

# **Center for Strategic and International Studies (CSIS)**

**Subject: U.S.-India Relations: A View from Capitol Hill**

**Bilateral Relations Since the Obama-Singh Summit**

**Welcome and Moderator:**

**Karl. F. Inderfurth,  
CSIS Wadwhani Chair in U.S.-India Policy Series**

**Speakers:**

**Her Excellency Meera Shankar,  
Ambassador of India to the U.S.**

**Ambassador Robert O. Blake,  
Assistant Secretary of State for South and Central Asia,  
U.S. Department of State**

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KARL INDERFURTH: Ladies and gentlemen, I'd like to ask that we start getting back to our tables. Actually, I think probably some of the discussions and networking that are going on now may be some of the most useful part of our half-day together. But I would like to ask Ambassador Shankar and Ambassador Blake to join me in the front.

(Pause.)

MR. INDERFURTH: All right, again, we'll be locking the doors now. I hope you have all had a chance to get your coffee. Actually, I don't think we need to lock doors because I think that you are all here to hear our next speakers as well, Ambassador Meera Shankar of India and Assistant Secretary of State for South and Central Asian Affairs Bob Blake.

I've been asked by both not to do long or even medium introductions. So I will take them at their word because I think that you're here to hear them. We do have, in the back, a table with multiple handouts, including bios of all the speakers.

But, truly, I do not think that the two speakers that we now have, India's ambassador to the United States and the assistant secretary of state dealing with India, need any further introductions. They've had long, distinguished careers in their respective foreign services. They are deeply engaged in furthering this very important strategic relationship.

So I think that I will just ask Ambassador Shankar first to come to the podium to speak for about 10 minutes, and then Ambassador Blake. And then we will take questions from the table here.

I do want to mention one technical point. There is a video recording of this event, and we will post it on our website. So if you have to step out for a moment and say, what did they say, you can actually go to our website and see it again. So that is being done.

So, Ambassador Shankar, if you would please take the podium. (Applause.)

AMBASSADOR MEERA SHANKAR: Thank you, Karl. Assistant Secretary Blake, Romesh Wadhvani, Ambassador Hills, Dr. Hamre, I think this is a great opportunity for us to see how far we've come in the India-U.S. relationship, and what we need to focus on in future to ensure that we continue to progress on this relationship.

For India, I think development today is the key priority. We need to accelerate our economic growth to between 8 (percent) to 10 percent, and to sustain it for the next several decades in order to be able to deal with our developmental issues, including the backlog of poverty and other social issues that we have.

In doing so, we see the United States as a very important development partner for India, and also as a key partner for building peace and security in our region. We've had different templates which have been discussed. I thought Dr. Wadhvani did an excellent job in putting forward the template of India and the U.S., focusing on economic development, on knowledge and skill development, and defense and security.

And, broadly, that's how we've been looking at the relationship. We have dialogues and agreements today in these three areas – you know, economic development, including trade and investment; peace and security, which would include counterterrorism, defense; and political consultations.

And then, of course, the whole basket of development-related issues, which cover knowledge and skill development, or education, which cover health, which cover agriculture, and which also cover science and technology.

So, as you can see, it's a fairly broad-based agenda that we have built for the relationship, and we have, of course, achieved very significant momentum with the visit of our prime minister here in 2009, as the first state guest of the Obama administration, and with the visit of President Obama to India in November last year, which saw some very significant breakthroughs in important areas.

To these three templates I would add actually one more, and that is how India and the U.S. can work together in meeting global challenges, because if you are looking at a global strategic partnership, then clearly that has to be an element of the relationship that we are trying to build.

Now, if we look at the basket of, you know, economic development or economic cooperation, which covers trade and investment and so on, I think there has been considerable growth in the relationship. Last year we've seen the trade grow by 13 percent to about \$48.75 billion, two ways. But still, if you look at the total volume, it's still low, because the growth has been on a low base since India was not a trading nation, until we opened up our economy in the early '90s. So the potential for further growth is huge.

Similarly, in terms of investment flows, we've seen that these have become two-way, and that there has been growth in foreign direct investment in both directions. But, again, the potential is considerable, and we should ensure that we are able to maximize the opportunities which have arisen with India's sustained economic growth, because as India continues to grow, it will need both flows of capital and flows of technology, and that is where the United States and its businesses could have a real business opportunity.

The Indian economy is also becoming more broad-based, and that provides further opportunities because initially in India it was the services sector which first took off; you know, the IT sector. But now we are seeing that while the services sector is continuing to grow to become broader and more sophisticated in terms of the kind of operations it performs, we are also developing capabilities in manufacturing, and that remains a key priority for India, to grow the manufacturing sector.

So, for India – I mean, if you take a look at the sectors where we've become competitive in manufacturing, it's automobiles, auto components, you know, which grew at over 20 percent last year; similarly, pharmaceuticals and chemicals, particularly generics; again, some of the infrastructure-related industries such as steel and cement, which are growing fast because of the growth of infrastructure in India.

And we have developed what I would call, you know, some particular advantages in I think what has been described by Mr. Mahindra – Anand Mahindra – as “frugal engineering,” driven by the nature of the market, which is very price sensitive, but is large, and yet wants, you know, technologically sophisticated goods.

So you see that in the development of the Nano, which is a small and very cheap car, perhaps the cheapest in the world, but which saw over 20 patents being generated in the development of that product.

You see it in the area of nuclear power, for instance, where India perhaps is the most cost-effective producer of small nuclear power plants in the world, you know, below 500 megawatts, not the big ones. And that's the challenge that we have – how to scale up.

You see it in our moon mission which we did at one-twelfth the cost of similar moon missions elsewhere. So this is an area where I think U.S. and Indian companies could partner for mutual benefit.

It would benefit India to have more manufacturing and if we had access to U.S. capital and investment and technology in the manufacturing sector, I think it would also benefit the U.S. businesses because it would give them the ability to develop models which when applicable and relevant in the Indian situation would also be relevant in other developing countries.

And we are seeing some companies who do this in India who are developing products which find a market not only in India but worldwide. But so, you know, for the governments, we really need to see how we can facilitate this process and maybe I should also focus on services trade because that's also been an important element of our trade relationship.

And sometimes I think in the U.S. we see that there is this feeling that somehow India has an advantage in services. But if you look at the figures of trade and the latest figures are 2008 full figures and these are U.S. figures, not Indian – then you see that two-way services – trade was \$38 billion.

And it's the U.S. not India which has a small surplus – about \$19 billion of U.S. exports, \$18 billion of Indian exports, so growing in both directions and broadly balanced. And I think that's an important element of our two-way trade and economic relationship, that it is a relationship which is bringing benefits to both sides.

So what can we as governments do to facilitate this process, to accelerate the degree of cooperation between India at the United States? I think there are some reforms which India itself

has on the anvil. For instance, in the budget this year, we have proposed, A, the adoption of a direct taxes code by next year which will streamline the whole taxation system and make it much easier for companies.

Secondly, we have proposed a goods and services tax which would do away with these different octrois and things like that and create an integrated market, reducing the cost of transactions. There we don't have a timeframe because this involves consensus development with the states. But we've done it earlier for the value added tax.

Now, I know that's a dirty word in the United States. But when we introduced it, it actually increased the revenues that the states had. And we worked it by telling the states that look, if there is a revenue loss, the center would be willing to compensate for it.

In the event when it was actually implemented, the states got far more revenues and this really didn't need to be, you know, had recourse too. So these are two major things on the anvil.

One of the other reforms which was announced during this budget was to increase the ceiling for corporate infrastructure debt bonds which would create the ability for Indian businesses to have a higher level of corporate debt bonds for infrastructure projects in India.

We also reduced the tariffs on a large number of items including cranberries, raisins and pistachios which would have, you know, business potential for the U.S. But also on a much broader range of equipment and machinery for cold storage and the entire cold storage chain and for agricultural machinery because agriculture is a key priority for India since 55 percent of our people continue to be dependent on agriculture for a livelihood.

And we need to trigger the next leap in agricultural productivity. So here again is a huge opportunity for the U.S. Infrastructure should be a big opportunity because as Dr. Wadhvani said, it's not really at a level which we want. It constrains our economic growth. But it's a huge business opportunity because we would need to invest a trillion dollars in developing infrastructure.

While some of this will come from the government, we hope that a lot of this will come from the private sector and so there would be opportunities for U.S. companies to be more actively engaged in the infrastructure sector in India as we move ahead. We have been discussing a bilateral investment agreement with the United States. Perhaps that's one area where we could accelerate negotiations.

But I think the U.S. has been conducting its own internal review of its bilateral investment treaty framework and so this hasn't progressed as fast as we would have hoped. But clearly it's something which is on the agenda.

We are looking at a bilateral aviation safety agreement which will again be a potential booster for trade because it will provide a trigger to more flows – trade flows – in the aviation sector which has emerged as a key area of cooperation.

For the U.S. which supplies a lot of aircraft and other aviation equipment to India, this should be of interest. But equally to Indian companies who may be, you know, producing sub-assemblies and components and so on, this would provide them easier access to the U.S. market because of safety benchmarking of their products.

So again, this will open considerable potential. As far as a free trade agreement is concerned, you know, I think that from the Indian side, we have discussed the possibility of having a study conducted which would look at the pros and cons of such an agreement for both sides.

But it's an ideal which remains – which still has to crystallize, you know, with acceptance from both sides. So the knowledge and skill development – in the knowledge and skill development sector and the other development sectors, I think these will be the next frontier of India-U.S. cooperation.

I mean, education is such a huge challenge for India and a priority because we want to make our economy not only grow fast but also have inclusive growth so that the growth doesn't only benefit a small section of people. And their education becomes the key. So after a long time we have seen the government of India invest in education in a very major way.

To give you some idea, we will be stepping up outlays on education from something like 8 percent of government outlays to about 19 percent of government outlays. That's the kind of leap in investment and it's across the spectrum from school level education where we have a compulsory right to education bill which provides for free and compulsory education to all children between the ages of 6 and 14.

Now, in the second phase we are going to extend that further. Then at the university level where we are creating true government investment after many years – you know, many new institutions including institutions of technology, of information technology, of management, of advanced science and research, of central universities and so on.

We're also creating a broadband network. It's called, you know, knowledge network which will link all these universities together, particularly their libraries and so on, enabling some pooling of resources. And then in the second phase, the idea is to also extend this network to the villages using technology to leapfrog some of the problems of delivery of government services that we have faced.

We are looking to U.S. – and a third element is vocational education and skill development, which will be critical for those who don't want to go on to higher education but still want employable skills in the Indian economy. And here the challenge is to fashion the vocational, educational and, you know, skill development space in a way which is more closely allied to industry's needs or to the needs of the Indian economy.

Because still now, until recently, we were really, you know, having our vocational training framework run in a relative bureaucratic fashion without the constant osmosis and, you

know, coordination with industry. And that's the big challenge for us because we have to expand this enormously.

But we also have to upgrade and remodel this whole – this whole framework. So this is a huge opportunity for Indian and U.S. institutions to work together. We will be having an education summit later this year in the fall and we hope that that will be a catalyst in, you know, throwing up ideas for how we can intensify cooperation between Indian and U.S. higher education institutions.

Then, if you take the whole area of energy, I think that will be a key area for our cooperation because for India's economic development, we will need to grow our energy basket very, very significantly. At the moment, because we have 600,000 villages and people living in this decentralized fashion almost 400 million people don't have access to commercial energy.

So we not only have the challenge of ensuring that our, you know, energy production can sustain a high level of growth, we also have issues of, you know, basically providing the service to people across India. We will be looking at a basket of energy which doesn't rule out any option.

Despite what has happened in Japan, nuclear energy will continue to be an important option for India and we hope to scale up our nuclear energy program with the assistance of international partners including the United States which had taken the lead in this, you know, seminal India-U.S. nuclear agreement and the waiver at the Nuclear Suppliers Group.

But beyond nuclear energy, we also look to renewable energy where already I think about 9 percent of our installed generating capacity comes from renewables. But it's mainly wind and micro-hydro.

Where we need breakthroughs is solar and we have a new solar energy mission where we have announced that the government will procure 1,000 megawatts of solar energy, 500 – photovoltaic 500 solar thermal with a view to kick start the program and I think we've got a good response in tariffs in terms of the competitive bidding have come down to rupees 13 a unit, but still high compared to conventional energy.

So here I think this could be the answer to India's energy requirements because whatever we may have or not have, we certainly don't have a shortage of sun. But how do we ensure that we can use it in a way where it is commercially viable vis-à-vis conventional energy. Maybe in future the curves will cross. But if we can get these 1,000 megawatts started with some, you know, production in India to reduce costs, because the key is reduction of costs for scalability of the program.

And that's where technology cooperation or investments by U.S. companies in India for solar, you know, equipment production would be really increasingly important.

And the third area would be energy efficiency for buildings and so on because we are beginning our, you know, cooling of our buildings through air conditioning. Can we do it in a

more efficient way so that right from the beginning we can reduce the amount of energy required for cooling? So this would be an important area.

And finally, of course, there is shale gas where the U.S. is helping us through the shale gas initiative to map our reserves and we have identified shale gas in West Bengal which would be, you now, one of the major, you know, finds outside the United States. Of course, we need to do it in an environmentally sustainable way.

But this could be a very important area of cooperation which would help to build India's energy security and also be beneficial to the world because it will reduce pressure on hydrocarbons and also enable India to meet its energy needs in an environmentally friendly manner.

Of course, if you take the whole rubric of peace and security and defense, I think we share increasingly convergent interests for building peace and stability within our region. If we take a look at Afghanistan, then both of us share an interest in ensuring a stable, prosperous, democratic and independent Afghanistan.

And in dealing with the, you know, terrorist safe havens which are making this, you know, a volatile and unstable region, again if we take a look at the broader Asian continent, both our countries share an interest in building open, inclusive and balance architecture of cooperation in Asia which would enable or contribute to peace, prosperity and security on the Asian continent.

And if we look at the Indian Ocean, then, you know, clearly we both have a shared interest in keeping open the sea lanes of communication. And this area of maritime security cooperation is one where we have been working together for antipiracy efforts, humanitarian disaster relief and so on and will be an important area of our cooperation in the future.

We just had the visit of Secretary Napolitano for the homeland security dialogue. We have a counterterrorism initiative also. Both these really focus on capacity building, intelligence sharing and experience sharing and I think – and sharing of information and intelligence.

So this will be a very important area of cooperation for both our countries. The defense sector – our exchanges have intensified. We are also buying equipment from the United State which we weren't doing before. In recent years, we've bought \$4 billion worth of equipment which includes ship, which includes C-130J aircraft, which includes maritime surveillance aircraft.

And we just had a decision for the C-17 transport aircraft which is another 4 billion (dollars). I know – I heard some of the previous speakers express their disappointment about the decision on the MMCA. But this was a technical decision based on very detailed evaluation by the Indian air force as to which, you now, technologies would best meet their requirements because this will be a platform for the air force for several decades to come.



But I think the important thing is not to focus on one contract or the other. The important thing is to focus on the long-term potential which where there will be many more opportunities for the U.S. where we buy equipment from the U.S. both through the foreign military sales route as well as through the, you know, international competitive bidding route.

And when you go to the international competitive bidding route, I think the level of technology offered will also be important because there are other competitors who also offer, you know, a state-of-the-art technology.

But looking beyond the buyer-seller relationship, I think the real potential will be in building defense partnerships for production and research because India is trying to build its defense sector in a different way than it did in the past by a greater role of the private sector.

We've opened up defense production to private sector companies in India and probably one of the few countries which has also opened it up to 26 percent foreign direct investment. So if the offset policy which India has put in place can be utilized to create defense partnerships or investments which enhance India's defense production capabilities, I think this will be a long-term defense partnership which has enormous potential.

And then, of course, looking beyond these, if you look at the broader framework, then there is a comfort level in the interaction we have with the United States because we are both broad, sprawling democracies. I heard somebody say that the U.S. is now becoming more like India. But I would say that India is a very robust democracy where everything is constantly under debate, discussion, agitation, protest, consensus building and so on.

The interesting thing about Indian democracy is that it has greatly broadened over the years, you know, with the kind of very innovative features which we introduced in our constitution in the beginning, you know, for affirmative action for vulnerable sections. We have seen the broadening of the participatory base of Indian democracy. Also increasingly it's moving towards coalition governments rather than any dominance by any particular party and you are seeing the locus of power also devolve to the states, particularly in terms of economic decision making.

So this is a very important shared perspective which gives us a comfort level in terms of fashioning our relationship into the future. It is a relationship where, as Prime Minister Manmohan Singh said, not only do we have shared values or shared interests, we have both.

You know, we have values which are common and to which we both subscribe. And we also have increasingly convergent interests. So as I look ahead. I think this will be a key relationship for both our countries in – not just in the near future but looking ahead to the 21st century itself. Thank you. (Applause.)

ROBERT BLAKE: Well, it's a pleasure for me to share the platform with my friend and colleague, Meera Shankar, who has done a terrific job here representing India here in Washington, D.C. I also want to add my thanks to Rick Inderfurth and to Dr. Romesh

Wadwhani who have brought this great group together and who more importantly have really helped to invigorate, I think, the India policy studies here in Washington.

So I think it's really a terrific addition to the community. It's always a bit of a hazard for me to come after Meera Shankar because we often have quite similar things to say, reflecting the growing convergence of our views and our policies. We sometimes joke that perhaps we could just exchange our speechwriters and see if anybody would actually notice.

But in this case, I've been busily scratching out large swathes of my remarks so I don't repeat what she has already said. But let me – so I'll skip all of the introductory comments and just say that as all of you know, we've made extraordinary progress over the last 10 years between the United States and India.

We are cooperating across virtually every field of human endeavor from counterterrorism to nonproliferation, from economic growth to reconstruction in Afghanistan, from food security to energy security.

As Senator Warner said, of course we've got to take a pause from time to time and consolidate what we've already done and make sure that we're really taking advantage of everything that we've already put in place and we're certainly doing that. But we also have to look ahead and try to build on that progress and Secretary Clinton will be going out in mid-July to Delhi for the next round of our strategic dialogue that she chairs with her partner and colleague, External Affairs Minister Krishna. So we look very much forward to that opportunity.

Let me just tick off a couple of areas very similar to what Meera did of areas that we see as real opportunities for growth, where we've already seen quite a lot of progress. First is, of course, trade. The robust health of our commercial relationship I think really provides an example of how our strong and growing people-to-people ties compliment and in fact are often well out in front of our government efforts.

As many people have already said, trade between our two countries has doubled twice in the last 10 years and I think will continue to drive our partnership. In 2010, two-way trade was up almost 30 percent from the year before and India has gone from being our 25th largest partner in the year 2000 to our 12th largest partner and will continue to grow in the years ahead.

As Dr. Wadwhani pointed out, India's foreign direct investment into the United States is also growing very fast. It was 5.5 billion (dollars) at the end of 2009, making India now the seventh fastest growing source of FDI into this country.

India and the United States have the potential to be each other's largest trade and investment partner, with significant benefits for both of our peoples. We've already made significant strides. But economic barriers on both sides make it hard for U.S. exporters to gain access to some Indian markets, especially in the agricultural area.

Restrictions in retail, in insurance, in defense and other areas continue to limit our companies' ability to expand their investment overseas and that obviously remains and important

focus of our dialogue. So we must continue to encourage market openings on both sides that will allow both countries to capitalize on these tremendous opportunities.

We want to seize opportunities such as renewing progress on a bilateral investment treaty, which would help lower the risk of investing in India by establishing safeguards and provide for an independent arbitration process that would provide our investors maximum protection.

A BIT would also protect growing Indian investment here in the United States. On defense, as has already been pointed out, we – India is now engaged in a massive military modernization program. It's expected to spend over \$35 billion over the next five years in defense acquisitions.

Of course, we regret the MMCA decision but again, we want to look forward at some of the big opportunities that are out there and we also want to recognize that we've already had some good successes. Everybody has already mentioned the C-17s. But other examples include the air force's purchase of six C-130Js, the first of which was delivered in February and the purchase of eight P8 long-range maritime patrol aircraft. Our defense cooperation also complements the ongoing slate of very robust exercises that we have between our two countries.

Let me turn again to visas, since Senator Warner mentioned that. Visa issuance to Indians are another very good indicator of our thriving relations. For the past four years, Indians have received about half of all of the H-1B visas issued worldwide and 44 percent of all the L-1 intra-company transfer visas. Six hundred and fifty thousand Indians traveled to the United States in 2010, marking an 18 percent increase over 2009.

And of course India has historically been one of the largest sources of international students to our colleges here with well over 100,000 students coming here to study last year.

As has been previously pointed out, we look very much forward to hosting a U.S.-India higher education summit in the fall sometime which will bring together a huge range of our educational institutes, not just the higher end colleges but also the community colleges, vocational training and other institutions that have a great interest in doing more in India.

Educational linkages will also bolster the efforts that we have made to foster innovation. The National Oceanic and Atmospheric Administration has established a monsoon desk to help bring monsoon forecasting data to India's farmers in cooperation with the Indian Space Research Organization.

We have also established a new public-private partnership – the Science and Technology Endowment Fund – which will award \$2.5 million a year to new innovative projects that can produce material benefits for both of our countries.

And under our partnership to advance clean energy, we have established a joint clean energy research and development center that will mobilize up to \$100 million in public and

private sector funds. This new energy research initiative is the most integrated joint clean energy undertaking that the United States has ever undertaken with another country.

And since the passage of the U.S. civil nuclear deal, we stand poised to contribute to the growth of India's civil nuclear energy sector and we continue to urge the Indian government to put in place a good regulatory and legal framework that will allow that cooperation to proceed.

I'd also like to just take a moment to recognize India's regional and global leadership. Prime Minister Singh's recent visit to Kabul underscores India's strong efforts and initiative to support international efforts to rebuild a secure, stable Afghanistan. The prime minister raised India's assistance pledge by \$500 million to now a total of \$2 billion. India has assisted with critical infrastructure projects as well as smaller development projects like health-care facilities and wells. And we also greatly appreciated the prime minister's public support for Afghan-led reconciliation efforts.

Prime Minister Singh likewise has shown great leadership and courage in advancing the current thaw in Indo-Pakistani relations. Following the cricket diplomacy launched by the two prime ministers, the commerce secretaries of the two countries met last month in Islamabad and announced ambitious commitments to enhance trade and commercial ties.

So India's economic rise presents a huge opportunity for Pakistan. A bilateral breakthrough could provide a catalyst for wider economic integration in the South and Central Asian region.

But India's efforts to make the world a more safe and secure place do not end at its regional borders. Prime Minister Singh recently undertook a momentous trip to Africa in which he pledged \$5 billion in development deals, encouraged counterterrorism cooperation and pledged to create an India-Africa institute of agriculture and rural development.

The Indian model for encouraging growth in Africa is very impressive. This month we will see bilateral ties on arms control and international security in Vienna. We will see a visit by the head of the opposition BJP; the high technology cooperation group will be meeting very soon; and we're stepping up our cooperation with India in multilateral and regional forums such as the Asian Regional Forum that will be held in July.

And as Meera said, we see very promising opportunities to work more closely with India in Asia and also in the Indian Ocean. I expect these to be areas of conversation at the upcoming strategic dialogue. So in conclusion, the global strategic partnership between the United States and India is founded on shared values and exceptional people-to-people ties. But we must remember this is a long-term project. Neither country can take the relationship for granted.

We need to work together to ensure that the spirit of President Obama and Prime Minister Singh's November 2009 summit and President Obama's highly successful visit last year to India is carried forward with concrete steps. Such achievement will help build the political support in Washington and Delhi, as well as Mumbai and Manhattan, to think more ambitiously about what we can achieve and where our partnership will go in the rest of the 21st century.

India is on track to have the largest population in the world by 2030 and may well have the largest economy in the world by 2050. It's a rising giant whose influence is not only felt in the Indian Ocean but in the Americas, Africa, the Middle East and Central Asia. Its rise will be one of the great stories of our time.

Our strategic relationship can make the world more secure and democratic while our commercial partnership can produce novel products that will meet the needs of the 21st century consumer and create millions of new jobs for our peoples. So once again, I want to thank Rick and I want to thank Romesh and everyone else for coming. And I look forward very much to a good dialogue with all of you. Thank you. (Applause.)

MR. INDERFURTH: Okay. I feel like I've actually been participating in an episode of "Dancing with the Stars" with our five presentations. If I had a card here, I'd give everyone a 10. I think we would all agree with that. That's applause now. (Applause) – to once again thank everyone for these great presentations.

I am not going to take the proverbial prerogative of the chair to ask the first question because you've all been wonderful to be here and I'm sure after all that you've heard, you want to ask our two speakers questions.

So I'm going to turn to the floor. We have microphones I believe on either side. So if you could stand up and pose your question and we'll get a microphone to you very quickly. If you would, identify yourself and your affiliation if you wish and then we will have I think about 20 minutes for questions.

So let's begin. Who would like to start with the questioning? All right, we'll start right here in the middle, right – I can't see people very well so I can't identify you by name. But please do that and then we will have these two questions in the middle to keep the mic close together as we move around the room.

Q: Thank you very much. My name is T. Kumar from Amnesty International. I have two questions for Ambassador Shankar. You mentioned about regional stability and Afghanistan is the issue. Prime Minister Manmohan Singh was there and he supported dialogue with the Taliban.

Obviously India's interest in Afghanistan is different from U.S. interest in Afghanistan. The U.S. of course is having troops. They have to leave one day or another. India, of course, it's in the neighborhood and Pakistan complicates the situation.

So during this dialogue which India is supporting, do you have any red lines that you would urge Karzai government not to cross? So I just want – I also want one other – just a side question. You mentioned in your speech about peaceful protest bailout. But as we are aware, yesterday and day before there were protests against corruption in India and excessive forces were used and massive people were beaten up. I need comment on that as well. Thank you.

MS. SHANKAR: First of all, let me say that I think what Prime Minister Singh has said is that we support an Afghan-led reconciliation process because it's for the Afghans to determine what kind of society or polity they want to build but within the red lines that had been agreed upon at the London Conference including by the Afghans themselves.

I think President Karzai himself had agreed to these –and that is that, you now, they must forswear links with al-Qaida, lay down arms, give up recourse to violence and accept the Afghan constitution.

So it has to be within the four corners of the constitution with acceptance of political pluralism as well. With regard to the other issue, I would say that there is a, you know, a strong discussion right now within India on the issue of how to deal with corruption and an emerging consensus that the framework to deal with it could be strengthened, including for instance that India has just ratified the U.N. Convention Against Corruption.

We have also various proposals on the anvil including for creating an ombudsman, you know, who would have the authority to look at this issue. But the details of these are still to be evolved within the parliamentary framework.

But there are proposals currently which are very vigorously being discussed. I think at another level, if I may, you know, point out to the institutional changes which have taken place in India, many of them have had the effect of reducing corruption because as we have moved to an economy of less regulation, of less discretionary government decision-making, I think we have done away with whole sectors of corruption.

The second has been a moving from an economy of scarcity to an economy of availability and competition. If I give you an example, for instance, in my lifetime, you take a look at telecom. I mean, I recall when I was growing up that – or when we joined the government that we had one telephone provider and there was a long waiting list of people waiting for telephones.

And if you approached the department, they would say, well, you know, you have to wait so many years because we have such a big list. And either you had to know somebody or, you know, to try to get a connection quickly.

Today it's a very different situation where companies are chasing mobile customers, phone customers, and sometimes we are adding 15 to 20 million new mobile connections every month. So that's the kind of difference which has taken place, where one whole segment which used to be an area of, you know, concern for people because of the kind of services which were not available has changed for the better.

Similarly, if I take the automobile segment, you know, we had the good old Ambassador car which India used to produce from the '50s. We were producing the same car in the '80s. It's a nice car. (Chuckles.) I mean, I have nothing against it. But then we had the Maruti which was the first joint venture between an Indian public sector company and the Suzuki Company from Japan.

And there were huge wait lists for the car. You had to apply. If you were lucky enough to get an allotment of a Maruti, the market value was much higher than the, you know, the cost at which the car was being sold. Similarly, for the two-wheeler, the Bajaj two-wheeler, there were waitlists for several years.

Today you have all the car companies in the world producing in India. It has become the world's single largest hub for producing small fuel-efficient cars. There are Indian car companies which have emerged like Tatas and Mahindras who are developing their own stable of products and they're running after the consumers to buy their products. And you know, you get confused with all the fine print of the various offerings that they make.

So again, a whole segment of, you know, what used to be harassment of people, unavailability of services leading to corruption has vanished. I think the third element I would say is using technology to leapfrog because say, for instance, railway reservations.

Now, you can do this online and again that has done away with the whole segment of, you know, middlemen and so on. And it's become very much easier for anybody who wants to book a railway ticket online.

So if we can improve the delivery of government services using technology to leapfrog, if we can make institutional arrangements which open up sectors of the economy, reduce discretionary government decision-making to the extent possible and, you know, do away with monopolies, introducing competition both in the public and the private sector, then I think we would have dealt with this problem in a very major way. Thank you.

MR BLAKE: Can I just make an additional point about corruption? One of the themes of my remarks is how the United States and India are working more together internationally on the big challenges of the day. And one of those is corruption.

And we have a very important multilateral initiative on open government underway. India is on the steering committee of that with the United States. And India's right to information law is really quite a powerful example for other countries and I think has been a very effective tool for anticorruption activists inside India.

And as somebody who has served in South Asia, we have – we and other people inside South Asia have sought to duplicate that example elsewhere because I think it would be, again, a very helpful tool in other countries.

MR. INDERFURTH: I actually saw an article about India's right to information law, that it uses that law per capita more than any other country, including the United States, with our Freedom of Information Act. So it's a valuable tool for the populace of a country to keep their officials accountable. Another question? Right here?

Q: There we go. David Scruggs, Renaissance Strategic Advisors. I have a question for each of you, if that's okay. For Ambassador Shankar, the question is with your comment about

the 26 percent foreign limitation of ownership of companies there, to increase FDI and foreign investment in India, is there any movement in the 26 percent upward? If so, when and how? That's my question.

The other question for Mr. Blake is India has been very clear they want to broaden their technology capabilities. They want to broaden their defense production capabilities, in particular.

Our restrictions on technology transfer seem to be an impediment and I think you would point to the MMRCA. At least I think that's the indication that that was an impediment. Is there any movement in how India is perceived or classified in the State Department's political military calculations? Thank you.

MS. SHANKAR: (Off mic) – me clarify that the 26 percent limitation is not across the board. I think in most sectors, India allows 100 percent FDI. There are only very few sectors where there are some caps and these are largely for reasons of political or social sustainability or in the defense sector because most countries don't allow any FDI at all in the defense sector or allow it within certain norms because of issues of security or national sovereignty.

But I think as our – you know, we would probably look at our experience in terms of how this 26 percent investment occurs and you know, where it leads to because, you know, we have just undertaken a major change in our offset policy which will help investment. And that is we have broadened the scope of offsets.

Earlier we insisted on defense – to defense offsets. That means limited to the defense sector. We've broadened the scope of offsets to include civil aviation technologies and also homeland security technologies, which greatly expands the basket of areas where offsets could be met.

In terms of this 26 percent, I think the current view of the Indian government is let's see the companies come in. Let's see how they, you know, fare and then if there is a need to review, we will. But a priori, I think they find it a bit difficult right now because they want to test, you know, the experience with this 26 percent.

MR. BLAKE: On the question of defense trade, first of all I would gently disagree with the premise of your question, which is by saying that – I don't think technology transfer was a major factor in India's decision. From the United States' perspective, we were prepared to offer some of our very best technology on both the Boeing and Lockheed platforms for the MMRCA, include the AESA radar.

And more broadly, I would just point out that there has been a remarkable trend over the last 10 years in which we've significantly relaxed our export controls on India because of the enhancements that India has made to its own export control regime.

We've – one of our most successful dialogues has been the high technology control group where we've really sought to, again, significantly reduce the controls on trade with India and we



continue to make progress. Most recently as a result of the president's visit where both the Indian Space Research Organization and the Defense Research and Development Organization were taken off the Department of Commerce's entities lists.

That action was actually completed in February of this year. So again, we are, I think, taking a quite expansive view of the opportunities for greater defense trade with India and will look, I think, very favorably on transferring more and more high technology in that area to India.

MR. INDERFURTH: Another question? Yes?

MS. SHANKAR: If I could just add, I would endorse what Bob has said. I think the recent agreement to, you know, streamline export controls as they are applied to India will have a very positive impact on our ability to engage in high technology trade, dual-use technology trade or even defense trade.

And as part of this, we also have the U.S. commitment to support India's membership of the four export control groups – that is, the Nuclear Suppliers Group, the Missile Technology Control Regime, the Australia Group and the Wassenaar Arrangement. And this also will facilitate I think the levels of technology that India would have access to.

MR. INDERFURTH: Yes, sir?

Q: I'm Manohar Thyagaraj. Just a broad question that I'd like to ask about this relationship one would see as being unique between two large interagency processes – the U.S. and India.

So is there a point to be made that big initiatives – you know, big ideas – are the driver for this relationship or would you believe, you know, opinion-wise that this relationship has to be routinized before broad, big initiatives are necessary? Which one do you see as being the bigger vehicle, the bigger highway to the next 10, 20 years?

MR. BLAKE: Well, I would say it's both. I mean, in the early part of the relationship, certainly of the last 10 years, big ideas were very, very important, particularly the civil nuclear deal which took – which was probably our most significant irritant in our bilateral relations and turned it into a significant opportunity for cooperation.

So that certainly was a very big idea and a very important one. But now, as our interests and our cooperation have really converged, you're not going to find those kind of big ideas out anymore because we are cooperating in virtually every area.

But we're now looking to seize those opportunities by, for example, the educational cooperation that I talk about and increasingly through a lot of the global cooperation that we're undertaking where we are really working together on the big challenges of the day across the board. If you read the joint statement that was put out by our two presidents, that really comes forth in a very concrete way.

MS. SHANKAR: I would second that. I think we need to do both. We need to consolidate our cooperation in a manner which is very specific and detailed. And at the same time not shy away from bold initiatives or bold ideas, to drive the momentum in the relationship. So I think it really should be a combination of both rather than an either/or approach.

And in terms of, you know, our cooperation and meeting global challenges, I think it would also be important to see how India can be brought into the systems of global governance in a more participatory way because if, you know, our cooperation is required to deal with many of the challenges that we face, then clearly within India there is the sense that we should also have the ability to shape the decisions whose outcomes we would be expected to implement.

So in this context we greatly appreciated the support that President Obama extended to India's permanent membership of the Security Council, to Indian's member of the four export control regimes and to carrying forward the process of, you know, broader participation in international institutions of financial and economic governance.

MR. INDERFURTH: In that same vein, if I could put a plug in for our work at CSIS, you have in the back our monthly newsletter – "US-India Insight" – and we address that question of what should we be doing now in the relationship.

We've had some very big ideas and some very big events, what we should be doing now in terms of taking this relationship forward. So I obviously endorse – my colleague, Amer Latif and I obviously endorse looking at how we proceed to the next step.

Could – Ambassador Shankar, you just mentioned one thing that I'd like to ask a question about because of my previous experience at the United Nations and that was a very important statement that President Obama made in New Delhi publicly endorsing India's bid for a permanent seat on the U.N. Security Council.

I would like to simply ask you both six months and counting after that event, what is the prospects for that to actually be realized? What steps are our two governments doing to pull together a roadmap for expansion that would obviously include not only India? It wouldn't just be a one-off expansion, but a broader expansion of the Security Council. Where do we stand with that today?

MS. SHANKAR: There has been a general debate in the Security – in the U.N. which has moved beyond the ad hoc working group which was working on this. And what we do see is that there's much greater support for a reform of the U.N., including the U.N. Security Council, both in its permanent and nonpermanent membership.

I think where we still need to forge a consensus is in terms of how that reform should be carried out. You know, there are different groups of countries which have different views. But India, along with the "Group of Four" countries – that is, Germany, Japan and Brazil – has put forward its own proposal U.N. Security Council reform.

And as far as India is concerned, I would say that four out of the five permanent members of the U.N. Security Council have supported India's membership and nobody has opposed it.

MR. BLAKE: Well, I would say that as the president of course has endorsed India's candidacy. But it's got to be a very complicated process because of course there are a number of other aspirants and our goal is to ensure both a council that reflects the weight of countries such as India that are emerging powers of the 21st century but also a council that is able to maintain its efficacy.

And so we're trying to find that sweet spot and figure out how to do that. And that's a very complicated process. So that process is underway. But I don't want to make any predictions about when that might end because it's – it involves a very substantial process with a number of our very close friends.

MR. INDERFURTH: Good. Other questions from the floor? Please?

Q: My name is Seema Sirohi. I'm a journalist from India. I am a little struck by the fact that we're talking about regional security issues and we haven't really discussed – you haven't really mentioned much about Pakistan, a country that is in deep distress and has a direct impact on India's security and the issue of terrorism.

So I'd like to know how you see the future of Pakistan in the medium term and in the long-term and how – what the U.S. government is doing to sort of put pressure on Pakistan about Lashkar-e-Taiba, a group that we don't hear as much about in this city as we should, I think.

MR. BLAKE: That's a big question. Let me try to answer it in as short a way as I can which is to go back to what our president said during his visit in Mumbai and also in Delhi, which is that Pakistan is a very big and complicated and important relationship for the United States and also for India.

I think the president was quite eloquent in the town hall meeting that he had in Mumbai where he talked directly to the Indian people about how they share the United States' interest in helping to stabilize Pakistan.

And I think that the leadership that Prime Minister Singh has shown in reaching out to the Pakistani people even though Pakistan has not done everything that India wanted in terms of finishing the trials of those who were responsible for the Mumbai attacks, in terms of closing down many of the camps that still threaten India.

Even though Pakistan has not done that, the prime minister recognized that it's in India's long-term interest to try to help Pakistan, particularly as I said through the commercial side of it, to help create jobs on both sides of the border and realize many of the – the potential that has not yet been realized.

So I think it's a very, very important step. But in the meantime we have to still not lose track of the very significant security threats that remain and I think the homeland security

Secretary Napolitano's recent visit underscored the very, very close cooperation on counterterrorism between the United States and India that has grown substantially since 2008, since those attacks and will continue to grow because it is very much in our interest to prevent such an attack and to work in the closest possible way to help increase India's own counterterrorist capabilities, to work on the intelligence front with India and of course to work together to help Pakistan.

MR.INDERFURTH: I think Senator Cornyn in his remarks also addressed that important issue of our collaboration with India on these issues within the region. I think his remarks were very important in that regard.

And we will also be discussing that issue in our next discussion when Bruce Riedel, who has just been – has just had published his book “Deadly Embrace,” the relationship of the United States and Pakistan. So I think we will have more on that topic coming up in a moment. I want to keep on schedule.

So I would like to now use that prerogative of the chair to ask both of our speakers one final question, something that Bob Blake mentioned. He recently was at Wharton speaking there. And let me preface it by saying that in terms of our overall relationship, we recently did a head count of the formal dialogues and working groups that have been established over the last number of years.

We asked both the Indian embassy as well as Bob Blake's office and it's a total of 31 formal dialogues and working groups that have been established, most recently the formal dialogue on homeland security.

And that's why Janet Napolitano was just in India and we're pleased to say reported back to CSIS on her return to talk about that very, very important new dimension – or added dimension. We've been discussing this for some time.

But something that Bob said at Wharton, and I'll just read it and having served in government as well I fully ascribed to what he has to say. He said: we are in the business of creating the environment, the role of government. We're in the business of creating the environment for these deals to take place, not to actually conclude them ourselves.

He said: the point is now the private sector has eclipsed what the government is doing and that's a good thing. That's exactly what we like to see happen. I'd like you both to comment on who you see as the principle drivers in this U.S.-India relationship.

Has the government actually now taking something of a secondary role to our private sector and our people-to-people exchanges? Bob, and then I'll let Ambassador Shankar wrap up.

MR. BLAKE: Well, I don't think we've quite put ourselves out of a job yet. I think there's still quite an important role for government to play on both sides of the relationship. But I do think that the drivers of our relations really have been these remarkable people-to-people ties between our two countries and increasingly the private sector.

Not only is there tremendous dynamism in the trade and investment in both directions, as Meera pointed out in her remarks, but increasingly every one of those dialogues that Rick mentioned has some sort of private sector component because we do rely on the dynamism and the advice of the private sector to help inform those dialogues and to help sort of propel them forward because we don't talk just for talk's sake.

We talk because we want to, again, create opportunities for our people and for our businesses and for our scientists and for our lawyers and everyone else. And so I think we've made a lot of progress. But there's still a role for government. But more and more it will be the private sector and others that will I think take the fore.

And I think that's particularly true in the United States, where, let's not kid ourselves, as Senator Warner said, we're facing some quite significant difficult challenges ourselves.

So increasingly the United States is looking to public-private partnerships and other mechanisms like that to work much more closely with the private sector to drive our foreign policy. And I think that's a trend that you're going to see accelerated over the next 20 or 30 years.

MS. SHANKAR: I would agree. I think government can work to create a framework, to – you know, to enhance understanding, to act as a catalyst and to put in place facilitative policies. But the substantive elements or density of the relationship, if I may say that, would emerge from the networks of private initiatives that occur.

So whether it is, you know, if you have, say, 10,000 students in the United States and these are, you know, individual actions by individual students, or you have 100,000 students in the United States, as we have today, then you see the nature of the interaction becomes far more broad-based and solid.

And you see the impact of that in a number of ways, you know, from, you now, college or university groups performing bhangra rap when I go there in a joint, you know, American and Indian venture, to people learning yoga to many young people in the United States telling me, you know, oh I have an Indian friend and I attended his or her wedding. So everybody now knows what a big fat Indian wedding is.

So it impacts in many ways and gives the density and solidity to the relationship. Similarly, in terms of business, it's governments which can create a facilitative framework. But the actual risk taking, the actual business of business, if I may say that, will have to be with the private sector and how they seize the opportunities which are there at this moment of transition and transformation in India which is a very, very exciting place to be.

So I would agree with Bob says – with what Bob said, that yes, governments will continue to play a role, particularly on the strategic and political side. But the nature of the relationship will also be shaped by how we create and expand individual networks across the two countries.

MR. INDERFURTH: Well, if i could also concur with both of you, I think these are the ties that will bind the two countries together. Could we express our appreciation to our speakers? (Applause.) Thank you both – wonderful, wonderful. And let's – we have about five – let's say 10 minutes to just mill around, get some refreshments and then we'll have our final discussion. So look forward to seeing you back here. Thank you very much.

(END)