ASEAN states, had become politically distant from India during the Cold War. At that time, the only country in Southeast Asia with whom India had close relations was Vietnam. At the institutional level, India's interaction with ASEAN dramatically expanded when it became a sectoral partner in 1992 and a full dialogue partner in 1996.

At the economic level, India's two way trade with the Southeast Asian states has expanded three fold between the early 1990s. This trade may approach some \$15 billion in 2006. India has developed an especially close relationship with Singapore that the Indian foreign office hopes will play the economic role for India that Hong Kong did with China. Reflecting the importance of Singapore, India has sent some of its brightest diplomatic starts to that country.

Regarding Japan and Australia, two countries that strongly condemned India's 1998 nuclear test and which significantly scaled back their contacts with India, New Delhi has moved fast to heal the breach over the past few years. But it was probably the Indo-U.S. reconciliation during the last year of the Clinton administration that shaped the reconciliation moves of these two countries. Japan took a bit longer than Australia. In late 2001, Tokyo lifted sanctions it had imposed in the wake of the nuclear tests. Several factors seem to be shaping the greater attention to India by these two states: 1) a similar balance of power consideration that motivates the U.S.; and 2) the prospect for greater trade with an economically robust India. Both seem poised to invest significantly more money in India than before.

India's relations with the new Russia lack the vibrancy of its Cold War ties with the USSR. The level of trade has declined significantly. There no longer is any security dimension binding the relationship. Although Russia continues to supply sophisticated military hardware, there are now real competitors for the Indian military market, including the U.S. for the first time. One visible sign of the new relationship is the vastly diminished diplomatic presence of each in the other country. An indication of the new tenor of the relationship was the Indian decision to support U.S. plans for missile defense, even though it knew Russia was opposed.

In contrast to the Russia relationship, India sees real gains from a significantly expanded relationship with Iran and the Central Asian republics. This development took form initially because of a shared distrust of the Taleban in Afghanistan, and by extension, to Pakistan that was the major external supporter of the Taleban. In the wake of the defeat of the Taleban in late 2001, India moved quickly to build a strong relationship with the new leadership in Afghanistan by building on its already close ties with Iran. Pakistan has refused to permit land access to Afghanistan (and thus to Central Asia as well), which gave added impetus to the development of land routes to both Afghanistan and Central Asia through Iran. In early 2003, for example, New Delhi, Tehran, and Kabul signed a Memorandum of Understanding providing for Indian involvement in the development of a new port in Iran and the construction of transportation links to Afghanistan. India had earlier signed a cooperative agreement with Iran for the development

of links to the Central Asian republics. This is at odds with U.S. policy toward Iran and one that will continue as long as Pakistan denies transshipment rights to India.

To sum up, Indian's foreign policy in the new millennium has changed significantly. The best reflection of this change is India's strengthened relationships with the countries of Southeast and East Asia. The end of the Cold War and the economic imperatives of globalization demanded a reformulation of India's foreign policy. This reorientation of policy must be seen as a part of the changing perceptions of Indians about themselves and the world. India today is far more self-confident about itself, more willing to take risks, and more willing to take an assertive stance to advance its interests, especially in the key regions that border the Indian Ocean.

A politically stable and economically robust India is important for the U.S., which itself has vital interests in the Indian Ocean and its littoral. Although the two countries have some differences, such as how to deal with Iran, they share support for a broad range of the big issues like the war on terrorism, a balance of power in Asia, and open sea-lanes. The greatest significance of the new nuclear deal is that it signals the intention of the two countries to develop a strategic relationship that addresses their common interests by removing the major impediment that stood in the way of that goal.

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