



Statement before the
House Committee on Foreign Affairs
Subcommittee on Asia and the Pacific

***“U.S.-India Relations: Democratic Partners of
Economic Opportunity”***

A Testimony by:

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March 15, 2016

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Chairman Salmon, Ranking Member Sherman,

Thank you for your interest in exploring the state, and future, of our nation's economic relationship with India.

Our relationship with India naturally runs on multiple tracks, which have generally deepened over time. The electoral victory by the Bharatiya Janata Party (BJP) in May 2014 marked a significant turning point in our bilateral relationship. We knew India's Prime Minister, Narendra Modi, would be a strong proponent of economic growth; what few could foresee was his forward-leaning security posture—which is closely aligned with our own. In fact, in the last fourteen months our two countries have reshaped the ideological basis for our security partnership, articulating a wider range of shared interests than ever before—amid growing operational convergences.

However, on the economic front, we have two distinct sets of issues that must be overcome before we can really take advantage of shared economic opportunities. First, our two nations need to forge a set of shared guiding principles for our bilateral and multilateral economic engagement. And second, the United States needs to refocus our engagement strategy to increase the attention we devote to India's state leaders.

The BJP has never been bound by the two Congress Party principles—non-alignment and state-led socialism—that have been ideological constraints on our partnership for most of India's independent history. That does not mean that the BJP is naturally inclined towards a deeper partnership with the United States. But the door is certainly open, as we saw during the last BJP government from 1998-2004. That six year period started with India's nuclear test, and ended with the outline of a roadmap for civilian nuclear cooperation. And the BJP's economic reform program, infrastructure build-out, and embrace of the nation's burgeoning technology services industry gave a powerful boost to our economic partnership.

Since becoming India's prime minister in May 2014, Prime Minister Modi has surprised America's security community with his forward-leaning views on Asian security, which largely parallel our own. Our shared views were most significantly stated in the powerful "Joint Strategic Vision for the Asia Pacific and Indian Ocean Region," released during President Barack Obama's visit to India in January 2015. We have also made progress on our long-stalled "Defense Technology and Trade Initiative (DTTI)" programs for co-development and co-production of defense materiel, as well as renewing our defense framework agreement for another ten years. India has become one of the largest markets for U.S. defense exports, and a major partner for joint exercises; we also worked together effectively in our relief efforts following Nepal's devastating earthquake in April 2015.

Our economic relationship, however, is not yet guided by shared principles, at least at the policy level. Our attempts to negotiate a bilateral investment treaty have scarcely progressed since the day President Obama took office. The Modi government delayed its commitment to adopt the World Trade Organization's Trade Facilitation Agreement in mid-2014. India remains outside of regional and sectoral trade agreements that could have otherwise brought our two nations closer together, such as the Trade in Services Agreement and the expansion of the Information

Technology Agreement. And economic policymaking in India involves equal parts liberalization, protectionism, and ambiguity.

Of course, government-to-government engagement is only one leg of our economic partnership—and not the most important. American businesses themselves have shown renewed interest in India since the start of the Modi government. India has pulled in around \$40 billion in foreign direct investment in the 12 months up to January 2016, a 20 percent increase on the prior year, and our bilateral trade relationship has remained steady despite a global slowdown in trade flows. This is due to a mixture of real reform, expected reform, and India's relative outperformance of other large economies.

Business associations and other commentators regularly lament that they expected more, deeper reforms by this point, but the Modi government's track record is solid, if unspectacular. Some highlights include:

- Easing foreign equity restrictions on over thirty sectors.
- Opening the coal sector to full private sector participation.
- Dramatically liberalizing the oil and gas exploration and marketing industry.
- Holding transparent auctions for public goods such as mining leases and telecommunications spectrum.
- Clamping down, though imperfectly, on instances of harassment of foreign investors by tax authorities.
- Creating an environment where state leaders more eagerly compete with each other to strengthen their business environments.

This last point, on the state business environment, is worth discussing in more depth. While most of our metrics for judging India's business environment is based on actions by the central government, state governments actually play a far more important role for most industries. State governments control factors such as electricity availability, water distribution, sanitation, law and order, land acquisition, and more. Most licenses required to establish and maintain a business are granted by state governments.

Which leads to an important point for this Subcommittee's consideration—the need to create a strong, coherent strategy to engage India's powerful state leaders. The BJP today, despite holding a majority of seats in the lower house of India's Parliament, only controls 8 of India's 29 states. India's other national party, the Congress Party, holds another 8 states. Regional parties control the rest. In fact, there are only seven states in India that have NOT been controlled by a regional party at some point since 2000- Chhattisgarh, Gujarat, Himachal Pradesh, Madhya Pradesh, Maharashtra, Rajasthan, and Uttarakhand.

Apart from shaping the local business environments across India, these regional parties also comprise a significant share of members of Parliament—particularly, today, in the upper house (Rajya Sabha), where the Congress and BJP combined only hold 47 percent of the total seats. So when difficult votes take place that matter to the United States—such as the recent decision to liberalize the foreign equity restriction in insurance, the trust vote over the civilian nuclear agreement in 2008, or the 2011 vote on India's civilian nuclear liability regime—these regional parties can have decisive influence. Yet for many regional leaders, the concept of cooperation

with the United States does not hold much meaning, beyond a basic desire for American corporate investment. I believe that by engaging these state leaders more effectively, we can widen the overall base of support for our bilateral engagement—particularly on economic issues.

A more cogent example of the need to thoughtfully engage India's states is in clean energy. Clean energy has been at the forefront of U.S. foreign policy in recent years, and we have often articulated our desire for India to adopt cleaner forms of electric power generation as part of its energy mix going forward. While we put our hopes on Prime Minister Modi and his cabinet as our interlocutors, in fact, under India's constitution, electricity is a state subject. Most forms of renewable power remain more expensive than their fossil fuel equivalents, and India's state electricity utilities tend to be in poor financial and operational shape, due to a range of factors. State governments will be naturally inclined to look to low cost fuels for additional electric power generation. The central government does have tools to encourage states to make choices in this regard, but if we really want to see progress, the most important decisions in India's electric power sector will ultimately be up to twenty-nine leaders, not one.

The importance of state leaders and regional parties is not in question. Our nation's economic engagement strategy with India must take this into account, and result in constructive actions. Not every state leader will be receptive to outreach, but many will. This engagement can open up new export opportunities, new contracting opportunities, and new investment opportunities for American firms. And this boost to our overall economic engagement will help cement our growing partnership.

Overall, America's relationship with India has prospered fairly rapidly in the last twenty years. And we have seen a quickening of this growth in the last two years. But our two countries have made far more progress, at the policy level, in establishing a set of shared security principles, while we still focus our economic engagement on a series of modest goals without a strong ideological underpinning. Our leaders must redouble efforts to find common ideological ground on economic issues, or risk suffering quick downturns in the relationship as we did in late 2013. And a core facet of American economic engagement going forward must focus on India's powerful regional leaders—both for their outsize role in truly shaping India's business environment, and also for their powerful role in shaping India's national policies.