



ROUNDTABLE ON
INDIA—US
RELATIONS

A REPORT

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Confederation of Indian Industry

About The Organisers



Engaging India, Nurturing Change

Ananta Aspen Centre is an educational and policy studies organisation based in New Delhi. It focusses on values based leadership and open dialogue on challenges facing Indian society to help foster its transformation. The Centre engages civil society, business, governments and other key stakeholders to share ideas and bring a wide range of perspectives on issues important to India's development, foreign policy, strategic affairs and national security.

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Confederation of Indian Industry

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1.

INTRODUCTION

The United States is the most important political, economic and military power today yet it is no longer the only nation that controls every international event as in the past. In the last few months, there has been an uncertainty in the USA. However, it is still a very important country for all the other nations in the world. Commentators have begun to say that while the US for decades has remained preeminent, it will no longer pre-dominate; neither will any other country wear the cap of a world policeman.



1.1

Economic Aspects of the India – US Relationship

Job Creation– For US, it would mean ‘America first policy’ which was re-emphasized in President Trump’s inaugural speech where he said that his country would “follow two simple rules; buy American and hire American.” This could imply setbacks for India in the service sector. India will have to know how far the US is going to be open or protectionist.

Trans-Pacific Partnership– In one of the initial acts upon assuming office, President Trump signed a presidential memorandum confirming the U.S.

withdrawal from the Trans-Pacific Partnership (TPP). Even during his presidential campaign, he had vociferously campaigned against what he described as bad or unfair trade agreements that the United States had signed onto, claiming that they had led to the loss of American jobs.

Climate Change– President Trump’s take on Climate Change will also have an impact on India as he has withdrawn the US from the Paris climate accord, in which countries around the world pledged to reduce their greenhouse gas emissions to keep temperatures from rising past the critical 2°C mark.

WTO– The new US administration has indicated that it will aggressively defend American sovereignty over matters of trade policy on the international trade platform.

Globalisation and Sino-US trade will also have an impact on India and the rest of the world.



1.2

Security Aspects of the India – US Relationship

Collateral impact of what US does is important for India in respect of China, Russia and West Asia.

China– It has become clear that it is no longer a currency manipulator. President Xi and President Trump have had a good meeting and that is surely going to reflect in their relationship further. On Syria, China has abstained and with the

Americans present at the OBOR meeting in Beijing, it certainly indicates that there is more to the US-China trade. The two sides have agreed to establish a new comprehensive dialogue for bilateral negotiations and have also consented on a short “100-day” framework for trade talks with the general objective of increasing U.S. exports and reducing the bilateral trade deficit. The Chinese side was open to this initiative because of the effects of the trade balance on China’s money supply.

Russia– As expected by many, there would be resetting of relations with Russia and this would bring the US out of the Chinese embrace. This will not happen immediately because of a number of reasons- Trump wants the NATO countries to spend at least 2% of their GDP on defence- currently only 5 countries of 29 do that (Estonia, Poland, Greece, US and UK). If the other countries start following, it will lead to a stronger NATO and a stronger NATO would threaten Russia
 2) Trump team has very few Russia supporters. Defence Secretary Mattis blamed Russia for being a geo-political threat. McMaster described them as hostile revisionist.
 3) Trump is a pro-oil president, means he wants lower oil prices, whereas Russia will want higher prices since it’s a producer. So, a clash between Russia and US is inevitable.

West Asia– A coalition of 34 Muslim-majority nations is working to create a mobile military force to combat the Islamic State (ISIS) group in Iraq and Syria and militant threats across northern and western Africa. This Islamic Military Alliance to Fight Terrorism is headed by a Pakistani General. This comes of a long desire of Pakistanis to have a contingent well equipped at the Saudi expense based in West Asia with which they can back their country whenever needed. The disruptive impact this could have on the situation in Middle East is a significant point in consideration. Should this force be used in the neighbourhood and what will be its impact on Maldives and Afghanistan will remain a point of contention.

India-US– bilateral relations are very good because it enjoys bi-partisan support and a trade of over a US\$100 billion. In addition to this, India has also been

earmarked as a partner for defence in 2016 which is very important. The relationship also enjoys a strong NRI community and friendship. Some of the challenges to this bilateral relationship are–

- 1) India needs to keep in mind that US is a (only) super power, and would like its support on every issue. India itself is a regional power with limited regional aspect but the US support on India's regional issues is not present.
- 2) China is likely to be a US advisory in Asia-Pacific but will remain a US ally in Afghanistan.
- 3) US-China along with Pakistan wants to deal with Taliban. The current administration of the US has not criticised Lashkar-e-taiba and other militant forces like in the past. The issue of counter-terrorism with the US in 21st century in the strategic partnership is a very important aspect.
- 4) Lack of US support on APEC, differences on WTO and NSG in the last few years has further deepened the differences between India and the US.
- 5) The success lies when the Indo-Pakistan relations are de-hyphenated.
- 6) While dealing with the US, a framework of 4 years needs to be kept in mind, as a new US president can change things and the current president can even reverse it.



2.

INDIA-US BILATERAL RELATIONS

2.1

India-US Economic and Trade Relations

- 1) The Outward Foreign Direct Investment from U.S. in the period from 2005-2015 has been US \$317 billion. India's share is just 28.3 US\$ billion. India is less than 10% in terms of percentages. Trade statistics of goods and services, US\$ 2.2 trillion dollars is the US exports to the world which includes both goods and services; US\$ 2.7 trillion dollars is the US imports. Indian figures, US\$ 42 billion exports to India and US\$ 72.8 billion imports from India. India is not a significant trading partner for US as on date.
- 2) Indian exports to US in goods are US\$ 46 billion. This number is very miniscule in comparison to Japan and China. While India has a trade surplus with the U.S, the U.S. is still the second largest source of imports into India after China.
- 3) The two-way bilateral goods and services trade reached \$109 billion in 2015.
- 4) However, compared to other big Asian economies, India's share in U.S.' global trade is relatively low. Given the sizes of these two economies, there is a huge potential for expansion of trade between the two countries. In 2014, Prime Minister Modi and President Obama set a goal to increase annual bilateral trade to US\$ 500 billion.
- 5) **Agriculture** is an important area for US. India's total imports of agricultural products from the U.S. were US\$ 1.3 billion in 2016 and exports to the U.S. in

this sector totalled US\$2.1 billion in 2016. This is still low in terms of size and volume of the market. Standard continues to be an issue for Indian exporters in India. Issues regarding tariffs and SPS measures have regularly been cited as presenting challenges to trade in this sector. Both countries have acknowledged the need to work towards conformity based assessment and mutual recognition systems for food products which can help boost trade.

- 6) **Aerospace and Defence**– India’s defence spending as of 2014 was US\$ 50 billion. From 2010-2014 India was the largest arms importer in the world, accounting for 15% of the world’s arms imports. During this period the U.S. was India’s second largest supplier accounting for 12% of Indian arms imports. The US briefly overtook Russia to become India’s largest supplier in 2013. India is also keen to develop its indigenous defence manufacturing capability and move beyond a buyer-seller relationship with the US. The US-India Defence Technology and Trade Initiative (DTTI) aims to simplify technology transfer policies and explore possibilities of co-development and co-production. Sustaining and ramping up DTTI could help make the US a key partner for India in building its defence manufacturing capabilities while opening up huge commercial opportunities for US companies.
- 7) **Energy**– India aims to achieve 175 gigawatts (GW) of Renewable Energy Capacity by 2022 and aims to derive 60% of electricity from non-fossil fuels by 2027. Based on the agreements between GAIL and the U.S. private sector, India will import natural gas worth US\$ 2.5 billion annually from the U.S. Initiatives such as U.S - India Clean Energy Finance (ICEF) and the U.S.-India Catalytic Solar Finance Program (ICSFP) are expected to result in more US investments into this sector in India.
- 8) **Infrastructure and Smart cities**– India needs to upgrade and build up its infrastructure so as to maintain its growth momentum. India is currently working on developing 100 smart cities across the country. The various

initiatives in infrastructure development have opened up opportunities from collaboration in the field of infrastructure financing and technological transfer. India needs about US\$ 1 trillion worth of investments over 5 years, which will largely have to come from the private sector. India is looking to the US to participate in meaningful ways in this infrastructure build up.

- 9) **Textiles**– India’s textile sector is one of the largest contributors to its exports, with an 11% share. The Indian textiles industry, currently estimated at around US\$ 108 billion, is expected to reach US\$ 223 billion by 2021. Indian textile exports to the U.S. account for US\$ 7.1 billion which is 31% of the total share. Bringing Indian textiles under the US’s Generalised System of Preferences (GSP) could help provide duty free access to Indian textile exports, boosting this sector significantly.

- 10) **Healthcare, Pharmaceuticals, and Life Sciences**– The Indian healthcare market is expected to grow to \$280 billion by 2020. Indian generic drugs saved U.S. consumers nearly \$250 billion in 2016. There is huge potential for technological transfer and cooperation in providing affordable healthcare. India has acknowledged the need to expedite patents, trademark applications and deeper engagement on copyrights to address IPR concerns in this sector. At the same time there is acknowledgement that quality of pharmaceuticals manufactured in India needs attention. Constructive dialogue between USFDA and Indian industry is critical in this regard.

- 11) **Information and Communication Technology**– India is amongst one of the world’s largest sourcing destination for Information Technology as it accounts for 67% of \$130 billion market. The Indian IT industry is expected to grow to \$350-\$400 billion by 2025. Of the total service exports from India, software services account for nearly half. The Government of India’s flagship initiatives like Digital India, Skill India, and Start up India, all involve ICT innovation and present tremendous opportunities for U.S. investments into India.

- 12) **Challenges**– Market access issues, tariffs, and non-tariff barriers have been identified by both countries as impediments to enhanced trade flows. There is also a need for continued engagement on labour mobility, visa issues and the facilitation of movement of professionals, experts, and scientific personnel. Expediting customs processes as a means of trade facilitation besides improving supply chain connectivity is urgently needed. IPR continues to be a major roadblock in investment flow, as well as being one of the contentious issues in the on-going Bilateral Investment Treaty negotiations.
- 13) **New Emerging Scenario in a Trump Presidency**– Challenges that emerge are- rise of protectionism, Make in America, Hire American and restriction on imports because of proposed Border adjustment tax. There is a worry on how this new tax will impact the inward investments in India, outsourcing, tightening of VISA regime therefore likely increase in minimum wages, more Indian companies hiring local Americans. There is a need to pick on the challenges, on the domestic front. On the issue of trade facilitation, there is a greater need to make more tangible progress.
- 14) **Cyber security** in today’s world has become an area where war is conducted by other means. Indians have tremendous capability in this field and have a fairly strong relationship with the US. On the other hand, the US would only choose a country which has the capability plus scalability and is on their list of reliable countries.
- 15) **IT** is a key sector in India-US relationship for a variety of reasons. There is a level of interdependency between the two countries. The visa issue is also a part of the dynamic. They have a huge skill gap which can’t be filled entirely by them. They constitute 60% of Indian export market. Indian companies issue less than 20,000 visas in a year, in an industry which employs 4 million people.

- 16) Indian IT industry in the US is supporting more than 400,000 jobs in the IT sector. While the growth in the job market in the US has been less than 2%, the growth in the IT sector has been close to 10% in the last few years. 85% Indian companies in the US have a concrete investment plan for the next 5 years. An Average H-1B work permit holder earns about 10% more as compared to Americans in the same field. There is no hiring challenge in US as far as the technology workers are concerned. By the next few years, 2.4 million vacancies will be available which the United States alone will not be able to fulfil. Today, technology colleges in the USA are producing 80,000 American students but the requirement is for 120,000 where India will play a major role. This says volumes about the kind of fundamentals involved in the relationship.
- 17) In the US, the Indian IT sector is often projected as a job stealer which was also the popular narrative during the presidential campaign and in the media. But the fact is that the Indian industry has already created 156,000 jobs directly in the US and 411000 indirectly. Of greater consequence to both US and India is the number of jobs which gets preserved and created in corporate America because of what the Indian IT Industry does. Contribution of Indian IT industry to the US- jobs, taxes, social security payment, skilling, CSR contribution, etc also has to be calculated.



2.2

India-US Security and Defence Cooperation

- 1) India has a good foundation on the defence side. But there is always a greater promise of traction with the US on defence side. The vision document on

Asia-pacific and Indian Ocean of January 2015 has gone a long way in assuring the American strategic community that the rise and the strength of India is a positive for them. India needs to leverage this thought. India needs to get this idea from their side, so that the US does things for India strategically on a minimal cost.

- 2) On bilateral military exercises, under the Bush administration, COP thunder was used. The next big exercise happened in 2008 with four different types of aircrafts, for instance, Su-30, Jaguar, Elution, C 17. These exercises have flagged off even on the naval side now. The Indian side has not been able to sustain a high operational tempo given the modest size of the navy. India is getting into a modest habit of cooperation with the first two M 777 superlight Howitzers having arrived in India.
- 3) With the US, there has been no transfer of technology in defence. Many new aircrafts will be assembled in India. Out of 145, 120 will be assembled in India, with limited TOT. Last days of Obama administration declared India as the major defence partner. They have designated India as a friendly foreign country and the notification has gone to congress. This has resulted in two very specific actions- a) They moved a large number of items from state munitions list to department of commerce-dual use list where licensing is easier. b) Secondly, under the export administration regulations, they have an easier licencing under validation and user certification system which does not cover defence items but for India, specifically, citing the MDP, they said, defence items and military will also be included in that programme.
- 4) The US has put some good ideas on the DTTI agenda like infantry combat vehicles, futuristic helicopters, ISR capacity. The US also has done exercises with Singapore in 2014 on under-sea drones. In order to deal with the Chinese, India should also use under sea drones in the states that are over cross sea states- like Lambak, Malacca and so on.

- 5) On air force carrier technology, the Americans are buying into a very expensive system which is an electro-magnetic aircraft launch system. While India has still not been able to reach the catapult stage in their aircraft carrier. India has to be careful about choosing and testing the Americans on their resolve about co-development and co-production. India needs to build a better ecosystem for a Make in India for defence.
- 6) In this ecosystem, in this fiscal year, the defence expenditure is 1.56% of the GDP and it will spend 0.4% of GDP on acquisition of platforms and building up of capabilities. For USA, its .9% and Russia .91% and China could be topping 1% of GDP just in this area. In USA, Russia and China, they are spending upward of .4% of their GDP on Defence R & D. In India, defence R & D is a fraction of total R & D which is .9%. In China, its 2 % of GDP which is 5 times larger. In other advanced country or major country, it's close to 3%.
- 7) The path to 'Make in India' in defence is a long and complicated one. One key factor which needs to be kept in mind is that in manufacturing today, electronics has become an important part of everything with a lot of value - add in design and software. In that context, the software which runs it becomes strategic. While a lot of these capabilities are in India, the knowledge is not Indian.
- 8) On Expenditure, it's not only the quantum of expenditure but the quality of expenditure which is also important. In new frontier areas of technology, there are limits to what can be achieved and India hasn't figured out how to use private sector in that space. Defence requirements have become the catalyst and trigger for new technology development by the private sector. There is a need for a dialogue to combine the two systems and look at it from a strategic perspective.
- 9) On the Indian front, the leadership change in the ministry of defence is

significant. The new defence secretary is efficient and takes initiative. PM realises that this sector needs attention. In the economic area, NITI Aayog has worked on a document which is a three year action plan. They are also working on a 15 year vision and a 7 year strategy.



3.

RECOMMENDATIONS

- 1) India has a major role to play and the US would like India to do regional policing. There is a greater need for periodical engagements with the US to ensure that India remains on their radar scheme, not necessarily a priority.
- 2) India needs to target American states which practice agriculture with trade surpluses and develop a kind of engagement with them. All state delegation have come from US to India but a very few have gone from India to the US. US would need people in the field of medical technology. India needs to find different ways to engage with their economy sectorally to create a deeper engagement.
- 3) India needs to recognise the broad economic relationship with the US which has been curated positively over the last 10-15 years. President Trump is a mercantilist and obsessed with trade deficits. His priority remains oil, gas, steel and because of his tendency to focus on minor tangential issues, India needs to preserve economic strategy and make tactical retreats if necessary.
- 4) H-1B is very small component of the larger migration story between India and the US. India is the single largest legal migrant population in America. It has overtaken Chinese and Mexicans. There is a need to maintain the migration relationship between the two countries which has been a core driver.
- 5) Both India and the US are protectionists when it comes to trade. India ranks in the top 10 countries for trade deficits with the US. India should not fight over totalisation agreement as the present mode in the US is not up for it. India needs to pick its battles carefully.

- 6) There is no difference between FII and FDI when it comes to investments. Large companies will come to India, take shares and place them with an FII with which they have friendly relations. India needs to preserve the investment capital flows from the whimsical attitude of the Trump Presidency.
- 7) India needs to package the positives as it is still a big importer of oil and gas. This is important for the US as it will be producing good white working class jobs. India also buys weapons and is the fourth largest buyer of weapons in the US.
- 8) The meeting of PM Modi with President Trump will be a clean-sheet meeting. India needs to bring to the table what it can do to contribute to the American economy. TCS and Mahindra are already big investors in the region but have no contact with the Indian government/Indian senators. Much greater synergies are needed to put together a package or a report validated by a third party whom the US trusts.
- 9) India must show more resolve and confidence in dealing with the US. It needs to get President Trump's focus on India. It should not be diffident about pursuing its interests as a country nor should it be apologetic about its interests. The overall bilateral trade relationship is heavily weighted in India's favour but that is not enough reason for India to feel that everything is in their favour. India has several strengths as a country but it needs to marshal these more strategically and more cohesively and coherently together.
- 10) Indian markets provide strong value to the American companies which can't be measured just in trade. Nine out of top twenty companies in the internet and IT space in India are American companies- WhatsApp, Google, Facebook for example have the largest number of users in India so their value has to be captured. There is a need for Indian companies to have adequate and reciprocal approach to issues that are of vital interest to Indian companies

and Indians in the US. There is not enough coherence and coalition of diplomatic initiatives and economic concerns.

- 11) Financial investments that come from the US are not directly from the US but Mauritius, and Singapore. But after the new tax treaty, a lot of investments will come directly from the US. If that happens, a new provision in law, Place Of Effective Management- POEM- needs to be utilized effectively.
- 12) The government is still not aware of the kind of narrative that will roll out of the WTO compulsions, as by 2018 December, India will lose all its rights to provide any subsidy of export promotion measures under WTO norms. So, a bilateral treaty with US is in India's interests in future as it will be able to attract the concessions that it wants through it.
- 13) The US has now become more inward-looking. India needs to get into the US value chains and get their companies to invest in India. There is an increasing need to work on the ground level in addition to the strategic level. This will also lead to improvement in trade relations. The industry and government need to convert potential area of collaboration into strategic value for India and US and into a potent weapon of Indian armoury. A dialogue is required for this to happen.
- 14) In the broader perspective, in a lot of bilateral relationships and comprehensive economic cooperation agreements, the gains made by the Indians were often back loaded, as they were only realisable over a period of time, reversible because change in tweaking of the immigration policy could overnight change that access and small in size; in terms of the market. Whereas the benefits which Americans got were frontloaded, because they came into place immediately, massive because of the larger market and irreversible because they were locked in. Indians need to analyse what they are doing and are gaining in return. At substance, the fundamentals are all

intact and nothing has changed; US hasn't changed their visa policy. They haven't filled their skill-gaps so there should not be too much of frenzy amongst Indians.

- 15) The US geo-political approach policy is still a work in progress. Their pronouncements have centred on developments in DPRK or in Syria. India needs to wait for what comes out of Afghanistan review and what happens in Shangri-La Dialogue to reflect their view of the Asia-pacific. The Indian government senses a strong desire to develop and continue the partnership to build upon on what has been achieved so far. India has been equally aggressive in putting across its viewpoint. Greater need for engagement with business and individual congressmen is needed.

- 16) In defence, it is the area of co-production and co-development which India has not been able to implement substantially. There is recognition in the US that Make in India in defence sector is not in contradiction with the Make in America or Make America great again. The ecosystem needs to incentivise FDI in defence with greater transparency in the system. There has to be an end to the award of contracts by nomination of the ordinance factory board and the PSU's.

- 17) There exists a huge area of potential for cooperation with Americans. There is a need to engage with the US both with the administration and the Congress to concentrate on major economic issues. The strategy between the government and industry has to be worked out.



4.

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