

SEPTEMBER 2014

Seizing the Modi Moment *Reenergizing U.S.-India Ties on the Eve of the Prime Minister's Visit*

POLICY BRIEF



By Richard Fontaine

The landslide victory of Narendra Modi's Bharatiya Janata Party (BJP) in May produced a historic realignment of political forces in India. In becoming the first party in thirty years to seize an outright majority in parliament, the BJP decimated its rival Congress Party and won a mandate for sweeping domestic reform, especially in the economic sphere.¹ Four months after Modi's inauguration as Prime Minister, he will visit the United States for the United Nations General Assembly and for meetings with President Barack Obama. The Prime Minister's visit represents a key opportunity for the United States and India to recharge a critical bilateral relationship after several years of stagnation and a divisive diplomatic row. An ambitious but realistic agenda of deepened political, economic and security ties would reflect the importance of this strategic partnership and reverberate in the Indo-Pacific region and beyond.

The Prime Minister's September visit to the United States will mark an attempt by both Washington and New Delhi to move beyond the tempestuous romance that has too often characterized the relationship. Routinely described as "natural allies," India and the United States have over the past year seemed more like estranged partners, united more by a sense of dashed expectations than by a shared approach to common challenges. India's economy, which grew 7.4 percent annually between 2000 and 2011, fell to 4.5 percent growth in 2012 and has rebounded only slightly since.² The economic slowdown prompted a more inward focus in New Delhi and questions in Washington about India's ability to generate national power. At the same time, key agreements went unsigned or unfulfilled, including the landmark civil nuclear accord, defense pacts aimed at deepening security cooperation, and a stalled bilateral investment treaty. Indian government officials expressed worry about Obama's stated commitment to withdraw all troops from Afghanistan; Americans had their own concerns about India's disinclination to apply sanctions on Iran.

The December 2013 arrest in New York of India's deputy counsel general brought relations to a new low. Charged with visa fraud, the diplomat received treatment from police that touched off widespread outrage in India and a sharp response from its

government. New Delhi expelled an American diplomat for only the second time in Indian history and rescinded privileges for those who remained.³ New Delhi police removed security barricades around the U.S. embassy and leading politicians, including then-candidate Modi, refused to meet with a visiting congressional delegation.⁴ The intensity of the diplomatic row revealed deeper fragility in the bilateral relationship than many had previously detected.

While the United States and India began to move beyond the spat after several months, the incident and other complications in ties between the two countries prompted both to reconsider key aspects of their relationship. In the waning days of the Manmohan Singh-led Congress government, the private debate in Washington began to shift from whether India should be a close partner of the United States, to whether it can and ever will be. In New Delhi, some officials expressed exasperation with Americans who once trumpeted the importance of strategic ties with India, but then seemed to lose interest as the country's economy lost altitude.

This state of affairs seems a far cry from just four years ago when, in a dramatic speech to India's parliament, President Obama declared support for the country's permanent membership of the U.N. Security Council. This and other moves by the Obama administration were aimed at recognizing India's emerging role as a great power, hastening its global rise and building on the diplomatic achievements of the Clinton and Bush years. The Clinton administration had been the first to work with New Delhi to put aside decades of mutual distrust and divergent Cold War sympathies; the Bush administration then oversaw a wholesale upgrade in relations with India, carving out an exception for it in global nonproliferation rules, expanding trade and increasing military ties. Obama clearly hoped

to take the relationship to the next level, establishing a strategic partnership that is global in scope and ambition.

It is somewhat ironic that the prospect of renewed bilateral ties now turns on the election of Narendra Modi, as the United States barred entry to the then-Chief Minister of Gujarat in 2005, citing his role in deadly Hindu-Muslim riots three years before.⁵ It was not until February 2014, when Modi's BJP appeared poised to sweep nationwide elections, that the American ambassador met with him for the first time.⁶ Nevertheless, in public statements the new Prime Minister has been at pains to abjure personal pique, saying that "relations between the two countries cannot be determined or be even remotely influenced by incidents related to individuals," and even embracing the "natural allies" label.⁷

Despite this strained history, Modi's landslide victory does, in fact, augur well for the near-term future of the U.S.-India relationship. His government's electoral mandate, commitment to economic reform, and apparent openness to closer ties with the United States and other democracies offers new prospects for deepening ties. But the opportunities will not seize themselves, and it will take sustained leadership on both sides to reap the benefits of closer bilateral relations. As they infuse the strategic partnership with new ambitions, American and Indian leaders should begin by reexamining the underlying rationale for their strategic partnership.

The Strategic Logic of U.S.-India Partnership

The transformation of ties with India following decades of mutual Cold War mistrust represents a rarity in the annals of U.S. foreign policy: a long-term calculation of strategic interest, rooted in a foundation of shared values. Successive American administrations took bold steps, including liberalizing export controls on technology transfers to India, carving out a unique exception for India in the nuclear nonproliferation regime, endorsing

permanent U.N. Security Council membership and supporting India's inclusion in a raft of other international rule-making bodies. They made these moves without the expectation of immediate payoff, and indeed, the relationship has been anything but transactional in recent years. Rather, American officials have determined that a stronger India is good for the United States and for the stability Washington seeks in the Indo-Pacific region. Closer ties with a more powerful India, they have calculated, serve American interests and are worth vigorous pursuit, even if the concrete benefits they engender lie mostly in the future.

The strategic logic compelling closer bilateral ties remains sound. The United States and India share interests, including ensuring a stable Asian balance of power, expanding economic relations, preserving access to the global commons, countering terrorism, expanding access to energy sources and supporting the expansion of human rights. India and the United States view similarly the challenge posed by China's rise, seeking strong economic ties with China and good diplomatic relations with Beijing while hedging by strengthening relations with other regional powers – including each other. Stronger ties with India signal that the United States remains committed to an enduring presence in Asia, and they increase the chances of continued peace and prosperity in the Indo-Pacific region by ensuring that China ascends in a region where the great democratic powers are also strong.⁸

The rationale for closer U.S.-India cooperation extends beyond regional concerns. India is the quintessential global “swing state” and, as the world's largest democracy, is playing an increasingly hefty global role across multiple dimensions of international order, including in the trade, maritime, nonproliferation and human rights domains.⁹ India favors changes to the existing order – particularly in the membership and governing structure of

The United States and India share interests, including ensuring a stable Asian balance of power, expanding economic relations, preserving access to the global commons, countering terrorism, expanding access to energy sources and supporting the expansion of human rights.

key international organizations – but does not seek to scrap the interlocking web of global institutions, rules and relationships that has fostered peace, prosperity and freedom for more than six decades. In light of its rise, India will play an increasingly vital role in addressing virtually all major global challenges. The United States has an interest in encouraging and facilitating India's rise as a full stakeholder in the international community.

From Romance to Realism

Despite – or perhaps because of – the underlying strategic rationale for closer partnership, American and Indian leaders have too frequently sounded more romantic than realistic about the possibilities. Rarely does a speech lack either a reference to the natural affinities between the “world's oldest democracy and the world's largest democracy” or high-flying rhetoric about the ease with which “natural allies” should work together. Invoking romance risks raising expectations of effortless achievement, as if the compelling logic of two liberty-loving great powers working in harmony is itself sufficient to propel the relationship forward. The reality is more difficult. Continuing to build a true strategic partnership will take senior-level ownership, hard work and the expenditure of

diplomatic capital. It will involve setbacks, frustrations and benefits that may in some cases be deferred for years. The two countries, though they share deeply-rooted values and an array of national interests, continue to see the world differently. Yet the potential payoff – a bond of two large democratic powers working together to enhance regional and global stability, prosperity and freedom – is worth the investment.

As Prime Minister Modi and President Obama meet to chart the next phase of the U.S.-India relationship, they should outline a path forward that encompasses new activity in a broad range of areas. Boosting economic and defense ties and enhancing regional cooperation should be at the top of the agenda.

Economic Ties

Prime Minister Modi's top priority is the rejuvenation of the Indian economy. Despite India's falling economic growth rates, it is enjoying a tremendous demographic dividend and will become a central driver of global middle-class growth, making it of key economic interest to the United States. While bilateral trade and investment have increased significantly over the past decade, the economic relationship has not yet achieved its full potential. Both countries would benefit from greater liberalization of trade and investment ties.

The United States and India should:

- **Complete BIT negotiations.** India and the United States have been negotiating a bilateral investment treaty (BIT) off and on for over ten years. Finalizing an agreement would spur greater capital flows between the countries and pave the way for other economic agreements, possibly in the trade sphere. Obama and Modi should set a date by which the BIT will be concluded and direct their negotiators to report regularly on progress made.
- **Revisit the WTO agreement.** Given Modi's singular focus on economic reform, many were surprised and disappointed by India's decision in July to block a World Trade Organization agreement aimed at relaxing trade regulations and boosting international commerce. Obama and Modi should instruct their negotiators to seek a renewed WTO agreement that would take into account India's food security concerns.
- **Jumpstart trade liberalization talks.** Both the United States and India are pursuing ambitious multilateral trade agreements, none of which includes both countries. The Trans-Pacific Partnership (TPP), for instance, excludes India; the Regional Comprehensive Economic Partnership (RCEP) does not include the United States. The two countries should begin talks on liberalizing trade in particular sectors (such as services), with the ultimate aim either of India's admission to the TPP or a bilateral free trade agreement.
- **Complete the civil nuclear agreement.** Although the United States has invested significant diplomatic capital in winning Indian access to civilian nuclear trade, despite the country's anomalous nuclear status (as a non-NPT signatory), it has reaped no economic benefit. American companies have shied away from the Indian market after the passage of a sweeping liability law. The new government in New Delhi should renew efforts to modify this law in order to permit greater foreign investment in the civil nuclear sector. The United States, for its part, should redouble its efforts to achieve Indian membership in the four multilateral export control regimes.

Defense relations

India and the United States have taken unprecedented steps in recent years to boost their bilateral defense ties. India conducts more military exercises with the United States than any other country and

this year joined the Rim of the Pacific Exercise (RIMPAC), the world's largest international maritime exercise. Since taking office, Modi has raised caps on foreign investment in the defense sector to permit greater participation by foreign firms. Given the potential for future contingencies in the Indian Ocean and the western Pacific, both countries have an interest in continuing to deepen their defense cooperation.

The United States and India should:

- **Renew the Defense Framework Agreement.** The agreement, which is set to expire in June 2015, sets out the broad contours of bilateral security cooperation. As part of the effort to renew it, India should sign long-stalled agreements covering communications interoperability and cooperation in military logistics, and the two countries should seek to post Indian military personnel in U.S. combatant command headquarters and increase officer exchanges. India should also modify its onerous offset requirements that inhibit foreign investment in the defense sector.
- **Enhance counterterrorism cooperation.** With al Qaeda in September 2014 announcing a new branch on the Indian subcontinent, and with the potential for another Pakistan-based, Mumbai-style attack ever-present, both the United States and India should increase their intelligence sharing and law enforcement collaboration.

REGIONAL COOPERATION IN THE INDO-PACIFIC

Washington and New Delhi have engaged in increasingly rewarding exchanges of views about the strategic picture in Asia, and about China's regional role in particular. The Obama administration should continue to clarify its Asia strategy for the new Indian government, detailing in particular its view of China, Pakistan, and Afghanistan – and how India fits into this picture.

Given the potential for future contingencies in the Indian Ocean and the western Pacific, both countries have an interest in continuing to deepen their defense cooperation.

The United States and India should:

- **Begin talks on post-2016 Afghanistan.** With the Obama administration committed to removing all combat troops from Afghanistan by the end of its second term, India will look nervously at the potential for that country to return to its previous role as a sanctuary for international terrorism, including for groups focused on India. India has close ties to the Afghan government and is a major provider of aid to it. The United States and India should begin talks about specific roles and missions for each country after 2016.
- **Revisit the Quad.** Prime Minister Modi has repeatedly expressed affinity for Japan and has already visited that country during his short tenure. Australian Prime Minister Tony Abbott has made a visit to India and spoken about the potential for closer relations with New Delhi. The United States should support moves on both of these fronts, and together with India it should examine the possibility of reviving the U.S.-India-Japan-Australia Quadrilateral Security Dialogue, to include joint military exercises.
- **Pursue a U.S.-China-India trilateral.** As a complement to a revitalized quadrilateral security dialogue, New Delhi and Washington should propose a trilateral configuration to Beijing. Such a dialogue would create a forum for top officials of the three countries to discuss regional and global security and diplomatic concerns.

Taking steps in these areas would represent movement on only the highest priority items; there remains a rich agenda that touches on energy cooperation, democracy promotion, education and other spheres. In moving forward, it will be critical for leaders in both countries to keep their bureaucracies focused on the long-term prize: a significantly deepened strategic partnership. In the absence of such top-down direction, the two countries will once again find their agendas stalled by myriad tactical-level impediments.

To this end, President Obama and Prime Minister Modi should each designate a high-level relationship “owner” on each side who will help combat the perception that Washington has lost interest in India and that New Delhi is too inwardly focused to think ambitiously about its relationship with America. The U.S. vice president or a cabinet-level official could fulfill this function on the American side; the Prime Minister’s National Security Advisor might play such a role for India.

The visit of Prime Minister Modi to the United States represents an important opportunity to rejuvenate bilateral ties after a period of malaise and inattention. Once the pomp and ceremony of the visit have passed, the two countries must ensure that it does not represent a one-off attempt but rather the beginning of renewed attention to a relationship that requires constant tending. In so doing, they can deepen the transformation of relations between two great powers, anchor an Asian balance of power, spur growth in both countries and smooth the rise of the world’s largest democracy. In a world awash with intractable challenges, this is an investment worth making.

Richard Fontaine is the president of the Center for a New American Security.

ENDNOTES

1. The BJP won 282 of 548 seats in the Lok Sabha, giving it an outright majority. The National Democratic Alliance, which includes the BJP and its coalition partners, won 336 of 543 seats – nearly 62 percent of all Lok Sabha seats. This result, which followed the largest election in history, represented the largest win since Rajiv Gandhi's Congress Party victory in 1984 and the only time in Indian history that a non-Congress party won an outright majority. Congress itself saw its worst defeat since India's independence. See "Election results 2014: Historic win for NDA with 336 seats, 282 for BJP," *First Post*, May 17, 2014, <http://www.firstpost.com/politics/election-results-2014-historic-win-for-nda-with-336-seats-285-for-bjp-1526377.html>. For the current breakdown of Lok Sabha seats by party, see <http://164.100.47.132/LssNew/Members/partywiselist.aspx>.
2. The World Bank, *Global Economic Prospects, South Asia*: <http://www.worldbank.org/en/publication/global-economic-prospects/data?region=SAS>.
3. Chidanand Rajghatta, "Tit for tat expulsions: India orders US diplomat to leave country," *Times of India*, January 10, 2014, <http://timesofindia.indiatimes.com/india/Tit-for-tat-expulsions-India-orders-US-diplomat-to-leave-country/articleshow/28649593.cms> and "Devyani Khobragade case: Angry India downgrades privileges of US diplomats," *The Economic Times*, December 17, 2013, http://articles.economictimes.indiatimes.com/2013-12-17/news/45296353_1_indian-diplomat-strip-search-us-embassy.
4. "Devyani Khobragade: India-US diplomat row escalates," *BBC News*, December 17, 2013, <http://www.bbc.com/news/world-asia-india-25411876>.
5. Modi is the only individual ever to be denied a visa to enter the United States under a provision of the International Religious Freedom Act. James Mann, "Why Narendra Modi Was Banned From the U.S.," *The Wall Street Journal*, May 2, 2014, <http://online.wsj.com/news/articles/SB10001424052702303380004579520041301275638>.
6. Niharika Mandhan, "U.S. Warms Up to Hindu Nationalist Leader in India," *The Wall Street Journal*, February 13, 2014, <http://online.wsj.com/news/articles/SB10001424052702304703804579380760810245856>.
7. Rajeev Deshpande and Diwakar, "I'm an outsider to Delhi and to politics as well, Narendra Modi says," *The Times of India*, May 6, 2014, <http://timesofindia.indiatimes.com/home/news/Im-an-outsider-to-Delhi-and-to-politics-as-well-Narendra-Modi-says/articleshow/34704071.cms>.
8. For a fuller discussion of shared American and Indian interests, see Richard L. Armitage, R. Nicholas Burns and Richard Fontaine, "Natural Allies: A Blueprint for the Future of U.S.-India Relations," Center for a New American Security, October 2010, http://www.cnas.org/files/documents/publications/CNAS_Natural%20Allies_ArmitageBurnsFontaine.pdf.
9. Daniel M. Kliman and Richard Fontaine, "Global Swing States: Brazil, India, Indonesia, Turkey and the Future of International Order," Center for a New American Security and the German Marshall Fund of the United States, November 2012, http://www.cnas.org/sites/default/files/publications-pdf/CNAS_GlobalSwingStates_KlimanFontaine.pdf; and Sonia Luthram, "India as a 'Global Swing State': A New Framework For U.S. Engagement with India: An Interview with Richard Fontaine and Daniel Kliman, July 22, 2013, <http://www.nbr.org/research/activity.aspx?id=354>.

About the Center for a New American Security



The mission of the Center for a New American Security (CNAS) is to develop strong, pragmatic and principled national security and defense policies. Building on the expertise and experience of its staff and advisors, CNAS engages policy-makers, experts and the public with innovative, fact-based research, ideas and analysis to shape and elevate the national security debate. A key part of our mission is to inform and prepare the national security leaders of today and tomorrow.

CNAS is located in Washington, and was established in February 2007 by co-founders Kurt M. Campbell and Michèle A. Flournoy. CNAS is a 501(c)3 tax-exempt nonprofit organization. Its research is independent and non-partisan. CNAS does not take institutional positions on policy issues. The views expressed in this report are those of the authors and do not represent the official policy or position of the Department of Defense or the U.S. government.

© 2014 Center for a New American Security.
All rights reserved.

Center for a New American Security
1152 15th St., NW
Suite 950
Washington, DC 20005

TEL 202.457.9400
FAX 202.457.9401
EMAIL info@cnas.org
www.cnas.org

Contacts
Neal Urwitz
Director of External Relations
nurwitz@cnas.org, 202.457.9409

JaRel Clay
Communications Associate
jclay@cnas.org, 202.457.9410

Prime Minister Narendra Modi in August 2014 declared that he would like to run the country on the basis of consensus and not on majority in Parliament and called for a 10-year moratorium on caste and communal violence.

(FLICKR)