

# SOUTH ASIA DISCUSSION PAPERS



## TRUMP AND MODI: PROSPECTS FOR US-INDIA BURDEN SHARING



**The Asia Foundation**



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The Asia Foundation and Institute of South Asian Studies

South Asia Discussion Papers

Trump and Modi: Prospects for US-India Burden Sharing

June 2019

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The Asia Foundation and ISAS would like to express their sincere appreciation to editor John Rieger for helping to bring this publication to fruition. The views expressed by the authors in their papers are personal. The writers bear full responsibility for the facts cited and opinions expressed in their papers.

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Prospects for US-India  
Burden Sharing**

The Asia Foundation, Washington, D.C.  
Institute of South Asian Studies, Singapore  
June 2019 | Singapore





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## Introduction

C. Raja Mohan and John J. Brandon

For nearly two decades, there has been a steady and incremental advance in relations between the United States (US) and India. Refuting skeptics on both sides, the two nations have overcome significant internal political and bureaucratic resistance to advance the relationship. But as a new government takes charge in Delhi after the general elections that concluded in May 2019, India and the US find themselves at a peculiar moment. On the one hand, the security relationship between the two countries has never looked stronger. On the other hand, trade and economic ties between the two sides are headed for a serious crisis. More broadly, the international political context that framed the bilateral relationship is changing rapidly. The return of great-power rivalry among the US, China, and Russia has begun to complicate relations between Washington and Delhi, as well as open up new opportunities. The regional dynamic in South Asia has also become volatile, due to the prospect of US withdrawal from Afghanistan. But the emergence of a new geopolitical theater, the Indo-Pacific, has introduced new dimensions of potential strategic cooperation between Washington and Delhi.

The internal dynamics of both countries today are very different from those that helped advance the relationship after the early 1990s. In the US, President Donald Trump has defied many conventions of US foreign policy. He has questioned the costs and benefits of US alliances, rejected the notion of open borders for America, and sought to replace the traditional commitment to free trade with an insistence on “fair” trade and reciprocity. America’s close allies in Europe and Asia have been surprised by the vehemence and persistence of Trump’s assertion of these positions.

In India, Prime Minister Narendra Modi has also brought very different thinking to his country’s engagement with the world. His lack of nonaligned-nation baggage and a profound sense of political pragmatism have overcome Delhi’s persistent ambivalence towards the US. While this has helped deepen the bilateral security relationship, Modi’s India has yet to fully appreciate the new US stance that America’s friends and partners should do more. Modi’s government has struggled to cope with the changes in American trade policy under Trump, and Modi’s special

emphasis on strengthening ties with the Indian diaspora, especially in the US, has run into Trump's opposition to open borders and unrestricted immigration. This broadly changing context demands that Modi, who has returned to power with a stronger mandate than in the summer of 2019, and Trump take a fresh look at their partnership and find ways to adapt to the new circumstances.

Delhi and Washington, then, face growing pressure, and an opportunity, to redefine the framework of their relationship. To discuss the possible contours of such a framework, The Asia Foundation and the Institute of South Asian Studies (ISAS), Singapore, convened a workshop in Singapore on March 26, 2019. Among the participants in the symposium were scholars from The Asia Foundation, the Brookings Institution, the Center for Strategic and International Studies and the Wilson Center, all based in the US, and the Institute of Southeast Asian Studies, the S. Rajaratnam School of International Studies and ISAS, based in Singapore. The conferees examined the state of American alliances in Asia, the idea of burden-sharing, and how that concept might apply to India-US cooperation on Afghanistan, the Indo-Pacific, and the global trading order. What follow are the revised versions of the papers presented at the workshop. This introduction is not a summary of those deliberations, but a reflection by the two authors on the issues at hand and for Delhi and Washington.

The first pair of papers by John J. Brandon and Malcolm Cook looks at the unfolding developments in US alliances in Asia. They review Trump's skepticism of the benefits of these alliances, his concerns about the costs of forward defense and his badgering of America's allies to bear a greater share of those costs. The attendant discussion also considered the complex responses in the region elicited by the rise of China and its growing assertiveness on the one hand, and the unpredictability and unilateralism of the US under Trump on the other. After four decades of deepening economic interdependence with China, decoupling is a tall order for the nations of the Indo-Pacific. Many US friends and partners are paralyzed by the tension between the fear of American "abandonment" and the danger of "entanglement" in an American conflict with their giant neighbor, China. There was a recognition among those in attendance that the region was at the very beginning of a long and painful adjustment to structural changes in the relationship between Washington and Beijing.

The problems on the political side—the doubts about America’s commitment to Asian alliances dating back to the Second World War—have been compounded by Trump’s determination to restructure the global trading order. As with alliances, Trump believes US trading partners have benefited disproportionately from a relationship that has not been reciprocal, and that the time has come to rebalance trade relations. This issue, which has engulfed US-India engagement, marks the theme of the next two papers in this collection, written by Aman Thakker and Amitendu Palit. Although bilateral trade has grown nearly eightfold in the last two decades to an impressive US\$142 billion in 2018, and America’s trade deficit with India has narrowed to about US\$25 billion annually, Trump has made trade a major issue with India. Unlike Presidents Barack Obama, George W. Bush and Bill Clinton, Trump is unwilling to cut India any slack, and Delhi appears to have underestimated the intensity of the fair trade sentiment in this administration. Under Modi, India has moved slowly on trade liberalization and has drifted towards protectionism. As matters come to a head after the 2019 elections, Delhi will face the formidable task of reconfiguring India’s trade relationship with the US. That, in turn, must be part of a larger transformation of India’s approach to globalization.

The third pair of papers by Michael Kugelman and Rani D. Mullen deals with Afghanistan, which has shaped America’s relationship with the subcontinent for 40 years. In the 1980s, when the US countered the Soviet occupation of Afghanistan by supporting a jihad based in Pakistan, Washington and Delhi were on the opposite sides of the conflict. In the 1990s, the US turned its back on Afghanistan, and Delhi sought to counter Pakistan’s growing influence as the Taliban established control over the country. America’s return to Afghanistan after 9/11, to oust the Taliban from power and rebuild the country, engendered a significant measure of consensus between Washington and Delhi. The US focus on confronting the sources of terrorism in the Af-Pak region, Washington’s willingness to treat India as a rising power and avoid seeing it through the prism of Pakistan, and the de-emphasis of the Kashmir question created new trust between the two countries and provided the basis for better relations more broadly. As Trump seeks to end the “forever war” in Afghanistan, new difficulties are likely to arise for Delhi and Washington. Participants agreed that there may also be new opportunities for collaboration, but that they will spring from a very different set of premises than the ones that have shaped positive US-Indian relations since 2001.

The final pair of papers by Tanvi Madan and C. Raja Mohan looks at the evolving possibilities for the India-US partnership in the Indo-Pacific. If enduring differences over Pakistan chilled cooperation between Washington and Delhi in South Asia, the new Indo-Pacific construct offers a broad new theater for strategic collaboration between the two nations. In the past, both Washington and Delhi significantly underestimated China's potential power and misconstrued its intentions. As China now becomes more assertive, it has begun to step on both American and Indian toes. After taking a benign view of China in the past, both Washington and Delhi are now scrambling to cope. Both recognize that bilateral and multilateral security cooperation has become a necessary complement to their respective national strategies towards China. At the same time, each nation has its own unique set of objectives for engaging China. Although Washington and Delhi, for the first time in decades, have begun to converge on a broad strategic framework for the Indo-Pacific, symposium participants agreed that substantive and consequential collaboration still lies at the end of a long road.

As changing trade relations, developments in Afghanistan and the new concept of the Indo-Pacific begin to reshape the US-India strategic partnership, the idea of strategic burden-sharing must provide the long-term conceptual foundation. The idea of burden-sharing is not new in the US. It was an important element of American foreign policy discourse on Europe, the Middle East, and Asia during the 1970s. The resurgence of American power and self-confidence in the 1980s, and the unipolar moment that followed the collapse of the Soviet Union in 1991, profoundly influenced foreign policy thinking in America and opened the door for an expansive international policy agenda in Washington. The current debate, triggered by Trump, is about reversing course, towards more modest strategic goals that better align with national resources and shifting public opinion.

Many would contest the proposition that the Trump presidency marks a big break in America's postwar foreign policy. They would insist that his current policies are a temporary aberration at most. Others point to the return of interventionist themes like regime change, and the temptation of military interventions in Trump's foreign policy. Yet, it may be unreasonable to assume that the US will forever commit resources to the security of Europe, the Middle East, and Asia at the scale of the last 70 years, and even minor adjustments to America's defense posture will challenge its friends and allies pick up some of the slack. In any case, given the drifting and uncertain trajectory

of current US policy, America's friends and partners must prepare to bear a greater share of global political and security burdens.

On its face, the idea of burden sharing may seem foreign to India, which has long seen itself as a nonaligned nation pursuing an independent foreign policy. Talk of burden-sharing must inevitably awaken old resentments and fears of becoming a "junior partner" to the US. Under Modi, however, India appears to have banished such fears, signaling with considerable self-assurance that it is amenable to working out an informal framework for burden-sharing with the US. The single most important factor behind this new stance is India's decisive move away from the ideology of nonalignment and its articulation of ambitions to become a great power in its own right. Modi's vision for India as a "leading power" makes a nice complement to Trump's demand that allies do more. Not being a formal ally, and seeking more space for itself, India is in a good position to leverage the idea of burden-sharing with the US to enhance its influence in the world. This complementarity between the US call for burden-sharing and the Indian quest to become a leading power represents an opportunity for India's smooth ascent in the international hierarchy.

This collection of papers is a first cut at understanding the potentially new strategic synergy between Washington and Delhi and assessing how it may play out in specific areas in the years ahead. The Asia Foundation and ISAS will continue to support this discourse as it develops in the coming years.



# Burden Sharing within US-Pacific Alliances

John J. Brandon

“We must, as a nation, be more unpredictable. We are totally predictable. We have to be unpredictable, and we have to be unpredictable starting now.”

Donald J. Trump  
Republican presidential candidate  
Interview with the *New York Times*  
April 16, 2016

“My job is not to represent the world. My job is to represent the United States of America.”

President Donald J. Trump  
Public address to Congress  
February 28, 2017

## Introduction

In the past two years, the foreign policy of the Donald Trump administration has thrown United States (US)-Pacific alliances into a state of flux. President Trump’s “America first” approach is predicated on isolationism, anti-immigration sentiment, and protectionism, and this has led to reduced support from the Administration for US expenditures to preserve a liberal, rules-based international order, and calls for greater “burden sharing” within US-Pacific alliances. In particular, the Trump administration has called for its allies to contribute more towards creating a “free and open Indo-Pacific region”, dealing with geopolitical changes on the Korean peninsula and in the South China Sea, while addressing the growing economic and military strength of China. Complaints of “free riding by American allies” were first voiced by President Barack Obama, but they have increased in frequency and intensity under the Trump administration. This has caused changes in the status of America’s Pacific alliances, including those with Japan, South Korea, Thailand, the Philippines and Australia.

Trump has expressed the opinion that all US allies should meet the North Atlantic Treaty Organization’s (NATO) minimum defense-spending target of two percent of gross domestic product (GDP). Only four of 28 NATO countries currently meet this target. In 2016, candidate Trump, in a speech to the Center for the National Interest, stated, “Countries we are defending

must pay the cost of this defense, and if not, the U.S. must be prepared to let these countries defend themselves.” Such statements are a departure from the previous national consensus that the US must invest in upholding global security. But do they also obscure nonfinancial elements of the US national interest in alliance relationships?

The remainder of this paper will examine the issue of “burden sharing” in US alliances with Japan, South Korea and Thailand. An ensuing chapter, by Dr Malcolm Cook, will examine American alliances with Australia and the Philippines.

## **Japan**

The status of the US-Japan alliance with respect to burden sharing is complex. Japan spends just one percent of GDP on defense, the least of any major US ally. Even before his election, Trump repeatedly complained about Japan’s contribution to maintaining the US military presence in Japan, a force of approximately 50,000 troops. For the current fiscal year, beginning April 2019, Japan raised its defense budget to a record US\$47 billion. Part of this funding will cover the cost of introducing the US military’s Aegis Ashore land-based missile inceptor system and six F-35A stealth aircraft. This is part of a long-term defense plan that includes US\$240 billion in defense procurement, a considerable investment by Japan in US weapon systems that reflects the country’s strong concerns about China’s expanding military footprint and the North Korean nuclear threat.

However, Japan’s purchase of US military equipment and its overall increase in defense spending are also motivated in large part by Trump’s complaints about the long-standing US trade deficit with Japan and the Shinzo Abe government’s desire to avoid a trade war with Washington.

According to the US Census Bureau, the US trade deficit with Japan in goods and services was US\$56.1 billion in 2017. At 19.6 percent of total trade between the two nations, this deficit is, in fact, modest. Upon further analysis of US Census Bureau data, the US’ trade deficit with Japan is larger than the percentage for Mexico (11.1 percent), but smaller than that for Germany (28.5 percent) or China (47.4 percent). In any event, recent and anticipated purchases of US military equipment should help ameliorate the US trade deficit with Japan, but certainly will not eliminate it.

Some critics argue that these arms purchases move Tokyo further from its commitment to strictly defensive capabilities under Japan's post-World War II pacifist constitution. Prime Minister Abe has campaigned to amend the constitution, arguing that it prevents Japan's Self Defense Forces from protecting the country's allies from attack. The Trump administration's "America first" policy raises tough questions for Japanese policymakers. Unlike NATO, where European countries can support each other in a crisis, Japan without the US has nowhere else to turn. David Pilling of the Financial Times once described Japan as "an isolated archipelagic apostrophe off the Eurasian continent." For Japan, there is no real substitute for the US security umbrella.

## **South Korea**

As an ally of the Republic of Korea, the US stations the US Forces Korea (USFK), a force of 28,500 troops, on the Korean peninsula to protect against North Korean geopolitical threats. In contrast to Japan, South Korea spends 2.7 percent of its GDP on defense, more than any member of NATO, except the US itself, which spends 3.1 percent. Since the early 1990s, South Korea's financial contribution to maintaining the US presence has been governed by five-year Special Measure Agreements (SMAs). After the last SMA expired in December 2018, however, 10 rounds of negotiations failed to produce a new five-year agreement on allied burden sharing, and the current SMA, signed in February, covers just one year. At the end of the last SMA, South Korea was paying the US US\$800 million annually, and the Trump administration was demanding that South Korea double its contribution to US\$1.6 billion per year. Under the current agreement, South Korea will increase its contribution by 25 percent over the next year. This money will cover logistics, utilities, maintenance, and construction of facilities, including salaries for local Korean workers.

South Korea raised its defense budget by almost 10 percent in 2019, or just over US\$40 billion, the largest increase in the country's history. It has an active military of 625,000 troops in addition to the 28,500 American troops stationed there. The recently expanded Camp Humphreys, located south of Seoul, is now the largest American military base outside of the continental US. Like Japan, South Korea has responded to pressure from Trump by agreeing to renegotiate the US-Korea Free Trade Agreement (KORUS), which was signed in 2007 by the George W. Bush administration and ratified by Congress in 2010 during the Obama administration. KORUS was the US' second-largest trade deal since the North American Free Trade Agreement in 1993 and

the first with a major Asian economy. For South Korea, KORUS is second in size only to its trade agreement with the European Union.

The Trump administration's demands for a dramatic hike in South Korean financial support for the USFK is at odds with the trend towards reduced inter-Korean tensions and could erode current high levels of support for the US-South Korea alliance. In keeping with his transactional view of this alliance (and alliances in general), Trump has supported a halt to US-Korea joint military exercises because of the cost. Under these circumstances, how can the USFK best maintain its readiness to confront conventional or nuclear military threats while, at the same time, helping to reduce inter-Korean tension? For the foreseeable future, it appears that the new status quo will be "freeze for freeze", with North Korea refraining from testing or launching missiles in return for no joint military exercises between the US and South Korea. While this may be acceptable for the short term, how will "freeze for freeze" affect US-South Korean military readiness in the long-term?

## **Thailand**

America's relationship with Thailand is unique—its longest uninterrupted bilateral relationship with any Asian nation, going back to 1833 and the presidency of Andrew Jackson. Thailand has been a treaty ally since 1954, and bilateral ties have been characterized as "special", particularly during the Cold War, when Thailand was viewed as a key frontline state in the war against communism. But with the end of the Cold War and the peaceful settlement of the conflict in Cambodia, major-power security issues lost their former salience. Whereas Thailand once feared attack by China and subversion by its ethnic Chinese population, today China is Thailand's largest trading partner, and cultural ties have improved considerably.

These developments have altered US-Thai relations, not necessarily for the worse, but in ways that are challenging nonetheless. Southeast Asia is a much more peaceful, prosperous and stable region than it was during the Cold War, and Thailand has played an important role. It might be said that the US-Thai alliance has become "enemy deprived", in that Thailand has no enduring security threats. Japan's external threats are China and North Korea. South Korea is threatened by North Korea, and the Philippines is threatened by Chinese territorial claims in the South China Sea, civil conflict, a native Islamic insurgency that receives foreign funding and fighters

in Mindanao. Thailand has no territorial disputes with major powers and has faced no external threats for decades. Threats to Thailand are non-traditional: human trafficking, the drug trade, environmental degradation, cybersecurity, and other criminal activity. Thailand has cooperated with the US to combat terrorism and has shared information on the movement of terrorist organizations. For the past 37 years, Thai and American military forces have held a joint military exercise, Cobra Gold, which has expanded to become the largest multinational exercise of its kind in the world. These exercises help to improve interoperability between Thai and US forces as well as those of 27 other nations that participated in 2019, including Japan, South Korea, Indonesia, Malaysia and Singapore. China and India participate in the civic action portions of the exercises.

While the structure of the relationship appears solid, the 2014 coup in Bangkok put a strain on the US-Thai alliance. After the coup, Cobra Gold was downgraded, though never suspended. While defense cooperation and the US-Thai alliance are important sources of strength, the future of the relationship will require more balance among all areas of cooperation. Although Trump has de-emphasized alliances in general, US-Thai relations have improved during this administration. The issue of burden sharing was reportedly raised during the Trump-Prayuth Chan-o-cha meeting at the White House in October 2017. Thailand was asked to “do more” with respect to North Korea, cybersecurity and the Rohingya crisis in neighboring Myanmar. While the US would like to see Thailand do more to address regional and global security challenges, domestic politics in Bangkok since 2006 have distracted Thailand from playing a greater role in regional affairs.

Despite these considerations, Thailand’s geographic location at the nexus of South, Southeast, and Northeast Asia makes it an important hub for regional connectivity, suggesting opportunities for the US and Thailand to cooperate on mainland Southeast Asia, with ASEAN and in the Indo-Pacific region more broadly.

## **Conclusion**

The American electorate appears increasingly sympathetic to Trump’s skepticism of international alliances. A poll conducted on NATO’s 70th birthday found that fewer than half of Americans (44 percent) support the alliance, originally designed to provide collective security against the Soviet Union, but now focused on Russia and non-state actors such as the Taliban and the Islamic State. With China’s military modernization and the persistent nuclear threat from North Korea on the

one hand, and Trump's "America first" trade and foreign policies on the other, Asian allies face a predicament: how to keep the US engaged in Asia in order to advance shared interests. Trump's insistence that allies bear a greater share of the financial burden or face possible abandonment threatens to undermine not just America's alliances in Asia, but the entire regional order.

Japan and Korea already pay billions of dollars to the US to host and support about 78,500 US troops. If the US were to pull these forces back to the US, American taxpayers would have to assume the costs of basing and training without foreign support, and US readiness to respond to crises in the region would be seriously impaired. Adversaries might feel emboldened to test what have been long-standing US commitments to peace and security in Asia. More importantly, America's Asian allies, as well as nonaligned nations, might reasonably interpret such a downgrading of alliances as a sign of US disengagement from Asia. This would represent a tectonic shift in the global order and show that the trajectory of history is changing.

All this raises the question whether "burden sharing" is the practical concept. At the beginning of the Cold War, alliance relationships were described in terms of "mutual security", but in the Trump administration, alliances in Asia are now viewed as "burdens" from which America derives no benefit. The purpose of alliances is to prevent war and instability, which should be a shared interest. Viewing alliances in this light is what really puts America first, promotes our political and economic interests, and enables the US and its allies to ensure peace, stability, and prosperity in Asia and throughout the world.

# From Sharing the Burden to Paying the Premium

Malcolm Cook

We're spending a tremendous amount of money on many countries, protecting countries that are very rich that can certainly afford to pay us and then some. And those countries—by the way, and those countries know that it's not right, but nobody has ever asked them before. But I've asked them and we're doing—we're gaining a lot of money. We've picked up over a \$100 billion just in NATO over the last two years. A hundred billion dollars more has come in. And we're doing that with a lot of countries. You'll be seeing that a lot.

President Donald Trump, Hanoi  
February 28, 2019<sup>1</sup>

The system of United States (US) alliances in East Asia is being called into question in Washington, D.C., and in all the allied capitals. President Trump is the primary cause of these strains in Washington, and an aggravating factor, in varying degree, in allied capitals. A second Trump term would intensify these mutually reinforcing strains exponentially, with unforeseeable consequences. This paper will first look at the redefinition of US security and alliances under Commander in Chief Trump to flesh out the alliance strains in the US, and it will then look at current alliance dynamics in Australia and the Philippines to flesh out the alliance strains in two key US Indo-Pacific allies.

## From Partner to Provider

Trump is the first US president in the post-WWII era to disavow the concept of forward defense, which is, from the US side, the conceptual justification for America's global network of unequal alliances and security partnerships. The longer he remains commander-in-chief, the more his statements and policy demands will undercut this concept, its attendant policies, and the policies of US allies and security partners that are based on a credible US commitment to this concept.

Forward defense is founded on the enlightened contention about mutual insurance that the US homeland is better insured against threats by deterring or countering them at or near their

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<sup>1</sup> Whitehouse.gov (2019), "Remarks by President Trump in Press Conference, Hanoi, Vietnam", press release, Feb. 28, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-press-conference-hanoi-vietnam/>.

source, which, due to its own favorable geographic position, is almost always distant from the US. A costly military with unmatched global reach, and a system of unequal relationships with allies and security partners who are situated closer to these sources of threat, are the premiums America pays for this insurance. And as a multitude of leaders around the world have repeatedly attested, their own countries' facilitation of this US global presence is the premium they pay for the insurance that this presence provides to them. Close allies and security partners claim that they pay higher premiums, and hence they expect broader and deeper coverage and preferential service.

The concept of burden sharing derives from this idea of forward defense and its mutual-insurance contention. It is a negotiation over who should pay what for the shared benefits of mutual insurance. President Trump appears to largely deny the existence of any shared good, and envisages the US as a unilateral provider of insurance for which recipients should pay a fair premium—preferably in money, not in kind. The quotation from Trump that begins this paper captures this view well. The greater the threat, the more insurance is provided, and the wealthier the “client”, the higher the premium should be.

Trump's transactional, values-free view of alliances is very consistent with his caustic views on trade agreements and formal multilateral institutions. And while it is unique among post-WWII presidents, and certainly falls outside the pre-Trump Republican Party mainstream, it is not an outlier in American conservative thought. Trump's view of alliances is very similar to those of failed conservative presidential candidates Ross Perot and Pat Buchanan.<sup>2</sup> In 1992, Perot won 19 percent of the popular vote, becoming the most successful third-party presidential candidate in American history. The libertarian Cato Institute has long advocated that the US disentangle itself from its Cold War alliance commitments, and criticized America's post-Cold War overseas security commitments as unnecessary and costly.<sup>3</sup>

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2 For Pat Buchanan's “bring the boys home” view of alliances, see Ronnie Dugger (2001), “A Republic, Not an Empire: Reclaiming America's Destiny”, *American Prospect*, Dec. 19, <https://prospect.org/article/republic-not-empire-reclaiming-americas-destiny>.

3 For Cato Institute publications along these lines focused on Southeast Asia, see, for example, Doug Bandow (2001), *Needless Entanglements: Washington's Expanding Security Ties in Southeast Asia* (Cato Institute, May 24), <https://object.cato.org/sites/cato.org/files/pubs/pdf/pa401.pdf>; and Doug Bandow (2016), “America Should Drop Philippines Alliance: Thank Rodrigo Duterte for Encouraging Divorce”, *Cato Institute website*, Oct. 20, <https://www.cato.org/publications/commentary/america-should-drop-philippines-alliance-thank-rodrigo-duterte-encouraging>.

## Provider Concerns

In Australia, there are two predominant analogies for Australia's unequal alliance relationship with the US: the insurance policy, and the great and powerful friend.<sup>4</sup> Both contend that Australia, a vast, mostly empty continent below fractious Asia, cannot adequately defend itself against a major-power adversary and must ally itself with the West's leading global power to insure its security. Australia pays the premium on this insurance policy by providing vital geographical assets, such as the Pine Gap radar facility, to the US, fighting alongside the Western hegemon—first the United Kingdom then the US—in all major wars, and maintaining a high level of military interoperability with the great and powerful friend.

Successive Australian leaders from both sides of Parliament House have justified Australia's involvement in faraway conflicts posing no direct threat to Australia's territorial integrity by appealing to the insurance-and-premiums analogy, even when one could rightfully have argued that Australia had its own, non-alliance reasons for involvement.<sup>5</sup> Australia's insurance coverage and preferential benefits include US extended nuclear deterrence<sup>6</sup> and privileged access to US intelligence and advanced military technology, which give Australia an edge over its neighbors.

For decades, the Australian left and the Labor Party have been riven by debates between pacifists, who see the US alliance as immoral and entangling Australia in "other people's wars"; strong supporters of the alliance; and those who advocate a more distant alliance and more defense self-reliance.<sup>7</sup> In 2003, Labor front-bencher and future party leader Mark Latham, in parliament, called the Liberal/National Howard administration "a conga line of suckholes" for their embrace

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4 A good example of the insurance-policy analogy is Gary Brown and Laura Rayner (2001), *Upside, Downside: ANZUS after Fifty Years*, Current Issues Brief 3 2001-02 (Parliament of Australia, August 28), [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/Publications\\_Archive/CIB/cib0102/02CIB03](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Publications_Archive/CIB/cib0102/02CIB03). The great and powerful friend analogy draws from this 1958 speech by Liberal prime minister Robert Menzies: <https://electionspeeches.moadoph.gov.au/speeches/1958-robert-menzies>.

5 For a good example of Australia's non-alliance-related interests in Afghanistan, see Michael Fullilove and Anthony Bubalo (2010), "A strong case for Afghanistan deployment", ABC News [Australia], Oct. 18, [https://www.abc.net.au/news/2010-10-19/the\\_progressive\\_case\\_for\\_australiae28099s\\_afghanistan\\_deploy/40220](https://www.abc.net.au/news/2010-10-19/the_progressive_case_for_australiae28099s_afghanistan_deploy/40220). The Australian public has often supported involvement in these wars based on their understanding of Australia's national interests. See Carl Bridge (2011), "Other people's wars? Some thoughts on Australia's military involvements in the twentieth century", *Australian Cultural History* 28 (2-3): 253-61, <https://www.tandfonline.com/doi/abs/10.1080/07288433.2010.593290>.

6 For more on extended deterrence, see Rod Lyon (2019), "Extended (nuclear?) deterrence: what's in a word?" *ASPI Strategist*, Jan 22, <https://www.aspistrategist.org.au/extended-nuclear-deterrence-whats-in-a-word/>.

7 John Pilger, who frequently appears on Australian television, is a leading proponent of this argument. See "The Last Dream: Other People's Wars", [johnpilger.com](http://johnpilger.com), accessed May 21, 2019, <http://johnpilger.com/videos/the-last-dream-other-peoples-wars>. Michael Fullilove is a proponent of this argument that has largely held sway in the Labor mainstream. See Michael Fullilove (2007), "Still looking to America: Labor & the US alliance", public lecture, Curtin University of Technology, August 9, <https://jcpml.library.curtin.edu.au/about/events/fullilove/>. Hugh White is the best known proponent of this argument. See Hugh White (2015), "Principle of self-reliance more important now than it has ever been", *Sydney Morning Herald*, Nov. 23, <https://www.smh.com.au/opinion/principle-of-selfreliance-more-important-now-than-it-has-ever-been-20151123-gl59zm.html>.

of the alliance with the US during the George W. Bush administration.<sup>8</sup> Less than a decade later, Labor Prime Minister Julia Gillard strongly embraced much closer alliance relations with the US, including the regular rotation of US marines through Darwin.<sup>9</sup>

The rise of China as a regional military power and its increasingly aggressive use of its power have strengthened Australia's alliance relationship with the US and increased the importance of Australian radar capabilities. Deeper bilateral cooperation has included integrating Australian naval vessels into operations of the US Seventh Fleet,<sup>10</sup> and the new Australian air warfare destroyers deploying Aegis missile-defense capabilities.<sup>11</sup> US-Japan-Australia trilateral cooperation has intensified and become more institutionalized, with shared concerns about China clearly a major binding ingredient.

Yet, the Trump presidency has provoked even strong alliance supporters in Australia to publicly raise doubts about the continued US commitment to forward defense and the liberal, rules-based order it underpins. Peter Jennings, associated with the right and a self-avowed alliance supporter, sums up these newfound, fundamental concerns:

Australia's defense "plan B" must work on the assumption that we will have to do more for our own security, play a stronger leadership role in the region, reconsider the size and strength of the defense force, and position ourselves for even darker threats to our security in coming years, without confidence in the US security umbrella.<sup>12</sup>

These same concerns are shared by strong alliance supporters associated with the Labor Party.

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8 Cited in Sydney Morning Herald (2003), "Latham's acerbic attacks ruffle a few feathers", Feb. 7, <https://www.smh.com.au/national/lathams-acerbic-attacks-ruffle-a-few-feathers-20030207-gdg8ft.html>.

9 Graeme Dobell (2013), "Julia Gillard's foreign policy – part 3", ASPI Strategist, Aug. 12, <https://www.aspi.org.au/julia-gillard-foreign-policy-3/>.

10 Erik Slavin (2013), "Australian frigate embeds with US Navy at Yokosuka, Japan", Stars and Stripes, May 6, <https://www.stripes.com/news/australian-frigate-embeds-with-us-navy-at-yokosuka-japan-1.219769>.

11 Robbin Laird (2019), "First Australian Aegis Destroyer Integrates with US Navy's Cooperative Engagement Capability", SLDInfo.com, January 8, <https://sldinfo.com/2019/01/first-australian-aegis-destroyer-integrates-with-us-navys-cooperative-engagement-capability/>.

12 Peter Jennings (2018), "Trump means we need a 'Plan B' for Defence", Australian Strategic Policy Institute website, July 12, <https://www.aspi.org.au/opinion/trump-means-we-need-plan-b-defence>.

Michael Fullilove, writing in *Foreign Affairs*, argues along a similarly uncomfortable line for Australia:

Australia must try to shape its environment, and contribute to Asia's security and prosperity, at a time when it is less able to rely on its great and powerful friend. Australia is a beneficiary of the international order. From time to time, therefore, the country must serve as its bodyguard. Earlier this year, Australia's prime minister placed a call to the leader of the Free World, and all he got was static. The question is, what will the Australians do while difficulties on the line persist?<sup>13</sup>

Fullilove and Jennings were both writing before the resignation, on grounds of principle, of Secretary of Defense Mattis. A second Trump presidency would be corrosive for Australia's alliance relationship with the US and the strong popular support for this relationship in Australia. The 2018 Lowy Institute Poll showed the lowest level of trust in the US since polling began and a sharp drop over the two years of the Trump administration.<sup>14</sup> Australia's plan B is now being actively discussed, usually in gloomy terms. It echoes the self-reliance argument that has long sought, with no success, to become Australian defense policy. Trump may finally make it a reality.

### **Coverage Concerns**

The Philippines is a former US colony, and this is reflected in Philippine attitudes and approaches to the country's alliance relationship with the US, which are more complicated and influenced by identity politics than Australia's. Leftist nationalists in the Philippines have long seen the Spanish and US colonial periods as the root of many of the country's modern problems, and the US alliance as an obstacle to true Philippine independence. Alliance supporters use an insurance-policy argument, similar to Australia's, that the Philippines, the world's second-largest archipelagic country, with a military dominated by land forces, cannot defend its territory alone. On top of this, the alliance with the US allows the Philippines to divert funds from maritime defense to other pressing, non-military needs.

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13 Michael Fullilove (2017), "Down and Out Under: Australia's Uneasy American Alliance", *Foreign Affairs*, Sept./Oct., <https://www.foreignaffairs.com/articles/2017-08-15/down-and-out-down-under>.

14 Alex Oliver (2018), *Lowy Institute Poll 2018: Understanding Australian Attitudes to the World* (Lowy Institute), <https://www.lowyinstitute.org/publications/2018-lowy-institute-poll>.

The US-Philippines alliance has followed a less steady course than the alliance with Australia, primarily because of domestic political factors in the Philippines. Conflicting views of the US underlie the Philippines' recent flip-flops on China's continuing infringement of Philippine sovereign rights in the South China Sea.

Under the Aquino administration, Manila sought closer alliance relations with the US as a major way to push back against China's infringement of Philippine sovereign rights.<sup>15</sup> The Enhanced Defense Cooperation Agreement (EDCA), which broadened bilateral military cooperation under the 1951 Mutual Defense Treaty (the legal basis for the US-Philippine alliance), was signed in 2014. The Aquino administration ensured that the EDCA was not a treaty, so that it did not need Senate ratification. The Philippine Senate, two decades earlier, in a burst of nationalist fervor, had refused to renew the leases on the major US military bases in the Philippines. This Senate action drastically reduced the Philippines' "insurance premium"—the defense burden that they shared with the US. The EDCA, which greatly expands US access to key Philippine military bases, reversed this to some extent. In return, the US boosted concessional military spending and equipment transfers to the Philippines.<sup>16</sup> This did not stop China from taking de facto control of Scarborough Shoal in 2012.

The Rodrigo Duterte administration's approach to the US alliance is very different from the Aquino administration's, for two major reasons. First President Duterte has a strong leftist-nationalist view of the US colonial period and its lasting legacy, and an antipathy towards the US and its former president, Barack Obama. Second, China's persistent infringement of Philippine sovereign rights in the South China Sea has deepened long-standing Philippine frustrations over the limited coverage of the 1951 Mutual Defense Treaty with the US. Because the Philippines clarified their sovereign claims in the South China Sea after the Mutual Defense Treaty was signed, these claims were not included in the definition of the Philippine metropolitan territory mentioned in the treaty.<sup>17</sup>

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15 For more details, see Renato Cruz de Castro (2009), "The US-Philippine Alliance: An Evolving Hedge against an Emerging China Challenge", *Contemporary Southeast Asia* 31 (3): 399–423, [https://www.jstor.org/stable/41487397?seq=1#page\\_scan\\_tab\\_contents](https://www.jstor.org/stable/41487397?seq=1#page_scan_tab_contents).

16 The Philippines is currently the largest recipient of US maritime security assistance in Southeast Asia. "Fact Sheet: US Building Maritime Capacity in Southeast Asia", US Embassy and Consulates in Indonesia website, accessed May 21, 2019, <https://id.usembassy.gov/our-relationship/policy-history/embassy-fact-sheets/fact-sheet-u-s-building-maritime-capacity-in-southeast-asia/>.

17 Article V of the 1951 Mutual Defense Treaty: "For the purpose of Article IV, an armed attack on either of the Parties is deemed to include an armed attack on the metropolitan territory of either of the Parties, or on the island territories under its jurisdiction in the Pacific, or on its armed forces, public vessels, or aircraft in the Pacific."

This nationalist view of the Philippines' history, and rising anger over the limited coverage of the Mutual Defense Treaty, have combined in an explosive manner, captured in a very emotional Facebook post by the first foreign secretary of the current Duterte administration, Perfecto Yasay, and widely distributed by his department, entitled "America Has Failed Us."<sup>18</sup> This combination of antagonistic views of the US (the insurance provider) and growing fears over the Mutual Defense Treaty's limited coverage are leading to a deep rethinking of the alliance in the Philippines. Long seen as a strong defender of the alliance, Defense Secretary Lorenzana, citing its limited coverage and the risk of the Philippines becoming entangled in a US-China conflict, has called for a review of the Mutual Defense Treaty and mused that it may no longer suit Philippine interests.<sup>19</sup> Trump's presidency has been largely inconsequential to these growing alliance concerns in the Philippines. Chinese aggression and Philippine postcolonial identity are at the center of them.

## Echoing History

The current, mutually reinforcing questioning of alliance relationships by the US and its allies and security partners could be the most profound since the end of the Cold War. At that time, on the US side, the concept of a "peace dividend" (lower insurance premiums due to reduced insecurity) and a consequent reduction in America's forward defense commitments were actively discussed by the Bill Clinton and George W. Bush administrations.<sup>20</sup> This same sense of greater security and less need for the insurance policy of US forward defense prevailed among US allies and security partners. The Philippine Senate's decision not to renew the leases in 1991–92 was a clear example of this readjustment of premiums. Both the US and its allies and partners agreed that the burden they needed to share had diminished after the collapse of the Soviet Union, with each side considering how much less they could or should contribute.

The current questioning is taking place in a very different climate, in which the US and its allies and security partners in the Indo-Pacific recognize a rising challenge to regional security in the form of Chinese behavior in particular. This change in the strategic context makes the current debate more important, and more worrying.

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18 Perfecto Yasay (2016), "America Has Failed Us", Facebook, October 4, <https://www.facebook.com/perfectoyasayjr/posts/1436259099723852>.

19 For more details, see Richard Heydarian (2019), "A chance to renew the US-Philippines defense alliance", *Nikkei Asian Review*, Jan. 11, <https://asia.nikkei.com/Opinion/A-chance-to-renew-the-US-Philippines-defense-alliance>.

20 Jim Hoagland (1990), "The Cost of the 'Peace Dividend,'" *Washington Post*, April 12, [https://www.washingtonpost.com/archive/opinions/1990/04/12/the-cost-of-the-peace-dividend/3e1e4dc0-352d-4787-bf73-19da7ee7f45e/?utm\\_term=.05c71393376f](https://www.washingtonpost.com/archive/opinions/1990/04/12/the-cost-of-the-peace-dividend/3e1e4dc0-352d-4787-bf73-19da7ee7f45e/?utm_term=.05c71393376f); <https://prospect.org/article/how-we-lost-peace-dividend>.

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<https://news.abs-cbn.com/opinions/03/27/17/opinion-scarborough-shoal-will-america-help-us>.
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<https://asia.nikkei.com/Opinion/A-chance-to-renew-the-US-Philippines-defense-alliance>.
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<https://www.afr.com/news/economy/the-unaffordable-price-of-australia-abandoning-anzus-over-donald-trump-20170220-gugqnp>.
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[https://www.jstor.org/stable/2197075?seq=1#metadata\\_info\\_tab\\_contents](https://www.jstor.org/stable/2197075?seq=1#metadata_info_tab_contents).

# US-India Trade: Building Economic Interoperability

Aman Thakker

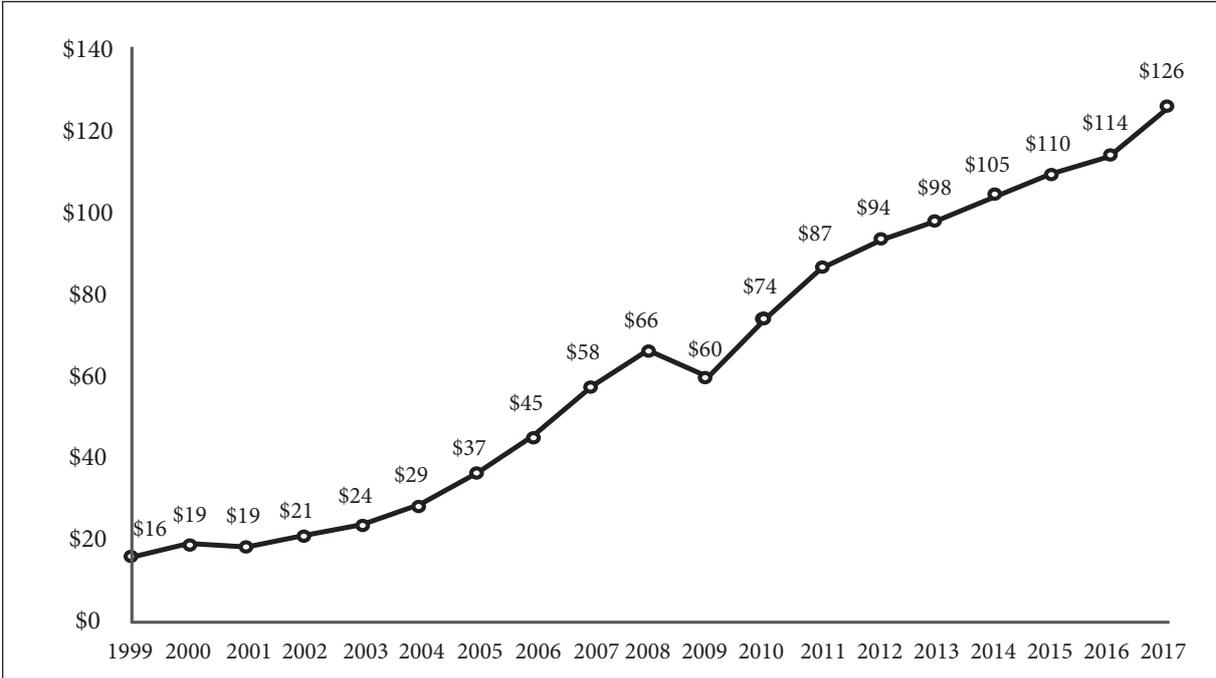
*The bilateral trade relationship between the United States (US) and India goes beyond the static figure of US\$126 billion in annual goods and services. Businesses, workers and public figures are finding new opportunities to forge economic relationships, tying together jobs, prosperity, and growth. In other words, US-India trade is facilitating the economic equivalent of interoperability between the two countries. But recent developments resulting from protectionist decisions by both governments have threatened this remarkable growth in trade. This policy memo offers recommendations to the US and India to constructively resolve the outstanding issues in their trade relationship, move forward to craft a robust trade agenda that reflects their strategic interests, get back on track to achieve their goal of US\$500 billion in bilateral trade, and expand the growing interoperability between their economies.*

## **Introduction and Overview**

### Why US-India Trade Matters

In El Paso, Texas, a manufacturing company depends on India for affordable, high-quality electrical motors. In Kentucky, Governor Matt Bevin is working to capitalize on new commercial opportunities following his visit to India, where he said the US and India “need one another economically.” In India, nearly 2,000 American companies employ more than one million Indian citizens, providing well-paying jobs and a path to prosperity.

**Figure 1: Total US-India Good and Services Trade, 1999-2017**



Source: US Bureau of Economic Analysis

These stories illustrate why the US-India economic relationship matters.

Just 20 years ago, annual bilateral trade in goods and services between the US and India totaled a mere US\$16.3 billion dollars. Today, that number has increased nearly eightfold, to US\$126 billion.<sup>1</sup>

As both countries set their sights on a goal of US\$500 billion in bilateral trade, what they are achieving, in effect, is the economic equivalent of interoperability, where both economies function efficiently, in conjunction with each other, to achieve common economic goals. Despite rising tensions over trade policy, the fact remains that workers, businesses, politicians, and leaders increasingly appreciate this bilateral trade, which creates jobs and builds prosperity in both countries. The onus is now on India and the US to find a constructive resolution to the issues in their trade relationship, craft a robust trade agenda that reflects their strategic interests, and get back on track to achieve their goal of US\$500 billion in bilateral trade.

1 "U.S. Trade in Goods and Services by Selected Countries and Areas, 1999–Present", US Dept. of Commerce, Bureau of Economic Analysis website, accessed May 21, 2019, [www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services](http://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services).

## Recent Developments in US-India Trade Ties

Looking at US-India trade in the past year, the most striking development is the rate at which bilateral trade has increased. Trade in goods from January to December 2018 increased by 17.8 percent compared to the same period in 2017, reaching US\$87.5 billion.<sup>2</sup> US exports to India, driven in part by exports of oil and natural gas, grew by an astonishing 28.9 percent compared to 2017. In other words, real trade between both countries is growing rapidly, reaching record highs. Today, trade in goods and services has reached US\$126 billion.<sup>3</sup>

This remarkable growth, and the goal for both countries to increase bilateral trade to US\$500 billion a year,<sup>4</sup> is now under threat due to actions by both countries that have raised tensions on the trade policy front. India increased customs duties twice in 2018, first on nearly 50 products in its 2018–2019 budget in February 2018,<sup>5</sup> and again on 19 products in September 2018.<sup>6</sup> Local-content rules in areas such as electronics, solar panels and telecommunications equipment, as well as price controls on pharmaceuticals and medical devices, created further irritants for US exporters. By 2019, new regulations by the Indian government, such as mandatory data localization and stricter rules on foreign direct investment in the e-commerce sector, crowded the US-India trade agenda.

The US, too, has taken its fair share of protectionist measures. In March 2018, the US announced tariffs on steel and aluminium, under Section 232 of the Trade Expansion Act, on a host of countries, including India, despite India's request for a waiver.<sup>7</sup> In April, the Office of the US Trade Representative (USTR) initiated a review of India's benefits under the Generalized System of Preferences (GSP),<sup>8</sup> and the US Department of the Treasury added

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2 "Foreign Trade: Trade in Goods with India", US Census Bureau website, accessed May 21, 2019, [www.census.gov/foreign-trade/balance/c5330.html](http://www.census.gov/foreign-trade/balance/c5330.html).

3 Shayerah Ilias Akhtar and K. Alan Kronstadt (2019), *US-India Trade Relations* (Congressional Research Service, updated April 3), <https://fas.org/sgp/crs/row/IF10384.pdf>.

4 Ministry of External Affairs (2017), *Brief on India-US Relations* (Gov't. of India, June), [https://mea.gov.in/Portal/ForeignRelation/India\\_US\\_brief.pdf](https://mea.gov.in/Portal/ForeignRelation/India_US_brief.pdf).

5 Sharleen Dsouza and Purva Chitnis (2018), "Union Budget 2018: The List Of Items With Changes In Custom Duty", Bloomberg Quint, Feb. 1, [www.bloomberquint.com/union-budget-2018/union-budget-2018-the-list-of-items-with-changes-in-custom-duty](http://www.bloomberquint.com/union-budget-2018/union-budget-2018-the-list-of-items-with-changes-in-custom-duty).

6 Ministry of Finance (2018), "Tariff Measures Taken to Curb the Imports of Non-Essential Items", press release (Press Information Bureau, Sept. 26), <http://pib.nic.in/PressReleaseDetail.aspx?PRID=1547509>.

7 "President Trump Signs Steel and Aluminum Tariffs Proclamations", C-SPAN.org, Mar. 8, 2018, [www.c-span.org/video/?c4751643%2Fpresident-trump-signs-steel-aluminum-tariffs-proclamations](http://www.c-span.org/video/?c4751643%2Fpresident-trump-signs-steel-aluminum-tariffs-proclamations).

8 Office of the US Trade Representative (2018), "USTR Announces New GSP Eligibility Reviews of India, Indonesia, and Kazakhstan", press release, Apr. 12, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/april/ustr-announces-new-gsp-eligibility>.

India to a watchlist for currency manipulation.<sup>9</sup> US trade action against India culminated on March 4, 2019, when President Donald Trump announced his intent to terminate India's designation as a beneficiary under the GSP program.<sup>10</sup>

### Future Direction for US-India Trade Ties

With tensions rising in the trade relationship, both the US and India need to consider how any planned policy actions may negatively affect the growth in trade already achieved this year and erode this growing interoperability. In the past year, Indian exports to the US grew at 11.9 percent, generating jobs for Indians in the textiles, machinery, and gems and jewelry sectors. US exports to India grew at 28.9 percent, the highest rate among the US' top 15 trading partners. This growth in exports was driven, in particular, by a commitment of the Indian government to import over US\$3 billion in oil and gas from the US. These developments underscore how both economies are functioning in conjunction to achieve common goals.

Both countries also have an opportunity to address a common concern—their respective rising trade deficits with China. While trade decisions in both countries can be traced to a desire to reduce trade deficits, those decisions are, in fact, becoming irritants in the bilateral US-India relationship. Businesses and workers in both countries have noted that if trade tensions escalate, China will, counterintuitively, see a boost in its exports to both countries. Therefore, the immediate direction of US-India trade should be driven by a recognition that escalating these tensions into a dispute will undermine the two countries' common interests. In the near term, both governments should avoid rocking the boat any further, and resist taking any action that could endanger rapidly growing bilateral trade and economic interoperability.

## **Recommendations**

### Push forward a Reform Agenda that boosts India's Trade Competitiveness

Following the conclusion of general elections and a second five-year mandate for Prime Minister Narendra Modi, the focus will return to India's reform agenda, the creation of good

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9 US Department of the Treasury (2018), "Treasury Releases Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States", press release, Apr. 13, <https://home.treasury.gov/news/press-releases/sm0348>.

10 Office of the US Trade Representative (2019), "United States Will Terminate GSP Designation of India and Turkey", press release, Mar. 4, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/march/united-states-will-terminate-gsp>.

jobs, and the path to sustainable growth for India's economy. As the next government takes over, they should establish a deeper link between India's domestic reform agenda and its foreign trade policy. A look at some of the biggest reforms beginning with the liberalization of India's economy in 1991 underscores how India's economy has become more and more integrated with the world and demonstrates how there is a link between undertaking key reforms and boosting trade competitiveness.<sup>11</sup> Indeed, as India relaxed foreign investment rules, opened various sectors to private players and reduced custom duties, India has become more trade intensive. Indeed, in 1991, India's ratio of goods and services trade to gross domestic product ratio rose from 17.1 percent in 1991 to 41.1 percent in 2017.<sup>12</sup>

Looking to the future, relaxing India's strict rules on land acquisition and corporate downsizing can similarly unlock future growth and boost export competitiveness. For example, a World Bank study found that lifting India's rules which force companies to seek government permission before laying off more than 100 workers "could add about 880,000 registered manufacturing jobs."<sup>13</sup> Therefore, to truly "make in India" and export those made-in-India goods, the government needs to push forward on completing necessary reforms that can make India more competitive in global trade.

### Reassess and Reenergize the US-India Trade Policy Forum

In 2005, the US and India announced the launch of the US-India Trade Policy Forum as a mechanism to expand trade between the two countries.<sup>14</sup> The 11th and most recent Trade Policy Forum was held in 2017, between USTR Robert Lighthizer and Minister of Commerce Suresh Prabhu. While Prabhu did visit the US for trade discussions in the spring of 2018, an official Trade Policy Forum was not held that fall, and reports said that the lack of progress on outstanding trade issues was the reason for the indefinite delay.<sup>15</sup> These developments call for a reassessment of the Trade Policy Forum.

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11 Rossow, Richard. "Surprise! India is a Trading Nation!" Center for Strategic and International Studies, 12 Mar. 2018, <https://www.csis.org/analysis/us-india-insight-surprise-india-trading-nation>.

12 "Trade (% of GDP) - India." The World Bank, <https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?locations=IN>.

13 Ahsan, Ahmed and Carmen Pagés. Helping or Hurting Workers?: Assessing the Effects of De Jure and De Facto Labor Regulation in India. The World Bank, December 2018.

14 USTR (2005), "US-India Trade Policy Forum", fact sheet, US Department of State Archive, 2001–2009, Jul. 18, <https://2001-2009.state.gov/p/sca/rls/fs/2005/49732.htm>.

15 Adam Behsudi (2018), "US-India Trade Policy Forum in Doubt", Politico, Oct. 17, [www.politico.com/newsletters/morning-trade/2018/10/17/ustr-gears-up-to-negotiate-3-new-trade-deals-376465](http://www.politico.com/newsletters/morning-trade/2018/10/17/ustr-gears-up-to-negotiate-3-new-trade-deals-376465).

While the forum is an important mechanism for both countries to advance their economic relationship, the US and India should consider consolidating the Trade Policy Forum with the Economic and Financial Partnership mechanism to create a parallel 2+2 between the secretary of the treasury and the USTR, as well as the ministers of finance and commerce.

Such a dialogue would help deepen coordination between the US government and the Ministry of Finance, which is key decision-maker on changing custom duties in India. Indeed, under the Trump administration, engagement between the Department of Treasury and the Ministry of Finance at the ministerial level has been limited. Finance Minister Arun Jaitley and Treasury Secretary Steve Mnuchin have, so far, spoken once on the phone in March 2017,<sup>16</sup> and held two meetings in April<sup>17</sup> and October 2017,<sup>18</sup> both on the sidelines of the annual meetings of the World Bank and the International Monetary Fund. The ministerial US-India Economic and Financial Partnership, which was held annually from 2010 to 2016, seems to have been discontinued under the Trump administration.

Moreover, a new dialogue on economic issues that mirrors the US-India Ministerial 2+2 between the Secretaries of State and Defense, and the Ministers of External Affairs and Defence will also allow both countries to more directly pursue the broader strategic goal of deepening the economic partnership, as well as improve coordination across all the economic policymaking bodies in both countries. The US-India CEO Forum, which currently meeting alongside the ongoing US-India Commercial Dialogue, should also submit its findings and recommendations to this new economic dialogue.<sup>19</sup> Adding this private sector voice will allow both governments to root their discussions on policy in the context of the real trade growth between both countries, and how trade policy decisions can hamper the impressive growth in bilateral trade.

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16 "Readout from a Treasury Spokesperson of Secretary Mnuchin's Call with Republic of India Minister of Finance Arun Jaitley." US Department of the Treasury, 15 Mar. 2017. <https://www.treasury.gov/press-center/press-releases/Pages/sm0030.aspx>.

17 Ministry of Finance. "During his visit to Washington D.C., the Union Finance Minister Shri Arun Jaitley holds a bilateral meeting with his US counterpart and the US Treasury Secretary, Mr. Steven Mnuchin." Press Information Bureau, 23 Apr. 2017, <http://pib.nic.in/newsite/PrintRelease.aspx?relid=161232>.

18 Jaitley, Arun. "Meeting with the US Secy of Treasury Steven Mnuchin at IMF, Oct 12, 2017." Twitter, 12 Oct. 2017, <https://twitter.com/aranjaitley/status/918676977845800963>.

19 "U.S. Secretary of Commerce Wilbur Ross Announces Participants for U.S.-India CEO Forum." US Embassy & Consulates in India, 8 Feb. 2019. <https://in.usembassy.gov/u-s-secretary-of-commerce-wilbur-ross-announces-participants-for-united-states-india-ceo-forum/>

### Reverse the Decision to Revoke India's Eligibility for GSP Benefits

The US should work with India during the 60-day notice period to strike a deal to restore India's GSP benefits. While India has taken protectionist measures that limit market access, its statement following Trump's GSP announcement suggested that it was willing to lower barriers in some areas, such as medical devices and agricultural products.<sup>20</sup> The US should recognize this signal and engage meaningfully. The onus is also on India to maintain, over the next two months, the pragmatism and flexibility it displayed in its statement, and to continue to show good faith in resolving GSP-related trade issues.

The decision to withdraw India's GSP benefits, counterintuitively, will boost Chinese exports to the US. Indian businesses have argued that Indian goods under GSP would be replaced by goods from China. In their comments to the USTR's office, the Indian Flexible Intermediate Bulk Containers Association said, "India and China are the two major suppliers of these FIBC bags to the USA, commanding an almost equal share of the market."<sup>21</sup>

Without GSP benefits for India, China will likely gain the advantage. The Indian government also noted this concern, when it said that reducing duties on information technology "would almost entirely benefit third countries", implicitly naming China.

American businesses reiterated this warning. The American Apparel & Footwear Association argued that "until GSP, China alone controlled 85 percent of all US travel goods imports", and that "companies will have no choice but to return to sourcing from China" if GSP benefits are revoked.<sup>22</sup> The US government should join both the business community and the Indian government in recognizing the adverse effect that revoking GSP benefits will have on the trade deficit with China, and reverse its decision.

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20 Ministry of Commerce & Industry (2019), "India-US Trade Issues", press release, Press Information Bureau, Mar. 5, <http://www.pib.nic.in/PressReleaseDetail.aspx?PRID=1567445>.

21 Umesh Anandani (2018), "Comment from Umesh Anandani, Indian FIBC Association", Regulations.gov, Jun. 1, <https://www.regulations.gov/document?D=USTR-2018-0006-0046>.

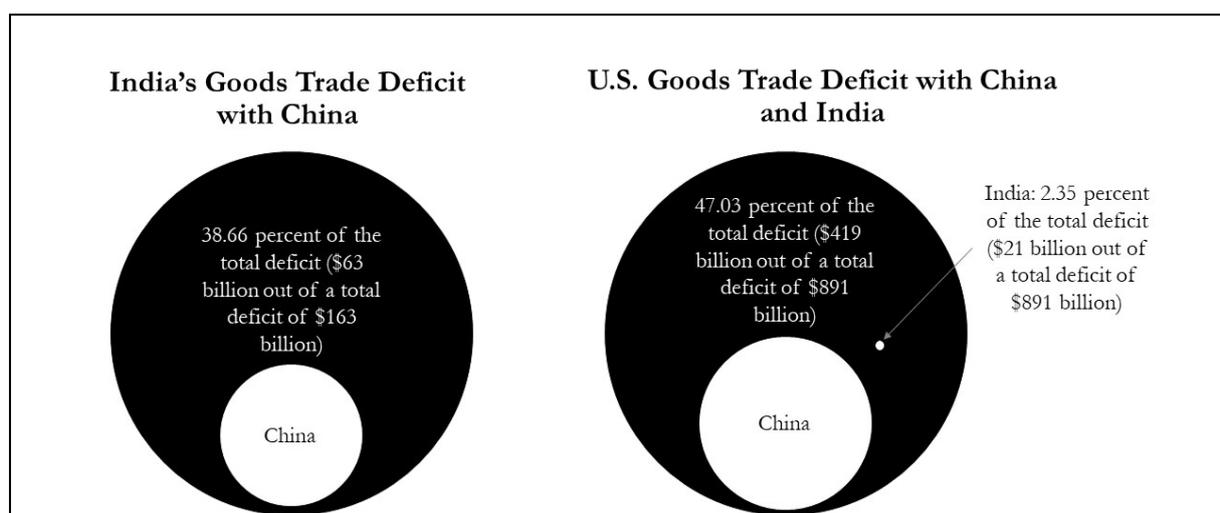
22 Nate Herman (2018), "Comment from Nate Herman, American Apparel & Footwear Association & Travel Goods Association", Regulation.gov, Jul. 17, <https://www.regulations.gov/document?D=USTR-2018-0006-0109>.

## Root the US-India Trade Relationship within Both Countries' Strategic Interests

The trade tensions between the US and India are broad and significant, and each has taken steps that the other sees as protectionist and unfair. While it is important for the US and India to engage each other on these issues and try to resolve them as soon as possible, both countries should also craft a trade agenda that is broader than the immediate tensions or the bilateral trade balance. Instead, they need to root their trade relationship in the growing strategic relationship, based on mutual interests and shared values. Such a trade agenda would recognize that each country is becoming the other's partner of choice in the Indo-Pacific as they look to achieve their own strategic goals and objectives.

In its 2017 National Security Strategy (NSS), the US recognized the competition from China, asserting that it was "attempting to erode American security and prosperity." On trade, specifically, the NSS stated that "the US distinguishes between economic competition with countries that follow fair and free market principles and competition with those that act with little regard for those principles", and that "the US will engage industrialized democracies and other like-minded states to defend against economic aggression, in all its forms, that threatens our common prosperity and security."<sup>23</sup>

**Figure 2: India's Goods Trade Deficits with China and US Goods Trade Deficit with China and India**



Sources: Ministry of Commerce and Industry of India, and US Bureau of the Census

23 Office of the President of the US (2017), National Security Strategy of the US of America, <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>.

This outlook offers the basis for a strategic trade partnership. India, too, has contended that its trade imbalance with China is driven by unfair practices. In a statement before the Parliamentary Standing Committee on External Affairs, India's foreign secretary stated that China has "millions of nontariff barriers. They keep bringing up new ones. If you see the last ten years, the trade deficit has grown; it has not come down." He accused China of "dumping" goods in India.<sup>24</sup> Finding ways to work together on this common interest should be at the forefront of US-India trade strategy moving forward.

There are new opportunities to forge a strategic trade partnership today. Following the Department of Commerce's decision to offer Tier 1 status within its Strategic Trade Authorization license exception to India, both countries should look to restart the US-India High Technology Cooperation Group and expand the collaboration under its umbrella.<sup>25</sup> Moreover, both the US and India have a shared interest in fostering a free and democratic "knowledge economy" and "digital economy". As they seek to capitalize on innovations in e-commerce, artificial intelligence, 5G and robotics, both governments should make deeper trade and economic ties in these sectors a pillar of their Indo-Pacific strategy.

Moving to such a trade agenda will be tough, particularly given the significant differences that still crowd the bilateral trade policy agenda. But these first steps will ensure that both governments work to augment the growing interdependence between workers and businesses in our two countries. Both countries can then start the journey toward a robust trade relationship that advances their mutual strategic interests, expands economic interoperability and crosses the long-awaited US\$500 billion threshold.

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24 Committee on External Affairs (2018), Sino-India Relations Including Doklam, Border Situation, and Cooperation in International Organizations, Report No. 22 of the 16th Lok Sabha, Lok Sabha Secretariat.

25 Ministry of External Affairs (2018), "India moved to Tier-1 of Department of Commerce's Strategic Trade Authorization licence exception", press release, Jul. 31, [https://www.mea.gov.in/press-releases.htm?dtl/30203/India\\_moved\\_to\\_Tier1\\_of\\_Department\\_of\\_Commerces\\_Strategic\\_Trade\\_Authorization\\_licence\\_exception](https://www.mea.gov.in/press-releases.htm?dtl/30203/India_moved_to_Tier1_of_Department_of_Commerces_Strategic_Trade_Authorization_licence_exception)



## India-US Trade: In Need of Special Treatment

Amitendu Palit

*Since President Donald Trump's entry into office, India-United States (US) trade relations have been passing through a turbulent phase. Following India's proposed retaliation against US steel and aluminum tariffs last year, trade negotiators from the two countries began consultations to resolve trade differences. Both countries had hopes of crafting a meaningful trade package, but with India's data localization rules and the US withdrawal of India's Generalized System of Preferences (GSP) benefits, the trade environment is again turning hostile, and these hopes are unlikely to materialize. Both countries, particularly India, need to send appropriate signals to advance trade relations, if they indeed consider this a priority.*

US-India trade relations are significant to both parties. This is not just because their bilateral trade in goods and services, at US\$142 billion,<sup>1</sup> is the size of the economy of Kuwait, and more than double that of Uruguay, but also because this trade has great potential to expand, creating livelihoods for people in both countries as well as the rest of the world. The US is the world's largest economy, and India is the seventh-largest and the fastest growing among major economies, making trade ties deep, wide, and potentially explosive. Both countries also have China as their top trading partner, and they are encountering similar difficulties in gaining access to the Chinese market. This provides additional motivation for both countries to look at possibilities for expanding bilateral trade.

### **Lack of Dialogue**

Notwithstanding the potential benefits of expanded bilateral trade—recognized, it can be argued, by all stakeholders—India and the US have barely discussed taking their relationship to a higher level. This is due to the vast differences between them over the functioning of the multilateral trade system, issues emanating largely from the chasm between developed and developing countries. Mutual distrust has been particularly high since June 2008, when talks on a special safeguard mechanism for developing countries that would trigger

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<sup>1</sup> Office of the US Trade Representative website, "India", accessed April 29, 2019, <https://ustr.gov/countries-regions/south-central-asia/india>.

tariffs in response to a surge in imports collapsed at the World Trade Organization (WTO). Though tantalizingly close, India and China failed to agree with the US and the European Union (EU) on specific modalities. The failed talks had several repercussions, provoking deep mistrust, particularly on the Indian side, and marking the beginning of a period of gradual US disengagement from the WTO. On the other hand, the US has refrained from bilateral trade talks with India, largely because it sees little purpose in doing so unless India changes key policies, such as its rules for foreign investment in telecommunications, insurance, and multibrand retail, and its approach to settling investment disputes. Over time, however, while specific and structured trade talks haven't happened, trade has increased rapidly, as have investments in India by US businesses.

### **Recent Developments**

The Trump presidency created an opportunity for the two countries to begin a focused dialogue on a mutually acceptable trade package. The US Trade Representative (USTR) began to scrutinize America's bilateral trading partners individually, particularly those with whom the US had a trade deficit. The ostensible objectives were to rework existing trade agreements to increase market access for US businesses, and to explore the possibility of mutually beneficial trade packages with partners with whom there were no existing deals. India fell into the second category. Three specific developments defined the context for possible conversations:

- i. The US is one of the few countries with whom India has a trade surplus. India runs trade deficits with almost all of its major trading partners, but it runs a surplus with the US in both goods and services. This fact received prominent note from the USTR.
- ii. The Modi government's efforts to attract big-ticket foreign investments through liberalized policies in important sectors like defense and aeronautics generated significant prospects for US businesses. The Indian decision to buy more US crude oil was also a factor that could contribute to correcting the trade imbalance. The US received the impression that there is some goodwill to be earned through a longer commitment to trade ties with India.

iii. In recent years, US businesses have penetrated more deeply into the Indian economy in various “new” sectors. The most prominent have been in the social media space (Facebook, Twitter, YouTube, Instagram, WhatsApp, LinkedIn); retail (Amazon, Walmart); ride-hailing (Uber); and digital entertainment services (Netflix, Amazon Prime). Most of these businesses, encountering difficulties in China, focused on India, where they received an enthusiastic welcome. The large Indian market and the prospective revenues from engaging a young, consumption-oriented, digitally literate population were also appetizing.

### **Trade War and Thereafter**

A little more than a year ago, unilateral US tariffs ignited the “trade war.” The new US tariffs fell into two categories. In the first were across-the-board steel and aluminum tariffs. In the second were tariffs specifically directed at Chinese exports to the US.

The steel and aluminum tariffs drew the expected retaliation from several countries. But they also provided the occasion for talks between the US and many of its trade partners. In addition to ongoing talks with Mexico and Canada, talks commenced or continued with Japan, Korea, and Argentina. India, too, announced retaliatory tariffs, but it held them back as negotiations commenced. The talks continued for several months, giving rise to the view that India and the US were working on a trade deal, a claim repeated by none other than President Trump.<sup>2</sup> There were expectations, at the very least, of a trade package that might include a tariff schedule and mutually agreed investment conditions.

### **Policy Pushback, Data Rules and the GSP**

These months of bilateral negotiations notwithstanding, the prospects of such a deal appear remote, largely because the environment for trade talks appears to be turning hostile. The US has announced the withdrawal of GSP benefits from Indian exports, and India has failed to assure US authorities that it is providing “equitable and reasonable access” to American products in various sectors.<sup>3</sup> US concerns over market access have deepened in the wake of India’s new data localization policies, which the USTR alludes to as “significant barriers to

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2 Amitendu Palit (2018), US-India FTA: Possibilities and Pitfalls, ISAS Brief No. 606 (Singapore: Institute of South Asian Studies), <https://www.isas.nus.edu.sg/wp-content/uploads/2018/10/US-India-FTA-Amitendu-051018.pdf>.

3 Office of the US Trade Representative (2019), “US Will Terminate GSP Designation of India and Turkey”, press release, March 4, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/march/united-states-will-terminate-gsp> Accessed on 18 April 2019.

digital trade” in the latest National Trade Estimate Report on foreign trade barriers.<sup>4</sup> These policies—as embodied in Reserve Bank of India (RBI) rules on local storage of payments data, and the draft national e-commerce policy of the Department of Industrial Promotion and Policy strictly regulating cross-border sharing of local data—underscore the difficulties that data-intensive US businesses are going to face in India. The data localization rules must also be viewed in the wider context of India’s rules for foreign online retailers,<sup>5</sup> which have introduced significant restrictions on subsidiaries of foreign e-commerce enterprises. These rules have major implications for US retail businesses, like Amazon and Walmart, which have gone deep into India’s rapidly expanding online retail space. Local-data storage rules have also affected US payment-system providers in India—both existing players such as Visa, Mastercard, and American Express and new e-payment entrants like Google and the Facebook-owned messaging platform WhatsApp. These developments, coupled with high Indian tariffs on several priority US business sectors such as dairy and automobiles, have dampened optimism for a trade package.

## Looking Ahead

From the US perspective, a good trade package and better trade relations with India would help reduce its current bilateral deficit in goods and services. One key element of the strategy is to increase India’s purchases of US goods by reducing tariffs. Another is to increase US exports of services to India to nudge the US trade balance in services into surplus. The trade in services is clearly the element of greater long-term interest for the US, given the global comparative advantage of US businesses in knowledge- and data-intensive services and the tremendous growth potential of the Indian market. Barriers to the services trade, like India’s data-localization policies, are therefore serious obstacles to the long-term objective of correcting the trade imbalance. The complexities in this regard are much more challenging than trying to free up trade by reducing tariffs.

From an Indian perspective, tariffs have served a protective economic purpose. On several occasions, these tariffs, as in other countries, have protected the economic

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4 Office of the US Trade Representative (2019), 2019 National Trade Estimate Report on Foreign Trade Barriers, (Washington, D.C.: USTR), [https://ustr.gov/sites/default/files/2019\\_National\\_Trade\\_Estimate\\_Report.pdf](https://ustr.gov/sites/default/files/2019_National_Trade_Estimate_Report.pdf).

5 Department of Industrial Promotion and Policy (2018), “Press Note No. 2 (2018 series)” (Ministry of Commerce & Industry, Government of India, December 26), [https://dipp.gov.in/sites/default/files/pn2\\_2018.pdf](https://dipp.gov.in/sites/default/files/pn2_2018.pdf).

interests of specific domestic producers in both agriculture and manufacturing. If tariffs cannot be entirely removed, however, they can certainly be reduced to levels that are politically “acceptable” to domestic constituencies. As measures to mobilize revenues, these tariffs are considered executive notifications and can be changed through executive action. But restrictions on the services trade are in the realm of domestic regulations having wider implications, and are therefore much more difficult to change or remove. Removing restrictions on retail trade will require consultations with a much wider group of constituents, including both small, unorganized retailers and large domestic retailers, both of which have strong lobbies and political influence. Changing the data laws, such as those introduced by RBI, will be even more difficult, requiring extensive, multi-stakeholder consultations with businesses, regulators, and civil society, parts of which are now prominent actors in the push for data localization.

The US probably was not expecting Indian data laws to move in a direction that hinders the ecosystem of global e-commerce and cross-border data flows. It should realize, however, that India’s data nationalism is unlikely to change. By refusing to join the informal global e-commerce talks initiated by more than seventy WTO members, including the US, the EU, Japan and China, India has made its defensive intentions clear.<sup>6</sup> India is also clearly aware of the size of its domestic market and its vast growth potential, particularly for data-intensive global businesses. It has not hesitated to play the “carrot-and-stick” game: balancing the “carrot” of its huge market against the “stick” of data localization. It has gotten away with it up till now, and most US businesses, including the unwilling WhatsApp, have complied with local-data storage rules.<sup>7</sup>

At this stage, the prospects of a trade package are not strong, and consultations appear to be back where they started. The unilateral US tariffs were launched in the hope of making countries more willing to talk about sustainable, bilateral trade deals. While the strategy seems to have produced some results among partners like Canada, Mexico, South Korea,

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6 Amitendu Palit (2019), “Why is India refusing to join WTO ecommerce talks”, Financial Express, March 7, <https://www.financialexpress.com/opinion/why-is-india-refusing-to-join-wto-e-commerce-talks/1507441/>.

7 Shweta Ganjoo (2019), “WhatsApp agrees to comply with RBI payment data storage norms”, India Today, April 10, <https://www.indiatoday.in/technology/news/story/whatsapp-agrees-to-comply-with-rbi-payment-data-storage-norms-1497423-2019-04-09>.

Japan, and even to an extent China, it has not yet been successful with India, and India's new domestic regulations have created bigger challenges for the US.

Moving forward from here will be difficult, but not impossible. Both the US and India need to realize that durable strategic relationships cannot exclude agreements on trade. The fact that bilateral India-US trade is growing is itself an encouraging sign. Positive signals from either side can resurrect trade consultations. The Indian side could send a signal by permitting foreign businesses to store a live copy of their data locally, rather than insisting that sensitive personal data be stored exclusively on local servers. A willingness to join global e-commerce talks, even if on specific conditions, would be another positive signal. On the other hand, the US must recognize the importance of reciprocity, to the extent that domestic politics allow, in areas of Indian interest such as the movement of Indian professionals to the US. The larger task for both countries, but perhaps especially for India, will be to decide how special they want bilateral trade relations to be, and to signal accordingly.

## Prospects for US-India Cooperation in Afghanistan: Limited but Real

Michael Kugelman

*Despite substantial constraints, opportunities still exist for the United States (US) and India to collaborate in Afghanistan in the short and longer term, thanks to a strong bilateral partnership and shared goals.*

In January 2019, US President Donald Trump made a mocking reference to India's contributions in Afghanistan. "I get along very well with India and Prime Minister [Narendra] Modi", he said. "But he's constantly telling me he built a library in Afghanistan. OK, a library. That's like...five hours of what we spend [in Afghanistan] .... And we're supposed to say, 'Oh, thank you for the library.'"<sup>1</sup>

Trump's what-have-you-done-for-me-lately-in-Afghanistan message wasn't new. When he announced his new South Asia strategy in 2017, he said that "India makes billions of dollars in trade with the United States, and we want them to help us more with Afghanistan."<sup>2</sup>

In reality, India has done plenty in Afghanistan. New Delhi is one of Kabul's biggest bilateral donors, and it has provided about US\$3 billion in assistance—most of it non-security—since 2001.

And yet, when it comes to Afghanistan, there are disconnects between India and the Trump administration that go well beyond questions of burden sharing. In recent months, the US government has held direct talks with the Taliban in an effort to launch a formal peace process. The negotiations have been assisted by Islamabad and do not include Kabul. Neither reality sits well with New Delhi, which supports a reconciliation process led by the Afghan government that relegates Pakistan to the margins.

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1 Tom Embury-Dennis (2019), "Trump Mocks India's Prime Minister Narendra Modi Over Library in Afghanistan: 'I Don't Know Who's Using It,'" Independent, January 3, <https://www.independent.co.uk/news/world/americas/us-politics/trump-narendra-modi-india-library-afghanistan-war-press-conference-cabinet-a8709286.html>.

2 Whitehouse.gov (2017), "Remarks by President Trump on the Strategy in Afghanistan and South Asia", August 21, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-strategy-afghanistan-south-asia/>.

Furthermore, the very nature of the US-Taliban talks—which appear to be prioritizing an American troop withdrawal deal over a ceasefire agreement and political settlement—provokes anxiety in New Delhi. This is because of the risk that American troops, due to President Trump’s haste to head for the exits, could start leaving before the Taliban has stopped fighting and started negotiating a post-war political arrangement with Kabul.

## **Constraints to Cooperation**

Unsurprisingly, there are limits to cooperation.

### Development

So long as the war rages on, insecurity will complicate efforts to partner on joint development projects and other on-the-ground activities. Furthermore, a US military withdrawal would constrain future collaboration, given that few American or Indian civilians would remain in Afghanistan in the absence of the security umbrella provided by the US military. Overall, Trump’s strong desire to withdraw means that the window for on-the-ground cooperation may not be open for long. All this is to say that continued if not worsening instability in Afghanistan in the coming months and years will likely preclude US-India development cooperation.

To the extent possible, however, Washington should support existing regional infrastructure projects that pass through Afghanistan and include India. Washington already backs the Turkmenistan-Afghanistan-Pakistan-India gas pipeline project. Additionally, in 2019, the Trump administration wisely decided to exempt Iran’s Chabahar port project from reimposed US sanctions on Iran. Chabahar is part of a cross-border connectivity initiative involving India, Iran, and Afghanistan that entails US\$500 million in Indian support for the development of the port of Chabahar in southern Iran and the construction of roads northward into Afghanistan. These projects can bring Afghanistan better infrastructure, increased trade, and overall greater development—desirable outcomes not just for Afghanistan, but for India and the US as well.

### Diplomacy

Despite potential opportunities, regional diplomacy is another area where prospects for US-India cooperation are limited. The potential opportunities lie in the dynamics of relations

between Washington, New Delhi and Afghanistan's neighbors. New Delhi gets along well with Iran and Russia, key players with whom Washington's relations are strained. And while Washington's relations with Islamabad may be troubled, they are much better than that of New Delhi. In theory, America and India could try to leverage relations with each other's rivals to advance shared interests in Afghanistan. New Delhi, for example, could press Tehran to decrease the arms shipments it has provided to the Taliban in recent years, or push the Russians to ensure that meetings between Afghan politicians and the Taliban that have taken place in Moscow are better coordinated with the separate US-Taliban negotiations in order to avoid undercutting the US-led track. And Washington could press Islamabad to scale back its role in negotiations.

In reality, given their strong interest in undercutting their American rival, Tehran and Moscow would be unlikely to respond positively to India. They have a greater motivation to hinder US efforts than to address Indian requests. Meanwhile, given that Washington views Islamabad as a useful player in Taliban talks, it will not risk antagonizing the Pakistanis by pushing Islamabad to downsize its role. At any rate, Pakistan, which badly wants a major role, would not lighten its footprint if asked.

### **Favorable Conditions for Cooperation**

Despite these constraints, there are still grounds for US-India cooperation in Afghanistan.

First, US-India disagreements about Afghanistan are not as deep as they may seem. Trump's complaints about New Delhi not doing enough can actually be interpreted as a compliment: I like what you're doing, and I'd like you to do more of it.

Some Indian press reports have suggested that the Trump administration's desire for more Indian contributions includes troop deployments—a no-go area for New Delhi. But as Trump himself said when announcing his South Asia strategy, the administration is largely calling on New Delhi to increase economic and development support.

There has been no formal US request for Indian boots on the ground. Suggestions to the contrary may have been prompted by two sets of offhand comments made by Trump. One was in January 2019, when he asked, "why isn't India" (or Russia, or Pakistan) in

Afghanistan—part of a broader tirade about Americans having to fight wars for others.<sup>3</sup> The other was an encounter between Modi and Trump on the sidelines of an ASEAN and East Asia summit in Manila in November 2017, when Trump reportedly asked Modi, “Why doesn’t India put troops in Afghanistan?”<sup>4</sup>

Additionally, while India may oppose talks with the Taliban that exclude Kabul, New Delhi has not rejected them outright. It sent two retired diplomats to represent India at a dialogue with the Taliban and Afghan political leaders (but not government officials) in Moscow in November 2018, and New Delhi has informally reached out to Taliban representatives in recent years, suggesting some baseline of receptiveness to engagement with the insurgents.<sup>5</sup>

Second, Washington and New Delhi get along more than well enough to cooperate in Afghanistan, despite their disagreements. The US-India relationship—thanks in great part to a rapidly growing defense partnership—is blessed with enough goodwill to easily withstand tensions generated by Trump’s complaints about India punching below its weight or by differences over US-Taliban talks.

The third reason why US-India cooperation is possible in Afghanistan is that both sides largely agree on desired endgames. Both seek an end to the war, and a post-war political arrangement with limited Pakistani influence. Both want Taliban safe havens in Pakistan to be eliminated, and for international terror groups to be denied space in Afghanistan. Ultimately, both wish for Afghanistan to be more stable and prosperous.

## Potential Areas for Collaboration

There are several ways that the US and India can partner in Afghanistan in the short and longer term.

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3 Yashwant Raj (2019), “‘Why Isn’t India There’: Trump Signals Military Presence in Afghanistan”, Hindustan Times, January 3, <https://www.hindustantimes.com/world-news/why-isn-t-india-there-trump-signals-military-presence-in-afghanistan/story-2SLEVZZ8xj7yJxeevkeOsN.html>.

4 Shubhajit Roy (2018), “Ten Months after Donald Trump Poser to Narendra Modi, US Steers Clear of Request for Troops in Afghanistan”, Indian Express, September 9, <https://indianexpress.com/article/india/ten-months-after-donald-trump-poser-to-narendra-modi-us-steers-clear-of-request-for-troops-in-afghanistan-5346726/>.

5 Harsh V. Pant and Avinash Paliwal (2019), “India’s Afghan Dilemma is Tougher Than Ever”, Foreign Policy, February 19, <https://foreignpolicy.com/2019/02/19/indias-afghan-dilemma-is-tougher-than-ever/>.

## Short Term

Washington should double down on its core demands in its current talks with the Taliban—demands that also align with New Delhi’s interests. These include a Taliban ceasefire and a commitment to launch negotiations with Kabul. Washington should insist that both demands be preconditions for a US withdrawal, and that American forces won’t begin leaving until the insurgents have laid down their arms and begun talks with Kabul on a post-war political settlement. Furthermore, US negotiators should insist that any troop withdrawal deal allow for a small residual American troop contingent, and that these troops retain access to military bases.

New Delhi, meanwhile, should leverage its warm relations with the Afghan government and convey messages of assurance to Kabul that Washington remains committed to an Afghan-led reconciliation process and is actively trying to convince the Taliban to bring Kabul into talks. This Indian diplomacy would serve two useful purposes. First, it could help defuse deepening US-Afghanistan tensions over Kabul’s exclusion from US-Taliban negotiations—tensions that boiled over in March 2019, when Afghan National Security Advisor Hamdullah Mohib, in comments to reporters in Washington, accused Zalmay Khalilzad, the lead US negotiator, of trying to delegitimize the Afghan government.<sup>6</sup> Second, India’s outreach to Kabul would signal to both the Afghan government and the Taliban that Washington and New Delhi can present a common front, despite differences on the nature of talks.

Admittedly, the Taliban has most of the leverage—unlike Washington, it is in no rush to conclude a deal—and US negotiators will struggle to get all their demands met. Still, American and Indian interests in Afghanistan are best served by having Washington hold firm as long as it can.

New Delhi can address Trump administration concerns about insufficient Indian contributions by providing fresh assistance where immediate needs are greatest. One option could be contributing more funds to current United Nations (UN) humanitarian efforts. Afghanistan was convulsed by deadly floods in March 2019 after experiencing one of its worst droughts in

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<sup>6</sup> Jennifer Hansler and Kylie Atwood (2019), “Senior Afghan Official Accuses US Envoy of ‘Delegitimizing’ Afghan Government”, CNN.com, March 14, <https://www.cnn.com/2019/03/14/politics/mohib-khalilzad-afghanistan-row/index.html>.

years, and nearly four million Afghans are estimated to be “one step away from famine.” And yet, UN officials have reported with alarm that the organization’s latest humanitarian appeal is woefully underfunded.<sup>7</sup>

India should also fulfill its pledge to complete the transfer of two sets of fighter helicopters to Afghanistan. The first set of four was transferred in 2016, and the first two of the other set of four were transferred in May 2019. India should endeavor to transfer the remaining two as soon as possible. The Afghan air force is arguably the most capacity-constrained branch of the Afghan military—no small matter, given the importance of air cover for ground troops fighting the Taliban. New Delhi, by providing these additional aircraft, would bolster Afghan counterinsurgency capabilities.

### Long Term

First, Washington should consult New Delhi closely about US interactions with any future Afghan government—especially one with Taliban representation that might resist engaging with New Delhi. Washington would make a big mistake by failing to keep its most important partner in South Asia informed about its diplomatic activities in Afghanistan.

Second, Washington should not exit the region diplomatically after it is no longer actively fighting in Afghanistan. It should remain engaged multilaterally—with Afghanistan, India, and the broader region. Washington should use the US-India-Afghanistan trilateral dialogue as a vehicle for cooperation, although, admittedly, an Afghan government with Taliban representation may reject such a mechanism. The US should also consider pursuing observer status in regional forums that include India and focus on Afghanistan—from the Shanghai Cooperation Group to the Heart of Asia initiative.

Third, counterterrorism and intelligence sharing are perhaps the most important forms of long-term US-India partnership in Afghanistan, particularly given their potential to help manage security risks that will constrain other forms of cooperation.

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<sup>7</sup> Haroon Janjua and Karen McVeigh (2019), “Chilling Reality’: Afghanistan Suffers Worst Floods in Seven Years”, Guardian, March 6, <https://www.theguardian.com/global-development/2019/mar/06/chilling-reality-afghanistan-suffers-worst-floods-in-seven-years>.

Accordingly, America and India should share information about the movements and locations of terrorists who threaten their respective interests in Afghanistan. Additionally, Washington should help New Delhi track India-focused terrorist organizations that may take advantage of worsening insecurity in Afghanistan and carve out new bastions from which to plan attacks in India. Two of these groups, Lashkar-e-Taiba and Jaish-e-Mohammad, have had a presence in Afghanistan in the past. Washington's intelligence collection may be hampered, however, if it does not retain a small troop contingent and access to bases in Afghanistan following a withdrawal.

### **Conclusion**

Prospects for US-India cooperation in Afghanistan are admittedly limited. However, thanks to a strong bilateral partnership and shared goals in Afghanistan, opportunities still exist for the two sides to work together now and in the longer term.



## US-India Cooperation in Afghanistan

Rani D. Mullen

*Under President Donald Trump, America's policy towards Indian engagement in Afghanistan has shifted, from one that was wary of India flexing any hard-power muscle, lest it offend Pakistan's sensibilities, to one that has called on India to "do more" in Afghanistan. India is already the largest regional donor to Afghanistan, and it has been working on a variety of smaller, triangular development cooperation projects in Afghanistan with the United States (US). In 2018, it also stepped up triangular cooperation in the areas of trade and investment. Yet, US peace talks with the Taliban have left India worried about the security fallout of a potential peace agreement, leading to discussions in Indian policy circles of further increasing triangular cooperation with the US and Afghanistan, though specifics have been scarce. This paper analyzes the relationship between the three countries and offers suggestions for greater triangular cooperation.*

### **Pakistan, the Fourth Player in the Afghanistan-India-US Triangular Relationship**

The US government has always walked a tightrope in its relationship with, and expectations of, India's engagement in Afghanistan. American involvement in Afghanistan has been routed through Pakistan since the 1980s, when the US, in a proxy war with the Soviet Union, supported the Mujahedin troops fighting the Soviet-backed government in Kabul. The end of the Cold War led to US disengagement from Afghanistan, but the September 11, 2001, attacks on the US, whose perpetrators were hosted by the Afghan Taliban government, led the United States to reengage in Afghanistan. This reengagement came with the realization that an American presence in landlocked Afghanistan depended heavily on Pakistan, particularly for supplying US troops and personnel and rooting out remnants of al-Qaeda. Pakistan was one of only three countries that officially recognized the Taliban government in Afghanistan during the late 1990s, and it has historically had a policy of maintaining and even enlarging its sphere of influence in Afghanistan.

It is this US perception of "dependence" that has made Pakistan the de facto fourth player in the triangular Afghan-American-Indian relationship. Since 2001, official protestations to

the contrary, there has been significant evidence that Pakistan's Inter-Services Intelligence (ISI) has maintained its "strategic depth" in Afghanistan by hosting, funding and seeking to legitimize its proxies—the Taliban, the al-Qaeda-linked Haqqani network, and the ISI pawn Gulbuddin Hekmatyar and his fighters.<sup>1</sup> In this double game with the Americans, the ISI has continued to provide sanctuary and support for the Taliban and even al-Qaeda-affiliated groups on the one hand, while cooperating with the US on the other, allowing supplies bound for Afghanistan to transit its territory in exchange for hundreds of millions of dollars in subsidies and an implicit understanding that the United States would not allow India a large presence in Afghanistan.<sup>2</sup>

This double game created an environment after September 11 in which America supported Indian soft-power engagement in Afghanistan—through foreign aid, training military personnel, and providing health and education services for Afghans in India—but repeatedly discouraged India from any more significant engagement.

### **Changed and Changing Dynamics in the Triangular Relationship under the Trump Administration**

American policy towards Indian and Pakistani engagement in Afghanistan, however, changed with the advent of the Trump administration in 2016. As questions grew in Washington, D.C., about Pakistan's obstruction of US policy, the Trump administration, in 2017, changed its approach to Pakistan and, with that, its approach to India in Afghanistan. In a speech that laid out his South Asia policy, Trump publicly chastised Pakistan for accepting American foreign aid while sheltering the very terrorists the US was fighting.<sup>3</sup> Under Trump's new South Asia policy, the US suspended virtually all security assistance and foreign aid to Pakistan in order to pressure it into changing its policy towards Afghanistan. At the same time, the US sought to develop its strategic partnership with India and called upon India to help the US "do more with Afghanistan, especially in the area of economic assistance and development."<sup>4</sup>

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1 Peter Tomsen (2014), "The Good War?" *Foreign Affairs*, November/December, <https://www.foreignaffairs.com/articles/afghanistan/2014-10-19/good-war>.

2 See in particular the accounts in Steve Coll (2018), *Directorate S* (New York: Penguin Press) and Carlotta Gall (2014), *The Wrong Enemy* (New York: Houghton Mifflin Harcourt).

3 Whitehouse.gov (2017), "Remarks by President Trump on the Strategy in Afghanistan and South Asia", August 21, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-strategy-afghanistan-south-asia/>.

4 Ibid.

By early 2019, however, the US had made another U-turn in its Afghanistan strategy. Where previous policy had predicated US presence or withdrawal on conditions on the ground rather than “arbitrary timetables”, the new policy has prioritized US peace talks with the Taliban in order to allow the US to exit Afghanistan, ideally before the US elections in 2020. This policy change increased Pakistan’s leverage with the US once again, since Pakistan is viewed as essential to establishing negotiations with the Taliban, many of whom still find refuge in Pakistan. This has led the US administration to backpedal on its earlier, tougher policy towards Pakistan.

### **Prospects for Increasing Indian Engagement in Afghanistan**

Despite the 2018 policy change towards a softer line on Pakistan, the US in 2019 still continued to encourage Indian burden-sharing, both in fostering economic development in Afghanistan and in fighting the Taliban and delivering peace, including through triangular cooperation with the US.

India, with US\$3 billion in foreign aid committed to Afghanistan, of which approximately US\$2 billion has been disbursed to date, is already the largest regional donor in dollar terms, and all of this development assistance has been in the form of grants. Indian assistance to Afghanistan is even larger when measured in terms of purchasing power parity (PPP), bringing Indian commitments to Afghanistan closer to US\$13 billion in PPP dollars.

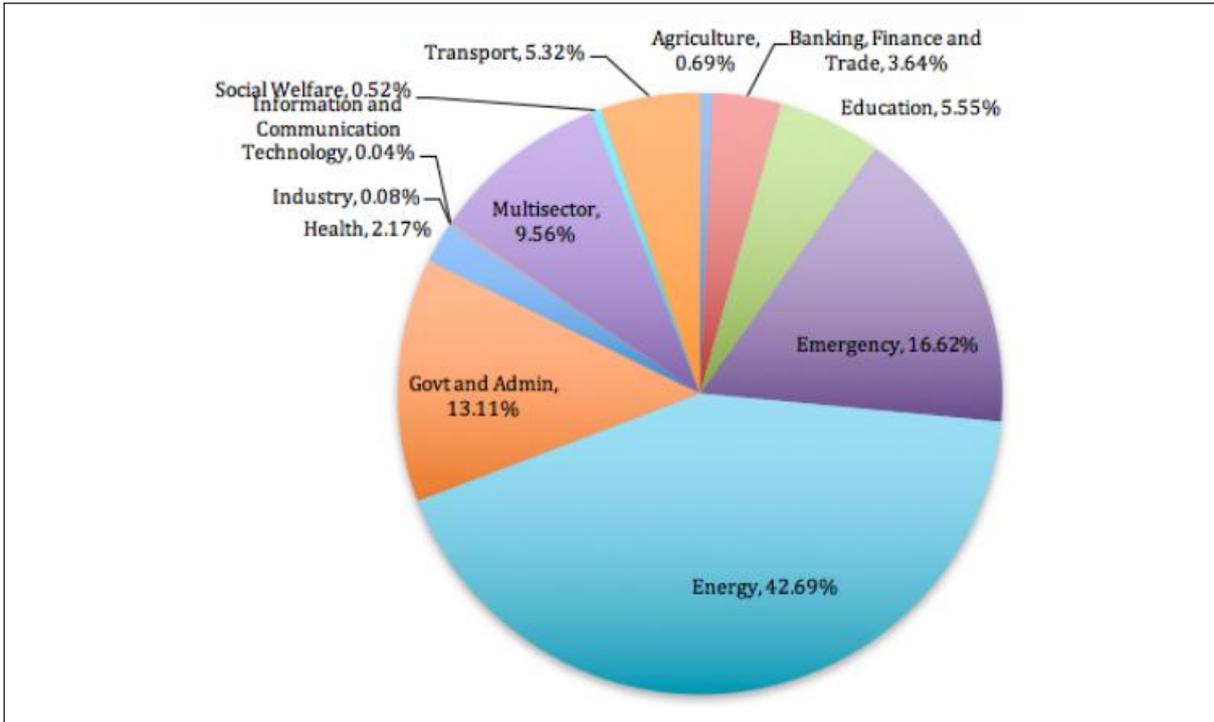
While previous US policy was to not encourage Indian military assistance in Afghanistan, for fear of antagonizing Pakistan, India is now being asked to step up its military assistance, though without sending troops. Specifics of the enhanced role for India envisioned by the US administration remain unclear. India, for its part, has already stepped up its development assistance to Afghanistan, including some military assistance, but it has ruled out boots on the ground, except possibly in the form of a peacekeeping arrangement should the Afghan government request it. It is also preparing for an Afghanistan after the withdrawal of American troops, by developing its transport links to the country through Iran’s Chabahar port, on the Gulf of Oman, and through the Central Asian states. It is also quietly supporting Afghanistan’s request for land connectivity with India through Pakistan and is reviewing possibilities for greater political and military assistance. The following section lays out

areas where India has increased its engagement in Afghanistan since the advent of the Trump administration, other areas of cooperation with Afghanistan, and areas of triangular cooperation with the US.

**Assistance for Infrastructure and Human Development**

Indian assistance to Afghanistan since the early part of the century has increased significantly. It has also largely focused on rebuilding critical infrastructure, such as the Afghan parliament building, the Afghan-India Friendship Dam, and the Delaram-Zaranj Highway, which connects the road at the Iranian border with Afghanistan’s ring road. Indian assistance has also targeted human development, through projects such as upgrading the Children’s Hospital in Kabul and providing 2,000-2,500 training fellowships and scholarships to Afghans each year; and it also includes humanitarian assistance, such as providing vitamin-fortified biscuits to two million Afghan school children daily and free medicines and medical services for over 30,000 Afghans inside the country each month. In addition, Indian assistance to Afghanistan has included several helicopter gunships bought from Belarus. Moreover, except for some increase in military assistance, overall sectoral allocations for projects in the pipeline are similar to the types of projects India has supported since 2003–04.

**Figure 1: Sectoral Breakdown of Indian Assistance to Afghanistan, 2006/07 to 2016/17**



Source: Indian Development Cooperation Research, Centre for Policy Research

Yet, while sectoral allocations of Indian aid have remained similar over the past 16 years, the level of aid has fluctuated by year and government administration. Indian aid to Afghanistan had peaked in 2012-13, under the previous Indian administration of Prime Minister Manmohan Singh, at US\$200 million.<sup>5</sup> But by 2016-17, the third year of the Narendra Modi administration, grants and loans to Afghanistan had decreased substantially, to ₹2.6 billion (approximately US\$39 million), before increasing slightly in 2017-18, to ₹3.5 billion (approximately US\$54 million), and remaining at that level for 2018-19, with a marginal increase projected for 2019-20.<sup>6</sup> However, in 2018, Modi, committed India to providing US\$1 billion in aid over the five-year period 2018–2023. Given this commitment, and the fact that less than US\$250 million was committed through 2019-20, the next few years are likely to see significant increases in Indian assistance to Afghanistan, particularly commitments to larger infrastructure projects.

### **Chabahar Port**

One specific area where India had planned to assume a greater share of the burden of Afghanistan's economic development was in developing an alternative trade route to the Indian Ocean that did not rely on Pakistan. Since Pakistan continues to block India and Afghanistan from trading through its territory, India has been providing assistance to develop Iran's Chabahar port into a deep-sea facility to allow greater Indian engagement in Afghanistan and connect land-locked Afghanistan to the world. Yet, these Indian investments may come to naught, due to the US government's decision not to renew exemptions from US sanctions for countries, including India, that buy oil from Iran. While the US, in a clarification, has exempted the operation of Chabahar port due to its role in fostering Afghanistan's economic development, the uncertain financial footing of the port under the US sanctions regime remains a serious obstacle to further Indian investment.

India entered discussions with Iran on Chabahar in 2003, but only formalized its commitment to expand the port in May 2016, in a three-way memorandum of understanding (MoU) between India, Iran and Afghanistan. Together, the three countries committed US\$21 billion to develop the corridor between Chabahar port in Iran and the Hajigak iron ore mines in

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5 Author's calculations, based on unpublished IDCR database at the Centre for Policy Research, New Delhi.

6 Ibid.

central Afghanistan, for which India obtained the mining concessions. These agreements included Indian commitments of US\$85 million for the development of Chabahar port, a US\$150 million line of credit given by India to Iran, a US\$8 billion MoU for industrial investments by India in the Chabahar Special Economic Zone and the US\$11 billion Hajigak mining project, and an Indian commitment to invest US\$2 billion in supporting infrastructure in Afghanistan, including the Chabahar-Hajigak railway.

While Chabahar was already a functional port prior to India's engagement, Indian investments quadrupled the volume of cargo handled by the port. The work was completed in just 18 months. While work on the port expansion was still ongoing, India was able to send its first consignment of food aid, in the form of wheat, to Afghanistan through Chabahar port in October 2017—a couple of months before the first phase of the enlarged port was inaugurated in December 2017, and a year before India took over operations of the Shahid Beheshti section of Chabahar in December 2018.

Yet, American sanctions on Iran, and on all countries that buy oil from Iran, which came into effect in November 2018, are now a major obstacle to both Indian efforts to increase its assistance to Afghanistan and American efforts to support economic growth in Afghanistan through increased trading opportunities. Though India, a buyer of Iranian oil, was initially given a six month exemption from sanctions, working through international markets to buy Iranian oil and pay for it in hard currency became increasingly difficult. In late 2018, India therefore created a mechanism to pay for Iranian oil in Indian rupees through an Indian bank.

By the beginning of 2019, India and Iran had agreed to further enhance connectivity from Chabahar to Afghanistan by adding a railroad line to the road linking the port with the Afghan border. India also placed US\$85 million in orders for machinery and rails for the port. Chabahar port, and the Transit and Transport Corridor agreement among India, Iran and Afghanistan, were seen as feeding into the International North-South Transport Corridor connecting India and Iran with Central Asia, Russia, and Europe.

India's 10-year contract to equip and operate Chabahar, and its significant investments in the Iranian port since signing the contract in 2016, were driven by the idea that aid and goods

traveling from India to Afghanistan through Chabahar, and Iranian crude oil traveling from Chabahar to India, would justify these investments financially. Yet, these investments, and India's strategy of deeper engagement in Afghanistan through the Chabahar port, are now in question due to the American sanctions on Iran and the May 2019 decision to no longer give India an exemption. By not at least continuing India's waiver from these sanctions, the US is undermining its own interest in getting India to engage more deeply in Afghanistan and improving the Afghan economy. A change in US policy towards Indian investments in Chabahar port is therefore key to America's greater goal of increasing Indian burden sharing in Afghanistan.

### **Beyond the Usual: Potential New Areas of Indian Engagement in Afghanistan**

Despite India's significant development contributions to Afghanistan to date, President Trump's 2017 South Asia policy and other statements since then clearly indicate that he expects India to engage more deeply. The good relations between India and Afghanistan have been built on development cooperation, and increasing that cooperation should be one aspect of India's deepening engagement in Afghanistan. India has a vested interest in peace in Afghanistan, because, as laid out by US special representative Zalmay Khalilzad in May 2019, peace in Afghanistan would prevent its use as a platform for terrorist attacks, and would also bring enhanced regional connectivity and trade.<sup>7</sup> But the US has made few specific suggestions, and with India's strategy in Chabahar threatened by policies of the current US administration, India should explore other avenues of engagement in Afghanistan.

- i. **Promoting Connectivity:** One area of mutually beneficial cooperation that India should explore is enhancing connectivity between the two countries beyond the Chabahar port initiative. Commercial aviation is already an important means of trade between them. Other initiatives have perhaps been insufficiently appreciated, particularly efforts to increase land connectivity through Pakistan. For example, Afghanistan and Pakistan have been negotiating the Pakistan-Afghanistan-Tajikistan Transit Agreement, but the negotiations stalled in May

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<sup>7</sup> US Mission in India (2019), "U.S. Embassy Statement on the Visit of US Special Representative for Afghan Reconstruction Zalmay Khalilzad", US Embassy and Consulates in India website, May 7, <https://in.usembassy.gov/u-s-embassy-statement-on-the-visit-of-u-s-special-representative-for-afghan-reconciliation-ambassador-zalmay-khalilzad/>.

2019 when Pakistan refused to grant Afghanistan access to India through its territory in exchange for Pakistan's access to Tajikistan through Afghan territory. American pressure on Pakistan to support connectivity between Afghanistan and India could greatly enhance trade and development in all three countries.

- ii. Enhanced Security-Sector Engagement without Boots on the Ground: Another area where cooperation between India and Afghanistan should improve is strengthening the Afghan security sector without sending troops to Afghanistan. While India already trains some Afghan military officers in India, it could expand this training in numbers and include intelligence officers and other security personnel. India could also accede to Afghanistan's long-standing request for small arms and nonlethal security hardware such as intelligence equipment and more transport helicopters. Finally, India could step up its intelligence sharing with Kabul to further their common interest in preventing the spread of terrorism in the region.
- iii. Direct Subcontracting of US Aid by Indian Companies. Another way to increase Indian engagement in Afghanistan would be to allow more direct Indian bidding on US aid contracts. This already exists de facto through subcontracting arrangements between US consulting agencies that obtain the contracts and Indian subcontractors, who in several cases have actually built and delivered the projects on the ground in Afghanistan. Allowing Indian contractors to bid on American foreign aid contracts in Afghanistan would save American taxpayers the significant overhead charged by American contractors.
- iv. Further Triangular Cooperation between Afghanistan, India, and the US. Since aid dollars spent in India buy more goods and services than dollars spent in America, increased triangular development cooperation would benefit all three countries. Triangular cooperation builds on India's comparative advantage as a low-cost country that is culturally similar to Afghanistan, while the US has a bigger aid budget to spend. Particularly in light of the deteriorating security conditions on the ground, joining US aid funds with lower-cost Indian delivery has significant

advantages, including making assistance more sustainable. Several triangular cooperation projects funded by the US Agency for International Development (USAID) have been remarkably successful, including the “Feed the Future” Indian Triangular Training Program, a partnership with India’s Self-Employed Women’s Association to provide vocational training to over 3,000 women in Afghanistan, and the USAID-sponsored “Passage to Prosperity: India-Afghanistan Trade and Investment Show” in 2018. Scaling up and diversifying triangular development cooperation would be a win for all three countries and would deepen India’s engagement in Afghanistan.

### **Greater US Flexibility and Cooperation with India Will Deepen India’s Engagement in Afghanistan**

India and the US have a shared interest in a democratic, stable, and sovereign Afghanistan. While India has been the fifth-largest donor to Afghanistan over the past decade, India’s security and its economy have also benefitted from the US/ North Atlantic Treaty Organization (NATO) security umbrella in Afghanistan. It is therefore in India’s strategic interest to devote greater resources to Afghanistan in the ways suggested above. But America’s interest in promoting greater Indian burden sharing in Afghanistan also recommends a more flexible US approach, particularly towards India’s relationship with Iran. Making Indo-Afghan trade through Chabahar port financially viable would provide Afghanistan with trade-route alternatives to Pakistan and reign in potential Iranian political engagement with the Taliban, and it is in the interest of all countries involved. Similarly, American pressure on Pakistan to permit greater connectivity and trade between Afghanistan and India would benefit not only India and Afghanistan, but also Pakistan. There are several potential avenues for greater Indian burden sharing in Afghanistan, but they will only bear fruit if the US administration shows greater flexibility on India’s relationship with Iran and Pakistan.



## India, the US and the Free and Open Indo-Pacific: Confluence over the Two Seas?

Tanvi Madan

*When Donald Trump won the 2016 United States (US) election, there was considerable uncertainty in India about his approach to the international order, the Asia-Pacific region, and India itself. The Trump administration's Free and Open Indo-Pacific concept—and the view that it reflects of the challenges and opportunities in the region—has helped alleviate some of those concerns. It is now helping to drive the US-India relationship. But it has also reinforced some anxieties and created new ones.*

### **Trump, the Indo-Pacific and India**

In late 2016, Delhi had a number of questions about President-elect Trump's future foreign policy. These included what approach he would take to the Asia-Pacific. Would he be tough on China or do a deal with it? Would he reduce or add conditions to the American role in Asia, as he had suggested during the campaign, or heed his advisers advocating for continuing commitment to Asian allies and greater military spending?

There were also questions about Trump's India policy. Would it figure as a priority at all? And how transactional would the president-elect be? India had benefited significantly from the strategic view that Bush and Obama had taken of the country. They had seen the relationship with India as an investment, one that might have limited pay-offs for the US in the short term, but that would show major strategic and economic returns over the medium-to-long term. Thus, despite their other domestic and foreign policy preoccupations, they had devoted time, attention, and resources to India, even making exceptions for it at times. Trump, however, was known to be far more transactional than his predecessors. So, would his administration subscribe to their strategic view? And what would Trump want Delhi to put on the table?

Some initial signs after he took office, particularly related to the administration's approach to China, caused concern. The Trump–Xi Jinping summit at Mar-a-Lago in April 2017 raised the prospect of a Sino-US deal encompassing trade and North Korea and eventually involving

a broader acceptance by Trump of a spheres-of-influence (or G2) world. An administration official's participation in Beijing's Belt and Road Forum in May only added to Indian anxiety.

However, developments from summer 2017 were more reassuring for India on the Indo-Pacific front. The US-India joint statement after Prime Minister Narendra Modi met with Trump in June in Washington led with the importance of a close partnership between these two "democratic stalwarts in the Indo-Pacific."<sup>1</sup> themes of their 2015 Joint Strategic Vision, it also laid out a set of shared principles for the region. Subsequently, the Trilateral Strategic Dialogue ministerial in August noted the importance of Australia, Japan, and the US ensuring "a free, open, peaceful, stable, democratic, and prosperous Asia-Pacific and Indian Ocean region and world, based on the rule of law."<sup>2</sup> The US-India-Japan ministerial in September specifically highlighted "the importance of a free and open Indo-Pacific region."<sup>3</sup> Significantly, in October, Secretary of State Rex Tillerson outlined the "free and open Indo-Pacific" (FOIP) concept, setting the US-India relationship within that context and highlighting India's critical role in the region.<sup>4</sup> Tillerson, and subsequently the State Department, also suggested supplementing US-India-Japan trilateral cooperation by including Australia. And in November, that led to the revival of the quadrilateral consultations after a decade in abeyance.

Since then, American actions and words—including the president's and vice president's remarks in the region, the National Security Strategy (NSS), the National Defense Strategy (NDS), and the renaming of the US Pacific Command as the US Indo-Pacific Command—have made clear that the FOIP as a concept has staying power.

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1 Whitehouse.gov (2017), "United States and India: Prosperity through Partnership", fact sheet, June 26, <https://www.whitehouse.gov/briefings-statements/united-states-india-prosperity-partnership/>.

2 US Department of State (2017), "Australia-Japan-United States Trilateral Strategic Dialogue Ministerial Joint Statement", media note, August 6, <https://www.state.gov/australia-japan-united-states-trilateral-strategic-dialogue-ministerial-joint-statement/>.

3 US Department of State (2017), "Secretary of State Tillerson's Participation in the Second U.S.-India-Japan Ministerial-Level Trilateral Dialogue", readout, September 18, <https://www.state.gov/secretary-of-state-tillersons-participation-in-the-second-u-s-india-japan-ministerial-level-trilateral-dialogue/>.

4 US Department of State (2017), "Remarks by Secretary Tillerson on 'Defining Our Relationship With India for the Next Century'", transcript, October 18, <https://www.state.gov/remarks-on-defining-our-relationship-with-india-for-the-next-century/>.

## Convergence and Cooperation

This concept has had implications for India and the US-India relationship. The FOIP reiterates—and even amplifies—the “linchpin” role for India envisioned in the Barack Obama administration’s rebalance strategy.<sup>5</sup> It portrays this democratic Asian giant as one of the four critical democratic “anchors” in the region. Thus, in crucial ways, the FOIP has reinforced the strategic rationale for the US-India relationship.

The FOIP fits well with the Modi government’s desire to be a “leading power” and its ‘Act East’ policy, with principles that India also embraces in the Indo-Pacific.<sup>6</sup> These include the importance of a rules-based order; the vision of a free, open, and inclusive region where there is respect for international law; freedom of navigation and overflight; good governance; sustainable development; and the safeguarding of sovereignty and territorial integrity. ‘Act East’ also emphasizes many of the same partnerships as the FOIP, including in South and Southeast Asia. Most importantly for India, ‘Act East’ includes the US, which the Modi government sees as a crucial, if not critical, partner.

Given the importance it places on the US role in the region, Delhi has been relieved—if not pleased—that the FOIP has come with statements, policies, and legislation that emphasize the importance of the Indo-Pacific for American security and prosperity, and within that the continued significance of alliances, partnerships, and regional mechanisms. Moreover, the FOIP is bringing American resources to the region—and not just in terms of military capability. The Better Utilization of Investment Leading to Development Act, which passed with bipartisan support, has paved the way for the establishment of the Development Finance Corporation, with US\$60 billion in resources. This comes at a time when India and Japan have been highlighting the need for quality infrastructure projects in the region that are different from those being offered under China’s Belt and Road Initiative. And it comes with American efforts to do more bilaterally, with Japan, and trilaterally, with Australia and Japan (and India and Japan), in this space. The administration has also announced that under

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5 US Department of Defense website (2012), “Remarks by Secretary Panetta at the Institute for Defense Studies and Analyses in New Delhi”, transcript, June 6, <https://archive.defense.gov/Speeches/Speech.aspx?SpeechID=1682>.

6 Government of India, Ministry of External Affairs website (2016), “Speech by Foreign Secretary at the inauguration of CEIP India Center”, April 6, [https://mea.gov.in/Speeches-Statements.htm?dtl/26602/Speech\\_by\\_Foreign\\_Secretary\\_at\\_the\\_inauguration\\_of\\_CEIP\\_India\\_Center\\_April\\_06\\_2016](https://mea.gov.in/Speeches-Statements.htm?dtl/26602/Speech_by_Foreign_Secretary_at_the_inauguration_of_CEIP_India_Center_April_06_2016).

the FOIP it will double security assistance in the Indo-Pacific and enhance partner capabilities for maritime security and domain awareness, humanitarian assistance and disaster response, and peacekeeping.

Delhi has limited capacity in the broader region, and so partner efforts of this kind are crucial. Even in India's neighborhood, American involvement could facilitate or overlap with Indian interests. Washington can bring diplomatic and financial resources, while carrying less historical baggage. And it has already picked up the pace of engagement in South Asia, not just with Indian Ocean countries like the Maldives or Sri Lanka, but also with Bangladesh and Nepal.

A significant driver of these American efforts—and those of India—is concern about the nature and extent of Chinese involvement and influence in the region. More broadly, through the FOIP, the Trump administration has made clear that it sees China's behavior as the major challenge to a free, open, and rules-based order in the Indo-Pacific. India shares American concerns about China: its uncertain intentions; unilateral changes to the status quo with the threat or use of force, whether in the South China Sea or in the Bhutan-China-India trijunction; trade deficits; limited market access; intellectual property theft; preference for state-owned enterprises and the blurring of public-private sector lines; forced technology transfer; the nature and effect of Chinese economic engagement in the region (exacerbating, among other things, unsustainable debt burdens); and Beijing's use of economic leverage—and even coercion—for strategic and political ends.

Strategic convergence on China has been a major driver of US-India relations in the past, and the Trump administration's competitive view of China and response under the FOIP rubric have once again envisioned a key role for India—as a balancer, as a contrast, and as a like-minded partner willing and able to burden-share. This, in turn, has led to increased defense and security cooperation over the last two years. This has included a cabinet-level defense and diplomatic dialogue, high-level exchanges, regular working-level meetings, progress in technology transfer processes, interoperability agreements, expansion of military exercises, greater institutionalization, and capacity-building work in third countries. It has also driven the upgrading of the US-India-Japan trilateral, the rebirth of the quadrilateral,

communication and cooperation during crises (such as the 2017 Doklam boundary stand-off at the Bhutan-China-India trijunction and the 2019 Pulwama terrorist attack), and coordination in regional and multilateral forums and third countries. And it has given a greater voice in Washington to Indian perspectives and concerns about the broader region.

The US view of India's importance in the FOIP has arguably also shaped the way it dealt with the recent India-Pakistan crisis. In a departure from the American responses to crises in 2001 and 2008, but more akin to the one in 2016, Washington did not try to be even-handed. Senior policymakers recognized that, not just for counter-terrorism reasons, but also because of their desire for Indian partnership in the Indo-Pacific, it was important to tilt toward that country.

The two countries' need for one another in the Indo-Pacific—and as part of their respective China strategies—has also contributed to their willingness to manage differences in the US-India relationship. This was evident in the US granting India at least one six-month waiver from Iran oil sanctions, and Congress giving the president waiver authority to limit the impact on partners like India of the Countering America's Adversaries Through Sanctions Act. It has also been seen in the relatively muted Indian reaction to the US withdrawal of India's trade benefits under the Generalized System of Preferences.

### **Divergence and Difficulties**

But the FOIP itself has been the subject of some differences between the US and India. For one, they have different geographic concepts of the Indo-Pacific: India, unlike the US, includes the western Indian Ocean region (IOR). For another, the US and India have different areas of priority: for India, it is the IOR; for the US, it is the Pacific. And they have had differences on issues in those respective priority areas—for example, the China-Pakistan Economic Corridor and North Korea. Relatedly, India thinks the US' emphasis is on the maritime domain, whereas Delhi also has continental concerns. The US, in turn, is concerned about the technological domain—it wants allies and partners, for example, to exclude Huawei from 5G networks. India, on the other hand, is still debating the costs and benefits of doing so.

The US and India also have different ideas about where other partners fit into their Indo-Pacific strategies. This is particularly evident in the case of Russia. India sees Russia as a partner in its balancing strategy towards China and its effort to build military capability; the Trump administration's NSS and NDS see Russia as an adversary and a disruptor in the Indo-Pacific. Delhi, in turn, has concerns about the US partnering with countries in India's neighborhood as part of the FOIP. And the two countries differ on whether and when values or interests should be given priority in countries like Bangladesh and Myanmar.

The US and India, moreover, see each other as falling short in terms of the FOIP principles. Nowhere is this clearer than in the economic arena. Washington sees India as not that "open" on the trade and investment front. Delhi sees the US as a disruptor of the rules-based order. The economic element of the Obama administration's rebalance strategy had been the Trans-Pacific Partnership. Trump has replaced that with what many in Delhi see as a unilateral approach, using tariffs that have affected not just China, but partners like India as well. With a focus on reducing trade deficits, the president has also specifically targeted India. Add to this India's concern about potential American restrictions on highly skilled immigration, which it considers a trade issue.

The FOIP could also become a source of contention if the US and India fail to fulfill their commitments to the region or fall short in terms of their capabilities. There is uncertainty in India about whether the views of the president and administration officials on the US approach in the region converge. There are also concerns that Trump's desire for a trade deal with China will come at the expense of the FOIP and other regional actors, like India. On the flip side, India worries about Sino-US conflict and being asked to choose sides. The US, in turn, has questions about India's approach to China. There is a sense that Delhi's desire not to provoke Beijing has limited its cooperation with the US and other countries. American policymakers point, for example, to Indian reluctance to upgrade the quadrilateral consultations to the ministerial level, or to include Australia in the US-India-Japan annual maritime exercises.

There are also concerns in the US about whether India is developing sufficient capability—military, economic, bureaucratic, etc.—to play the role that Washington envisions for it.

Delhi, in turn, worries about whether and how the US will deploy its capabilities. It watches with concern the American debate—on the campaign trail and on Capitol Hill—about the nature and extent of American global commitments, and it hopes that the outcome will be rebalancing rather than retrenchment.

## **Conclusion**

The FOIP and 'Act East' provide the strategic rationale for the US-India relationship, and they facilitate the management of differences between the two countries in the Indo-Pacific and beyond. But, for these approaches to drive the relationship and not disrupt it, both countries will have to deliver on these Indo-Pacific strategies. If they succeed, it can propel the partnership forward at an even faster pace; if they fail, it can lead to disappointment, disillusionment, and even disruption in the relationship.



# Prospects for Burden Sharing in the Indo-Pacific

C. Raja Mohan

## Introduction

The idea that India could look beyond the principle of nonalignment in engaging the United States (US) was articulated nearly two decades ago. Visiting the US in the fall of 1998, just a few months after the nuclear tests and the proclamation that India was now a nuclear power, Prime Minister Atal Bihari Vajpayee declared that India and the US were “natural allies.” Since then, four US presidents—Bill Clinton, George W. Bush, Barack Obama and Donald Trump—and three Indian prime ministers—Atal Bihari Vajpayee, Manmohan Singh and Narendra Modi—have steered the relationship towards deeper strategic engagement. The pace of progress—often glacial—has been frustrating for the champions of the relationship in both the US and India. Given the burdensome legacy of political distrust and significant institutional resistance in both capitals, the progress that has been made in the bilateral relationship, especially in the security domain, has been impressive.

This paper argues that Trump and Modi are better placed than their predecessors to break free of the principal sources of tension between the two nations: the US quest for an alliance-like relationship and India’s enduring attachment to nonalignment. The idea of burden sharing, so dear to Trump, and Modi’s willingness to discard the old baggage have created an opportunity for new thinking, and the construction of the Indo-Pacific framework provides a solid regional basis for strategic burden sharing between Delhi and Washington.

## India’s Opportunity

The idea of strategic burden sharing is not new to US foreign policy. It was part of American discourse at an earlier moment, when America sought to cope with strategic difficulties at home and abroad. Confronted with serious domestic backlash against the Vietnam War, and the weakening of America’s economic dominance in the 1960s and early 1970s, Richard Nixon and Henry Kissinger advanced the notion of “Asianizing” the war against communism in Southeast Asia and founding US policy in the Middle East on partnerships with key regional powers like Iran and Saudi Arabia. This period saw the US manage its vulnerabilities through

a carefully constructed detente with Soviet Russia and opening up to Communist China. There was also much clamor in the US Congress for greater burden sharing from America's North Atlantic Treaty Organization allies in Europe, who were seen as "free riding" on US largesse.

The pressures to continue in this direction ended as the Reagan Administration pursued more robust American engagement in the world and the reassertion of US leadership. The collapse of the Soviet Union, and the unipolar moment at the turn of the 1990s, left no room for notions of burden sharing. The idea of American 'leadership' grew ever more expansive during the two terms of the Bush Administration (2001-09). But in the wake of the financial crisis of 2008, and amid the challenges of a rising China and an again assertive Russia, the Obama administration (2009-17) drifted towards more modest international goals.

The last years of Obama's tenure saw renewed American emphasis on burden sharing. Trump has moved the US much more precipitously in that direction, enunciating a clear, if crude, conception of sharing the strategic burdens of America. Given the depth of change in the international environment, the shift towards burden sharing may be irreversible this time around. It is an idea that should have great appeal for an India that is rising in the international system and seeking a larger role for itself. The notion of burden sharing gives India a way out of the dilemma between the notion of a natural alliance on the one hand, or strategic autonomy on the other.

### **New Possibilities**

Although Bush and Obama were enthusiastic about constructing an alliance-like relationship with India, Delhi appeared reluctant. The ambivalence of the United Progressive Alliance (UPA) government towards relations with the US was reflected in its conscious efforts to slow the momentum of the strategic partnership. If the parties of the political left, which had a key role in the first term of the UPA government (2004-09) were ideologically hostile to a military partnership with America, the Congress Party leadership seemed unwilling to let PM Manmohan Singh embrace the US. While the partnership limped forward in the second term of the UPA (2009-14), it was left to Modi to reverse this "historic hesitation." Modi's biggest contribution to Indian foreign policy in his first term (2014-19) has been to lead the Indian establishment past its fixation with nonalignment.

Although the principal ideological makeover of Indian foreign policy after 1991 was about moving beyond nonalignment, India's strategic community could never really shake off the old demons. Modi, however, built his foreign policy on the recognition that India's position in the international system had undergone a fundamental transformation. High rates of economic growth since 1991 had produced steady improvement in India's relative position in the international system, elevating it to the world's sixth-largest economy (in nominal terms), on its way to becoming the third-largest. Modi saw India's potential to become a pole in its own right in the regional, and even the international, system. The terms "strategic autonomy" and "nonalignment" barely figured in Modi's articulation of this new worldview. Instead, he began to emphasize the notion of India as a "leading power."

While the new vision has not yet been fully fleshed out, Modi has nudged Delhi away from the idea of a vulnerable India rowing the treacherous waters of great-power competition. He brought to office a new self-assurance that underlined India's ability to shape its external environment in a way that it could never do before. This was complemented by a recognition that, in the current international state of flux, India need not treat any one power as untouchable. Modi argued that all major powers engage the others, and that Delhi's emphasis must be "India First" rather than some constraining pretense of moralpolitik. That core belief has been matched under Modi with a deep sense of pragmatism. It certainly remains to be seen whether the notion of India as a leading power will survive Modi, or whether Delhi will revert to the comfortable world of a reactive diplomacy. But there is no question that, if there is a single idea that captures Modi's conduct of international relations, it is the notion of realpolitik.

Modi's posture on foreign relations seems to be in sync with President Trump's determination to shed some of America's burdens. Trump's national security team has argued that India and the US are bookends of stability across the Indo-Pacific, with shared economic, political, and security interests. This is more than just abstract talk; the Trump administration has taken specific actions in two areas of key security concern for India—Pakistan and China.

Trump's South Asia policy has diverged from that of his two predecessors. He has no political reason to "own" the war in Afghanistan, which has dragged on since the end of 2001, and his instinct has been to end the war, though he has been willing to let the US armed forces take one more shot at stabilizing Afghanistan. Whether he is committed to Afghanistan over the long term or not, Trump has not hesitated to identify Pakistan as the source of trouble there, and he has put pressure on Pakistan to shut down the sanctuaries for the Taliban and other terrorist organizations on its soil. That pressure has included a significant reduction in military assistance, and placing Pakistan on the watch-list for collective international financial action. For New Delhi, long accustomed to American temporizing on sources of terrorism in Pakistan, this new line is quite welcome. Even more importantly, Trump has pressed India to do more in Afghanistan. Where Bush and Obama, to mollify Pakistan, discouraged India from assuming a larger security role in Afghanistan, Trump has asked India for more. This perfectly comports with his conviction that America's friends and partners must share their mutual burdens.

### **Balancing China**

Far more consequential than Trump's Pakistan policy has been his approach to China. Where the Obama administration was ambivalent about China's new assertiveness in East Asia and the Indian Ocean, the Trump team has been vocal about the challenges that Beijing poses to freedom of navigation and China's attempts to subvert the sovereignty of its neighbors. New Delhi was pleasantly surprised that the Trump administration was ready to join India in criticizing China's Belt and Road Initiative. The US began to describe China's development assistance as "predatory economics" that burdens host countries with heavy debt and conditions that force a swap of debt for equity and strategic control of assets. The Trump administration has also called for more intensive regional coordination between the US and its Asian partners—India, Japan, and Australia—to ensure peace and promote prosperity in the Indo-Pacific.

The new importance that Trump has attached to India's role in balancing China is reflected in his administration's use of the term "Indo-Pacific", rather than the more familiar "Asia-Pacific." During his first presidential visit to Asia, in November 2017, Trump surprised many

regional observers by consistently using this new designation. For Trump's advisers, "Indo-Pacific" captured the idea of India's rise and the potential value of a partnership with India in maintaining a rules-based order from the east coast of Africa to the western Pacific. Although the proposition that India must be involved in shaping the Asian balance of power was first suggested during the Bush Administration, Trump has articulated it more explicitly and made it applicable to a much wider region, the Indo-Pacific.

This new American interest in an Indian role came amidst Trump's decision to confront China on both economic and geopolitical issues. This approach, to be sure, has received much criticism from the foreign policy establishment in Washington, and it is unclear whether Trump's worldview will turn out to be just a temporary departure for US foreign policy or a profound structural shift. Either way, there is no denying India's growing salience for US policy in the eastern hemisphere or the new American interest in sharing some of its strategic burdens with India.

India, meanwhile, still harbors concerns that are characteristic of most alliances. Simply put, they are the twin fears of entrapment and abandonment. Some among the Indian political and security elite worry that a strong military partnership with the US to balance China might draw Delhi into an unwanted conflict with China. At the other end of the spectrum is the fear that Washington will not step up to defend Delhi if a conflict with Beijing should arise. There are also general fears that Washington will be tempted in the long run to find a *modus vivendi* in the East with Beijing and leave China's Asian neighbors in the lurch.

The Modi government, for its part, has put aside these considerations, which slowed India's defense engagement with the US during the UPA years. Modi has had no problem recognizing that the principal challenge to India's security comes from the widening power gap with China and its impact on India's neighborhood. China's assertiveness in the Great Himalayas has sharpened military tensions on the long, contested border between the two Asian giants. China's growing economic and political clout is beginning to undermine India's special relationship with Bhutan and Nepal. China's strategic partnership with Pakistan is tighter than ever before, and China's rising naval profile in the Asian subcontinent's waters and the Indian Ocean more widely has begun to undercut India's influential role in the

littoral. Modi is also conscious that any effort to protect and secure India's regional interests must involve a strong partnership with the US and its allies, Japan and Australia. While the long-term reliability of the US remains an important and unanswered question, Modi's Delhi is acutely aware that America is critical for enhancing India's comprehensive national power vis-à-vis China. Rather than avoid deeper ties with Washington in the name of US unreliability, Modi has underlined the importance of profiting from Washington's current interest in strengthening India. His willingness to sign the agreements on sharing logistical facilities and communications compatibility and security signal this new approach. India's participation in these so-called foundational agreements has expanded the possibilities for defense cooperation between the two countries.

### **An Organizing Framework**

Although burden sharing is the kind of idea that Delhi needs to organize an enduring relationship with America, putting it into practice will face many hurdles. Notwithstanding the current US administration's demands for a transactional relationship with its friends and partners, contemporary American strategic culture is unfamiliar with the idea of sharing either burdens or leadership. In India, the lingering residue of isolationism, and a preference for unilateralism in its immediate neighborhood, complicates the prospects for an explicit and substantive burden-sharing arrangement with the US. Yet, as both nations grapple with the unprecedented challenges from the profound power shift in the international system, they might be better off with a measure of burden sharing.

Quite clearly, efficient arrangements for security burden sharing by India and the US in the Indo-Pacific will not emerge overnight, but a number of steps could facilitate the development of an effective framework:

- i. Intensify the current bilateral consultations on Afghanistan and coordinate the two nations' separate efforts there to promote peace and stability. (The question of cooperation in Afghanistan has been discussed in greater detail elsewhere in this paper).

- ii. While the Modi government like many of its predecessors does not want third parties meddle in its disputes with Pakistan, it might be in Delhi's long-term interest to work with Washington to nudge Pakistan towards political moderation, renunciation of terrorism, and reconciliation in South Asia.
- iii. India and the US can deepen their current convergences in the rest of South Asia through better coordination on economic and political issues. The US has often been willing to let India take the lead on some of the regional issues in the subcontinent; the time has come to make this more consistently operational.
- iv. Build on Trump's eagerness to reduce America's direct military involvement in the Persian Gulf, and on India's growing stake in the volatile region and in improving ties with Israel and the Sunni Arab states. Although India cannot replace the US, it can certainly expand its security role in the Gulf.
- v. Delhi and Washington must consolidate and coordinate their growing maritime engagement in the Indo-Pacific through better interoperability between their armed forces.
- vi. Burden sharing does not necessarily mean that India will become part of every US military activity across the Indo-Pacific. It is entirely possible to imagine a geographic burden sharing, where India would take on ever larger responsibilities in the Indian Ocean and relieve the US to face more daunting challenges in the Pacific.
- vii. Effective burden sharing will require the US to help transform India's defense and intelligence capabilities. India, which has been hesitant to go all-in, needs to take a more open approach to the security partnership with the US.
- viii. Deepen and institutionalize bilateral intelligence sharing. According to media reports, US intelligence sharing has been growing and was quite valuable to Delhi in its conflicts with China in Doklam (2017) and Balakot (2019). Delhi and Washington need a more ambitious agenda of intelligence sharing that eventually results in the

integration of India into the global “Five Eyes” system that connects the intelligence establishments of the US and its global partners.

- ix. Strengthen the current mechanisms for trilateral and plurilateral cooperation—the triad with Japan and the quad with Australia—through sustained, substantive actions in the Indo-Pacific. European powers like France should also be drawn into regional arrangements in the Indo-Pacific.
  
- x. India and the US need to keep each other informed about their respective strategies and intentions towards China, Russia, and Iran to avoid surprises and misunderstandings.

## About the Authors

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