



By Marshall M. Bouton

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## THE TRUMP ADMINISTRATION'S INDIA OPPORTUNITY

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### ABOUT THE ASIA SOCIETY POLICY INSTITUTE

With a problem-solving mandate, the Asia Society Policy Institute (ASPI) tackles major policy challenges confronting the Asia-Pacific in security, prosperity, sustainability, and the development of common norms and values for the region.

### SUMMARY

The U.S. strategic partnership with India provides an opportunity to advance many of the key foreign policy objectives of the Donald Trump administration. The convergence of U.S. and Indian security interests and policies, together with parallel “America First” and “India First” economic policies, holds potential benefits for both nations. President Trump and Prime Minister Narendra Modi, both highly nationalist and pro-business in their orientation, are likely to find common ground. Both leaders pride themselves on making deals, even when those deals are not entirely aligned with their parties’ interests. Strong bipartisan support in Congress for U.S.-India ties and official optimism in India about relations with the United States under the Trump administration argue for seizing the opportunity decisively.

This paper urges the Trump administration to consider moving rapidly on several fronts to realize the benefits of closer cooperation with India.

- First, develop with Prime Minister Modi a common strategic view of the U.S.-India relationship, especially as it relates to shared interests in China, Pakistan, and Afghanistan.
- Second, make India a clear strategic and diplomatic priority.
- Third, demonstrate American commitment to India’s expanding role in Asia.
- Fourth, develop new avenues for U.S.-India cooperation on defense and security.
- Fifth, manage economic relations, especially on trade and immigration issues, positively while looking for ways to expand ties.

India is taking its place among the world’s leading nations. As one of the three major Asian powers, India plays a critical role in ensuring peace and stability in the region. Although it is still a low- to middle-income economy, India is the seventh-largest economy in the world by gross domestic product (GDP) and the third-largest economy in purchasing power parity terms. By 2030, India will have the world’s largest workforce.<sup>1</sup> India is today

the world’s fastest-growing major economy, having overtaken China.

India is a founding member of the BRICS (Brazil, Russia, India, China, and South Africa) New Development Bank and the Asian Infrastructure Investment Bank (AIIB) and an active participant in Asia’s multilateral forums. It aspires to permanent membership on the United Nations Security Council. India is a nuclear weapons state,



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has the world's third-largest military, and, in recent years, has emerged as the leading purchaser of international arms.<sup>2</sup>

Prime Minister Modi, who was elected in a surprising landslide victory in 2014, has signaled his intention to translate India's international standing into the rapid economic growth and job creation that he promised the Indian people. Progress in meeting those ambitious goals has been slower than many hoped, but Modi remains broadly popular and faces little national opposition. After the landslide election victories by his Bharatiya Janata Party (BJP) in Uttar Pradesh, India's largest state, in March 2017, and in the Municipal Corporation of Delhi in April, Modi is well positioned to accelerate reforms and win reelection in 2019.<sup>3</sup> He has moved to demonstrate India's determination to play a larger role on the Asian and global scenes, and he sees India's partnership with the United States as critical to realizing those ambitions.

### THE U.S.-INDIA RELATIONSHIP

The U.S.-India relationship has been transformed since the turn of the century. Along every dimension, but especially in the security realm, the two countries have become closer. Once relevant to the United States only as a counterweight to China or, later, as a troublesome leader of the Non-Aligned Movement, India is seen today as a critical partner in maintaining a balance of power in an Asia that is not dominated by a single nation.

The transformation of U.S.-India relations has been made possible by recognizing and working within the limits set by India's long-standing foreign policy priorities: (1)

India's insistence on its strategic autonomy, that is, its independence of sovereign action and avoidance of the binding obligations normally associated with alliance relationships; (2) the primacy of its interests in South Asia, its own difficult neighborhood; (3) the development imperative to improve the lives of its 1.3 billion people, especially the poorest Indians; and (4) its commitment to democratic values and practices.

The cornerstone of U.S. policy toward India has been the conviction that a strong India is, in and of itself, important to the U.S. goal of ensuring a peaceful and secure Asia. Given its history and worldview, India prefers to operate within a framework of shared priorities and broad understandings rather than a set of defined reciprocal responsibilities. It follows, therefore, that a purely transactional approach to U.S. dealings with India has generally been counterproductive. The Trump administration should expect India to consider any U.S. initiative carefully and to respond cautiously and incrementally.

However, under Modi, India has shown itself ready to negotiate specific commitments on major issues such as defense and climate within the context of its partnership with the United States. Over time, engaging India more deeply will require a long-term view—one that keeps in mind the value to the United States of India's weight in the region and does not make demands that India cannot reasonably meet or expect short-term payback.

Prime Minister Modi prioritized closer ties with the United States from the day he took office. This surprised many observers, who expected that he would be a reluctant



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partner in light of the United States' unwillingness to grant him a visa because he had been Gujarat's chief minister during communal riots in 2002 that claimed over 1,000 lives, which many believe his government did not do enough to stop.<sup>4</sup> Instead, Modi quickly signaled the importance he attached to the relationship with the United States in a very high-profile U.S. visit in September 2014. A few months later in January 2015, upon Modi's invitation, President Barack Obama became the first American president to attend India's Republic Day parade as chief guest.<sup>5</sup> Modi acted to ease access to India's market for U.S. and other foreign companies, moved to negotiate increased bilateral defense cooperation, and expressed India's interest in playing more active security and economic roles in Asia.

Modi is a strong and decisive leader with whom the Trump administration should feel very comfortable. Well situated to be prime minister of India for seven more years, he should be able to think of the U.S.-India relationship over the long term and make important new commitments to strengthen relations between the two countries. India is tempted by the potential of better relations with the Trump administration. However, Modi acts with calculation and prudence, and he will carefully assess the administration's foreign policy directions and strategies.

## TOWARD STRATEGIC CONVERGENCE

For most of the last 70 years, a variety of strategic and political concerns were the primary irritants in U.S.-India relations. During the Cold War, U.S. annoyance with India's nonaligned stance, American

support for Pakistan, and U.S. efforts to block India's nuclear development poisoned relations.<sup>6</sup> Ironically, today it is in the strategic and security realms that the two countries find themselves mostly on the same page. This reversal began in the 1990s with the end of the Cold War, the rise of China, and the advent of terrorism as a major threat for both countries.

The U.S. and Indian agendas today look very much alike: countering terrorism, responding to China's assertive behavior in the region, and seeking peace and stability in South and East Asia. The convergence of interests has been the foundation for a remarkable transformation of U.S.-India relations from distance and distrust to a developing partnership. It is still a work in progress.

## The New Asian Strategic Realm

In its first month, the Trump administration reaffirmed the importance to the United States of its partnerships in Asia.<sup>7</sup> Unlike Japan and the Republic of Korea, India is not a U.S. ally, but it is an increasingly important partner for the United States in securing Asian peace and stability and helping ensure, as Condoleezza Rice put it, a "balance of power favoring freedom" in the region.<sup>8</sup> India has shifted slowly but steadily away from the non-alignment doctrine and sought closer relationships with other major powers to advance its own interests while preserving its strategic autonomy.<sup>9</sup> Its strategic field of vision has widened far beyond the subcontinent to all of Asia, and beyond a purely territorial focus to its maritime domain.

In the changing Asian strategic environment, three Indian prime ministers since



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1998 have seen the United States increasingly as India's most important partner and have worked with three U.S. presidents to develop closer cooperation. The emerging U.S.-India partnership was reflected in the Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region signed by Prime Minister Modi and President Obama in January 2015. In that document, India commented for the first time, officially and publicly, on maritime issues in the South China Sea, echoing and endorsing U.S. concerns and priorities in the region.<sup>10</sup>

The Trump administration has the opportunity to elevate the partnership with India to a new level of closeness and mutual benefit. Doing so will be more challenging than it would be with a treaty ally, but the potential upside is greater. Finding common ground on dealing with China and supporting India's engagement with other Asian nations are the key areas in which the administration can move forward.

### China's Rise

Over the last decade and a half, shared concern about China's trajectory as an Asian power has become the principal driver of the U.S.-India partnership. In just three years, Prime Minister Modi has gone further than his predecessors in engaging Beijing and responding to Chinese pressures, not only in South Asia but also to India's east.

Modi and Chinese president Xi Jinping have met several times, but without notable improvement in their bilateral ties. Modi has sought Chinese investment in India, and some has come, but the lack of trust on both sides has been an impediment to greater flows. China is now India's largest trading partner, but India is

heavily in deficit because of the influx of low-cost Chinese manufactures. The long-standing border disputes in India's northwest and northeast are largely quiescent, but Modi has moved rapidly to strengthen India's defenses on the border, including by purchasing military transport from the United States suitable for high-altitude operation.<sup>11</sup> Tensions over India's relations with the Dalai Lama and the Tibetan people have also been on the rise.

New security worries for India include China's rapidly expanding naval presence in the Indian Ocean, such as its port arrangements in Sri Lanka and Pakistan; the construction of China's first overseas military base in Djibouti; and China's increasing involvement in Pakistan through the massive China-Pakistan Economic Corridor (CPEC) project. The CPEC project will construct road and rail connections and related infrastructure between Pakistan's border with China in the north and Gwadar Port in the south, also developed by China, crossing through territory claimed by India. China's huge investment in the project, valued at US\$46 billion, as well as the presence of Chinese military units in Pakistan to protect project sites, will greatly increase China's influence in Pakistan—a growing concern for the Modi government.<sup>12</sup>

Prime Minister Modi will look to President Trump to clarify his administration's goals and policies with respect to China and the U.S. role in the region. Based on President Trump's campaign statements, Indian leaders are simultaneously apprehensive and encouraged. They are uneasy about a possible trade war or active confrontation between the United States and



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China in the South China Sea, but they are encouraged that the Trump administration may support India's concerns about Chinese behavior along the border and on the seas.

As much as its rivalry with China motivates India today, India seeks a stable balance of power in Asia that does not target China. It does not wish to see Asia destabilized by a U.S.-China crisis. India prefers to pursue a policy that embraces both cooperation and competition with China, as the United States has in the past. It hopes for a more open and consultative relationship with Washington on China policy, one that will avoid surprises and take Indian views into account.

#### India Acting East

A more active Indian role in Asia is profoundly in the U.S. interest as the United States seeks to build a stable and open regional environment for the future. The Trump administration has an opportunity to more fully support India's engagement with the region.

Building on its deep cultural ties with Southeast Asia, India has over the last two decades reached out economically, diplomatically, and, more recently, militarily to build stronger relationships with East Asia. Its trade with East Asia (excluding China) now accounts for more than 15 percent of India's total trade.<sup>13</sup> Japan, Korea, and Australia are increasingly significant foreign investors in India. India was an early founding member and is now the second-largest shareholder of the AIIB.<sup>14</sup>

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of the Asia-Pacific Economic Cooperation (APEC) forum, which has played an important role in stimulating economic integration and growth in Asia. APEC membership would support India's and the region's growth by facilitating greater economic cooperation and openness on India's part and by strengthening India's ties with APEC's 21 economies. Unfortunately, the United States, most recently under the Obama administration, declined to support Indian membership in APEC despite the obvious benefits for both India and the United States.<sup>15</sup> Correcting this mistake should be an early initiative of the Trump administration, as it would signal its support for Indian economic growth and for India's role in the region. Some other APEC economies, including American allies such as Japan, have already endorsed India's inclusion in the forum.

On the diplomatic front, India has become a full member or an active participant in all of the East Asian regional forums (except APEC), including the Association of Southeast Asian Nations (ASEAN), the ASEAN Regional Forum, the East Asia Summit, and, most recently, the Shanghai Cooperation Organization. Pursuing his "Act East" policy, Prime Minister Modi visited with the leaders of Japan, Myanmar, Singapore, China, Korea, and Australia during his first year in office, and he has met with several other leaders since then.<sup>16</sup> While his main objective in many of these meetings was to seek investment in India, his vigorous personal diplomacy has made clear India's determination to be an active player in the region.

India has entered into a number of new security relationships in East Asia. It is building its first naval base in the Sey-



## The Trump administration will find India a willing partner in countering terrorism.

chelles to support naval operations from the Indian Ocean into the Straits of Malacca and the South China Sea.<sup>17</sup> Japan has emerged as a major security partner of India through defense cooperation and sales. India is participating in joint naval exercises with Japan and Australia as well as the United States. During a visit to Vietnam last year by Prime Minister Modi, the two countries agreed to upgrade their security cooperation to a Comprehensive Strategic Partnership. Modi also announced a US\$500 million line of credit for Vietnam to facilitate that cooperation, signaling India's seriousness about making strategic investments in the region.<sup>18</sup>

### THE SECURITY CONVERGENCE

The close alignment of U.S. and Indian strategic concerns is reflected in their parallel security agendas and opportunities for cooperation. Countering terrorism, improving defense postures in Asia, and preserving South Asian peace and stability are the areas in which both nations have vital interests and increasingly have sought to work together. Differing priorities, such as India's primary focus on its region contrasted with the U.S. global agenda, and lingering mistrust from the past remain impediments to broadening their partnership.

#### Terrorism

The Trump administration will find India a willing partner in countering terrorism, with the proviso that India's focus will be very much on its own region and on Pakistan in particular. Terrorism has been a scourge for India since the mid-1990s, but it took on new urgency following the 2008 Mumbai attacks. India ranked second among all countries in the number of terrorist incidents expe-

rienced between 2001 and 2008.<sup>19</sup> Indian deaths as a result of international and domestic terrorist attacks from 1995 to 2014 numbered over 31,000, compared with 3,158 in the United States.<sup>20</sup>

The United States has much to gain from cooperation with India on counterterrorism and countering violent extremism. As the foregoing numbers make clear, India has a great deal of experience in dealing with the threat of terrorism. At the same time, India has been very effective at preventing radicalization among its own large Muslim population. Given that 176 million Indian citizens are Muslims,<sup>21</sup> India will reject any U.S. policy or proposal that seeks to brand Islam itself rather than radical violence as the source of the threat.

It is important that the Trump administration signal early on to Delhi its readiness to intensify the cooperation on counterterrorism that followed the 2008 Mumbai attacks. For India, the terrorist threat emanates almost exclusively from its northwestern border with Pakistan. For decades, the Pakistan Army's Inter-Service Intelligence directorate has harbored and supported anti-India terrorist groups such as Lashkar-e-Taiba and Jaish-e-Mohammad—both U.S.- and UN-designated terror organizations—in its effort to wrest control of Kashmir and put a conventionally much stronger India off balance. Pakistan-based militants crossed the Line of Control and attacked Indian installations multiple times in 2016, killing 19 Indian soldiers in one incident.<sup>22</sup> When faced with heavy international pressure, Pakistan cracks down on militants, but always within limits. For instance, Lashkar-e-Taiba cofounder Hafiz Saeed is sometimes placed



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under house arrest but later permitted to move freely and operate again.<sup>23</sup>

Prime Minister Modi will surely press President Trump to take a much firmer stance with Pakistan on terrorism than the United States has in the past. In particular, Modi will argue that Pakistan continues to permit anti-India groups to operate and supports them when they attack India. He will argue that only the threat of stronger sanctions such as sharp cuts to economic and military assistance and removal of Pakistan's designation as a major non-NATO ally might change its behavior. In the past, U.S. dependence on Pakistan for transit to and operations in Afghanistan has kept the United States from taking such steps. However, if the U.S. role in Afghanistan diminishes further, India will look to the United States to move more forcefully, perhaps even requesting that Pakistan be designated as a terrorist state.

### U.S.-India Defense Cooperation

The path is open for the Trump administration to enhance its support for India's defense plans. After decades of mutual mistrust and Indian reluctance to develop defense ties with the United States, the countries began to strengthen defense cooperation in 2005. In 2012, the United States and India signed the Defense Trade and Technology Initiative to remove policy and bureaucratic hurdles to defense sales, technology sharing, and, eventually, coproduction, all areas in which India is eager to move forward.<sup>24</sup> In 2015, a new framework agreement identified key projects for joint U.S.-India effort, including the development of aircraft carrier technology critical to India's power projection in the Indian Ocean and beyond.

In August 2016, the two countries finalized the Logistics Exchange Memorandum of Agreement, which has the potential to transform the defense relationship from a sales and limited military-to-military platform to a broader partnership including greater interoperability of U.S. and Indian forces and, perhaps eventually, joint naval patrols. For years, India had resisted entering into such an agreement for fear that it would too closely resemble an alliance arrangement, but Modi pushed ahead.

The results of these initiatives have been clear. Joint exercises between the two militaries expanded dramatically, and in 2015, the United States conducted more exercises with India than any other nation.<sup>25</sup> India has emerged as a major purchaser of U.S. defense equipment, even though it is not eligible for Foreign Military Sales concessional financing. Only Russia sells more defense equipment to India. Major U.S. defense sales to India have risen from nearly zero to over US\$13 billion today, and in 2013, India was the biggest foreign buyer of U.S. weapons.<sup>26</sup> With India now one of the largest international purchasers of arms, there is clearly potential for further growth of U.S. sales to India, which, in turn, will generate high-paying jobs for Americans.

The next phase in the development of the U.S.-India defense relationship will be critical. Having staked so much on bringing defense ties to this new point of departure, Prime Minister Modi will look to the Trump administration to carry that effort forward. At the same time, the Trump administration must bear in mind that India will not rely solely on any single defense partner but will continue its sup-



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ply relationships with other nations, especially Russia, which was its primary defense equipment supplier for decades.

### India's Neighborhood

President Trump's foreign policy statements since entering the White House have focused on U.S. relations with Europe and East Asia, but South Asia also presents multiple challenges for the United States. What to do about the war in Afghanistan? How to deal with the threat of Pakistan-based terrorist groups, both to Pakistan itself and to other countries? How to minimize the danger of renewed conflict between Pakistan and India? All of these questions will demand the administration's attention in its first year.

India, which for much of the last seven decades sought to limit U.S. involvement in its home region, is today a partner in the U.S. effort in Afghanistan and seeks U.S. support in dealing with the threat of provocations from an increasingly violence-ridden Pakistan. As the Trump administration determines how to move forward in South Asia, it would benefit from considering India's views and taking advantage of its experience.

Most immediately, the administration faces a set of decisions on the size and scope of the U.S. involvement in the Afghan conflict, which is now America's longest war. What will the U.S. goals be going forward? Should the current U.S. force level of 8,400 be maintained, reduced, or increased? The Taliban has made significant gains over the last year and now controls about 30 percent of Afghan territory.<sup>27</sup> The NATO commander, U.S. General John Nicholson, told Congress recently that he believes an addi-

tional 2,000 to 3,000 U.S. troops are needed to halt the Taliban's progress and stabilize key areas of the country.<sup>28</sup> The political situation in Kabul remains fragile.

India has made its own large investment of lives and treasure in Afghanistan, and it has much to lose or gain from whatever decisions the Trump administration makes. India prefers a sovereign, peaceful, and stable Afghanistan free of foreign interference. Most importantly, India does not want Pakistan pulling strings in Afghanistan to achieve its goal of "strategic depth" at Kabul's expense. If the United States leaves Afghanistan, India will seek other options, such as cooperation with Russia and Iran, to keep Pakistan at bay.

To achieve its goals in Afghanistan, India has committed US\$2.3 billion to building infrastructure and strengthening institutions. It has stayed the course in Afghanistan for over a decade,<sup>29</sup> despite the loss of some 80 lives in attacks on the Indian Embassy and Indian projects.<sup>30</sup> India has enjoyed a largely positive relationship with both the Hamid Karzai and Ashraf Ghani/Abdullah administrations, and it is a source of valuable intelligence.

The dilemma for Washington with respect to Afghanistan is how to deal with Pakistan's double-dealing throughout the war. Pakistan has provided transit and logistical support to U.S. and NATO forces, but it has continued to resist acting against the Haqqani network and other terror groups that have opposed the U.S. presence in Afghanistan, cost American lives, and prolonged the war. In Washington, particularly in Congress, patience with Pakistan's behavior has grown thin.<sup>31</sup>



## India will look to the United States to help restrain Pakistan's more provocative policies and actions.

The larger, if longer-term, South Asian challenge for Washington is the decades-long rivalry between nuclear-armed India and Pakistan and the ever-present danger that, for a fifth time in 70 years, it could spiral into war. Recent events are worrisome. During Modi's first year in office, he and Pakistani Prime Minister Nawaz Sharif appeared to be working toward trust and reopening channels for confidence building between their nations. Since January 2016, however, progress has been undercut by several militant attacks originating in Pakistan on Indian military installations.

In September 2016, Prime Minister Modi responded to yet another militant attack in Jammu and Kashmir by ordering a "surgical strike" by Indian forces on a militant base on the Pakistani side of the Line of Control. He then took the unprecedented step of making the action public, signaling India's growing unwillingness to let such incursions go unanswered.<sup>32</sup> Tensions also have been heightened by Pakistan's continuing deployment of tactical nuclear weapons combined with its stated intention to use those weapons in the event of a conventional war. On the other hand, India has made known its "Cold Start" plan for a massive strike across the border in the event of a major provocation. Recent reports have led to speculation that India may reserve the right of first use of tactical nuclear weapons in a conflict with Pakistan.<sup>33</sup>

India makes its own decisions about how to deal with Pakistan, but it will look to the United States to help restrain Pakistan's more provocative policies and actions. The Trump administration, in turn, will look to India to continue to be restrained in its response. Despite the past

success of Pakistani military leaders in convincing U.S. military and other leaders that it is threatened by India, India has consistently stated that its interests are best served by a strong, stable, and preferably democratic Pakistan. Nothing would be more damaging to India's interests than another major conflict with Pakistan.

## ECONOMIC CONVERGENCE?

The Trump administration will find dealing with U.S.-India economic relations a greater challenge than security cooperation. The convergence of security interests over the last 15 years has not been matched by equally closer economic interaction, largely because of India's long-standing reluctance to open its market further. Unlike the East Asian economies' export-led growth strategies, India's policies have focused on its large domestic market and sought to protect its manufacturing and agricultural sectors from foreign competition.

Given the Trump administration's "America First" stance and proposed trade policies, together with India's "India First" economic policies, the prospects for increased bilateral economic cooperation are low. There are three areas of greatest potential friction: (1) trade and investment, particularly the bilateral trade balance; (2) immigration, especially access to the United States for Indian technical workers under the H-1B visa program; and (3) intellectual property rights, which have long been a bone of contention between the Government of India and U.S. pharmaceutical and entertainment companies. In the past, these economic differences have frequently spilled over to other areas of the relationship, limiting its growth.



## Bold thinking could reinvigorate the stalled U.S.-India economic relationship.

It is possible that the Trump and Modi administrations will agree to manage their economic differences to avoid a standoff that would get in the way of advancing their shared political and security interests. It is also possible, although less likely, that President Trump and Prime Minister Modi—two leaders who pride themselves on making deals—will make an agreement that will put the two nations on a path to greater economic cooperation. Such an agreement could deliver economic benefits to both countries but would require major accommodations by both. India seeks investment, while the United States seeks export markets. Many avenues to increased U.S.-India economic cooperation have been suggested: a bilateral trade agreement, a services-only trade agreement, a bilateral investment treaty, or a megadeal covering both trade and investment. All have been regarded as not feasible at this juncture by one side or the other.

Bold thinking could reinvigorate the stalled U.S.-India economic relationship. Fifteen years ago, no one thought the United States would reach a civil nuclear accord with India, but the two governments made it happen. Three years ago, few thought that India would sign the Paris Climate Agreement, but the two governments made it happen. Completion of a U.S.-India bilateral trade agreement during President Trump's first term would be a comparable and worthy achievement.

### Trade and Investment

India represents a huge long-term economic opportunity for the United States. Today it is the world's seventh-largest economy (by nominal GDP)<sup>34</sup> and the fastest-growing economy at 7.4 percent.<sup>35</sup>

It is projected to be the world's third-largest economy by 2030.<sup>36</sup> India's global middle-class market is expected to reach 200 million<sup>37</sup> and its share of global consumption will be the third largest in the world by 2020.<sup>38</sup> India promises to be an increasingly important destination for U.S. exports, especially if the United States works with India to help achieve its ambitious growth objectives.

Under Prime Minister Modi, India has begun to adopt a long-delayed second round of reforms, concentrating on further opening its market and making it easier for international investors to do business in India. The Modi government has finalized a new goods and services tax that will help create a truly national market, made corporate tax and regulatory policies more transparent, and committed resources to improving India's infrastructure—especially the road and rail networks so critical to sustained higher economic growth.

As a result of Modi's still-limited reforms, the Indian economy is more open to business, and the government is more willing to make deals to attract investment. Total foreign direct investment (FDI) in India increased from US\$35 billion in 2014<sup>39</sup> to an estimated US\$62 billion in 2016.<sup>40</sup> U.S. direct investment in India quadrupled from 2005 to 2015, although it still accounted for a fraction of worldwide U.S. FDI in 2016.<sup>41</sup> At the same time, India has become a significant trading nation, with trade as a percentage of GDP reaching 42 percent. Total U.S. trade with India now exceeds US\$100 billion.<sup>42</sup>

Despite India's new dynamism, it need not figure prominently in the Trump administration's sights as the United States seeks



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to protect American jobs from low-cost imports. The stakes of both countries in the bilateral economic status quo are not large. Although Indian exports have increased rapidly over the last 15 years, Indian goods exports to the United States accounted for only 2.1 percent of total U.S. goods imports in 2016. The total U.S. goods trade deficit with India (US\$24 billion) in 2016 accounted for less than 5 percent of the total U.S. trade deficit. Most Indian exports to the United States are non-manufactured goods such as diamonds and agricultural products that create rather than displace American jobs.<sup>43</sup>

While India is a much more open economy than it was 20 years ago, its doors to foreign trade remain only partly ajar. Contrary to many expectations, Prime Minister Modi has not yet fully liberalized India's external sector, especially on the trade account. India continues to protect its domestic markets in important sectors, including manufacturing, agricultural products, and professional services—all areas for potential U.S. export growth. In 2015, India accounted for only 1.6 percent of global merchandise exports and 2.0 percent of global merchandise and services exports, and it was only the 13th-largest goods importer, with petroleum accounting for one-third of all imports.<sup>44</sup>

India has been slow to come to the international trading table and an obstinate negotiator when it has. While India has negotiated a number of bilateral free-trade agreements, they are generally of a low standard. Although the United States is India's second-largest trading partner (after China), India has repeatedly rebuffed U.S. proposals to negotiate bilateral investment and trade-in-services agreements. For the

same reasons, Indian leaders have been wary of what the Trans-Pacific Partnership might mean for them and quietly welcomed the Trump administration's decision to drop it.

If the Trump administration implements a border tax or other protectionist measures affecting Indian exports to the United States, India will surely suffer to some degree and retaliate in some fashion. But unlike China, Mexico, the European Union, and other major exporters, India will not be a big loser, unless protectionism takes hold in other major markets and/or global capital markets become distorted. In 2015, India's exports accounted for 19.9 percent of its GDP,<sup>45</sup> and its exports to the United States accounted for only 15.3 percent of its total exports.<sup>46</sup>

Therefore, both governments could simply agree to disagree on trade matters, at least for now, especially as other equities in the relationship need to be protected and pursued. Alternatively and less probably, President Trump and Prime Minister Modi could agree to pursue much closer economic cooperation through agreements on trade and investment. In the aftermath of the BJP election victories in the first half of 2017, Modi will have more scope to take such a bold step, an option that should at least be considered.

### Immigration

The Trump administration's immigration policies could have a significant negative effect on U.S.-India relations. Over the last 50 years, Indian immigrants to the United States have contributed greatly to American society and become a powerful force urging closer ties between the two socie-



## The Trump administration's immigration policies could have a significant negative effect on U.S.-India relations.

ties. Indian immigrants and their families account for only 1 percent of the U.S. population, but their extraordinary success in every field of endeavor has reshaped American understanding of India and Indian attitudes toward the United States. If that positive dynamic turns negative, it could limit progress in other areas of the U.S.-India relationship.

Indians began to reach the United States in significant numbers following the passage of the 1965 Immigration and Nationality Act. Their numbers increased steadily as a result of both occupational/employment and family reunification provisions of the law. At present, national origin quotas limit new immigrant arrivals to about 30,000 per year, but many more immigrants become permanent residents and later U.S. citizens through employment. The 2010 census counted 2.8 million Indians based on racial identification.<sup>47</sup> In addition, Indians are the second-largest group of foreign students enrolled at U.S. universities.<sup>48</sup>

The Indian American story is the archetypal immigrant success story. Indian Americans have excelled at business, their professions, and public life. Their household educational and income levels are among the highest, if not the highest, for any census category. They are CEOs, members of Congress, governors, university presidents, physicians, and lawyers. Their achievements in American society have inspired emulation in India as well as great admiration for the openness and opportunity the United States has afforded immigrants. Indians in the United States represent a large number of faiths and backgrounds, yet between 1975 and 2015, only two of the 154 foreign-born individ-

uals convicted of terrorism in the United States were born in India.<sup>49</sup>

The Trump administration should ensure that the Indian American experience continues to be a plus for U.S.-India ties by adopting and implementing immigration policies that are respectful of the history and character of the relationship. The recent incidents of violence against Indians in the United States, such as the shooting in Kansas in February 2017, have begun to reshape perceptions of the United States in India. Such incidents need to be deterred by U.S. leaders' statements and immediately condemned when they occur to reassure Indian Americans and Indians alike.

Another aspect of U.S. immigration policy is more immediately problematic for U.S.-India relations. On April 18, 2017, President Trump signed a "Hire American" executive order that directs federal agencies to review employment immigration laws and programs such as the H-1B temporary visa program to ensure that only the most skilled and high-paid immigrant workers are hired.<sup>50</sup> Ultimately, if the H-1B visa program for foreign technical workers is eliminated, reduced in number, or restricted through income-level requirements, India's information technology sector—one of the country's biggest business success stories, accounting for 10 percent of Indian GDP—would be badly affected. In 2015, nearly 70 percent of H-1B visas were used by Indians.<sup>51</sup>

Prime Minister Modi may well appeal to President Trump not to inflict this heavy damage on the Indian economy, or at least not to restrict access for Indian information technology workers so suddenly and completely that Indian companies



## The recent incidents of violence against Indians in the United States have begun to reshape perceptions of the United States in India.

would not have time to adjust. The leading Indian companies are already hiring Americans in anticipation of new limits being placed on the H-1B process. This should be encouraged to continue and expand by both governments. The H-1B issue could be part of a larger conversation about U.S.-India economic cooperation between the two leaders that opens the way for stronger economic ties instead of an economic standoff.

### Intellectual Property Rights

Intellectual property protection in India has long been a contentious issue in economic relations with the United States and other economies. Like many developing countries, India had poorly defined intellectual property rights (IPR) and even weaker policies and laws during the early decades after independence. Over time, India has steadily improved its IPR policies and laws, although their implementation remains uneven across India's large and diverse economic landscape.<sup>52</sup>

The area of longest and deepest IPR conflict between India and the United States is protection for pharmaceutical products and processes. Out of a concern for making health care affordable to its large poor population, India has asserted a sovereign right to limit IPR protection for drugs. For a time, the Government of India recognized process patents rather than product patents, allowing Indian companies to produce medicines patented elsewhere by manufacturing processes different from the original. It has also interpreted original patents strictly and disallowed patent extensions for only modestly modified chemicals. India has consistently argued

that its IPR policies are compliant with World Trade Organization (WTO) standards and that its exceptions for pharmaceuticals are in line with practices in many other countries.<sup>53</sup>

U.S. pharmaceutical companies have adamantly and consistently opposed India's IPR standards and policies. They have lobbied Congress and several administrations seeking changes to India's regime, even arguing for sanctioning India in other areas of the relationship. Some U.S. companies have found ways to navigate India's policy framework. For instance, Gilead Sciences was granted a patent for its highly effective hepatitis C medicine after agreeing that Indian generic drug manufacturers could produce the drug and sell it in India at a reduced price.<sup>54</sup>

Over the last several years, as India has increasingly sought to foster an economy that is focused more on innovation and competition, its IPR policies have become more closely aligned with international standards. In May 2016, the Modi government released a new IPR policy designed to foster value creation that it claims is fully consistent with the WTO's trade-related intellectual property standards.<sup>55</sup> For its own interests, India must continue to improve its IPR policies and laws, especially if it wishes to attract investment in high-value-added sectors such as biopharma and information technology from the United States and other countries.

The Trump administration can best advance U.S. interests in IPR protection as part of a larger dialogue with India on bilateral economic relations and in concert with other nations seeking the same goals.



The similar backgrounds, styles, and goals of the two leaders suggest that a productive meeting could provide a strong start for the relationship.

## WAYS FORWARD

Amid the many other demands on its attention, in the months ahead, the Trump administration would be well served by focusing on opportunities for a constructive relationship with India. There is much to gain and little downside, but it will require active leadership by the Trump administration and support from Congress. In India, expectations for the U.S. relationship among top officials, business leaders, and experts have been very positive. Several steps might be taken to seize the India opportunity:

### 1. Develop with Prime Minister Modi a common strategic view of the U.S.-India relationship, especially as it relates to shared interests in China, Pakistan, and Afghanistan.

- Act early to develop administration thinking on priorities for the India relationship. Avoid the Obama administration's choice not to pay closer attention during the first year.
- Arrange a summit between President Trump and Prime Minister Modi at the earliest possible time. The similar backgrounds, styles, and goals of the two leaders suggest that a productive meeting could provide a strong start for the relationship.
- Assure Prime Minister Modi of the administration's commitment to the U.S.-India partnership and the steps needed to strengthen it further.

### 2. Make India a clear strategic and diplomatic priority.

- If a summit is not possible before summer 2017, cabinet-level meetings should be planned to start a substantive dialogue between the two

governments. This began in April 2017 with U.S. National Security Advisor HR McMaster's visit to India and Indian Finance Minister Arun Jaitley's meetings with U.S. Commerce Secretary Wilbur Ross and U.S. Treasury Secretary Steven Mnuchin in Washington.

- Plan a presidential visit to India to occur in 2018.
- Appoint a senior administration official, preferably a cabinet member, to hold the whole-of-government brief for U.S.-India relations. With security issues such a priority, Defense Secretary James Mattis, who has publicly identified India as a key strategic partner, might be considered.
- Ensure regular, high-level exchanges with the Modi government, preferably at the cabinet level. The George W. Bush and Obama administrations set a high standard for the level and frequency of these exchanges. Any reduction, even if unintended, would be noticed in Delhi.

### 3. Demonstrate American commitment to India's expanding role in Asia.

- Immediately and actively support India's candidacy for membership in APEC at the APEC summit in Vietnam in November 2017. This would be a low-risk, high-reward signal to Prime Minister Modi of the administration's commitment to his "Act East" initiative. Vietnam, the 2017 APEC host, would welcome the proposal.
- Consult fully and frequently with senior Indian government officials on Asian developments and policy decision-making, especially regarding



Among the major countries that seek the administration's attention, India stands out for the opportunities it offers to advance U.S. objectives.

Afghanistan, Pakistan, and China. The goal should be no major surprises for Delhi.

- Encourage U.S. allies Japan, Korea, and Australia to continue strengthening their economic and security cooperation with India.

**4. Develop new avenues for U.S.-India cooperation on defense and security.**

- Consult early and often with India on the administration's thinking about next steps in Afghanistan. Seek India's ideas and cooperation on the way forward. Above all, do not surprise India with major changes in the direction of U.S. policy.
- Resume consultation and cooperation with the Government of India on counterterrorism. Discuss what implications the counterterrorism measures under consideration by the administration might have for India.
- Engage early and openly with Indian leaders on the situation in Pakistan and implications for U.S.-India relations. Expand intelligence sharing and seek ways to defuse tensions.
- Implement the groundbreaking defense agreement reached in August 2016 with increased attention to naval cooperation and joint defense technology development. Work flexibly with India to chart a path to greater interoperability of U.S. and Indian forces, especially the navies, while avoiding steps that will provoke Indian public opinion.

**5. Manage economic relations, especially on trade and immigration issues, positively while looking for ways to expand ties.**

- Avoid delay in addressing India's concerns about the impact of the administration's economic policy on its interests and in discussing how to move forward.
- Work bilaterally with India to explore the possibilities for selective bilateral trade and/or investment agreements or even an economic "grand bargain" to dramatically increase economic cooperation, such as a comprehensive bilateral trade agreement.
- Consult with India about possible changes to the H-1B visa program before setting or announcing any major policy changes.
- Monitor and respond rapidly to any hate crimes directed against Indian immigrants. Assure Delhi that the administration shares the public revulsion at such incidents and is working to deter them.

The Trump administration has taken office at a time of heightened unrest and uncertainty in the world. Many governments are looking for guidance about the administration's strategies and policies. India is one of them, but among the major countries that seek the administration's attention, India stands out for the opportunities it offers to advance U.S. objectives. The two nations' security interests are increasingly aligned. Their economic interests could be an obstacle to closer partnership but, with careful management and imaginative leadership, could become a new frontier in the relationship. What is needed is early, forward-looking, and decisive leadership by both President Trump and Prime Minister Modi.

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