

U.S.-India Insight

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What 2015 May Hold for U.S.-India Relations

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As we start 2015, the table is set for a real transformation in bilateral relations. A great set of high-level meetings following the Bharatiya Janata Party's (BJP) stunning victory in the April-May election, in particular the Strategic Dialogue in July and Prime Minister Narendra Modi's visit to the United States in September, has established a new framework for cooperation. In 2015, it will be up to leaders, both public and private, to carry this momentum forward.

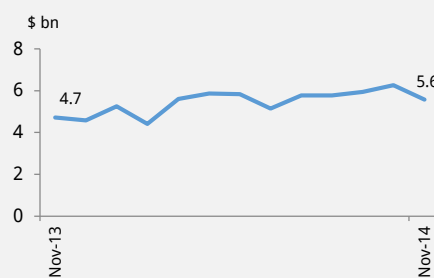
With back-to-back visits to India by Secretary of State John Kerry and President Barack Obama in January, the United States and India have powerful opportunities to deliver on this promise.

Four issues that may bring the United States and India together in 2015:

- Economic Reform / Renewed Economic Dynamism:** The Modi government has moved quickly on foreign direct investment (FDI) caps and other nonlegislative reforms. Moving forward with other tough reforms such as the Goods & Services Tax (GST), and lifting FDI caps in insurance, e-commerce, and other sectors, will bring new investors to the table. We must also find a way to resolve the massive backlog of cross-border tax issues emanating from transfer pricing assessments and attempts by tax assessors to disregard the legal uses of tax treaties.
- Securing an Expanded, Modern Defense Framework Agreement:** In late June, our 10-year "New Framework for the U.S.-India Defense Relationship" will expire. Both sides are dedicated to renewing the Framework and will hopefully infuse the document with a new vision for what the contours of our security relationship could be a decade from now.
- Fixing the Nuclear Liability Issue:** The continued lack of commercial trade in civilian nuclear technology represents a significant "unmet promise" of the strategic relationship. But in September we established a focused Contact Group to look for ways to operationalize the commercial aspects of civilian nuclear trade. Success in this regard will add an important new pillar of cooperation to our relationship, bridging economic and strategic priorities.
- Finding Tangible Ways to Demonstrate Commitment to New Regional Cooperation:** The September [Joint Statement](#) includes some interesting new areas for collaboration, such as denuclearizing North Korea, promoting stability in the South China Sea, and sharing information on war zones including Syria and Iraq. The United States and India must identify tangible actions to fulfill this vision.

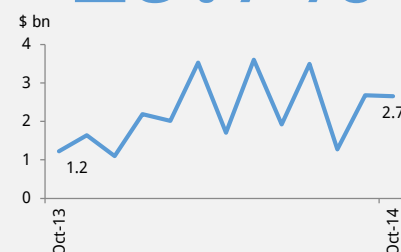
KEY DATA

+2.9%



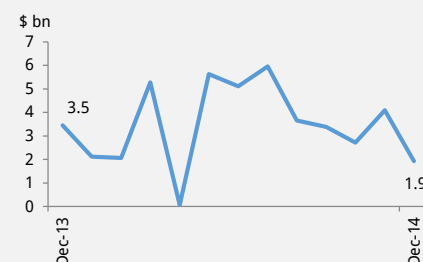
Increase in U.S.-India goods trade, 12-month rolling average, per U.S. Census

+29.7%



Increase in FDI, 12-month rolling average, per DIPP

+245.7%



Increase in FII, 12-month rolling average, per NSDL

Two issues threatening to drive us apart, or trigger a new phase of “drift”:

- **Concerns over Continued U.S. Military Assistance for Pakistan:** While controversial even here in the United States, there is a strong case for some level of U.S. military aid for Pakistan. Pakistan is a frontline state in the war on terror in every sense—both positive and negative. Yet offering support to Pakistan for even positive (though selective) efforts like the campaign in North Waziristan is eroding India’s trust in the United States as a strategic partner. These concerns have become more pronounced in India in recent months. Clearly there is not an easy solution to this impasse, but hopefully we can contain any damaging effects in our relations with India.
- **Further Anti-Trade/Anti-Business Measures:** Multilateral trade issues continue to divide the United States and India, as evidenced by the fiasco over India’s step back from the World Trade Organization’s Trade Facilitation Agreement this summer. And other commercial issues, some not directly controlled by New Delhi, give investors pause; the Uber ban is one example. Continuing along this path could put a chill in the economic relationship.

Two issues that could break in either direction:

- **Coordination on Afghanistan:** As the United States draws down its presence in Afghanistan, the need for stronger coordination with India increases. The U.S.-India-Afghanistan trilateral dialogue must be reinvigorated, and Washington should consult New Delhi more proactively before making decisions on our future presence in Afghanistan.
- **Generating U.S. Infrastructure Investment in India:** The U.S. government does not have the development resources to make massive block investments akin to what Japan, China, and others have proposed. We need to find a way to bring U.S. private-sector investment back into Indian infrastructure. Payment security is critical, so moving ahead with a Bilateral Investment Treaty (BIT) or other mechanisms will help, as will attention to broader issues like transparent bidding, simplified licensing, etc. Absent U.S. participation in India’s “big build,” our economic relationship may ultimately lose ground to other nations.

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