

**MORE THAN JUST THE 123 AGREEMENT:  
THE FUTURE OF U.S.-INDO RELATIONS**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON  
THE MIDDLE EAST AND SOUTH ASIA  
OF THE  
COMMITTEE ON FOREIGN AFFAIRS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED TENTH CONGRESS  
SECOND SESSION

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JUNE 25, 2008  
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## **MORE THAN JUST THE 123 AGREEMENT: THE FUTURE OF U.S.-INDO RELATIONS**

**WEDNESDAY, JUNE 25, 2008**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON THE MIDDLE EAST  
AND SOUTH ASIA,  
COMMITTEE ON FOREIGN AFFAIRS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2:33 p.m., in room 2172, Rayburn House Office Building, Hon. Gary L. Ackerman (chairman of the subcommittee) presiding.

Mr. ACKERMAN. The subcommittee will come to order.

Over the past year and a half, this subcommittee has examined a variety of issues and has, at least on our side, been very critical of the President, his administration and the state of affairs that the next President will inherit across the Middle East and South Asia as a result of the current President's policies. So today will be a change of pace, because, if there is one area in the subcommittee's jurisdiction where President Bush got the policy right, it is toward India.

But it isn't just this administration that they got India right. The Clinton administration moved from ostracizing India after the 1998 nuclear tests to embracing India as an emerging global power, a view cemented by President Clinton's historic trip to India in 2000, on which I was pleased and very proud to accompany the President on that mission.

The bipartisan recognition of India's importance in the 21st century underscored the need and provided the support for a broader, deeper and closer and warmer relationship between two countries and that required moving a particular irritant involving civil nuclear technology.

The July 2005 joint statement by Prime Minister Singh and President Bush proved the key to unlocking the door of a range of issues in which India and the United States not only could cooperate but should cooperate.

I believed then and I believe now that the case for civil nuclear cooperation between the United States and India is clear and compelling. I strongly support the 123 Agreement, and I look forward to the Government of India completing its internal process so that the U.S. Congress can give final approval to this historic deal.

As the title of this hearing indicates, however, there was much more to the July 2005 joint statement than civil nuclear cooperation, and there is much more to United States-India relations than just the 123 Agreement. In fact, the 2005 statement covered a

broad range of issues, among which civil nuclear cooperation was just one.

That agreement revitalized the United States-India economic dialogue and launched a CEO forum to deepen our bilateral economic partnership. It committed both nations to accelerating trade, investment and technology collaboration, and launched the U.S.-India Knowledge Initiative on Agriculture. And, in order to strengthen the foundations that make democracies credible and effective, the U.S.-India Global Democracy Initiative was launched.

The 2005 agreement also called for greater efforts in the arena of commercial civil space cooperation, more trade and high-technology items, and welcomed increased Indian efforts to prevent the proliferation of weapons of mass destruction.

Alongside the joint statement, the United States and India had earlier signed a 10-year defense pact, outlining planned global collaboration in multilateral operations, expanded two-way defense trade, increased opportunities for technology transfers and co-production, as well as increased collaboration on missile defense, and the list goes on.

I enumerate these things because the details illuminate how far the relationship has come in just the last 3 years. The breadth and pace at which all these initiatives have expanded would boggle the mind of even the most optimistic supporter of United States-India relations.

All of these various initiatives are not just pronouncements made by heads of government and forgotten. They have been matched by follow-up and demonstrable success. I will cite just a couple of examples.

In the area of trade and investment, the United States is India's largest trading partner and accounts for about  $\frac{1}{7}$  of all foreign direct investment in India since 1991.

In the area of defense cooperation, the U.S.-India Defense Policy Group meets annually, and since 2002 the United States and India have held an unprecedented number and increased substantive combined exercises involving all military services. In addition, the amount and sophistication of defense sales to India has increased exponentially, and the Government of India has opened the door for United States firms to compete in the sale of multi-role fighters to India.

One area of longstanding cooperation I haven't mentioned is counterterrorism. India has been a victim of terrorism far longer than we have. Their experience with terrorism is deep and is as recent as the bombings last month in Jaipur, in which a series of seven blasts occurred in 20 minutes at crowded markets and their Hindu temples. Sixty-five people were killed, 150 wounded, according to official estimates. Our thoughts and prayers are with the families of the dead, and we wish the injured swift recovery.

This terrible attack serves as another gruesome reminder of how much in common the United States and India have when it comes to the global fight against terror and how we must redouble our efforts to develop effective tools to defeat terrorism and violent religious extremism.

But before anyone leaves this hearing with the idea that the United States and India will go riding off into the sunset and live

happily ever after, if I can mix movie endings, there are some areas of disagreement that need to be mentioned and, if left to fester, could cut off our burgeoning relationship at the pass.

The one I have particularly in mind is India's relationship with Iran. I have heard about and understood from a wide variety of Indian Government officials India's historic ties to Iran and its domestic political need not to alienate hundreds of millions of its Muslim citizens. I have also heard and understood the arguments about India's ever-increasing needs for energy.

But I hope that India's officials will hear and understand the United States view of Iran: That Iran's pursuit of nuclear weapons and regional hegemony is a serious threat posed to international peace and stability in the Middle East and the vital national security interests of the United States.

I believe Indian officials understand the United States perspective on Iran, and I know that India shares United States opposition to Iran possessing nuclear weapons. Their courageous IAEA vote demonstrates that.

So I have a very difficult time understanding why the Government of India continues to pursue a pipeline with Iran and Pakistan at a time when other nations in the world are just not implementing U.N.-approved sanctions, which is India's historic position, but are going further by cutting off access to banking services and discouraging other economic interactions with Iran.

If the international community, India included, wants a peaceful resolution to the Iranian nuclear question, then joining the growing international efforts to isolate Iran that extend beyond the U.N. Security Council sanctions is the way to go forward. Continued pursuit of the IPI pipeline or other investments in Iran's energy sector, as was hinted a few weeks ago by unnamed officials at India's state-run Oil and Natural Gas Corporation, will halt and potentially even roll back the progress made in bilateral relations over the last several years.

I want to be clear that I am not suggesting that India abandon its historic independent foreign policy, though I am sure that there are those in India who will accuse me of just that. What I am suggesting is that India join the other nations who are doing more than just implementing U.N. sanctions in an effort to economically isolate Iran. It is an effort that I believe is fully consistent with India's historic support of multilateral institutions and cooperation.

There has been tremendous progress in United States-India relations over the last decade and particularly over the last 3 years. There is every opportunity and very good reasons to advance relations even further, and future generations would consider us fools if we were to squander them.

Mr. Wilson?

[The prepared statement of Mr. Ackerman follows:]

PREPARED STATEMENT OF THE HONORABLE GARY L. ACKERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, AND CHAIRMAN, SUBCOMMITTEE ON THE MIDDLE EAST AND SOUTH ASIA

The Subcommittee will come to order. Over the past year and a half, this subcommittee has examined a variety of issues and has, at least on our side, been very critical of the President, his Administration, and the state of affairs that the next President will inherit across the Middle East and South Asia as a result of the cur-

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As the title of this hearing indicates, however, there was much more to the July 2005 joint statement than civil nuclear cooperation and there is much more to U.S.-India relations than just the 123 agreement. In fact the 2005 statement covered a broad range of issues among which civil nuclear cooperation was just one. That agreement revitalized the U.S.-India Economic Dialogue and launched a CEO Forum to deepen our bilateral economic partnership; it committed both nations to accelerating trade, investment and technology collaboration and launched the U.S.-India Knowledge Initiative on Agriculture; and in order to strengthen the foundations that make democracies credible and effective the U.S.-India Global Democracy Initiative was launched. The 2005 agreement also called for greater efforts in the arena of commercial civil space cooperation, more trade in high technology items and welcomed increased Indian efforts to prevent the proliferation of weapons of mass destruction. Alongside the joint statement, the United States and India had earlier signed a ten year defense pact outlining planned collaboration in multilateral operations, expanded two-way defense trade, increased opportunities for technology transfers and co-production as well as increased collaboration on missile defense. And the list goes on.

I enumerate these things because the details illuminate how far the relationship has come in just the last three years. The breadth and pace at which all these initiatives have expanded would boggle the mind of even the most optimistic supporter of U.S.-India relations. All of these various initiatives are not just pronouncements made by heads of government and forgotten. They've been matched by follow-up and demonstrable success. I'll cite just a couple examples. In the area of trade and investment, the United States is India's largest trading partner and accounts for about one-seventh of all foreign direct investment in India since 1991. In the area of defense cooperation, the India-U.S. Defense Policy Group meets annually, and since 2002 the United States and India have held an unprecedented number, and increasingly substantive, combined exercises involving all military services. In addition, the amount and sophistication of defense sales to India has increased exponentially and the Government of India has opened the door for U.S. firms to compete for the sale of multi-role fighters to India.

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There has been tremendous progress in U.S.-India relations over the last decade and particularly over the last three years. There is every opportunity and very good reasons to advance relations even further, and future generations will consider us fools if we squander them.

Mr. WILSON. Thank you, Mr. Chairman.

Thank you, Chairman Ackerman, for holding this hearing today on United States-India relations.

As a long-time supporter of strengthening the partnership between the United States and India, I believe it is important that we discuss and recognize that United States-Indo relations is indeed more than the 123 Agreement.

As a young child, I remember my father telling me about his time serving in India as a member of the Flying Tigers during World War II. His stories about entrepreneurial and hard-working people taught me valuable lessons about the culture and the people of India.

Since those days, our relationship with India has become a growing alliance that partners our dedication to democracy. After all, America is the world's oldest democracy and India is the world's largest democracy. And our willingness to be active participants in the global economy and marketplace, as well as our strategic responsibilities, in a rapidly changing world.

The United States and India need to continue to be fair and willing partners on economic, energy, and national security issues. I hope the political difficulties that have stalled movement on the Civilian Nuclear Agreement can be overcome.

I also hope that we cooperate with India on advancing research into new energy sources. With their rapidly expanding economy, the people of India will increasingly need access to affordable energy, as will the people of the United States. This will be mutually beneficial.

And, lastly, the security of both nations is the ultimate responsibility of our respective governments and surely the primary concern of all of our citizens. In the global war on terrorism, we have common enemies. And we can learn from our Indian partners how

to defeat terrorists who have attacked India for 60 years and killed over 60,000 citizens.

Moving forward, there needs to be a robust and respectful debate about our strategic defense relationship, and, without a doubt, the discussions over energy and economic growth will contribute to that debate.

No relationship between any two nations will be without disagreements or competing interest at times. There are tremendous national, regional and global concerns that the people of India must address, but I have confidence they can and will. It is, in my estimate, vital that the United States continue to seek a fair and mutually respectful partnership with the people of India, as indicated by the past 3 years of tremendous progress.

America has been enriched by the immigration of 2.2 million citizens from India who have been vital to business, the medical and hospitality industries in America. With my personal experience as co-chair of the India Caucus, the largest country caucus in Washington, reflecting appreciation for the Republic of India, and through my many years of friendship with Indian-American community leaders, I value today's hearing and look forward to the testimony.

Again, I wish to thank Chairman Ackerman and my fellow committee members for this opportunity.

Mr. ACKERMAN. Mr. Scott?

Mr. SCOTT. Thank you, Mr. Chairman.

It is clear that the relationship between the United States and India is experiencing an extensive and groundbreaking transformation. This administration has already pledged to help India become a major world power in the 21st century.

India, as the most populous democracy in the world, shares our commitment to democracy and the fight against terror. From these shared interests, the manifestations of a strengthened India-American relationship are quite evident.

Economically, India and the United States will mutually benefit from this strengthening of our ties. The United States represents India's largest trading and investment partner. And, overall, India is the United States second-largest trading partner, after China. In light of these strong economic ties, a renewed relationship will yield not only an increase in bilateral trade but also an increased flow of investments.

In terms of nuclear power and energy, the signing of the 123 Agreement and the Hyde Act signals our confidence to the world to give India increased access to civilian nuclear technology for peaceful purposes such as energy security.

And while this robust relationship will prove largely positive for both parties, it is imperative that we analyze all the implications of this relationship. And I hope the panelists today will speak to the repercussions the United States will face from China as a result of strengthening ties with India. Insights into existing nuclear and economic policies regarding India will be very, very relevant.

Additionally, I would like to hear from our witnesses this afternoon of how this relationship may create a new dynamic in the upcoming Presidential elections, as we will have a new administration in just a very few months.

Recently, there have been talks surrounding India's desire to gain a permanent seat on the U.N. Security Council. I think it is important that we discuss how likely it is within the next 5 years that India will be successful in gaining such a seat and what strategies we might apply to see that that happens.

India has always had quite a rocky relationship with Pakistan. I would like to have some discussion this afternoon on Pakistan and India's relationship, and how will the United States balance its commitment to both these nations in such a competitive atmosphere.

And both the United States and India have faced terrorist attacks stemming from religious extremism. I think we need to discuss the question of how can each country help the other in the global war on terror.

There is much that we need to discuss, but also today, if it hasn't happened already given the time zones, India will meet with their left-wing allies concerning the nuclear deal between India and the United States. I think that this is a very momentous occasion, to say the least, and it would be very important to have some discussion on those implications, as far as the future of the coalition, the risks that are being run, and also what the International Atomic Energy is saying about this endeavor.

So needless to say, the topic is right. The future of the United States and India's relations will yield much to determine, quite honestly, the future of peace in the world.

Thank you, Mr. Chairman.

Mr. ACKERMAN. Thank you.

There being no further members of which to speak, we now turn to our very distinguished panel.

Dr. Stephen Cohen is a senior fellow in foreign policy at The Brookings Institution, which he joined in 1998 after a career as a professor of political science and history at the University of Illinois. He is the author, co-author or editor of 12 books, mostly on South Asian security issues, the most recent being "Four Crises and a Peace Process: American Engagement in South Asia" and "The Idea of Pakistan."

Dr. Cohen was a visiting professor at Lee Kuan Yew School of Public Policy in Singapore and taught at Keio University in Japan and Andhra University in India. He has also consulted with various foundations and government agencies and was a member of the State Department's policy planning staff from 1985 to 1987. He received his undergraduate degree from the University of Chicago and his doctorate from the University of Wisconsin.

Ambassador Teresita Schaffer is the director of the South Asia Program at the Center for Strategic and International Studies, which she joined in 1998 after a 30-year career in the Foreign Service.

Ambassador Schaffer served as Ambassador to Sri Lanka from 1992 to 1995 and has also served as Deputy Assistant Secretary of State for South Asia and director of the Foreign Service Institute. Over the course of her Foreign Service career, Ambassador Schaffer served in Tel Aviv, Islamabad, New Delhi and Dhaka.

Ambassador Schaffer has published widely on diverse South Asian topics. Most recently, she wrote "Kashmir: The Economics of

Peace-Building” and “Pakistan’s Future and U.S. Policy Options.” Ambassador Schaffer taught both at Georgetown and American Universities. And, if I count correctly, she speaks seven languages, including Urdu, Hebrew and Hindi.

Dr. Walter Andersen is associate director of the Southeast Asia Studies Program at Johns Hopkins School of Advanced International Studies. Dr. Andersen has served in a variety of positions in the State Department, which he joined in 1970 to work on India and Indian Ocean affairs.

After that, Dr. Andersen had assignments to Pakistan and Moscow. Dr. Andersen also served in New Delhi as special assistant to the U.S. Ambassador from 1988 to 1991. And when he returned to the United States, he headed the State Department’s South Asia Division in the Office of Analysis for the Near East and South Asia.

Dr. Andersen has also worked on Indian Ocean security issues with Dr. Robert Scalapino at University of California-Berkley and, while at The Brookings Institute, wrote “The Brotherhood of Saffron” about the rise of Hindu nationalism in India. Dr. Andersen received a BA from Concordia College and his Ph.D. from the University of Chicago.

Welcome to all of you.

Your full statements will be placed in the record in its entirety. And if you could summarize in about 5 minutes or so, that with leave ample time for the members to ask questions.

Dr. Cohen, we will start with you.

**STATEMENT OF STEPHEN P. COHEN, PH.D., SENIOR FELLOW,  
FOREIGN POLICY STUDIES, THE BROOKINGS INSTITUTION**

Mr. COHEN. Thank you, sir.

Thank you, Congressman Ackerman and members of the subcommittee. I am pleased to share my expertise on the important question of the future of Indian-American relations.

Fifteen years ago, Indians and Americans both failed to anticipate or understand the events that were to transform the relationship along many dimensions. Mistakes were made on both sides, and the recent difficulties in consummating the nuclear agreement might have been avoided had we thought more clearly and realistically about the overall relationship and the developments within each country that affects our ties.

I will devote my time now to some of the areas of greatest promise and those areas where clear thinking and considered action may improve the relationship so that important Indian and American interests are advanced.

Good relations is often a euphemism for feeling good about the other country. This is not a useful criteria for developing policies that benefit both sides in specific and meaningful ways.

First, on the economy: Expanded two-way trade and new economic ties now constitute the ballast of the United States-India relationship. We need not worry over much about a return to the dark days of the 1970s when India saw the United States as a hostile, encircling power and Washington simply ignored India. Yet, government policy can facilitate or hamper economic ties.

In this case, the reforms have to be largely on the Indian side, but American business should be sensitive to Indian concerns and

Indian practices and should endeavor to strengthen Indian capacities, especially in such areas as education. American operations in India should not be seen as exploitive, just as Indian operations in the United States will be judged as to whether they take away American jobs.

On strategic relations, the motto should be, "Look before you hop." It would be wrong to expect a close strategic relationship between the two countries on the basis of a hypothetical threat from China. A relationship should be seen and presented as reinsurance against a malevolent China, a future that may never happen.

In the meantime, both sides will be worried of being involved in the other's conflicts with third parties: India with American concerns about Iran; the United States with India's continuing conflict with Pakistan. In both cases, the root cause is political instability in Iran and Pakistan, which makes their policies unpredictable and potentially harmful. We should not demand Indian support for all of our Iranian policies any more than we should allow India to dictate our policy toward Pakistan.

There will, however, be many opportunities for second-tier military cooperation, notably in disaster relief, anti-piracy efforts, and in helping to stabilize countries that are unable to maintain their integrity.

Naval cooperation is likely to be the most fruitful area, as the Indian navy performs at a very high level of professionalism and now has a doctrine that encourages such cooperation. India should be invited to join the Task Force 150 in the Gulf, and India's navy, in its capacity for power projection, should be strengthened.

We should, of course, conclude the United States-India nuclear agreement. The bulk of work to enable the deal has already been accomplished, although the implementation will be very difficult. While it would be imprudent to renegotiate the entire agreement, I do see the possibility of concessions on both sides that make the agreement more attractive.

On our part, we can reduce some of the limits on India's use of reactor byproducts, because I do not believe that India intends to build a vast arsenal, and accept India as a nuclear-weapons state.

On India's part, the commitment to no more testing could be formalized, preferably by signing the CTBT. And they could stabilize their arsenal designs so no new testing was necessary and renew earlier commitments to arms control, starting with the revival of the Rajiv Gandhi Action Plan. They could also sign on to the Proliferation Security Initiative and join other arms control regimes.

The criteria should be: Does the agreement not only provide India with enhanced energy resources, which I think it does, but does it, on balance, enhance global arms control and restraints on the development and deployment of nuclear weapons? The United States should also translate the Indian agreement into a criteria-based format, potentially allowing Pakistan and even Israel to enter into a similar arrangement.

We should also give greater priority to bilateral cooperation on education, agriculture, which was part of the 2005 agreement, and regional water and environmental issues.

In my written testimony, I make the point that there is one area where I think, looking ahead 4, 5, 6, years, you could have a major,

even catastrophic development, and that is the disposition of the water that falls in the Himalayas. This directly affects the livelihood and security of about 1 billion people in South Asia, plus China. So China, Nepal, India, Pakistan and Bangladesh are vitally affected by that water. And if the monsoon pattern should change, or one or another of the countries should attempt to manipulate or change the flow of that water, this would be a cause for war.

So I think this is an area where the U.S. should get involved, should learn about it, and possibly facilitate a regional arrangement which could manage this development over time. We need to recognize that this will be the big issue over the next decade and work toward collaborative mechanisms that include India in the resolution or amelioration.

Finally, we should build our intellectual resource base. For a long time, India was defined as an irritant. It did not count economically or strategically. Now that it does count, we need to better understand such changes as the caste and class revolutions, the shift of power from the center to the states, and as India has entered into an era of coalition governments.

Dealing with democracies always requires an extra effort. We must invest in the long-neglected research and scholarly base, a necessary but not sufficient foundation stone for wise policy.

With that, I conclude my testimony. Thank you.

[The prepared statement of Mr. Cohen follows:]

PREPARED STATEMENT OF STEPHEN P. COHEN, PH.D., SENIOR FELLOW, FOREIGN  
POLICY STUDIES, THE BROOKINGS INSTITUTION

Congressman Ackerman, and members of the Subcommittee, I am pleased to share my expertise on the important question of the future of American relations with India. Fifteen years ago, both Indians and Americans failed to anticipate or understand the events that were to transform the relationship along many dimensions. Mistakes were made on both sides, and the recent difficulties of consummating the nuclear agreement might have been avoided had we thought more clearly and realistically about the overall relationship and the developments *within* each country that affects our ties.

Therefore, I will only briefly summarize the past and devote most of my testimony to the future: those areas of greatest promise, those areas where little can (or should) be done, and those areas where clear thinking and concerted action may improve the relationship so that important Indian and American interests are advanced. "Good relations" is often a euphemism for feeling good about the other country. I've never regarded this as a useful criteria for developing policies that benefit both sides in specific and meaningful ways.

CHANGES IN U.S.-INDIA RELATIONS

As I noted in *India: Emerging Power*, India is undergoing several revolutions, simultaneously. There is the federal revolution, a changed relationship between the state and the center, there are caste and class revolutions, as Indian society undergoes rapid change akin to our own civil-rights movement, and there is an economic revolution brought about by India's reasonably successful accommodation of the forces of globalization, which was facilitated by a change of economic policy in the early 1990s—a change that was fostered by Prime Minister Manmohan Singh when he was Finance Minister. At about the same time, India's foreign policy underwent revolutionary change, as it slowly and painfully adjusted to the fact that the Soviet Union, a close friend and major military supplier, had disappeared. Coupled with other internal transformations, India is, in my judgment, one of the most revolutionary societies in the world, and with several important exceptions, these revolutions are proceeding peacefully.

In 1978, I published *India: Emergent Power?* It pointed to India's rise, but noted its failure to address the economy and its persistent conflict with Pakistan as fac-

tors that held India back. Twenty-three years later, my book on India did not have a question mark in its title. India's rise as a global power in the 21st century is all but certain. However significant questions remain concerning the speed, ease and uniformity of India's rise, and regarding the kind of power into which India will evolve. All of this will have a considerable impact on the U.S.-India bilateral relationship.

The most significant factor of the new U.S.-India relationship is that it is not based on relations between the two governments, but rather the relationship between their two societies and their economies. Indian-Americans are among the most successful of the recent immigrant groups to the United States. The U.S. remains immensely popular in India, particularly in the cities.<sup>1</sup> India is emerging as a cultural superpower, and just as Hollywood's influence is evident in Bollywood, the latter has established a position in the U.S. (as well as the rest of the world), and we now all consume Indian food in large quantities.

There remains an older generation in India that learned its anti-Americanism from the British, but they are less vehement, especially after they visit their children and relatives in the United States, returning with a somewhat more accurate picture of our virtues as well as our faults. There is also a somewhat younger generation of leftists who are ideologically anti-American. They look to China and Russia to help balance American hegemony. While small in numbers, they are effective enough to block the U.S.-India nuclear agreement. I always had lingering doubts about the political viability of the "deal," hence the sub-title of a long paper I wrote several years ago: "A Deal Too Far?"

Indians clearly want closer economic ties with America, continue to see our country as a land of opportunity, and look to American practices for models and examples. We certainly could benefit from the Indian example in several spheres, notably in running free elections without controversy. Every time India goes to the polls, it is the world's largest organized human activity. The trade relationship still leaves much to be desired, due in large part to the underdevelopment of large-scale manufacturing in India, but it is only a matter of time before the country makes greater headway in that sector. However, India is far behind China in that regard, and some of the recent books on "Chindia" that equate the two do a disservice to the truth.

Let me now focus on four areas: (1) bilateral defense cooperation, (2) the nuclear relationship, (3) key areas for greater cooperation and (4) areas of disagreement. I will conclude with some policy recommendations for the next U.S. administration and Congress.

#### DEFENSE COOPERATION, EXERCISES AND SALES

The U.S.-India defense relationship has been unsettled since the end of the Cold War. Many American policymakers of the Clinton and Bush administrations harbored high hopes of India's evolution as a key U.S. strategic partner in South Asia, often a euphemism for a strategy of containing China, but which I would view as reinsurance for both the U.S. and India against the rise of a malevolent or hostile China.

Developments have not proceeded at the pace many had envisioned. Military-to-military ties have been among the more successful areas, with regular joint naval and air exercises between the U.S. and Indian militaries, but both India and the U.S. conduct exercises with many, many other countries, so this is not something extraordinary except in the context of a total absence of such exercises after 1963 (when American fighter aircraft trained alongside the Indian Air Force after the 1962 India-China war). Cooperation on counterinsurgency, an important aspect of security for both countries, has not been satisfactory, and more can certainly be done by both governments to exchange relevant ideas and training practices. That said, India and the Soviet Union never had military-to-military ties during the Cold War of the kind that India and the United States enjoy today. U.S.-India cooperation during the 2004-05 tsunami relief efforts was instructive and groundbreaking, but that remains the standout example of military cooperation.

Military sales have not yet risen to the level that U.S. defense corporations expected. India will be one of the largest markets for defense equipment in the coming two decades, but the United States has barely established a toehold there. There are a few promising signs. India recently agreed to purchase six C-130J aircraft,

<sup>1</sup>A 24-Nation Pew Global Attitudes Survey released earlier this month showed that Indians have a 66% favorability rating of the United States, behind only South Korea and Poland. Indians are also the most positive about U.S. economic influence (41%), the personal benefits of trade (87%) and foreigners buying domestic companies (59%), underscoring the importance of the economic relationship.

the biggest ever Indian purchase of American equipment in dollar terms. It also bought an amphibious transport ship, the *U.S.S. Trenton*, renamed the *I.N.S. Jalashwa*, which is now the second largest ship in the Indian fleet. These two purchases greatly expand India's power projection capacity, but I don't see a guiding strategic hand behind these decisions.

American corporations are today favored in a number of major defense tenders, but the Indian acquisition process is extraordinarily slow, and results will almost undoubtedly take some time. U.S. defense corporations would be wise to take some lessons from Israel's entry into the Indian market, as Israel is today India's second largest defense supplier. Joint defense production and R&D remain many years off, although there may be greater room for cooperation with private Indian defense companies, who are only now coming into their own. India's stringent offsets mean that this route will be complex and difficult to negotiate.

There are two factors usually overlooked by American policymakers with regard to India's strategic evolution. The first is the domestic security threat facing India today. India's greatest national security challenge is no longer Pakistan or China or even terrorism, which has been responsible for more deaths in India than in any country other than Iraq in recent years. Its biggest threat is a leftist revolutionary movement termed the Naxalites (named after a Bengali village where a Maoist uprising took place in the 1970s). They have been in existence to a greater or lesser degree for decades. The movement—active today in a large swath of resource-rich central, eastern and north-eastern India, especially among tribals, low-caste Hindus, and ethnic minorities—is treated as a law and order problem. But it has the potential of becoming much more virulent and destabilizing should there be greater cooperation among Naxal groups in different Indian states, or should the Nepal communists turn out to be interested in supporting their Indian counterparts.

The second important factor is India's default preference for strategic caution, which is a major theme in my forthcoming book. India has traditionally refrained from employing its military muscle. It fought Pakistan to two stalemates in 1947–1948 and 1965, and its military involvement in the Sri Lanka civil war in the late 1980s proved a disaster. Today its engagement with its neighbors—including Pakistan, Sri Lanka, Nepal, Burma and Bangladesh—is essentially non-military in nature. Two apparent exceptions to its strategic restraint were the 1971 war with Pakistan, which resulted in a decisive Indian victory, and the nuclear tests of 1998.

India's strategic restraint demonstrates itself in other manners as well. Today, India's military expenditure makes up a little over 2% of its GDP. While it is growing in real terms, it is still small given the enormity and the range of security threats facing the country. Additionally, India's most significant military operations outside its own borders in recent years have been humanitarian in nature.

#### OVERCOMING THE NUCLEAR HURDLE

The U.S.-India nuclear agreement, which benefits India considerably, has barely progressed since the negotiation of the bilateral 123 Agreement last July. Eleven months later, the nuclear deal is being held hostage in New Delhi by the four Left parties upon whom the ruling UPA coalition is dependent for support. There remains a slim chance of the restraints being lifted this year, if elections are set or, even less likely, if the government chooses to pursue the deal against the wishes of the Communist parties. A more likely scenario is that the deal will return in 2009 or 2010 after India's general elections, which must take place before May of next year. In that case, it will be up to the next president and the 111th Congress to see the deal through to its completion by ensuring its approval by the Nuclear Suppliers Group and ratifying the 123 Agreement.

The non-proliferation implications of the deal have been explored in detail by many others. Disputes over India's nuclear program have unfortunately overshadowed other aspects of the bilateral relationship for much of the past 35 years. Actualizing the nuclear deal will enable the two countries to address a host of other urgent matters that are far more deserving of attention. A half-way house for India seems natural, given India's non-proliferation record and the chance for it to be incorporated into the global non-proliferation regime with the international community's acquiescence. I believe the Bush administration was bold and imaginative in developing the deal, but should have specified a number of criteria for such an agreement, thus potentially bringing other countries into such arrangements, and strengthening the overall arms control agenda.

Disputes over India's nuclear program have unfortunately overshadowed other aspects of the bilateral relationship for much of the past 35 years. Completing the nuclear deal will facilitate addressing other matters that are potentially more deserv-

ing of attention, although actually implementing the agreement will itself be a difficult process.

#### KEY AREAS FOR GREATER COOPERATION

There are three areas that in my opinion are ripe for action. All affect India's long term security and prosperity, and thus, indirectly, the United States' long-term prosperity and security. None of these have been priorities for the Indian or American governments in the past few decades, but all are vital to India's sustained growth as a major power. They are: (1) education, particularly higher education; (2) agriculture and (3) the looming environmental crisis in South Asia.

Today India sends more students to American universities than any other country; Indian students account for about a sixth of all foreign university students in the United States. While this has proven mutually beneficial for both countries, it is in part indicative of the poor state of India's primarily state-run university system. (Interestingly, the ratio of Indian students in America to American students in India is about 80-1).

India lags in primary and secondary education too. Literacy is still untenably low, especially among women. But its problems will be mitigated partially by a growth in private schooling catering to almost every income level. The Indian government can certainly do more to ameliorate the situation, but there are few avenues for the United States to assist India in this regard. By contrast, American universities are eager to establish schools in India, which will benefit both countries considerably by enabling academic exchange and providing many more Indian students with better university educations. Unfortunately, bureaucratic and ideological barriers remain to the expansion of the private educational system, especially at higher levels, and continue to hamper the much needed reform and upgrading of the public college and university system.

A second area which badly needs addressing is Indian agriculture. Due in part to land reforms following independence, which succeeded in breaking old feudal structures, India finds itself suffering from an inability to develop large-scale commercial farming. Over two-thirds of the population is dependent on agriculture, but most have only small farms, often less than half an acre. Continued small-scale farming has limited the potential for agri-businesses, distribution systems and market access for produce. Some estimates indicate that up to half of India's agricultural produce is wasted due to unsatisfactory storage and lack of adequate transport. The United States assisted India in its first agricultural revolution, which enabled it to become self-sustaining. It can now do more to assist India's second agricultural revolution, especially in better managing the delivery chain from farmer to consumer. As in the case of education, this is largely an opportunity for the private sector: there need be no heavy government hand. But enabling legislation, primarily at the state level in India, will be necessary.

The final overlooked area, and one with enormous political and strategic implications, is the potential for cooperation on mitigating environmental degradation. Certainly climate change has been a high-profile issue and is likely to be at the top of the next administration's agenda. But other effects of environmental damage, at a regional or local level, do not receive the attention they deserve. These include problems related to water. Overcrowding and industrialization in India have led to problems concerning India's river systems, including potable water shortages and contamination. This issue affects a colossal number of people. For example, the Ganges-Brahmaputra river basin, which covers most of Bangladesh and Nepal in addition to much of northern India, is home to over 600 million people. If you add Pakistan (160 million people), which is dependent upon water flowing from India into the Indus river system, and if you keep in mind that many of India's rivers (and therefore those of Bangladesh and Pakistan) originate in China, which may have its own plans for rerouting them towards Central Asia, then you have the making of a protracted crisis in years to come even if only the most cautious predictions of climate change come true. In my view, an imaginative American administration will work with India, and other regional states, to attempt a comprehensive treatment of the problem now, and not wait until the cycle of flood and drought drives millions of people off their land, exacerbates disputes between Indian, Nepal, China, Bangladesh, and Pakistan, and—as we have seen already—intensifies disputes within Pakistan and India over access to water. The Kashmir dispute, while important in its own terms, is increasingly an environmental problem, and may paradoxically be easier to deal with in those terms rather than a zero-sum contest between Pakistan and India.

## AREAS OF DISAGREEMENT

As with any bilateral relationship, there are areas that will continue to be points of disagreement between the United States and India. These will likely include global issues such as trade and climate change, but also conflicting strategic objectives vis-à-vis states such as Pakistan, Burma and Iran.

*Pakistan* and India have passed through the period where their conflict was the “most dangerous in the world,” as they have adjusted to the existence of nuclear weapons on both sides. It is evident that the four major crises since 1987 constituted a learning experience, just as the U.S. and the Soviet Union learned something from the Cuban Missile Crisis. However, while nuclear weapons make large-scale war unlikely, they do not ensure peace, and there remains a real possibility that another crisis may erupt. In such an event, the United States should be prepared to once again serve as a moderating factor, as we did in 1990, 1999 and 2001–02 (but not in 1987). Our relations with India and Pakistan stem from somewhat different interests, but we cannot ignore the fact that they are each a strategic threat to the other, and we must, at all costs, avoid giving the appearance that we would favor a military solution to their disputes.

*Burma* has long since ceased to be a coherent state. It is presided over by a military junta that cannot protect its people from known and predictable threats such as the recent cyclone. India has turned to supporting the Burmese generals, in an attempt to reduce Chinese influence there, but both countries are playing by 19th century rules. Yet our policy of isolation and name-calling does not show much promise. It would be wise to consult closely with India, and China, and ASEAN, to see if some middle ground can be worked out that promotes peaceful regime change in Burma.

Among the most high-profile causes of disagreement are India’s ties with *Iran*. Much has been made of India’s apparent strategic, energy and “civilizational” relationship with Iran. Many Indians—particularly those of an anti-American bent—emphasize this connection, while many Americans have serious misgivings about India-Iran ties. India does have some low-level military ties to Iran, Iran remains a major supplier of oil and gas to India, and India is believed to be home to the largest number of Shia outside of Iran. However, other elements of the relationship are frequently overlooked or overstated: India’s military relationship with Iran involves little other than some naval training and the renovation of some tanks. In terms of energy, Iran is only the fourth largest oil supplier to India, accounting for only 10% of its imports. Moreover, there are two other reasons why Iran should not be a stumbling block to closer U.S.-India ties.

The first is the India-Israel relationship. Israel is now the second-largest exporter of defense equipment to India in dollar terms, and may surpass Russia as the largest. Indians may be liberal in labeling their ties with countries as strategic partnerships, but in the case of Israel, this happens to be apt. In fact, in January this year, India launched an Israeli spy satellite to reconnoiter Iran. The Israel-India commercial relationship is deepening, and Israeli tourists are flocking to India in greater numbers. But despite the threats it faces from Iran’s burgeoning nuclear program, Israel does not publicly object to New Delhi’s continued dealings with Tehran.

The second reason is the commercial ties with Iran enjoyed by other states, including many of the United States’ allies. Japan, Turkey, Italy, Germany and South Korea are among Iran’s largest trade partners in 2007. France, Germany, Hungary, Italy, Japan, and Turkey—again U.S. allies—were among the largest investors in Iran in 2006. India lags considerably behind all of these countries in terms of its economic relationship with Iran.

## POLICY RECOMMENDATIONS

1. The United States should recognize that two-way trade and economic ties constitute the ballast of the new U.S.-India relationship. This has provided a new floor, so we need not worry overmuch about a return to the dark days of the 1970s, when India saw the U.S. as a hostile, encircling power, and Washington simply forgot about India. Yet, government policy can facilitate or hamper these new economic ties. In this case, the reforms have to be largely on the Indian side, but American business should be sensitive to Indian concerns and Indian practices, and should endeavor to strengthen Indian capacities, especially in areas such as education. American operations in India should not be seen as exploitive, just as Indian operations in the U.S. will be judged as to whether they take away American jobs.
2. On strategic ties, the motto should be “look before you hop.” It would be wrong to expect a close strategic relationship between the two countries on the basis of a hypothetical threat from China. Our relationship should be seen and pre-

sented as reinsurance against a malevolent China, a future that may never happen. In the meantime, both sides will be wary of being drawn into the other's conflicts with third parties: India with American concerns about Iran, the U.S. with India's continuing conflict with Pakistan. In both cases the root cause is political instability (in Iran and Pakistan), which makes their policies unpredictable, and potentially harmful. We should not demand Indian support for all of our Iranian policies any more than we should allow India to dictate our policy towards Pakistan.

3. There will be many opportunities for second-tier cooperation, notably in disaster relief, anti-piracy efforts, and in helping stabilize countries that are unable to maintain their own integrity. Naval cooperation is likely to be the most fruitful area, as the Indian navy performs at a very high level of professionalism, and now has a doctrine that encourages such cooperation. India should be invited to join the Task Force 150 in the Gulf, and India's navy and its capacity for power projection should be strengthened.
4. See through the U.S.-India nuclear agreement. The Bush administration and Congress have exerted considerable time and effort in bringing the controversial nuclear deal to fruition. When the political situation in India finally proves favorable to the deal's consummation—be it this year, next year or the year after that—the next U.S. president and Congress should expedite consummation. The bulk of work to enable the deal has already been accomplished, although implementation will be difficult. While it will be imprudent to renegotiate the entire agreement, I do see the possibility of concessions on both sides that make the agreement more attractive. On our part, we can reduce some of the limits on India's use of reactor products (I do not believe that they intend to build a vast arsenal) and accept India formally as a nuclear weapons state. On India's part, the commitment to no more testing could be formalized (preferably by signing the CTBT), they could stabilize their arsenal designs (so no new testing is necessary), and renew earlier commitments to arms control, starting with the revival of the Rajiv Gandhi Action plan, signing on to the Proliferation Security Initiative, and joining a other arms control regimes. The criteria should be: does the agreement not only provide India with enhanced energy resources, but does it, on balance, enhance global arms control and restraints on the development and deployment of nuclear weapons? The U.S. should also translate the India agreement into a criteria-based format, potentially allowing Pakistan and even Israel to enter into a similar arrangement.
5. Give much greater priority to bilateral cooperation on education, agriculture, and regional water and environmental issues. These are all areas where there has been little cooperation between the United States and India thus far, but which are all vital for India's future. We need to recognize now that these will be the big issues of the next decade, and work towards collaborative mechanisms that include India in their resolution, or amelioration.
6. For a long time India was seen as an irritant, it did not count economically or strategically. Now that it does, we need to better understand such changes as the caste and class revolutions, the shift of power from the center to the states (India has entered an era of coalition government, which can directly affect foreign policy calculations). Dealing with democracies always requires an extra effort, we must invest in the long-neglected research and scholarly base, a necessary but not sufficient foundation-stone of sound policy.

Mr. ACKERMAN. Thank you very much.  
Ambassador Schaffer?

**STATEMENT OF THE HONORABLE TERESITA C. SCHAFFER, DIRECTOR, SOUTH ASIA PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES**

Ms. SCHAFFER. Thank you, Mr. Chairman. And thank you for inviting me to testify.

Before I begin my formal testimony, I would like to say that it is a special honor to appear before the man who was my late mother-in-law's Congressman for many years. Minnie Schaffer passed away about 4 years ago at the age of 101. She was an active participant in Kew Gardens politics until the day she died, and she appreciated your contribution.

There is broad support for a strong relationship with India. Rather than recite our many joint activities, I would like to focus on why India matters to the United States and the potential limitations of the partnership that is emerging.

I want to leave you with two thoughts. First, our partnership and our bond as democracies will prosper only if we focus on our common geopolitical interests. Second, we need to develop a new model for international partnership, different from the Cold War-era alliances. I very much hope the nuclear agreement will be part of this model.

Three factors transformed our relations after 1990: The end of the Cold War, India's booming economy, and the Indian-American community. Both major parties in both countries built today's vibrant relationship.

I see three key building blocks for our new partnership: Asian and Indian Ocean security, economics, and democracy.

We start with the growing convergence of Indian and American interests from the Persian Gulf to the western Pacific. This policy agreement underpins our military cooperation, which both Dr. Cohen and you have made reference to. China and India are both rising powers and will shape Asia's future. India and the United States are engaging peacefully with China, but both are wary of China's growing military strength. Neither one wants Asia to be dominated by a single country. India, the United States, China and the other large Asian countries all play a part in creating a peaceful Asian future. We don't seem to like the term "balance of power" nowadays, but that is what the United States and India want and expect.

Both of us depend on the international energy market. India is the world's second fastest growing energy buyer. Oil represented one-third of its import bill even before the recent hike in prices.

Persian Gulf and Indian Ocean security is critical for both countries. We share concerns about terrorism and radical extremism. India has nearly 5 million workers in the Gulf; they send home one-fourth of India's remittance earnings. The Gulf countries provide two-thirds of India's imported oil and all its imported liquid natural gas.

You mentioned our disagreements over Iran, Mr. Chairman, but even here India and the United States do agree on the big strategic goal, namely not having a militarily nuclear Iran. We disagree about what to do about it.

The IPI pipeline, which you mentioned, faces major commercial obstacles. As I read things, India's policy is not so much pursuing the pipeline as it is refusing to kill off the idea.

The second building block for India and the United States is economics. India has had 3 years of over 9 percent growth. Trade represents 34 percent of India's economy today, compared to only 15 percent in 1990. You have already noted the high profile of United States-India trade and investment. For India, economy is strategy, and the United States is a critical part of India's game plan. And for us, of course, India has become an exciting destination for exports and investment.

Democracy is the third building block for our partnership, but it is also a complication. Take the nuclear deal. I think many Indians

were shocked when the Hyde Act turned out to be such a cliff-hanger in the United States Congress. And we were stunned when India's coalition politics stalled the next stage of the deal.

Democracy doesn't create partners automatically. The partners need to understand each other's processes and policies. Democratic values have little impact on policy unless they are linked to common interests. That is what is beginning to happen now, and it should give us a kind of foreign policy sweet spot.

So what kind of partnership can we develop? We are not looking at another alliance. Our alliances in Europe and Japan arose out of the Cold War, with a single, forceful enemy. Today's world is more diffuse, and the strategic rivalry many predict with China isn't likely to divide the world into two clearly defined camps.

An even more important reason for not trying to create a new alliance is India's strong attachment to strategic autonomy in its foreign policy. Indian governments are not willing to adopt a kind of default position that their foreign policy will align itself with any outside country, even a friend with which India has strong relations. Indian governments that work closely with the United States need to demonstrate to their own people that they can still make decisions that don't match Washington's. Look at the political beating India's Government took after the IAEA votes that you referred to.

In short, I believe that the United States and India will be close partners on some issues but will go their own way on others. This can work well, provided the two governments take the time and energy to understand each other's priorities and figure out which issues lend themselves to common policies and which don't. The experience of the last 10 years suggests that the partnership list will expand.

Our common interests will push us together regardless of the fate of the nuclear agreement. But this breakthrough initiative is the most powerful tool the United States and India have had for putting our partnership on a strong footing. India has hesitated since the agreement posed a risk of bringing down the government ahead of schedule. If India now feels able to move ahead, we will have an unparalleled opportunity to recalibrate the way our giant democracies work together and to focus together on the energy and proliferation concerns that we both face.

I should say that I disagree with my distinguished colleague about the feasibility of amending the agreement. If we get into that kind of situation, in all likelihood, the Indian and U.S. Governments will be looking for diametrically opposed kinds of amendments. I spent a lot of my Foreign Service career doing wordsmithing; I think this is a very tough road. And I think the agreement that is before us is the best that both countries are likely to get.

Summing up, India was the missing piece in a United States-Asia strategy for the 21st century. That piece is now being put in place. The next administration will inherit a lot of useful activities: Dialogues on economics, business and energy; military exercises; potential military sales; scientific cooperation; educational exchanges that bring 80,000 Indian students to the United States

each year; space cooperation; and hopefully an agreement on civilian nuclear cooperation.

What the new administration needs to do more than anything is to strengthen the strategic context for all this activity by focusing both governments on our common strategic interests and defining the areas where we can act in common.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Schaffer follows:]

PREPARED STATEMENT OF THE HONORABLE TERESITA C. SCHAFFER, DIRECTOR,  
SOUTH ASIA PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Thank you for inviting me to testify, Mr. Chairman. Before I begin my formal testimony, I'd like to say that it's a special honor to appear before the man who was my late mother-in-law's Congressman for many years. Minnie Schaffer passed away about four years ago at the age of 101, but she was an active participant in Kew Gardens politics until the day she died, and she appreciated your contribution.

There is broad support for a strong relationship with India. Rather than recite our many joint activities, I will focus on why India matters to the United States, and the potential and limitations of the partnership that is emerging.

I want to leave you with two thoughts. First, our partnership and our bond as democracies will prosper only if we focus on our common geopolitical interests. Second, we need to develop a new model for international partnership, different from the Cold War era alliances. I hope the nuclear agreement will be part of this model.

Three factors transformed our relations after 1990: the end of the Cold War, India's booming economy, and the Indian-American community. Both major parties in both countries built today's vibrant relationship. I see three key building blocks for our new partnership: Asian and Indian Ocean security; economics; and democracy.

We start with the growing convergence of Indian and American interests from the Persian Gulf to the Western Pacific. China and India are both rising, and will shape Asia's future. India and the United States are engaging peacefully with China, but both are wary of its growing military strength. Neither wants Asia to be dominated by a single country. India, the United States, China, and the other large Asian countries all play a part in creating a peaceful Asian future. We don't like the term "balance of power" nowadays, but that's what the U.S. and India want and expect.

Both of us depend on the international energy market. India is the world's second fastest growing energy buyer. Oil represented one-third of its import bill even before the recent hike in prices. Persian Gulf and Indian Ocean security is critical for both countries. We share concerns about terrorism and radical extremism. India has almost 5 million workers in the Gulf, sending home one-fourth of India's remittance earnings. The Gulf countries provide two-thirds of India's imported oil and all its imported LNG.

India and the United States have some disagreements on the Middle East and Asia, including some aspects of how we deal with Iran. But we agree on the big strategic goals. This has made possible the expanding U.S.-India military cooperation that you've heard so much about, and it has led India to look on the U.S. presence in the Indian Ocean as a benign one.

The second building block is economics. India has had three years of over 9 percent growth. Trade represents 34 percent of India's economy today, compared to only 15 percent in 1990. Trade with the United States is up to \$30 billion a year, plus another \$20 billion in services trade. The United States is India's top export destination and buys two-thirds of its Information Technology exports. For India, economy is strategy. This makes the United States a critical part of India's game plan. For us, India has become an exciting destination for exports and investment.

Democracy is a building block for our partnership, but also a complication. Take the nuclear deal. Indians were shocked when the Hyde Act turned out to be such a cliffhanger in the U.S. Congress. And we were stunned when India's coalition politics stalled the next stage of the deal. Democracy doesn't create partners automatically. The partners need to understand each other's processes and policies. Democratic values have little impact on policy unless they are linked to common interests. That's beginning to happen now, and should give us a kind of "foreign policy sweet spot."

So what kind of partnership can we develop? We're not looking at another alliance. Our alliances in Europe and Japan arose out of the Cold War, with a single, forceful enemy. Today's world is more diffuse, and the strategic rivalry many predict with China doesn't divide the world into two clearly defined camps.

An even more important reason for not trying to create a new alliance is India's strong attachment to "strategic autonomy" in its foreign policy. Indian governments are not willing to adopt a "default position" that their foreign policy will align itself with any outside country, even a friend with which India has very close relations. Indian governments that work closely with the United States need to demonstrate that they can still make decisions that don't match Washington's. Look at the political beating India's government took after it voted twice with the United States and against Iran in the International Atomic Energy Agency (IAEA).

In short, the U.S. and India will be close partners on some issues, but will go their own way on others. This can work well provided the two governments take the time and energy to understand each other's priorities and figure out which issues lend themselves to common policies and which don't. The experience of the last ten years would suggest that the "partnership list" will grow with time.

Our common interests will push us together regardless of the fate of the nuclear agreement, but this breakthrough initiative is the most powerful tool the U.S. and India have for putting our partnership on a strong footing. India has hesitated, since the agreement posed a risk of bringing down the government ahead of schedule. If India now feels able to move ahead, we will have an unparalleled opportunity to recalibrate the way our giant democracies work together, and to focus together on the energy and proliferation concerns that we both face.

Summing up, India was the missing piece in a U.S. Asia strategy for the 21st Century. That piece is now being put in place. The next administration will inherit a lot of useful activities—dialogues on economics, business and energy; military exercises; potential military sales; scientific cooperation on such subjects as HIV research; educational exchanges that bring 80,000 Indian students to the U.S. each year; space cooperation; and perhaps an agreement on civilian nuclear cooperation. What the new administration needs to do is to strengthen the strategic context for all this activity, by focusing both governments on our common strategic interests and defining the areas where the United States and India can act in common.

Mr. ACKERMAN. Thank you.  
Dr. Andersen?

**STATEMENT OF WALTER ANDERSEN, PH.D., ASSOCIATE DIRECTOR OF THE SOUTH ASIA STUDIES PROGRAM PROFESSORIAL LECTURER, SCHOOL OF ADVANCED INTERNATIONAL STUDIES, JOHN HOPKINS UNIVERSITY**

Mr. ANDERSEN. Thank you, Chairman Ackerman and members of the committee.

Like Ambassador Schaffer, I have a certain linkage to your consistency as well, having spent the first 4 years of my life there and the remainder of my youth in Bay Ridge, which actually had a different political party representation than yours.

Congressman Scott, you had mentioned the meeting today that the Prime Minister, Manmohan Singh, had with his left colleagues. That meeting has happened, and unfortunately he failed to get his communist allies, which his government needs to sustain the coalition, to back a civil nuclear deal. And it was announced that they would have a subsequent meeting.

Now, the communists and others argue that the deal would undermine the independence of Indian foreign policy. But the very fact that an issue which involves a strategic relationship with the United States has aroused such a debate in India underscores how far the Indo-U.S. relationship has come in the last several years. It also underscores that the difficulty India has in saying "yes" is a sign that Indian moves on the international stage are, by nature, incremental and subject to a number of possible delays in the domestic political system of India, which I will get to in a few minutes.

In fact, the Indo-U.S. relationship has undergone a dramatic transformation over the past 10 years. For the first time since India's independence in 1947, India and the United States can realistically expect to build a partnership that advances their respective foreign policy interests.

And this, in my view, is based on the convergence of interests in several key areas. The first is curbing religiously inspired political radicalism. The second is defeating the forces of the Taliban and al Qaeda in Afghanistan. The third is managing the rise of China. And the fourth is safeguarding the strategically important sea lanes that cross the Indian Ocean and that are used to transport much of the world's oil and gas.

This transformation has occurred so rapidly that we sometimes are tempted to overstate what the relationship can achieve. Phrases like "natural partners," "strategic allies," and "a relationship with no limits" have been used by senior political leaders in both countries. By using these terms, however, I think we risk losing sight of what we can realistically expect. And we also risk a sense of letdown if the results fall short of our expectations.

On security issues, I think we need to start with the assumption that the United States relationship with India will not result in a military alliance or Indian participation in an alliance of democracies. The inequality of power between our two countries, the absence of a habit of cooperation, and the residual bureaucratic and political resistance to deeper engagement will all limit the pace and scope of strategic cooperation.

Still, I think that there is no denying the fact that India will have more in common with the United States than it will with any of the other great powers. And this will produce cooperation when there is a clear alignment of interest and India is treated as an equal partner.

Such cooperation has already started. And because India's rise to major world power is in the long-term interest of the United States, I think we benefit from patience as India works out the precise terms of its relationship with us.

And I completely agree with Ambassador Schaffer that, on the nuclear deal, I think we have to stick with what the deal presently has, because to reopen the negotiations, I think, could create major problems for cooperation in the future between our two countries on this issue and other issues, as well.

There will, however, be significant areas where we continue to differ, most prominently, as you mentioned, Mr. Chairman, on Iran, but also on Myanmar. India maintains good relations with both countries because they are sources of energy and have a strategic value, relating to China from Myanmar and to Pakistan and Afghanistan for Iran.

A note of caution also applies to the economic dimension of the relationship. India is emerging from decades of soft socialism and policies that favored economic self-sufficiency. There remains in India a residual skepticism about whether the market reforms adopted about 15 years ago will result in greater social equity. This skepticism is even stronger regarding the opening of the economy to international competition and to foreign direct investment. Nonetheless, the trend is in the direction of greater openness be-

cause it has worked. The question is not whether there will be a greater openness, but the pace of the opening.

What, then, can the U.S. realistically expect of the relationship? I believe the major factor in our relationship is economic, and there are significant opportunities for increased sale of American services and merchandise trade to India.

India's merchandise trade has over tripled since 2000, and the United States has been its largest trading partner every year. While the two-way merchandise trade gap has been in India's favor every year since 2000, the gap is narrowing, as an increasingly prosperous India imports more American machinery and technology. The United States trade deficit with India was cut almost in half, from \$11 billion in 2006 to about \$6 billion in 2007.

Trade in information technology and services are growing at an even faster pace than merchandise trade. With an estimated \$15 billion going in each direction last year, industries in our two countries are developing a close symbiotic linkage in ways that benefits the economies of our two countries. And this trade, in my view, should be encouraged.

One of the major opportunities for the U.S. is increased American sale of military equipment. India has embarked on a comprehensive military modernization program and is spending about \$8 billion a year on imported equipment. Some analysts predict it will spend about \$60 billion on military imports over the next 5 years. The U.S., for the first time, is a serious competitor because of the appreciation of the high quality of American military equipment.

There is, however, a lack of an Indian Communication Interoperability and Security Memorandum of Agreement. And I hate to use these acronyms, but it is one that has the title of CISMOA, and it is required for U.S. technology sales. And India reportedly has offered a counter draft proposal to enable it to access American arms.

My guess is that the negotiating process on this will require high-level bureaucratic attention, similar to the involvement of Nicholas Burns on the issue of civilian nuclear cooperation where there were similar bureaucratic hurdles to overcome.

A second area where there is a good chance of cooperation with India is Indian engagement with the United States on safeguarding shipping over the critical Indian Ocean sea lanes used to transport a growing percentage of the oil and gas to meet the growing demand from energy-deficient countries like India, China, Japan and Korea. This might be in the form of a memorandum of understanding, preferably multilateral and involving the major users to address a mutual interest in countering terrorism and piracy, providing for search and rescue, and humanitarian assistance.

Unfortunately, sea lane protection in the Indian Ocean is presently covered by a number of ad hoc arrangements. Something more institutional is required. And India, with vital economic and security interest in these sea lanes, would be a good candidate to be a major participant in a multilateral agreement. It possesses the only indigenous blue-water navy in the Indian Ocean, has troops trained in counterterrorism, and, moreover, the Indian navy already has a record of collaboration with the United States on counterterrorism, by providing escorts to American shipping in 2002 at

the Malacca Straits and, in 2005, working with the United States, Japan and Australia on tsunami humanitarian relief activities.

The navies of the United States and India, in addition, have a record of joint exercising, starting several years ago, that are geared to anti-piracy and counterterrorism. Such cooperation has the advantage of developing a certain comfort level in India for a security cooperation with the United States, and provides a model that could be used for security collaboration on a larger scale to face crises affecting the interests of both the United States and India.

Finally, India's strategy of using its good relationship with the United States to provide it leverage to reduce the chances of threats from China also gives the United States an opening to push the pace on issues of strategic importance to the United States and which would serve Indian security interests.

Indians, for example, have affirmed their intention of maintaining a security relationship with the United States through the support for Operation Enduring Freedom, a defense framework in 2005 that envisages increased joint military exercises and Indian purchases of United States military equipment. Indian votes twice against Iran at the International Atomic Energy Agency was, in part, prompted by an Indian effort to build a security relationship with the United States.

The lesson of the civilian nuclear deal and other areas where India has delayed action is not that the momentum with the United States has stalled, but that the relationship needs to move incrementally and at a pace that is politically acceptable in India. As mentioned at the beginning, the Indian market is becoming more open because India has benefited from it. And India is building a security relationship with the United States because it is clearly in India's interest to do so.

Thank you.

[The prepared statement of Mr. Andersen follows:]

**India and the United States:  
A Different Kind of Relationship**

Testimony before

House Committee on Foreign Affairs:  
Subcommittee on the Middle East and South Asia  
United States House of Representatives

**June 25<sup>th</sup>, 2008**

Dr. Walter K. Andersen  
Associate Director  
South Asia Studies  
Johns Hopkins University  
School of Advanced International Studies  
Washington, D.C.

Distinguished members of the Subcommittee, thank you for asking me to testify today on the US-India relationship. I will focus my remarks mostly on the underlying momentum in this relationship and the challenges we face in sustaining the forward movement.

Indo-US relations have undergone a dramatic transformation over the past decade. The next administration will benefit from the strong underlying momentum behind recently improved bilateral relations.<sup>1</sup> The US and India, for the first time since India's independence in 1947, can realistically expect to build a partnership that advances their respective foreign policy goals. This is based on the strong fundamentals of a convergence of interests on key issues, such as curbing religiously-inspired radicalism, managing the rise of China, defeating the Taliban in Afghanistan, and working towards stability in South Asia and beyond.

The end of the Cold War created conditions that enabled India and the United States to move beyond the suspicions that had soured their bilateral relationship for over four decades. India now views the US as an asset in its quest for great power status. This more positive view of the US shows up in recently released multi-nation public opinion polling data, which show that 66 percent of the Indian public has a favorable opinion of the US (up 7 percent from last year), and 63 percent say that US foreign policy pays attention to Indian interests. Among the 24 countries compared, India is near the top of the chart on both issues, and reflects a major change in Indian opinion of the US.<sup>2</sup> The US, for its part, recognizes India both as a rising power, for it has the world's second largest population and the second fastest growing economy, as well as a stable democracy in an often turbulent Asia.

This transformation occurred so rapidly that leaders on both sides are prone to overstate what the relationship can actually achieve. Leaders have referred to the two countries as "natural partners" (President Bush in 2006), "strategic allies" (Prime Minister Vajpayee in 2004), and in 2005 Prime Minister Manmohan Singh declared that it is a relationship with "no limits". We risk losing sight of the positive trend in the bilateral relationship if we overstate the possibilities. While there is an element of security in the bilateral relationship, India and the US are not allies in the conventional sense – and are not likely to be so any time soon. The military element in the relationship lacks mutual assistance agreements and basing rights – and none are likely to come about any time soon. India remains committed to the doctrine of strategic autonomy, and it will not become an ally in the mold of the UK or Japan, nor will it be a France, seeking tactical independence within the framework of a formal alliance. It will cooperate only when treated as an equal and only where its own interests are directly involved.<sup>3</sup> On substantive issues, both countries agree that no single power (i.e., China) should

<sup>1</sup> For a comprehensive discussion of the momentum in the Indo-US relationship, see Pratap Bhanu Mehta, "Going in Two Directions in South Asia" *Current History*, May 2008.

<sup>2</sup> Data released by the Pew Global Attitudes Project on June 12, 2008, available at: <http://pewglobal.org/reports/display.php?ReportID=260>. Last accessed June 22, 2008.

<sup>3</sup> For a discussion of India's developing security policy, see S. Raja Mohan, "India and the Balance of Power" *Foreign Affairs*, Jul/Aug 2006, vol85, issue 4, pp. 17 -32.

dominate Asia, but India will not support an anti-Chinese alliance and rather will seek ways to integrate China more closely into a larger Asian context. While Indians – like Americans -- are deeply committed to the democratic process, few Indians see democratic advocacy as a basis for cooperative action. Because of regional security considerations and the need for energy imports, India will conduct a relationship with Iran and Myanmar that is sometimes at odds with the U.S.

The challenge in creating a durable strategic relationship will be for the US to treat India as an equal partner and for India to make itself sufficiently useful to Washington, to justify the political costs needed to implement policies that strengthen Indian power (such as the exception to US non-proliferation policy). In the Indian case, the issue is complicated further by a residue of substantial anti-America opinion in the bureaucracy, in academia and in the press, which while on the decline, often forces the Indian government to be cautious on something new like a security relationship with the United States, a caution that can delay or even stymie initiatives. This caution has delayed Indian agreement regarding to US proposals for a Logistics Support Agreement (LSA), a Communication Interoperability and Security Memorandum of Agreement (CISMOA), and End-User Verification Agreements (EUVA) on military sales because of the physical inspections built into them.

Nevertheless, there is a momentum already established in key areas of the Indo-US relationship that can be used by a new administration to advance US interests. (1) An increasingly open Indian economy with the US playing a significant role in it; (2) increased Indian commitment to the security of the vital sea lanes of the Indian Ocean and its choke points; (3) an Indian security policy of hedging which requires a US element to be effective and thus gives the US some leverage power with India.

**I.)** The first and perhaps most important element in the bilateral relationship is linked to **India's recent economic prosperity and America's significant involvement in it.** While India's rapid economic expansion is prompted mainly by private activity, a more economically robust India is an important factor accounting for increased US interest in India, and also creates jobs for American workers. The Indian Government in the early 1990s under then Finance Minister – and now Prime Minister – Manmohan Singh removed many of the stifling government controls over the economy and thus unleashed the entrepreneurial potential of the Indian people. The market reforms have produced positive results: the Indian economy grew on an average of 5-6 percent per year during the 1990s (about double the average from independence to 1990) and 7 – 8 percent per year since 2000. Merchandise trade expanded from about 42 billion dollars in 1990-91 to about 311 billion dollars in 2006-2007; foreign currency holdings have gone from only a few hundred million dollars in the 1990s to some 310 billion dollars in mid-2008, an expansion of over a hundred billion in just the past year; and foreign direct investment rose from almost nothing in 1990 to some 20 billion in 2007.

Market reforms were prompted by a balance of payments crisis in the early 1990s, but have survived because, as in China, they are responses to important domestic

demands for a better life – in India to substantially enhance the annual economic growth rates in order to address the rising demands for a better life by the vast numbers belonging to the country's historically disadvantaged groups. The challenge, of course, is to avoid quick-fix populist measures that undermine long term growth and the political leadership in New Delhi has a mixed record. The country is still a long way from satisfying the needs of the poor, and democratic politics compel India's leadership to focus on economic development at home.<sup>4</sup> To achieve the desired economic growth rates, the country requires a massive increase in trade and investment in high technology. This objective has been an important factor in the foreign policy of every Indian government since the early 1990s. It translates into pushing for closer ties with countries that can help it economically, such as the US and China. It also translates into a policy of peace with neighbors, most prominently Pakistan and China, so that the country can focus on improving its economy at home. Moreover, it has prompted India to negotiate several free (or preferential) trade agreements, some with individual countries and some multilateral, with countries around the Indian Ocean.

Since the adoption of market reforms, the US has remained India's largest trading partner. Two way merchandise trade with the US has almost tripled just in the past seven years, expanding from 14 billion dollars (out of total trade of 124 billion) in 2000 to 41.6 billion in 2007 (out of total of 311 billion).<sup>5</sup>

Chart 1: India's Trade Balance with U.S., 1998-2007

Year	Exports (Millions U.S. \$)	Imports (Millions U.S.\$)	Balance (Millions U.S.\$)
1998	3,564.5	8,237.2	-4,672.7
1999	3,687.8	9,070.8	-5,383.0
2000	3,667.3	10,686.6	-7,019.3
2001	3,757.0	9,737.3	-5,980.3
2002	4,101.0	11,818.4	-7,717.4
2003	4,979.7	13,055.3	-8,075.6
2004	6,109.4	15,572.0	-9,462.7
2005	7,898.4	18,804.2	-10,814.8
2006	10,056.2	21,830.8	<b>-11,774.6</b>
2007	17,588.5	24,073.3	<b>-6,484.7</b>

Source: U.S. Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington, D.C. 20233

<sup>4</sup> Leahy, Joe. "India's Report Card Fails to make the Grade," Financial Times June 19, 2008. Also see Jim O'Neill and Poddar Thushar's "Ten Things for India to Achieve its 2050 Potential," Global Economics Paper no. 169, June 16, 2008.

<sup>5</sup> The percentage increase in Indo-US trade is significantly less than the 40 percent growth of two way trade with China recently. China, with some 25 billion in trade in 2007, could surpass the US as India's leading trading partner if current rates of increase hold.

The two way merchandise trade has been in India's advantage every year since 2000, though the gap may now be narrowing as an increasingly prosperous India imports more American machinery and technology. The merchandise trade gap of some 11 billion dollars in 2006 in India's favor was almost halved in 2007, as can be seen in Chart 1. This gap is likely to further diminish as India becomes for the first time a significant customer of US military equipment. The Indian military establishment's desire to buy US equipment through the foreign military sales (FMS) route and the US willingness to sell state-of-the-art equipment to India are a convenient convergence of interests, though there is a residue of suspicion in India regarding US reliability as a supplier and in the US about the Indian ability to safeguard its technology. India is now engaged in a comprehensive military modernization program and has been spending about 8 billion dollars a year recently on military imports. Some analysts estimate that India will spend about 60 billion dollars over the next five years on military modernization. Early this year, India signed its biggest defense deal so far with the US with the purchase of six Lockheed Martin C-130 Super Hercules medium transport planes for somewhat more than one billion dollars. Last month, the Indian Air Force opened responses to a global tender of 126 medium multi-role combat aircraft (MRCA) in a deal valued at 10 billion dollars and US firms are among the competitors.<sup>6</sup>

Still another promising area for sales is the Indian Navy. India is now embarked on one of the most ambitious naval building and procurement plans in the world, with 35 ships in the works (see Appendix 1). Among the projects is the seven ship Project 17A Shivalik-class frigate, for which three American companies (Lockheed Martin, Northrop Grumman, and General Dynamics) have been sent the initial requests for information. The Indian Navy is looking at ways to augment indigenous information technology with American assistance, a process that would make inter-operability easier between the navies of the two countries. The US (and others, such as Japan and Korea), are more competitive as the Indians have become increasingly skeptical about the reliability of traditional Russian naval suppliers, and it is looking for alternatives.

So far, however, India has not signed the Communication Interoperability and Security Memorandum of Agreement (CISMOA) – permitting the interoperability with US equipment – that is required for it to receive high-tech equipment. Indian interest in American multirole combat aircraft and the P-8i Poseidon long range maritime reconnaissance aircraft appears to be forcing the country to consider a CISMOA, which would in turn enhance the possibilities of even greater Indian purchase of US military equipment. The Indian press reports that the Indian Government has prepared a CISMOA counter draft to submit to the US this month (June 2008) reportedly so that it can buy these big ticket US items. For the Indian counterproposal to be accepted, the US will probably need focused high level bureaucratic attention similar to the involvement of Nicholas Burns, Undersecretary of State for Political Affairs, on the Civil Nuclear Agreement, where there was similar bureaucratic resistance.

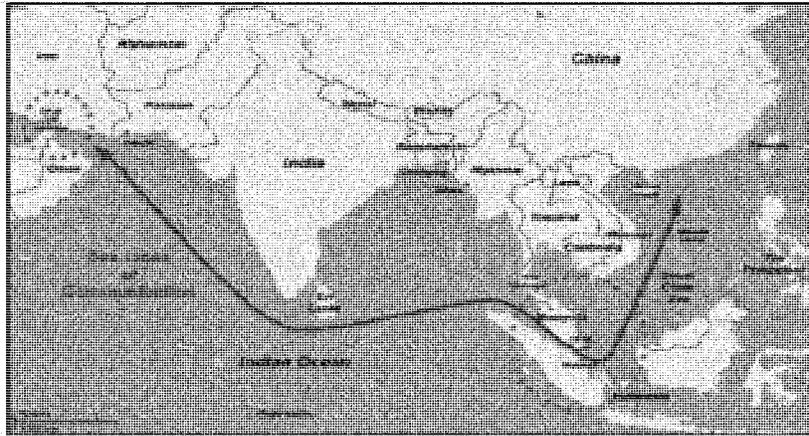
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<sup>6</sup> See report of India's growing arms imports in "China, India largest importers of military hardware," *The Economic Times*, June 10, 2008.

The trade volume is in fact larger than the figures noted above because they only include merchandise trade and do not include India's rapidly expanding exports of software and Information Technology services. Much of India's 31 billion dollars of exports in 2007 (and growing recently at about 30 percent a year) have gone to the United States. Indian sources note that the US accounted for over half of India's export markets for information technology and services support.<sup>7</sup> In addition, the US has exported a similar dollar amount of services to India. IT and such support services have created a strong symbiotic linkage between American and Indian companies -- and both gain economically from this ever tighter embrace. It also sets up people-to-people networking clusters that each side can use to expand business opportunities in both countries.

**II.)** The most promising area for India-US military cooperation is **protection of Indian Ocean sea lanes and the vital choke points** leading from that body of water (especially Hormuz and Malacca), which is of strategic importance not only to India and the US, but to the countries of Southeast and East Asia.

**Map: Indian Ocean shipping routes connecting the Persian Gulf to East Asia through the Strait of Malacca (potential choke points highlighted in red dots).**



The advantages of maritime cooperation are that it is out of public view and managed by professionals, thus making it less susceptible to politically motivated nitpicking. Maritime cooperation enables India to play a more responsible role in world affairs without directly challenging its doctrine of strategic autonomy. Such cooperation also provides the practical lessons that will make it easier to manage future security cooperation between the US and India (and others) on a larger scale when mutual

<sup>7</sup> NASSCOM, Key Highlights of the IT-BPO sector performance in FY 2007-08, available at: [http://www.nasscom.in/upload/5216/Strategic\\_Review\\_Feb2008.pdf](http://www.nasscom.in/upload/5216/Strategic_Review_Feb2008.pdf). Last accessed June 21, 2008.

interests are at stake. Perhaps the US could build on this naval cooperation to work with India in creating multilateral organizations tasked with safeguarding the sea lanes and its increasingly vulnerable choke points. There is presently a hodgepodge of generally ineffective bilateral and multilateral forums to do so, stymied so far by concerns of littoral states with national sovereignty over adjoining waters and perhaps most importantly, by lack of strong leadership to take the initiative.

There is already a growing record of naval cooperation between the US and India, rooted in a 1995 framework agreement on defense and an expanded version of this in 2005 to reflect the objective on both sides for an increased level of military cooperation. In line with a new willingness to cooperate with the US, India took an unprecedented step in April 2002 by lending support to Operation Enduring Freedom in Afghanistan by using Indian Navy ships to protect US supply ships from threats of terrorism and piracy as they moved through the Straits of Malacca. This was followed by several joint Indo-US search and rescue naval missions as well as the "Malabar" naval exercises off India's west coast. The largest in this series took place in early September 2007 in the Bay of Bengal, off India's eastern coast, and involved ships from Japan, the US, Australia, India and Singapore. These exercises, whose goal was to develop joint strategies to combat terrorism and piracy, included two US aircraft carriers and India's sole aircraft carrier. The US and India have also held periodic air and ground exercises both in the US and in India, one of which involved India's largest strategic deployment of its combat aircraft outside the country during the summer of 2004 in Alaska.<sup>8</sup>

The sea lanes are critically important to India, because about 70 percent of its oil is imported from the Persian Gulf- and this dependence is likely to grow as the Indian economy continues to expand and its own domestic energy resources continue to decline. In addition, almost 95 percent of its expanding trade moves by sea across the Indian Ocean. The other rapidly growing economies of Asia (Japan, Korea and China) are also energy deficient and increasingly dependent on energy imports from the Persian Gulf region. This dependence on the Persian Gulf -- and the sea lanes leading from it -- are likely to grow because this area contains about two-thirds of the world's known oil reserves and a third of the known natural gas reserves. Therefore it is in India's interest to work with the US which, possessing naval and air facilities in the region, has assumed primary responsibility in protecting the sea lanes and the critical Hormuz and Malacca choke points. India has important assets to bring to bear in this effort, besides a growing blue water naval capacity.<sup>9</sup> It has close-at-hand naval and air facilities on the Andaman Islands situated at the mouth of the western approaches to the Straits, and a National Security Guard force created in the mid-1980s for counter-terrorism purposes. India and Indonesia have a bilateral agreement calling for joint patrolling of the western approaches to the Malacca Straits. The Indian Navy conducts regular joint naval exercises with Singapore, Indonesia and Thailand as well as multilateral exercises with several Southeast Asian states.

<sup>8</sup> For a description of these military exercises, see Robert O. Blake, "US-India Relations: The Making of a Comprehensive Relationship", an August 23, 2004 speech released by the US Embassy in India. (Ambassador Blake) was at that time the US Charge in New Delhi.)

<sup>9</sup> See Appendix 1 for a chart of the Indian fleet disaggregated by ship types.

From the US perspective, India (possessing the only indigenous blue water capacity in the Indian Ocean and strategically located – a huge peninsular that juts down 1500 miles into the middle of that body of water) is a logical candidate to play a role in protecting the Indian Ocean sea lanes. Around the broad swath of Indian Ocean littoral states from east Africa to Indonesia on the east, it is the most politically stable country in a very unstable and strategically important area. Such cooperation would be aimed at the most imminent threats: piracy and terrorism. Most vulnerable would be the choke points. Malacca, for example, handles some 70,000 merchant vessels transporting over 20 percent of the world's seaborne trade and over one third of the world's crude oil shipments. The area around the 500 mile long Malacca Straits is subject to escalating piracy and harbors several terrorist organizations. The ultimate terrorist act, taking a leaf from the 9/11 attack on the US, would be the sinking of hijacked ships in busy channels or at the entrances of major ports. Such an interruption and a prolonged standstill in the Malacca Straits would force shipping to be re-routed through the distant Sunda and Lombok Straits, adding 1.5 sailing days, slowing movement and adding to already high insurance rates for ships in these waters.

**III) India's security strategy of "leveraging", which depends on a good relationship with US, gives the US a "leveraging" power on India.** The end of the Cold War gave India an opportunity to break out of the narrow "nonaligned" straitjacket that hampered its ability to protect Indian interests even in South Asia. It almost immediately began to pursue a much broader set of relations with the US, China, Japan, Korea, the European states, and a broad range of other states. Good relations with the great powers, especially the US- the remaining superpower and the strongest power in Asia- offered India the potential to achieve its two major strategic objectives: enhance its international influence and gain leverage with the great powers.<sup>10</sup> Perhaps the most important strategic advantage for India is that it now has the potential to move incrementally closer to the US, should the Chinese take steps that are viewed as threatening- and thus reduce the chances of China taking threatening moves. The importance of the US to Indian strategy also gives the US some leverage with India, and there are several areas where the US could make use of this to push its interests in Asia. Examples of this might be nudging India to support multilateral initiatives aimed at discouraging Iran from developing nuclear weapons, demonstrating greater sensitivity to Pakistani concerns regarding its fears of an Afghan-Indian alliance directed against it, taking a more proactive role in moves to create multilateral bodies that could safeguard shipping to Indian Ocean sea lanes and through its choke points.

While Indian relations with China presently are generally good as it is India's second largest trading partner (with trade presently at a 25 billion dollar level and growing at 40 percent a year), there is a lively debate in India regarding the consequences of a rising China acknowledged to be stronger militarily and economically.<sup>11</sup> Fueling this Indian concern are several issues, most prominently the glacial pace of negotiations on 40

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<sup>10</sup> Mohan, 2006.

<sup>11</sup> For a much more comprehensive view of the India-China relationship, see my "Rise of India and China and its Impact on Asia", a paper given at the May 24<sup>th</sup> - 28<sup>th</sup> Shanghai Forum, and published in the proceedings of the Forum.

year old border disputes, Chinese efforts to limit Indian participation in Asian multilateral organizations, and what Indians view as deliberate border incursions along the sensitive northeastern areas of dispute- the most recent of which took place a few days ago. Moreover, the two compete for oil and gas as well as for trade along the Indian Ocean littoral. Indians are particularly concerned that China may begin to use the “string of pearls” (a set of naval facilities along the Bay of Bengal and the Arabian Sea with possible military use, and constructed with Chinese assistance) for military purposes. This concern is prompted by the possibility that the Chinese, to safeguard energy sources in the Persian Gulf region, might turn these facilities into forward bases that could threaten the Indian homeland and might use them to nudge local states into supporting Chinese policies that undercut Indian policy.<sup>12</sup> Perhaps the best response to this possible development, within US interests, is to involve the Chinese in multilateral efforts to safeguard the Indian Ocean sea lanes and its choke points.

There is, however, an important caveat to India’s policy of leverage: it works only as long as the Indo-US relationship is not perceived in China as a military alliance directed against it. It also works only if relations between the US and China remain cordial. The Indians recognize that China possesses leverage possibilities against India in South Asia. China could try to draw India’s South Asian neighbors (who have a record of trying to play China against India), closer to itself. If the US-China relationship turns sour, India almost certainly would try to stay neutral and work to bring about a reconciliation.

US-India efforts to move closer on security issues was set in motion, ironically, by the May 1998 Indian nuclear tests. These tests prompted the US to begin a series of talks between US Deputy Secretary of State Strobe Talbott and Jaswant Singh, Indian External Affairs Minister and confidant to Prime Minister Atal Bihari Vajpayee, that moved beyond nuclear issues and set the groundwork for a significant improvement in the bilateral relations.<sup>13</sup> The greater cordiality and trust was to lead first (in the late 1990s) to American willingness to deal with India as a nuclear weapons power, and then (2007) to an American proposal (backed by strong bipartisan congressional support) that would make India an exception to US nuclear nonproliferation law that had denied India access to nuclear fuel and nuclear technology because it was not a signatory to the 1970 Nuclear Nonproliferation Treaty. This denial regime complicated US efforts to draw India closer to itself strategically, and had stood in the way of Indian involvement in international nonproliferation regimes. The US simultaneously moved incrementally away from a policy of equating India and Pakistan, a stance that had been a major stumbling block in the relationship with India. This approach had long outlived any usefulness it might have had, as it totally overlooked the disparity in national capabilities,

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<sup>12</sup> For a good study of Indian concerns, see Ashley Tellis, “China and India in Asia” in Francine R. Frankel and Harry Harding (eds.) *The India-China Relationship: What the United States Needs to Know*, (Washington D.C: The Woodrow Wilson Center Press, 2004).

<sup>13</sup> Strobe Talbott has provided an excellent analysis of these talks in *Engaging India: Diplomacy, Democracy, and the Bomb*, (Washington D.C., Brookings Institution Press, 2004), a book he wrote several years later. A key result of those talks was India’s acknowledgement that the US was not seeking to prevent India from playing a more important role on the international stage.

the greater contributions India could make to US objectives in Asia, and the potential threat of China to India.

The nuclear deal, offered to India and not Pakistan, underscores the US policy of separating its policy toward the two South Asian Powers. There is, however, a caveat: US policy toward India does affect Pakistan's perception of its security. The US, as noted elsewhere, needs to use its newfound standing with India to encourage it to take a conciliatory policy towards its western neighbor, which would make Pakistan more likely to shift more of its security forces to the turbulent western borderlands that harbor the Taliban and al-Qaeda.

India, recognizing the importance of the US to its security, has taken concrete steps to build a security relationship with the US: naval support for US transport ships supplying Operation Enduring Freedom in 2002, periodic joint military exercises outside the UN framework, Indian participation with the US Navy (and those of Australia and Japan) in the 2004 tsunami relief efforts, a defense framework agreement in 2005 that envisaged substantial Indian purchases of US military equipment and joint military exercises, and Indian votes with the US (twice) against Iran in the International Atomic Energy Agency.

While the government of Prime Minister Manmohan Singh bargained hard for the nuclear deal, it may be a casualty of domestic Indian politics. The Communist Party Marxist, whose support is needed to help keep his coalition government in power, have threatened to force new elections if the government signs an India-specific agreement with the International Atomic Energy Agency (IAEA), one of the several steps required before the negotiated agreement with India comes back to the US Congress for action. The nuclear deal would be useful for the overall relationship, but not critical. The relationship with India has advanced to the point that a collapse of the deal would not jeopardize the relationship and not stall moves to advance it in other areas. India is too large, too prosperous, and too strategically located for this to happen. Nonetheless, the lack of Indian action would likely make a future American administration cautious about expending political capital for something comparably innovative and far reaching as the proposed nuclear deal.

**Recommendations:**

- (1) Recognize that a security relationship with India – which New Delhi wants – will be different in that India will not permit itself to be militarily dependent on the US and will cooperate on security issues with the US only when there is a significant threat to Indian security interests. This Indian caution is reflected in its reluctance so far to sign a logistics support agreement (LSA), allowing the refueling of aircraft and ships in each other's ports, because of concerns in India that this would undermine Indian policy of not allowing foreign troops on its soil.

- (2) Push for a memorandum of understanding on cooperative naval operations to safeguard the sea lanes of the Indian Ocean and critical choke points like the Straits of Malacca and the Hormuz Straits (either bilateral or on a broader multilateral level) to address mutual interest in anti-piracy, counter-terrorism, search and rescue, and humanitarian assistance. This would respond to a virtual absence of such comprehensive institutional mechanisms that would benefit India, the US and other users of these critical sea lanes. It might also prompt India to sign a Proliferation Security Initiative (PSI) which calls for boarding and searching merchant vessels with suspicious cargo in international waters or to be affiliated with Task Force 150, a multinational task force which pursues vessels as part of the US-led war on terror. India's reluctance to join so far has been because the initiatives are not UN-authorized.
- (3) Enhance the scope and depth of military-to-military interaction by increasing the budget for Indian officers to participate in international military education and training (IMET), to increase the level and complexity of joint army exercises to the brigade level (from the present company level) for greater interoperability that would be useful for joint activities in a crisis, and to encourage co-development projects that allow the US and Indian defense industry to collaborate in the development stages of specific Indian weapons programs (i.e., missile defense and over-the-horizon radar) that would also enhance interoperability and possibly sales of US equipment .
- (4) Support India as a permanent member of the UN Security Council. This proposal, which has virtually universal support across the Indian political spectrum, would generate enormous good will for the US and go a long way to reduce the suspicion that is a residue from the Cold War period. This step recognizes the present imbalance on the Council for Asia, acknowledges India's growing importance as an economic and military power on the world stage, and would encourage India to assume more global responsibilities befitting the size of its population and economy.
- (5) Encourage India to remove restrictions on investment from the US. A prime example is the restriction on investment in the multi-brand retail trade (where American firms are competitive) to bolster infrastructure development of supply and distribution chains. This would help reduce inefficiencies within India's own distribution system, which is a significant drag on the country's economy. There are also similar restrictions on insurance and financial services that stand in the way of investment from the US. Indian regulations make it similarly difficult for collaborative relationships between US and Indian educational institutions.

## APPENDIX 1: Indian Navy Surface Fleet (December, 2007)

TYPE OF VESSEL	CLASS OF VESSEL	DISPOSITION
Aircraft Carriers	Indigenous Aircraft Carrier	1 being built + 1 more projected
	Kiev Class	1 [in refit]
	Centour Class	1 in service
Guided-Missile Destroyers	Project 15A (Kolkata) Class	1 launched + 3 more planned
	Type 15 Delhi Class	3 in service
	Rajput Class	5 in service
Guided-Missile Frigates	Project 17A Class	7 projected
	P17 (Shivalik) Class	3 launched
	Modified Krivak III Class	2 being built + 1 on order
	Talwar (Krivak III) Class	3 in service
	Type 16A Brahmaputra Class	3 in service
	Type 16 Godavari Class	3 in service
Guided-Missile Corvettes	Project 28 Class	1 being built + 3 more ordered + 8 more planned
	Type 25A Kora Class	4 in service
	Type 25 Khukri Class	4 in service
	Veer (Tarantul I) Class	12 in service
Frigates	Nilgiri (Leander) Class	4 in service
Corvettes	Abhay (Pauk II) Class	4 in service
Large Patrol Craft	Naval Offshore Patrol Vessel	2 being built + 1 on order
	Sukanya Class	6 in service + 1 sold to Sri Lanka
	Seaward Defence Boats	6 in service

Fast Patrol Vessels	Car Nicobar Class	2 being built + 8 on order
	Super Dvora Mk.II Class	5 in service + 2 being built
	Bangaram Class	4 in service
	Trinkat Class	2 in service
Amphibious Warfare Vessels	Austin Class	1 in service
	Shardul Class	1 in service + 2 launched
	Mk.3 Landing Craft	8 in service
	Polnochny C/D Class	5 in service
	Magar Class	2 in service
Replenishment Tankers	Jyoti Class	1 in service
	Aditya Class	1 in service
	Deepak Class	1 in service
Mine Countermeasures Vessels	Class Unknown	8 ordered
Minesweepers - Ocean	Pondicherry (Naty 1) Class	12 in service
Survey Vessels	Makar Class	2 in service
	Sandhayak Class	8 in service
Transport Ship	Nicobar Class	2 in service
Research Vessels	Sagarbhvani Class	1 in service
Diving Support Vessel	Nireekshak Class	1 in service
Training Vessels	Tir Class	1 in service
	Leander Class	1 in service
Sail Training Vessels	Varuna Class	2 in service
Oilers	Ambika - Diesel Oiler	1 in service
Ocean Tug	Gaj - Ocean Tug	1 in service

	Matanga Class	1 in service
Harbour Tug	Bhim Class	5 in service
	Class Unknown	13 in service
Support Tankers	Poshak Class	6 in service
Water Carrier	Class Unknown	2 in service
Hospital Ship	Class Unknown	1 in service
Torpedo Recovery Vessel	Class Unknown	2 in service
Diving Tender	Class Unknown	3 in service

Source: Bharat Rashak, <http://www.bharat-rakshak.com/NAVY/Surface.html>. Last accessed June 21, 2008.

Mr. ACKERMAN. I thank each of you.

First, I think we note that it is two-to-one as to whether or not the 123 Agreement might not be better off compromised or amended by each side in order to get it through.

Dr. Cohen, you are shaking your head?

Mr. COHEN. My view is that, certainly, if the agreement can go through, it should go through. But I suspect—

Mr. ACKERMAN. All right. Let me ask two questions. One, if it is unchanged, can it pass through the India process?

Ms. SCHAFFER. I think amendment is irrelevant to getting it through the India process today.

Mr. ACKERMAN. But can it get through the India process the way it is?

Ms. SCHAFFER. That I am not at all sure about, because that really depends on what kind of high-stakes poker the leftists are going to play, if they are willing to bring down the government.

What bothers them is the strong relationship with the United States. They are the only significant political element in India that opposes a strong relationship with the United States. And the details don't matter.

Mr. ACKERMAN. What you are saying—I am trying to understand what you are saying. Is what you are saying that the left, led by the communists, which is the largest bloc, CPM, are they going to vote against it, no matter what, because they are against the relationship with the United States?

Because the 123 Agreement is with the United States. That is not going to be changed. It is not going to be with someone else.

Ms. SCHAFFER. That is what they are threatening to do.

Mr. ACKERMAN. So it has nothing to do with amending it?

Ms. SCHAFFER. I don't think so.

Mr. ANDERSEN. No. They are against it because of the developing relationship with the U.S. They see this trend that we have all been talking about, and they see it as dangerous. And the civilian nuclear deal, for them—

Mr. ACKERMAN. Okay, so there is a bigger question then.

Mr. ANDERSEN. Yes.

Mr. ACKERMAN. Does the left in India have the power to bring down the government if India pursues its positive relationship with the United States?

Ms. SCHAFFER. It has the power to bring down this government because of the parliamentary arithmetic. Whether it has that power for a future government—

Mr. ACKERMAN. I know the arithmetic, but does it happen?

Ms. SCHAFFER. It can happen. If they decide to hang tough, it will happen.

Mr. COHEN. Indians are debating whether an agreement could be concluded by a government that has fallen. And there may be some legal precedent for that. But the larger issue is that Indian governments in New Delhi are going to be coalition governments indefinitely, which means less of a consensus on foreign policy and a degree of unpredictability on the Indian side that we haven't seen in the past. We are unpredictable also, but I think that is a new factor on the Indian side. They may not make an agreement with a

foreign country that will stick and the next government may abandon it. It is a new concern that we have with India.

Mr. ACKERMAN. Do you agree, Ambassador Schaffer?

Ms. SCHAFFER. I think that, if they make an agreement, the next government will honor it. As Dr. Cohen said, the debate they are having internally is, first of all, whether the government is prepared to take the risk of being brought down by pursuing the nuclear agreement and, secondly, if it does so and if the left follows through on its threat to bring down the government, whether the government can go ahead and sign and implement an agreement under those circumstances.

My best understanding is that, legally, technically, it can. The question is whether, in the Indian political context, this would be considered an act of political chutzpah.

Mr. ANDERSEN. There is a date coming up which is important—

Mr. ACKERMAN. Now you sound like Minnie Schaffer.

Ms. SCHAFFER. She was my beloved mother-in-law.

Mr. ANDERSEN. There is a date coming up that is important. The G-8 is meeting next month. The Indian press has said that the Prime Minister would like to speak to President Bush, to say he was able to do something positive about that. If that, in fact, is the case, he may decide to call the bluff of the communists; I am not sure. But if that statement is true, if that attribution to him is true, he will have to do something in the next few weeks.

Mr. ACKERMAN. Understanding the math is the math, currently. Is there something that, if applied to the 123 process, amending it any way, could that possibly wean off enough votes from the left to change the math? So if the answer is no, that means amending the process is futile to begin with, because it gets you nothing?

Mr. ANDERSEN. Well, the normal or usual suggestions about amendment, at least on our side, is to have something more specific on fissile fuel and no testing. I think if you got too explicit about that in the agreement, which is why it was avoided before, I think that almost guarantees that the views of the left would have more support rather than less.

Mr. ACKERMAN. I have run the clock on myself. And to set an example using me, we will go to Mr. Pence. And that guarantees at least one additional round.

Mr. PENCE. Thank you, Mr. Chairman. Thank you for calling this important hearing.

And I want to thank this distinguished panel of witnesses for your written testimony as well as your presentations today.

A couple of quick questions, if I may. And I would welcome any member of the panel to take them.

I think some of you reflected this in your statements today. India's economic reform agenda seemed to only have slowed under the Congress Party-led government. My question would be, How important are such issues as fiscal liberalization and trade barrier removal to the further development of a greater United States-India trade and economic relations?

We debate these issues a great deal here on Capitol Hill, but I would like to get a sense from this panel about the importance of those reforms, both internal and external.

Ambassador?

Ms. SCHAFFER. As far as further reductions of trade barriers are concerned, there has been a tremendous reduction in India's trade barriers already. India is still a more protected economy than a lot of the others in Asia. Certainly, from the point of view of U.S. exporters, this would be a very desirable development.

But the fundamental driver in United States-India economic relations is the private sector. It is private companies that are trading and investing. And we have also always found it easier to work private-sector-to-private-sector, a little bit harder bilaterally, government-to-government, and hardest at the multilateral level, on the economic side.

So anything that happens in that area is a force multiplier. But what has happened already has created a tremendous momentum.

Mr. PENCE. Ambassador, if I could step off on something, and then I will go to Dr. Andersen.

How substantive do you consider the complaints that the United States is insufficiently sensitive to India's national constraints, the vulnerability of its farmers to international market penetration? What is your sense about that?

Ms. SCHAFFER. Congressman, I worked as a trade official for 4 years of my life. I find that trade policy is wonderfully unsentimental about other countries' concerns. We are worried about our farmers; they are worried about their farmers. The officials that are concluding deals need to keep both of those in view. But I think it is inevitable that they will find us less concerned about their farmers than they are.

Mr. PENCE. Okay.

Dr. Andersen, whatever part of that you want to speak to.

Mr. ANDERSEN. I was going add to the point that Ambassador Schaffer made about the advances India has made in opening up its trade.

One has to do with the foreign direct investment caps. It used to be virtually impossible to invest in India. And, in fact, you can see that in statistics. In 1990, there was almost no FTI in India. Last year, there was \$20 billion. And, in fact, the bulk of that increase has come within the last 3 years, of which a substantial part of that is American.

There are areas, such as retail trade, where there are caps on that. And there is domestic opposition to it, but there is also significant support for it. This is an issue which is now being debated. My guess is that, over time, these caps will be lifted, because it is in India's interest to do so and there are important interests which benefit from it within India. And the U.S. will respond as we have been responding, with foreign direct investment over the last few years.

I mean, this is really a remarkable growth in what has happened in foreign direct investment over the last few years.

Mr. PENCE. Great.

Dr. Cohen.

Mr. COHEN. I would agree with that, but I would add a couple of points. As India sees the benefits of trade, as it prospers and it grows, there will be more political support within India to reduce these tariffs.

But there is another factor that Indian politicians are especially sensitive to. The greatest threat to Indian security now does not come from China. It does not come from Pakistan. It comes from within.

There is an enormous, complex insurgency going on in India, raging from South India all the way to the north and up to the northeast. It has nothing to do with outsiders. It has a lot to do with instability and inequities within India itself. And the concern is that uneven growth, malformed growth, will dispossess more people, which will lead them to turn to violence.

The euphemism is the not-so-like revolution. But it is a series of disconnected revolutions which have a common source in social dislocation, and that makes the Indians think many times before opening up and creating greater stresses within Indian society, the stress between the rich and the poor.

So I think that is a factor that the Indian politicians and bureaucrats are very concerned about. They don't have a strategy to deal with this. My own view is that good growth and equitable growth will deal with it, but it is a long-term process; and, in the meantime, a huge amount of violence goes on in India.

Mr. PENCE. But that is over time.

But, Dr. Cohen, just to understand your point, that some of the internal resistance to liberalization of trade laws and barriers is because of the concern about increased disparity between the haves and the have-nots within India itself.

Mr. COHEN. Yes. Also, some Indian companies especially in the public sector are highly protectionist. They don't want competition.

Mr. PENCE. Thank you.

Mr. Chairman, I am over, so thank you.

Mr. ACKERMAN. Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

First, Dr. Andersen, going back to the recent decision earlier today, the left failing to support this, what does this mean in terms of the next steps? What in your opinion would you expect Mr. Singh to move ahead and try to press on in view of their opposition for the deal?

Mr. ANDERSEN. I am sure right now that whole issue is being debated intensely in India and by the Prime Minister and his closest advisors.

The next step that was announced by the External Affairs Minister was that there would be another meeting, which in effect kicks the issue down, and it was also talked about as if this would be the final meeting, but there have been a number of final meetings over the past several months.

The reality is that if the Communists vote against the government on an issue, if they follow through with their promise to do so, if India signs the India-specific agreement at the IAEA, which is the immediate issue at stake, the government would probably fall. Because the leading opposition party, for its own political reasons, the Bharatiya Janata Party, has said that it doesn't support the agreement as presently written and would like and believes that it can be rewritten somewhat in India's favor, specifically on the issue of testing, nuclear testing.

What will the Prime Minister do? I suspect at the present time he is not quite sure what he is going to do. But he is under enormous pressure because, in a sense, his prestige is at stake. This was something he pushed very hard. He has talked about that. His standing in the international community and his legacy is at stake in this issue.

Mr. SCOTT. It seems to me that the testing under this agreement will still be allowed. Nuclear testing would still be allowed, is that not true?

Mr. ANDERSEN. No. The agreement doesn't mention testing, and that was a decision not to do so. But it doesn't mean that U.S. law doesn't apply, which is, if there is testing, as I understand U.S. law, then we are required to abrogate the agreement.

Mr. SCOTT. So, in effect—

Ms. SCHAFFER. May I add something to that, please?

Mr. SCOTT. Yes.

Ms. SCHAFFER. Congressman, there is a very long and detailed passage in the agreement that deals with the termination procedures. And if you read the Hyde Act and the agreement together, it would appear that if India were to decide to test, the United States would be required to start down the road toward the termination procedure. This is driven by a consultative process. It was obviously drafted with great care and with a great deal left between the lines.

The whole plan, the assumption on the Indian side would be that during this consultative process they would be able to persuade the United States that there were some kind of mitigating circumstances that made it okay. The United States clearly did not and could not address those assumptions. But, as a result, the whole question of where testing fits into the 123 agreement is left to a large extent in the spaces between the lines and in the portions of the Hyde Act which obviously are binding on the United States.

Mr. SCOTT. Okay. I understand that. That is clear.

Now, would you think that another reason for the left being concerned about this agreement would be the strategic position that it would place the United States influence in India vis-à-vis China and their other neighbor, Pakistan?

Ms. SCHAFFER. Yes. Short answer, that is absolutely what they are concerned about. But there is a large degree of inertia in this. This is a party—or the largest parts of the leftist group are parties which for decades were in line with either Moscow or Beijing and which looked on the United States as a hostile power. And while India's foreign policy has turned around, these parties, particularly their representatives in the central Parliament, have not.

Mr. SCOTT. Now, finally—my time is slipping away, but I would like to find out, would this action—if it is not consummated and the agreement with the United States does not go forward, would this open up a window of opportunity for Iran and Russia, particularly in relationship to both this and additional sources of energy in view of the fact that Russia and China control about half of the natural gas in that region? Would this open up an opportunity for Iran to be able to get in there, particularly in view of the perspective pipeline that is designated to go there?

Ms. SCHAFFER. Presumably they would try to make that happen. I don't see the Russian energy angle as being particularly relevant in the short run. Russia has lots and lots of gas, but at the moment they have no way of getting it to India, except by very complicated international swap deals.

In the case of Iran though, India already gets 10 percent of its oil imports from Iran. It has, at least in principle, a natural gas import deal, although this has never been implemented. So the energy supply relationship is already well-established with Iran.

Mr. ACKERMAN. We are going to have to come back on another round.

Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman; and thank you all for being here today.

To me, this is just extraordinary to hear your testimony in such a positive manner. The relationship of the United States and India, because those of us who remember the Cold War era, what you are saying here today is truly revolutionary. And particularly I appreciate the chairman pointing out, the last 3 years, the development of our relationship has just been spectacular, and I am really looking forward to the future.

But I do share the concern of the chairman relative to Iran, and I believe that the Iranian efforts to develop a nuclear weapon are an extraordinary threat to India. It would appear to me that, with a land bridge to India, that the threat of nuclear weapons being developed could more easily be delivered to New Delhi than to Washington. And so I would hope that we would be working together more on this issue which is truly a threat to the people of India with the divisions that Dr. Cohen has pointed out across the country. There are plenty of terrorists who would love to, if there was any way of access, to create disruption in the dynamic Republic of India.

Looking at that, I would like to know the position of each of you, each of you relative to the Iran-Pakistan natural gas pipeline. Do you believe this will come to fruition? Is this good for the region? Or is it good, again, for world peace?

Mr. ANDERSEN. Could I start?

Theoretically, it would be good for India, because it desperately needs energy. In fact, I don't think it is going to happen any time soon; and I think the reason is because the prices that the Iranians want are not prices that the Indians are willing to pay. So this is something—my guess—that is quite a way down the pike before it becomes a reality. It is often not stated publicly, but I think this is a major reason for the Indians.

Also, the Indians are concerned with the impact it will have on the United States. The very fact that they voted with us twice in the International Atomic Energy Agency is a sign of their concern about the impact on the U.S. But what is really controlling it, I think, is the fact that the pricing is wrong.

Ms. SCHAFFER. I agree with my colleague's pessimistic assessment of the likelihood of this pipeline.

I think the other reason that it might be good for the region is that it would give India and Pakistan a common stake in some infrastructure that they would want to keep going in somewhat the

same manner that the Indus Waters Treaty did. But I don't think this is going to happen. I think the commercial obstacles are likely to sink it.

Mr. COHEN. Let me add that, because it might create a common infrastructure between India and Pakistan, many Indians are opposed to it. They do not want to be dependent on Pakistan. They need the energy. It is a marginal increase if they get it through liquefied form, rather than piped over land.

But I would add a couple of other points that are important. Indians don't see nuclear weapons as threatening. They see them as having stabilized the region. They see them as the equalizer with China.

We may see nuclear weapons, nuclear theft as a scary thing. But from the Indian experience, they have gone through four crises, three of which were nuclear crises. They have come out better off than they were before. So their relations with Pakistan are better now. Their relations with China are good. They don't see nuclear weapons as quite the kind of threat or danger that we do.

I think there is a nuclear risk, but I think we may have exaggerated it. But I do think that Indians have underestimated the dangers of accident and theft.

And there is a third factor; and that is, what have the Israelis said about the Indian-Iranian relationship publicly? Not much. Not anything, as far as I can tell.

So I think from an Israeli point of view, and I am not quite sure what their policy is, if they are talking to the Indians it is very private. And what they are saying privately I do not know, but publicly they are quiet. It is a big issue here, but it is not a public issue in Israel.

Mr. WILSON. And I indeed see the difference between a nation having nuclear weapons but terrorists having access to nuclear weapons. And a country that has been attacked for 60 years, with attacks recently as last month, I just can't imagine that people wouldn't realize that, if they had access, how extraordinarily dangerous that would be.

But a final question before the chairman is so brutal in calling my time; and that is, the Nation of Pakistan—I am glad you mentioned it. What is the latest in regard to the peace process between India and Pakistan, particularly with the new government?

Ms. SCHAFFER. Both countries want to have a peace process. Neither government is strong enough to do very much with it.

Mr. WILSON. Thank you very much.

Mr. ACKERMAN. That was pretty good. Exactly on time.

I want to go back to the question that Mr. Scott raised or the answer that he received, which had something to do with the question that I asked. Was there something that would change the agreement, that would change the math? And I thought we had a consensus after I asked the question, but after Mr. Scott asked the question, the discussion came around to testing and whether India's right to test changes something. Did I miss something or does—if the United States announced that we have no objection to India testing and nobody was concerned about that, does that change the dynamic?

Ms. SCHAFFER. Not with the leftists, Mr. Chairman.

There are three sources of opposition to the nuclear deal in India. The opposition BJP it would have an influence on. The nuclear scientists, who have largely been brought on board by the 123 agreement, would be delighted. I don't think it would make a difference to the leftists, who are the only opponents whose position really makes a difference now.

Mr. ANDERSEN. There is the larger issue that was mentioned before, and that is the left is opposed to any move that gets closer to the U.S. so it doesn't really make any difference. They see this deal in the context of the larger move of India toward the United States that has been taking place in the last 10 years. They want to stop it.

Mr. ACKERMAN. Accepting that there are three points of opposition and possibly others or nuances of each, as an old math teacher I am just interested in the math. If the Communists walk out, their only objection is us. The deal is with us. If they walk out, the math is the government can fall or the government will fall. And they are going to walk out, no matter what, as long as we are the other half of the agreement, which it seems to me we are the other half of the agreement. So everything else is just rhetoric. They are walking out on this deal.

Mr. ANDERSEN. But there is an additional problem. The major opposition party, the Bharatiya Janata Party, has increasingly, for its own political reasons, come out against the deal. So if this were a vote that was placed in Parliament, which in fact the deal is the issue, the BJP would probably vote against the government as well. So that is the bigger issue. The Communists alone, in terms of the math that you referred to, wouldn't be enough to bring down the government. You would have to have the major part of the opposition also vote against the government.

Mr. ACKERMAN. So I am getting a different answer than I got before. If the BJP steps in, the Communists don't bring down the government mathematically.

Ms. SCHAFFER. Mr. Chairman, if the BJP steps in and decides to support the deal, then the government doesn't fall, even if the Communists vote against it.

Mr. ACKERMAN. Well, that is a different answer than I got the first time.

Ms. SCHAFFER. But then the BJP has other equities involved. They think an early election will favor them.

Mr. ACKERMAN. So the answer to the question—I am not telling you what the answer is, but it seems to me you are telling me the answer is now that there are things that can be done to change the math, despite the fact that the Communists are going to walk out no matter what, and that is if the deal is amended or clarified or changed in any way, that brings the BJP aboard—and I don't know exactly how you do that—that the Communists don't have enough votes to bring the government down.

Mr. ANDERSEN. But I think what the BJP wants is something that would be very difficult for us to do. I think that they would want language which was more specific on allowing India to have the option of testing.

Mr. ACKERMAN. Yes. That goes under the category is there anything that can be amended to change it to keep them in.

Yes?

Ms. SCHAFFER. Mr. Chairman, they have another issue as well. That doesn't necessarily bring them on board, because everything depends on whether they think that they basically want to bring the government down because they think they are going to win the election.

Mr. COHEN. There are also some in the BJP who feel that they tested once in 1998. There is a nuclear deal that they don't like. But if they test again and refine their designs they might get a better nuclear deal. I don't like that logic, but there are some who argue that in the BJP.

Mr. ACKERMAN. I am going to relinquish the other half-minute that I have, because this wasn't even the question that I wanted to ask. And I am going to go to Mr. Pence, and we are going to break after that.

The pipeline, I want to come back to the pipeline. We can both ask.

This deal with the pipeline is sticky, and I think it is more controversial on our side as a deal breaker than it is on their side. But certainly it is problematic on both sides. And it also seems to me that the Indians go first.

The discussion that we are hearing—and one of the quotes was it is not going to happen any time soon—is not soothing to the American politicians' political palate. If we are going to enter into a marriage with the Indians over this and in taking the vows when you get to the part whether or not you are going to be faithful and the answer is I am not going to be unfaithful any time soon, I think that indicates a problem.

Mr. PENCE. Will the chairman yield?

Mr. ACKERMAN. I would be happy to yield at that point.

Mr. PENCE. It is—on these issues, it is not surprising when the chairman and I are in strong agreement; and the panel no doubt knows Chairman Ackerman and I have authored legislation encouraging strong action for further economic sanctions against Iran. It has been widely misinterpreted in some quarters, but it is very much in harmony with action taken by the European Union recently.

I want to acknowledge that India's vote against Iran in the IAEA, despite what appeared to be its own public's opposition to that vote. But I want to associate myself strongly with the chairman's comments and phrase it as a question, about what—it is, I think, the almost unanimous opinion of this subcommittee and the overwhelming opinion of this Congress that we have to be further isolating Iran economically, and India's engagement or potential engagement with regard to this pipeline sends precisely the opposite message than what the world community should be sending.

So I will yield back to the chairman, and he can yield to you to respond to the question appropriately. But that would be—it is very disconcerting.

Mr. ACKERMAN. If somebody would like to react to that.

Mr. COHEN. I think there are two points.

One is, what is the total value of—presumed value to Iran of some kind of pipeline agreement, compared with what Iran gets vis-à-vis its trade with Europeans and other Asian countries now.

I suspect it is fairly small. It doesn't figure high up in the Iranian bankbook.

Ms. SCHAFFER. Perhaps I could add what I have been thinking. India does not want a nuclear Iran. We disagree on what to do about it. India recognizes that we are strongly opposed to the pipeline but then observes that we are giving them a hard time and we are not giving the Pakistanis a hard time, and so we are sending mixed messages to them.

From India's point of view, Iran is, unfortunately for us, one of the cases where they feel it necessary to demonstrate their independent foreign policy. The fact that Iran supplies 10 percent of their imported energy is very important in that. There are other things they get from Iran. They look to Europe and see that the Europeans are able to trade in energy with Iran and say, why not us?

So we really don't see eye to eye on the question of further isolation of Iran. I think their willingness to work with us is going to have to be much more narrowly focused on the question of Iran's nuclear program.

I am not sure the marriage analogy is one that the government in Delhi would be altogether comfortable with. It gets back to what we were saying about the difference between an alliance and a more selective partnership.

Mr. COHEN. My second point was that we are providing Pakistan—

Mr. ACKERMAN. I don't know that we are ready to enter into an open marriage situation with them, either.

Mr. COHEN. My second point was that we are providing Pakistan with about \$1 billion a year in aid, much of it military aid. The Indians have been very quiet about that. In years past, this was a key issue which strained our relationship. They have been silent so far. In a sense, I think that shapes our Iran policy, also.

Mr. ACKERMAN. Mr. Scott has a question.

Mr. SCOTT. Real quickly, if I could get your quick opinions on, India is pursuing a permanent seat on the U.N. Security Council, which I think very important. What is the likelihood of that, in each of your opinions, in the next 5 years?

Ms. SCHAFFER. Low. I think their strongest backer among the current permanent five is probably Russia. They have formal support from Britain and France but not much enthusiasm. The present administration I think basically doesn't want to enlarge the Council, and I am not sure that a future administration is going to want to put much work into the enterprise.

Mr. COHEN. I would add to that that, from an Indian point of view, they may not want to be on the Security Council they are going to be asked to take positions on a whole range of issues that they have sidestepped so far. So there are Indians who argue that would be good for prestige and status, they would like it. But they would have to commit themselves as a Security Council member in a way they have not had to do in the past.

Mr. ANDERSEN. I don't agree with that. I think this would get support across the political spectrum of India. It is something that they very much want. It would be a sign of respect for them and their arrival as a great power on the world stage, and I think we

should push it ourselves. I know there are structural reasons, but that doesn't mean we can't push it. On the civil nuclear deal there were structural reasons, too, and we continued because it was good for us, and it was good for India, and I think we should do so.

Mr. SCOTT. Thank you.

Mr. ACKERMAN. If anybody has any reason to object to why these two countries should not be joined, do not speak now.

We are going to recess for two votes.

[Recess.]

Mr. ACKERMAN. The subcommittee will come back to order. Thanks for your patience.

I just wanted to follow up a little bit on the pipeline. The Indians officially respond to those of us who press them on the issue that it is really not going anywhere and that the Iranians have reneged on the original pricing of it. And, as a matter of fact, it was stated here, the pricing is wrong for the deal to happen. That is also not something that gives us any great comfort level, that it is not going to go through because the pricing is bad. Because prices can always change. It is the intent that a lot of us are concerned about.

And Mr. Pence referenced some legislation that he and I are sponsoring. I think those who want to avoid a major conflict with Iran should be onboard.

The only strategy that I could think of, because we are not getting their attention in any other way, to economically get their attention and to put an economic stranglehold on them, if necessary, which does not talk to the issue of blockading the ports or anything like that but does talk about already agreed to inspections of things going from places headed for Iran. Use the tool of economic diplomacy, if you will, leverage, if you would, to try to affect behavior in Iran.

The Indians move counter to that in continuing to talk about a pipeline. It is troublesome, because it runs counter to the notion of what a lot of us are trying to do, and that is to dissuade others from investing in Iran, whether it be the energy sector or anywhere else, and to isolate them economically so that they feel the full pressure of the international community.

I am not sure how much of that India really gets and just reads that as personal against them, but certainly the pipeline would cause a lot of concern as to whether or not we would then pass the 123 agreement on our side, assuming that the Indians did and came to their agreements with those with whom they had to conclude agreements.

Reaction?

Ms. SCHAFFER. Mr. Chairman, I guess it makes a difference who you think the primary beneficiary would be were the pipeline to go through. As I said, I don't expect it to go through.

I think that if—I am not trying to be an advocate for the Indian Government's position but trying to interpret it as best I can. I think they feel that if the conditions are right for such a deal to go—for such an agreement on the pipeline to go through, they, rather than Iran, would be the main beneficiaries; and so withholding it is something they would be doing to themselves rather than to the Iranians.

Now one can look at that in both directions; and presumably any major economic agreement has to, in some sense, benefit both sides. But I also think that India, philosophically, is out of step with us on this question in the sense that they see their own energy requirements as a very important driver of policy, not that they are rushing in to do something with Iran but that they are unwilling to kill off the possibility that both the commercial conditions and the political conditions might be suitable at some point down the road.

Mr. ACKERMAN. Dr. Andersen.

Mr. ANDERSEN. There is another issue here with India and Iran that we can actually do something about. Is Pakistan now denies India the right to transship to Afghanistan or, via that, to Iran. India now is required, because of that, to—or to Central Asia—to ship its stuff via Iranian ports and then use the Iranian rail system to get its products, imports and exports to Iran and the Central Asian republics and Afghanistan as well.

So we could do something about that. We could press Pakistan to lift its restrictions on India.

And I am surprised that—I know in theory we say it is a good thing, but we really—I think we have something to gain, and on this we have something important to gain.

Mr. ACKERMAN. And what do we give Pakistan?

Mr. ANDERSON. Is to get Pakistan to lift the restriction.

Mr. ACKERMAN. No. What do we give them in order to get that from them?

Mr. ANDERSEN. We are already giving them a lot. I think they owe us something, given the extent of the support that we give them and, you know, are continuing to give in terms of military assistance and economic assistance.

Mr. ACKERMAN. Dr. Cohen.

Mr. COHEN. I think that the way I would put it, “Does an agreement help India more than it hurts Iran?” What is in that balance of hurt and help? My own judgment is it probably helps India more than the continuing sanctions hurt Iran.

In the case of Pakistan, I don’t think the Pakistanis are ready for that kind of agreement with India, and I don’t think the Indians are ready for that kind of agreement with Pakistan. They still deeply distrust each other.

In Pakistan, the root of that problem is the military. In India, the politicians and the strategists have yet to decide whether they want to see Pakistan shrivel up and go away or they would like to finish it off militarily once and for all or whether they will try to ignore Pakistan. So we are caught in their primary disputes. There is no clear way out for us.

But in the case of India and Iran I think there is a balance of benefit and harm which probably comes out on the side of the pipeline. But I don’t think the pipeline will be built, in any case.

Mr. ACKERMAN. Are you suggesting there is not a hiatus in at least rhetoric between India and Pakistan?

Ms. SCHAFFER. I actually disagree somewhat with my colleague here on this. Yes, there certainly has been a hiatus in a lot of the rhetoric on Pakistan, and I think it goes deeper than that. I think the Indian Government has consciously avoided commenting on

Pakistan's domestic troubles for the past 6 months because they didn't want to make themselves the issue at a time when Pakistan's politics were in turmoil. They are quite troubled by what is going on in Pakistan.

I don't doubt that there are a few politicians in India, who would, as Dr. Cohen put it, like to see Pakistan shrivel up and die, but I think mainstream opinion is actually not there at all. I think mainstream opinion in India and government policy is that they would like to see Pakistan stabilized. I think they would dearly love to get Pakistan to agree to land transit through to Afghanistan. I think that would be a tough sell for the U.S. to persuade them, although in the grand scheme of things it would be a good thing.

Mr. COHEN. The Indians want Pakistan strong enough to hold together but not so strong that it threatens India. And they are trying to calibrate their policies. To have a weak government in Pakistan is acceptable but not a government which allows the country to fall apart and then disperse people and nuclear weapons through the subcontinent. They are very concerned about that.

Mr. ACKERMAN. Dr. Andersen, you note Indian suspicion when it comes to arms sales from the United States. What steps can the U.S. take to overcome that suspicion or do we have to build up a track record of such sales before the suspicions disappear?

Mr. ANDERSEN. Well, we are starting to do that now. But, of course, we have certain restrictions on arms sales that depend on India signing end user agreements; and I think the Indians, because they think that our arms are good, are prepared to negotiate on that. I think this could create, as I mentioned in my formal comments, some bureaucratic problems; and I think it will take high-level intervention on our part to get these negotiations moving.

If the Indian press is right, the Indians have already sent a counterproposal to us; and this requires negotiations. That has been an impediment. I think it is one that we need to remove.

Mr. ACKERMAN. Let me say this panel has been excellent; and the members have commented to me on the way to vote that they found it very, very helpful. On behalf of all of us, let us thank you.

Your written statements are in the record. They will be carefully scrutinized by experts, scholars and even Members of Congress.

And the committee now stands adjourned.

[Whereupon, at 4:33 p.m., the subcommittee was adjourned.]



## A P P E N D I X

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### MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE MIKE PENCE, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF INDIANA

Mr. Chairman, thank you for calling this important hearing, and I welcome our distinguished witnesses. As always, this subcommittee is ahead of the curve.

The emerging power that is India, the world's second largest country with fully one sixth of the earth's population, will command international attention for the next century. I view India as a stable and benign rising power. India has a booming economy and vibrant democracy, itself no small feat. In fact, as our witness Dr. Cohen points out, "Every time India goes to the polls, it is the world's largest organized human activity."

Mr. Chairman, the decisions taken by this democracy are not always to my liking. Leftist minority parties within India have blocked the 123 civil nuclear Agreement with the U.S. Given Secretary Rice's assurances to this committee that this agreement is in keeping with the Hyde Act, I view this as a disappointment and a missed opportunity. This agreement had the potential to show the way to peaceful nuclear cooperation and development among the US and its allies.

In this vein, India's prospective natural gas pipeline deal with Iran concerns me. Given the EU's recent actions sanctioning Iran, the world should be moving toward isolating Iran. India should join this international effort. I must give credit where it is due, however, in appreciating India's vote against Iran at the IAEA despite its own public's opposition.

Mr. Chairman, US foreign assistance toward India for many decades has been heavily centered on food aid programs. And, yet, in a case of the left hand not knowing what the right hand is doing in our foreign policy, tariffs on US agriculture products remain prohibitively (and unwisely) high. Just this month, our Commerce Department raised concerns about India's commitment to WTO requirements. And, given their status as the world's fourth largest emitter of greenhouse gases, I could do without their criticism of our environmental policies.

There is still much good news. The US is India's largest trading and investment partner, and our military-to-military cooperation is the greatest India has ever had with any country. Although India may not view itself primarily in these terms, it can potentially serve as a strategic counterweight to China, especially given recent reports of Chinese escalation in a space arms race. Dr. Andersen correctly says, India "is the most politically stable country in a very unstable and strategically important area."

India is in a pivotal region, along the path where much of the world's energy resources and commerce flow. As Ambassador Schaffer says, "Democracy doesn't create partners automatically." I am pleased this subcommittee is doing its part in forging a useful partnership with India.

Mr. Chairman, thank you for calling this hearing; I look forward to hearing from our witnesses.

