

U.S.-India Insight

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Searching for a Joint Vision for Economic Cooperation

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In 2015, the U.S. and Indian governments gave our security relationship a new foundation. Arguably, the most significant agreement is the [“Joint Strategic Vision for the Asia Pacific and Indian Ocean Region,”](#) released in January 2015 when President Barack Obama visited India. However our economic partnership has yet to be elevated to something we might consider “globally significant.” A counterpart joint statement on shared economic principles, endorsed by our leaders and containing a roadmap for cooperation, must be a priority in 2016. Support in the United States for a deeper relationship with India is shallower than is often portrayed in public. Momentum on multiple fronts is critical.

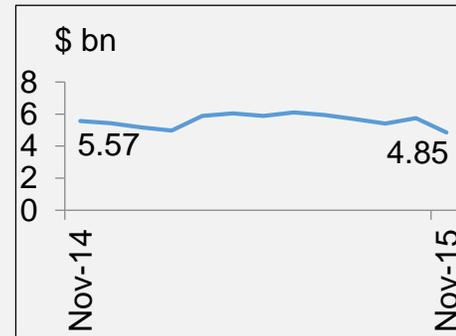
Our security partnership took three significant steps forward in 2015. Apart from the release of the Joint Strategic Vision, during the same trip the two governments were finally able to move forward with several programs under the [Defense Technology and Trade Initiative \(DTTI\)](#)—including important, longer-term projects on aircraft carrier and jet engine technologies. And third, this summer the two governments agreed to a new 10-year [“Framework for the U.S.-India Defense Relationship.”](#) The Framework largely renews the terms of the 2005 version but adds a few potentially significant provisions, particularly a pledge that the two militaries will look at “common defense platforms.”

The U.S.-India economic relationship lacks the same scope and vision as our strategic relationship and could easily become subject to a sharp downturn, as we saw in 2013–2014. The closest thing we have to a vision for the economic partnership is the vaguely defined goal of [\\$500 billion in bilateral trade](#). Expanding our U.S.-India Strategic Dialogue to a Strategic and Commercial Dialogue was a welcome step. But, policymakers have not progressed in attempts to negotiate a Bilateral Investment Treaty (BIT), and India’s [new model BIT](#) released on December 28, while an improvement over the earlier draft, still contains troubling provisions, particularly the absence of “Most-Favored Nation” status and numerous hurdles to initiating arbitration. In August, the U.S. Department of Commerce announced the reconstitution of an expanded [U.S.-India CEO Forum](#), which met in September as part of the Strategic and Commercial Dialogue. Hopefully this version of the CEO Forum has more success in removing obstacles and finding paths to deeper economic cooperation. Also in August, the Peterson Institute for International Economics released a study, [“India’s Rise: A Strategy for Trade-Led Growth,”](#) laying out the impact of India’s potential policy choices to embrace, or abstain from, trade liberalization.

There is growing awareness in India that the country is on the verge of being left behind on trade and that it will pay an economic price for this position. Regional and sectoral deals are moving ahead, sometimes at an uneven pace, such as the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP), the Trade in Services Agreement (TISA), and the expansion of the Information Technology Agreement (ITA-2). Yet, India’s long-pending trade agreement with Europe remains stuck. Other potential trade partners, like the United States, are awaiting the conclusion of India’s trade talks with Canada and Australia to see if India’s positions on market access have improved since it signed its uninspiring trade agreements with Japan and the Association for Southeast Asia Nations (ASEAN). The reasons for India’s reluctance to embrace global trade talks remain intact: an extremely high goods

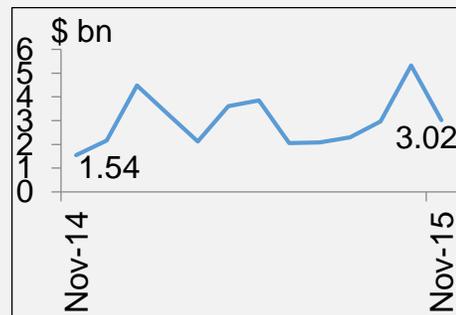
KEY DATA

+1.7%



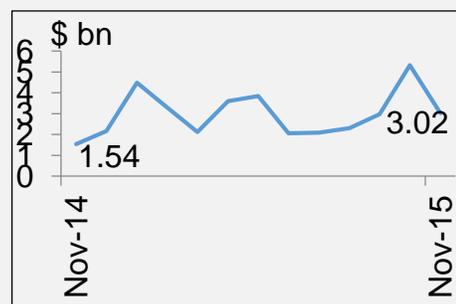
Increase in U.S.-India goods trade, 12-month rolling average, per U.S. Census.

+34.3%



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

-75.1%



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

trade deficit-to-GDP ratio; business groups that want to maintain closed markets; “swadeshi” ideologues within the ruling Bharatiya Janata Party (BJP); and an agriculture sector with relatively low productivity levels.

There are a few initiatives that could potentially constitute a roadmap on economic cooperation. Boldest of all would be to initiate free trade agreement talks through a formal study group, or for the United States to offer full-throated support for India’s inclusion in the TPP when expansion begins. But the hurdles to initiating these audacious steps may be insurmountable—on both sides. In that case, possible alternatives would include: a leaders’ statement on shared principles for global trade and investment; a few rounds of substantive BIT talks; or a clearer articulation of U.S. support for India’s membership in the Asia-Pacific Economic Cooperation (APEC) forum, paired with “good faith steps” by the Indian side to show it is serious.

We are headed into the final year of the Obama administration. The next president is unlikely to choose cabinet members based on their position on engaging India. The best way to ensure the next U.S. administration feels compelled to prioritize the India relationship is through inspirational activities with momentum behind them that have unquestioned value to American interests. Such momentum is evident in our strategic partnership; now our economic partnership needs a parallel track.

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