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U.S.-INDIA INSIGHT

"Unlocking the full potential of the U.S.-India relationship"

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Six Months after the Obama-Singh Summit

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President Obama's trip to India in November 2010 marked the culmination of a whirlwind of activity in U.S.-India relations over the past half-decade. Beginning in 2005, the United States initiated a deal on civil nuclear cooperation with India, signed a 10-year defense framework agreement, launched the ministerial-level Strategic Dialogue, removed Indian defense and space organizations from the Commerce Department's Entity List, and publicly expressed support for India's bid to have a permanent seat on the UN Security Council. A growing economic and trade relationship, as well as expanding military ties, have complemented these landmark achievements.

While Obama's visit was well received in India, it may also represent the high point for bilateral relations in the near term. The reality is that over the past six months the relationship has shifted from big initiatives and center stage to more routine interactions and interruptions. While several summit follow-up meetings have taken place, including visits to India by outgoing Commerce Secretary Gary Locke and, most recently, Homeland Security Secretary Janet Napolitano, other meetings and policy activities have been pushed back due to the exigencies of both sides. The one initiative that could have provided the next big boost in the relationship—India's tender for 126 new jet fighters—did not. India chose two European entrants as the finalists in this \$10-billion to \$12-billion competition, a deep disappointment to both the U.S. government and defense industry.

Today both Washington and New Delhi appear distracted by domestic politics and other, more immediate foreign policy concerns. Arguably more troubling is that the U.S. and Indian private sectors, key drivers in building this relationship, have also expressed frustration about India's economic prospects with widespread corruption, the lack of parliamentary action on key pieces of legislation, and concern about the shrinking opportunities for foreign direct investment, which are threatening to set back India's recent successes. All of this leads some business leaders to characterize the Indian market as one of "unquantifiable risk" due to the lack of transparency and the seemingly arbitrary nature with which laws and regulations are enforced.

With the focus of both governments trained elsewhere, the silver lining is that there are already a number of initiatives outlined in the Obama-Singh Joint Statement for both sides to work on. "Implementation" should therefore become the next "big idea" in the U.S.-India relationship, along with insuring that bilateral relations are, as outgoing U.S. ambassador to India Timothy Roemer recently put it, "a two-way street." In this regard, there are several steps both sides can take now.

First, the United States and India should focus on a limited number of areas that offer a reasonable chance of success in the near term. Examples could include the recently

Drilling Down on Energy Cooperation

High on the list of priorities at the Obama-Singh summit was the issue of clean energy technology. As the world's second and third most carbon-emitting countries, this is of vital interest not only to the two countries, but to the world. To that end, both governments have embarked on initiatives to promote lower carbon growth, diversify energy supply, and drive investment in a new clean energy economy for the twenty-first century.

The Clean Energy and Climate Change Initiative announced at the summit aims to increase cooperation in wind and solar energy, second-generation biofuels, unconventional gas, energy efficiency, and clean coal technologies. A central part of this is the U.S.-India Partnership to Advance Clean Energy (PACE), which seeks to promote collaborative research and commercialization of clean energy technology. One particular milestone under PACE is the Joint Clean Energy Research and Development Center, which aims to mobilize public- and private-sector funding focused on technological cooperation in building efficiency, solar energy, and biofuels. The United States and India have pledged \$25 million each, matched by a consortium of private enterprises, to eventually total \$100 million.

As one would expect, these initiatives are simply too big for resource-constrained governments to take on without buy-in from the private sector, the main driver in the U.S.-India relationship.

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announced C-17 transport aircraft deal, establishing a roadmap for India's permanent seat on the UN Security Council, and focusing on multilateral efforts, such as the recently established U.S.-India-Japan trilateral dialogue. Encouraging India to be more involved in Asian security and economic architecture would also be useful with the East Asia Summit coming up later this year.

Second, the United States and India should intensify their consultation about regional issues where both sides have common interests. The U.S.-India dialogue on Asia is a welcome step in exchanging views and coordinating policy on Asia, to include exchanging perspectives on the implications of China's rise for the United States and India. A bilateral dialogue on the Middle East is now needed, given common concerns about the current turmoil and shared strategic interests of energy, democratic governance, and stability. The United States and India should also intensify their dialogue on Afghanistan by establishing a bilateral mechanism to consult frequently as July 2011 approaches and U.S. troop withdrawals begin.

Third, the Indian government needs to engage in some introspection about the recent, dramatic drop in foreign direct investment (31 percent in 2010) and growing investor concerns about doing business in India. As Ambassador Roemer said in a recent *Wall Street Journal* interview: "The international business community that was pouring money and investment potential into India last year and the year before is now pausing and saying: 'Where is India heading in terms of investment opportunities, the corruption challenge and inflation?'" India needs to make U.S. business feel that the Indian market is easy, predictable, transparent, and ultimately, profitable. In this regard, it would be helpful to reenergize Bilateral Investment Treaty discussions, which would provide investment protections to strengthen the ability of our companies to cooperate more effectively in both markets.

Fourth, Washington should move quickly to appoint a new U.S. ambassador to India. Allowing this critical position to go vacant for an extended period of time, which has happened in the past, would send a negative signal to New Delhi and would disrupt the ability of the United States to work effectively with its Indian partners.

Finally, both sides should use next month's U.S.-India Strategic Dialogue, led on the U.S. side by Secretary of State Hillary Clinton, as an opportunity to have a frank discussion about each side's expectations and limitations for the relationship. Both sides need to acknowledge the recent distractions and frustrations in their respective capitals and articulate their future visions for the relationship.

Implementing these steps would provide a clear signal that the relationship is moving forward, perhaps not as dramatically as in the last few years, but as one rooted in strengthening routine cooperation and consultation. As both sides build the strategic partnership in the months ahead, it would also be useful to keep in mind this sound advice from Assistant Secretary of State for South and Central Asia Affairs Robert Blake, who spoke last month at CSIS: "The U.S.-India story still contains untapped potential and unrealized gains…But we must remember that this is a long-term project."

Links of Interest

On June 2, Secretary of Homeland Security Janet Napolitano spoke at CSIS about the **U.S.-India Homeland Security Dialogue**. Click here to watch the speech.

On May 13, Assistant Secretary of State for South and Central Asian Affairs Robert O. Blake spoke at CSIS about **U.S.-India Relations: Current Issues and Future Opportunities.** Click here to watch the speech.

To read recent articles by Amb. Karl F. Inderfurth, CSIS Senior Advisor and Wadhwani Chair in U.S.-India Policy Studies, and Dr. S. Amer Latif, CSIS Visiting Fellow, please click here.

Major companies in both countries—Wipro, Infosys, Marriott, Target, Walmart—are piloting a program in commercial building efficiency, agreeing to ongoing energy-efficiency improvements in their facilities. Many small and medium-size enterprises are also contributing to the effort; for example, the Sujana Group, through a grant to Columbia Law School, hopes to facilitate U.S. investment in clean energy by developing a set of standardized legal instruments for the industry.

Another promising aspect of cooperation is India's unconventional gas reserves. As part of the Global Shale Gas Initiative, the two countries are identifying shale gas reserves within India. In January, Asia's first shale gas pool was found in West Bengal, the first tapped shale gas reserve outside of North America. For India, shale gas could be an energy "game changer," as it is proving to be in the United States—increasing energy self-reliance and promoting lower carbon growth. U.S. technology will be used to drill the shale gas pool. Once India develops an Unconventional Gas Policy Framework, the extraction and commercialization of these reserves hold many prospects for the United States and India to truly deepen clean energy collaboration.—***Persis Khambatta***

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