



**Statement before the U.S. Senate Foreign Relations
Subcommittee on Near Eastern and South and Central Asian
Affairs**

***“INDISPENSABLE PARTNERS – REENERGIZING
U.S.-INDIA TIES”***

A Statement by:

Richard M. Rossow

Wadhvani Chair in U.S.-India Policy Studies
Center for Strategic and International Studies (CSIS)

July 16, 2014

419 Dirksen Senate Office Building

Chairman Kaine, Ranking Member Risch, Members of the Committee- first let me offer my sincere thanks for organizing this hearing. The title and tenor differs greatly from what we saw from around Washington, DC and the Hill last year when a small group of companies with serious concerns about economic policies in India dominated our bilateral agenda.

The issues these companies raised are real and serious. But let us first remember why a strong India—and a deep partnership with India—is in our national interest. A large, democratic nation with similar values in that region will be a stabilizing force. Every time a fishing boat is rammed in Asia, an Air Defense Identification Zone is created over disputed territory without consultation, or an island is constructed in the middle of the sea to expand territorial claims – we are reminded of the need for strong regional partners.

This belief drove the United States to make its initial attempt at creating a powerful new partnership with India over a decade ago. This partnership was illustrated most vividly by the U.S. India Civilian Nuclear Agreement. However, when the last Indian Parliament gutted the commercial meaning of the deal by approving a weak nuclear liability law, we HAD to question India's commitment to a deeper partnership. U.S.-India relations relied once more on commercial ties. Even this aspect of the relationship became strained when the Indian government introduced a series of stopgap policy measures meant to shore up voter support ahead of this year's election.

Now there is a very different team in New Delhi. The BJP is not guided by India's traditional policy of non-alignment. Instead of standing on lofty principles which may, in fact, be at odds with her circumstances, the Modi government will strike out in bold new directions which meet specific goals.

My biggest fear is that the United States- both government and industry- suffer from "failed expectation syndrome." Not everyone on our side of the ocean seems to understand the sea change in Delhi, and how this could serve to deepen our partnership. We may not be prepared to make a second "grand overture," or be receptive should India signal its interest in bold new ideas.

My second fear is that we will approach the Modi government with the same agenda we used in recent years. We need to recognize the Modi government's priorities, and where these priorities intersect with our own. This middle ground must become our shared agenda.

Four areas are emerging as particularly important to the Modi government:

1. **Creating infrastructure.** India is amazingly deficient in infrastructure. Frankly speaking, the U.S. will not likely play a big role in building out India's infrastructure unless we conclude the BIT or find another payment security mechanism. India needs long-term capital willing to take certain risks that are not always a good match for American investors and developers.
2. **Manufacturing.** India desperately needs to create a stronger industrial base, to cut its trade deficit- which is far larger than America's as measured as a percent of GDP—and to provide opportunities for its fast-growing urban population. America can be a crucial partner, supplying capital equipment, financing, investment, and markets.

3. **Defense.** Clearly this remains the brightest area of U.S.-India cooperation. Next year our Defense Framework Agreement expires; renewal-and possible expansion- should be a priority. In addition, commercial defense relations will continue to thrive- especially if India liberalizes its offset and foreign investment rules.
4. **Internal security.** A terror or border incident involving Pakistan ranks among the biggest threats to Modi's agenda. India is very worried that the U.S. drawdown in Afghanistan will heighten the chances of an incident. The U.S. has a great deal to offer on internal security, from equipment to intelligence sharing. This includes a more collaborative approach to engage New Delhi as we shape our planning for Afghanistan.

When it comes to economic cooperation, in Washington we spend a great deal of time talking about "liberalization" as the key to increasing American trade and investment. To be sure, increased FDI caps will provide much-needed capital to spur additional growth in insurance, retail trade, defense, and a range of other industries.

But even if nothing we call "reform" takes place, economic ties are going to get a great deal better. The biggest "reform" has already happened, through the election of a business-friendly government.

Running a clean and fair spectrum auction may not qualify as a "reform," but it would give an important boost to the telecommunications industry and for internet penetration. Avoiding regulatory over-reach is not "liberalization," but can avoid the collapse of an industry as we saw with life insurance regulatory changes in 2010. Business can operate in most environments so long as there is stable, consistent application of the rules- which has not been the case in recent years.

The last time the BJP was in power, in less than six years we went from nuclear sanctions to nuclear cooperation. When interests are aligned and leaders think big, the relationship can progress faster than most of us believe is possible.

THIS Indian government is not bound by precedence.

The reasons for strategic partnership with India are STRONGER now than they were a decade ago.

America needs to approach these next two months WITHOUT putting a ceiling on how big we are thinking, and WITHOUT the baggage of the last five years.

Thank you.