

MEMORANDUM

To: Prime Minister Narendra Modi
From: Matthew Samach
Subject: India's Relationships with the U.S. and China
Date: May 8, 2019

Abstract

This memo will outline India's relationship with the two countries that will have the most impact on its prosperity in the near future – the United States and China. Its analysis will primarily be along military and economic vectors. Finally, two recommendations will be given to better India's strategic position in the world: counteract China in South Asia by implementing a plan to increase Indian soft power (economic and cultural) in the region, and increase partnership with U.S. ground forces with the primary focus of running joint exercises in north India.

United States

Defense

In not so distant memory, India had very strained relations with the U.S.; the tensions stemmed primarily from India's policy of pursuing nuclear capabilities. In 1998, in response to the unveiling of covert nuclear tests, the U.S. placed sanctions on India.¹ In 2001, sanctions were lifted by the Bush administration and cooperation between the nations has steadily risen ever since. In 2005, monumental progress was made when the countries signed the *New Framework for U.S.-India Defense Relationship*, which set priorities for coordination in maritime security, humanitarian assistance, and counterterrorism.² Shortly after, they signed the Civil Nuclear Cooperation Initiative which lifted the three decade U.S. moratorium on nuclear trade with India. In return, India separated its civil and nuclear capabilities and submitted to IAEA safeguards.³

Today, India and the U.S. conduct more bilateral military exercises with each other than they do with any other countries.⁴ In 2015, they signed an updated *Defense Framework Agreement* which increased defense trade, joint exercises, personnel exchanges, and collaboration in maritime security and in 2016, the Obama administration designated India as a "major defense partner."⁵ Transfers of defense technologies from the U.S. are significant and growing – a recent study estimated that aggregate defense acquisitions from the U.S. defense industry eclipsed US \$13 billion. To spur growth in the sector, the *Defense Technology and Trade Initiative* (DTTI) was launched to simplify technology transfer policies.⁶ Finally,

cooperation on counter-terrorism goals has increased as well. The India-U.S. Counter-Terrorism Initiative was signed in 2010 to align on intelligence, technology, and operational coordination.⁷

Economic Policy and Trade

Given India's history of restrictive, protectionist economic policy, it's unsurprising that its trade relations are underwhelming for a country of its size. This began to change somewhat in 1991 – economic reforms opened the country to international trade and investment, deregulation, privatization, tax reforms, and inflation controlling measures.⁸ This helped to put India on a path to better trade relations with the U.S. By 2010, U.S. Treasury Secretary Timothy Geithner would visit India to launch an economic and financial partnership meant to institutionalize stronger economic ties.⁹

Bilateral trade between the countries increased from \$104 billion in 2014 to \$114 billion in 2016.¹⁰ India runs a trade deficit with the U.S. – it imports about \$74 billion from the U.S. in goods and services and only exports \$42 billion.¹¹ Both are dedicated to increasing bilateral trade to \$500 billion by breaking down barriers to movement of goods, services and capital.¹²

The U.S. Bureau of Economic Analysis estimates that U.S. FDI in India stands at \$28.33 billion. From 2000 to 2015, U.S. capital accounted for a sparse 6% of all FDI into India. It was only the fifth largest investor into India over this period.¹³ Interestingly, FDI from India into the U.S. has been growing in recent years; as of August 2015, Indian firms have made \$15 billion of investments and created 91,000 jobs in America.¹⁴

Overview

The United States is by far India's most important military partner. Joint exercises as well as sharing of intelligence and technology have all hastened over the past two decades. This is obviously beneficial to India. The drawback is that India does not want to be dependent on another state to meet its defense needs. Should the U.S. perceive India to no longer promote American interests in the region, namely counterbalancing China, this support could go quickly.

China

Defense

India has had reason to distrust China militarily since the disastrous Sino-Indian War of 1962, when China invaded and seized territory along the Himalayan border.¹⁵ To this very day, border disputes are one of India's biggest worries when it comes to China.

India's other biggest fear coming from China is the much discussed "string of pearls" China is laying throughout the Indian Ocean. Some military analysts argue that China is strategically building naval facilities across the Indian Ocean in an effort to box in India and prevent it from becoming a great power.¹⁶ Meanwhile, China claims its activities are purely commercial in nature and it has no expansionary desires, although India clearly has good reason to distrust this claim.¹⁷ China's increased economic and political influence in India's neighboring countries (Sri Lanka, Bangladesh, Nepal, Myanmar, Maldives, and especially Pakistan) contribute to this justified sense of anxiety.

China's economic and military strategies are complementary and therefore must be considered holistically. By offering costly loans for infrastructure projects, China gains political influence in smaller nations. Once they acquire leverage, they can use the resources (and ports) of these countries as de facto strategic outposts.¹⁸ A key example of this phenomena is the Gwadar port in Pakistan. The port was financed by China at a loss, but it provides a foothold in the Arabian Sea and the potential for a passage to transport oil.¹⁹

India has been signaling opposition to Chinese maritime activities recently. Indian diplomats have supported Japanese Prime Minister Shinzo Abe's attempt to form a coalition to oppose Beijing's naval aggression throughout Asia.²⁰ In 2015, India signed a "Joint Strategic Vision" with the U.S. where it pledged to help defend freedom of navigation across the Indian Ocean; there's only one actor who this could be directed at.²¹

Economic Policy and Trade

Despite reservations about China's expansionist policies in Asia, India has cooperated economically with China in many ventures. India joined the Asian Infrastructure Investment Bank, despite it being based in Beijing and largely associated with China's Belt and Road mega-project.²² In 2015, the BRICS countries established the New Development Bank in order to finance infrastructure and development projects across the emerging world. This bank is

headquartered in Shanghai.²³ India has participated in the Belt and Road through China's promotion of the "Bangladesh-China-India-Myanmar Economic Corridor" (BCIM).²⁴

Indian/Chinese bilateral trade has risen sharply. In the years between 2000 and 2014, trade rose from \$2 billion to \$65 billion. Despite growth, this amount of commerce is downright anemic when considering that these are the two most populous countries on the globe and they share a border. For instance, China trades as much with Thailand as it does with India.²⁵ Indian businesses, especially pharmaceutical manufacturers and IT service firms, would like to increase exports to the Chinese markets, but Chinese tariffs keep them at bay.²⁶

Overview

India has quite the ambivalent relationship with China. On the one hand, India would like to partner with China's economic program in order to reap surplus. On the other hand, China is at best wary of Indian power in the region and at worst executing a strategy of economic and military containment. In order to prosper and rise as a world power, India must walk a perilous tightrope with its approach to China.

Recommendations

Recommendation 1: Develop a public relations and economic integration strategy with neighboring countries to build soft power and counteract Chinese hegemony in South Asia.

China is developing into a world superpower not through military might but through soft power, primarily economic. India must abandon protectionist economic principles and assumptions of Indian dominance in the region and forge a similar path to China's. In 1989, India punished the King of Nepal for seeking military assistance from China by enacting a crippling trade blockade.²⁷ In 2019, such heavy-handedness will just push neighbors into China's waiting hands.

Instead, India must pursue a program of economic integration with its neighbors by supporting trade and development. Increased multilateral trade deals, developmental loans, and aid are all diplomatic and economic tools that could solidify influence in the Indian Ocean. In addition to establishing greater economic footholds, India can improve perceptions through cultural exchange programs. Scholarships for students of these nations to study at top Indian universities and more regional sporting events would bolster positive views of India.

Recommendation 2: Draft a proposal with the U.S. to increase land-force joint exercises in north India in order to guarantee border security and sovereignty. India's predisposition to non-alignment leaves it vulnerable to states who are more willing to act strategically in their own interests, like China. India must pursue stronger alliances with stronger states, primarily the U.S.

Cooperation between the Indian and U.S. navies is at an all-time high point - this jointness of purpose could be further extended to land exercises. The U.S. has shared interest with India because it seeks to contain expansion of Chinese power in Asia and therefore could be amenable to this suggestion. India could even include its smaller and friendlier neighbors, such as Bhutan and Bangladesh, in these joint exercises in order to improve cooperation and form a united regional opposition to growing Chinese influence.

In June 2019, Chinese construction workers were found to be building a road in the Doklam Plateau, a disputed territory claimed by Bhutan. India immediately sent troops to halt the road building, sparking an international incident.²⁸ China may not respect India's army (after all, the PLA's budget is over three times that of India's armed forces), but joint exercises with the U.S. army in northeast India would make them think twice. Additionally, the extra training for Indian forces would create a more professional fighting force.

Conclusion

India's military relationship with the United States is close and should only grow closer in the foreseeable future. The two countries run more joint naval exercises with each other than with any other states. India's relationship with China is somewhat contradictory. As China expands its operations into the Indian Sea, it may open opportunities for partnerships of shared prosperity. At the same time, China is putting itself in position to strategically alienate India, strategically and hegemonically, in its own backyard. In order to counteract growing Chinese power, India should pursue a program of economic and cultural exchange in the region to increase ties and improve relations with its neighbors. India should also leverage its friendly stance with the U.S. military to conduct joint land exercises in North India in order to protect its borders.

¹ "A Timeline of U.S.-India Relations." Council on Foreign Relations. <https://www.cfr.org/timeline/us-india-relations>.

² Ibid

³ Ibid

⁴ Brief on India-U.S. Relations. Report. Ministry of External Affairs, India. New Dehli, IN, 2017.

⁵ Ibid

⁶ Ibid

⁷ Ibid

⁸ "A Timeline of U.S.-India Relations." Council on Foreign Relations. <https://www.cfr.org/timeline/us-india-relations>.

⁹ Ibid

¹⁰ Brief on India-U.S. Relations. Report. Ministry of External Affairs, India. New Dehli, IN, 2017.

¹¹ Ibid

¹² Ibid

¹³ Ibid

¹⁴ Ibid

¹⁵ Miller, Tom. China's Asian Dream: Empire Building along the New Silk Road. London, UK: Zed Books, 2017, 165

¹⁶ Ibid, 162

¹⁷ Ibid, 15

¹⁸ Ibid, 168

¹⁹ Ibid, 178

²⁰ Ibid, 183

²¹ Ibid, 185

²² Ibid, 35

²³ Ibid, 37

²⁴ Ibid, 150

²⁵ Ibid, 180

²⁶ Ibid, 180

²⁷ Xavier, Constantino. "The New Indian Realpolitik." Foreign Affairs. December 20, 2018.

https://www.foreignaffairs.com/articles/china/2018-12-20/new-indian-realpolitik?utm_campaign=reg_conf_email&utm_medium=newsletters&utm_source=fa_registration.

²⁸ Kellogg, Thomas. "The China-India Border Standoff: What Does Beijing Want?" Foreign Policy. September 01, 2017. <https://foreignpolicy.com/2017/09/01/the-china-india-border-standoff-what-does-beijing-want/>.