

Pompeo's Visit: Taking Stock of India US Relations: RSTV – India's World

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Larger Background:

- India has raised tariffs on 28 items exported from the U.S. recently in retaliation to America's withdrawal of preferential access for Indian products from the 5th of June, 2019.
- The Ministry of Commerce had recently made public India's intention to go ahead with the imposition of duties on American products- a move that New Delhi had previously deferred in the hope of striking a trade deal. Meanwhile, a senior American diplomat has warned that the U.S.- India defence ties would be put at risk should New Delhi purchase the Russian made S-400 air defence systems, also noting that India should tread very carefully about making such strategic choices.
- New Delhi would be Pompeo's first stop and South Korea his last during a nearly week-long visit to the Indo-Pacific region, beginning June 24, 2019.
- Two weeks ahead of his travel to India, Pompeo said that this bilateral relationship is incredibly important to both the countries.
- This episode of India's World focuses on the Indo-US ties ahead of Mike Pompeo's visit to Delhi.

A Look at the Tariff War between India and the U.S.

- The U.S. imposed tariffs on India on steel and aluminium last year (2018), and in the month of June 2018, India had decided to retaliate by imposing tariffs on 28 items. Currently, the time has come for India to tell the U.S. that she is very disappointed with what they have been doing on the trade front.
- India is disappointed with the way the U.S. has been taking her along for granted and that India deserves to be treated as an equal partner in the trade relationship. Mike Pompeo's visit to India would take place in the backdrop of this. And he also knows that when it comes to digging its heels in, and taking a tough stance, India will not shy away from doing so.

Is the tariff war between India and the U.S. just an irritant?

- One needs to understand the style of functioning of President Trump since he assumed office. He is a billionaire businessman who turned into a politician and now is the President of the United States of America. He looks at everything from a business perspective. India's tariff war can't be seen in isolation. Since he assumed office, he has been saying that the entire world has been taking advantage of the U.S.
- When the U.S. exports items to India, very few import duties are levied by the Indian government, while when India exports goods to the U.S., high tariffs are levied.
- The example of Harley Davidson Motorcycles are often cited. The Harley Davidson motorbike riders are a very strong lobby in the U.S. The total exports of Indian motorbikes to the U.S. in 2017 were only worth 7 Million dollars.
- The style of functioning of Donald Trump is very similar to that of a poker player. He likes to raise stakes, and put pressure on countries to bring them to the negotiating table. He had adopted an anti-North Korean stand, and when he met Kim Jong Un in Singapore, he started warming up to him.

- Having said this, the phase of Indo-U.S. relations that we are currently witnessing is perhaps the best phase in the history of Indo-U.S. relations.
- A country (the U.S.) which at one time sent its 7th Fleet to the Bay of Bengal during the 1971 war, is now willing to sell key defence equipment to India.
- The U.S. has also declared India as a “Major Defence Partner”. This is a significant development.
- What is important now from an Indian point of view is how the U.S. would handle India’s legitimate requirements of conducting energy trade with Iran (importing oil from Iran), and defence trade with Russia (the acquisition of the S-400 missile defence system). The former affects our energy security, while the latter affects India’s national security.
- If the U.S. treats India as its strategic partner, then they must also be sensitive to India’s needs. The U.S. wants to use India in its grand Indo-Pacific designs, while on the other hand, it wants to weaken them by placing import restrictions. Thus, the outlook adopted by the U.S. is very narrow. The U.S. has to have a broader perspective and trade should fit into a broader vision that the U.S. is envisioning with India.

Would Iran be a sticking point in the relations between India and the U.S.?

- The issue in West Asia seems to be getting out of hand. We have had incidents where tankers have been attacked. The Americans have blamed Iran. Iran is a very close ally of India. We have had civilizational links with Iran.
- The issue of oil would definitely be taken up during the visit of Mike Pompeo to India. This is because Iran is very important for India’s energy security and also for the supply of LNG (Liquefied Natural Gas). As a matter of fact, there was a time when India joined the US in voting against Iran in a resolution passed by the UN atomic watchdog, the **IAEA**, censuring the Islamic nation over its controversial nuclear programme and demanding that it stop uranium enrichment.
- India had realized that it would need to act in its own self-interest and not get dictated by any power, whether it is the United States of America, or any other power. Currently, the sense one gets is that the world has moved on. India has to balance its relations between China, the United States of America and Russia. Somehow, to hold itself hostage to U.S. whims, wouldn’t be the right way for India to take things forward. In the year 2018, when Nikki Haley had visited India, she pointed out that the U.S., would need to make certain exceptions with her friends and partners. Thus, the message was that there had to be some kind of a quid-pro-quo and that India would have to be treated differently by the U.S.
- Furthermore, it is important that both sides (India and the U.S.) have a picture of where the bilateral relationship should go.
- As a matter of fact, India alone cannot be held responsible for this. There has to be a commonality of factors that bind the two countries together. Today when we are talking about the Indo-Pacific, we are talking about defence relationships. However, when the U.S. singles out India saying that it cannot buy the S-400 from Russia and oil from Iran, such actions don’t bode well for the ties. The other important factor to keep in mind is that Donald Trump heads to an election year. Thus, it is important for India to find common ground with the United States of America.
- Currently, the newly elected Indian government has a very strong mandate. The government is also capable of taking up tough decisions.

Importance of Iran:

- Iran is important to India not only for oil. Iran is important to India for access to the Central Asian Republics. Although India and Iran can buy from each other in rupees, there is a limited scope.
- Having said this, it is important to know that internationally, we have not reached the stage, where one can use alternative currency, that can be used in international transactions.
- Furthermore, it is important to note that India’s energy security is of paramount importance.
- Also, there is some dissension in the ranks of the OPEC and the production of oil has not really gone up. If the trends of brent crude price is to be seen, one has witnessed an upward trend in the past few

days. India has to ensure her own security. Thus, if India can trade in some currency or conduct barter trade as she used to do earlier (when there were sanctions against Iran before the nuclear deal), then that would ease the situation a bit.

- Further, India cannot forego its access to an alternative route to Central Asian Republics, and access to Afghanistan through the Chabahar port. These are imperatives which are very important for India and she cannot give up on them.

Points India can negotiate with the United States on:

- India's refineries are far more tuned towards working with Iranian oil. A possibility to overcome the challenge that India now faces is transporting oil on the high seas. However, whether or not this actually happens remains to be seen. But these are some of the options which needs to be worked out. Working out a currency swap agreement between India and Iran would seem to be a way forward.
- Furthermore, on one side, India professes the idea of strategic autonomy. Thus, bowing down in any way to U.S. pressure doesn't send out good signals. Furthermore, with a newly elected government that is focussed on India's priorities and India's foreign policy interests, India should attempt at negotiating with the U.S. to reach an agreement that is favourable to India.
- Furthermore, the issue of stability in Afghanistan is an important area that needs to be addressed. With the U.S. keen on exiting Afghanistan, there are question marks that can be raised on the situation that can emerge post a U.S. exit.
- The U.S. has been in Afghanistan for the past 18 years. There has been a generation of Afghans who have grown up with the U.S. having a presence there. Thus, there are a lot of points that India can negotiate with the United States over.
- India needs to find a way of working both with Iran in the region and in the Indo-Pacific where the U.S. and India see a lot of commonality.

S-400: A Sticking Point?

- The issue concerning the S-400 is a serious one. America is keen on pitching its own alternative to India (which would be done five years down the line). There are several problems which emerge. For example, the price of the alternative to the S-400 that the U.S. is pitching to India can be substantially higher than the S-400.
- However, when we observe things at a macro level, we find that the trade war that is taking place between the U.S. and China gives some leeway to India.
- The Chinese economy is a 12 trillion dollar economy, whereas India is a 'less than 3 trillion dollar' economy. Today, many companies are being forced to go out of China. Indian hopes that those companies can come and invest in India. India right now is in a relatively happy situation as it can watch the game as it unfolds between U.S. and China. We have a situation developing where both the U.S. and China want to get close to India. A stage has come where India needs to stand up to the U.S. not publically, but certainly during the negotiations and talks. India needs to clearly define the red lines which the U.S. cannot cross.

Trade Wars: An Opportunity for India?

- India has identified about 131 tariff items viz-a-viz China. The U.S. was exporting these goods to China. India's global exports in those tariff items are quite high, amounting to around 32 Billion dollars. However, it remains to be seen whether or not India has the production capacity and the required technology and standards, to meet the Chinese requirements. This is a big 'if'. On the other side, i.e. when we look at the Chinese products that the U.S. has imposed tariffs on (amounting to around 531 odd items), we find that India has global exports of around 22 Billion dollars in quite a few items, when taken together. However, India needs to see whether the Americans require the same kind of products that we are exporting (against those tariff lines), or they need higher

technology, and higher standard based products.

- Next, India needs to provide an enabling environment. Though India has progressed quite a bit on the Ease of Doing Business Index, she still has a large number of constraints. Transportation and logistics is an area that needs a lot of attention and focus. Second, the quality of power needs to be looked into. Next, the areas that need attention include: labour laws, acquisition of land for setting up new factories, and finally, India needs to have its States on board. This is because the Central Government can't alone do everything. A large number of policy making areas and subjects are within the remit of the State Governments. Thus, everyone has to move together and provide an enabling, welcoming environment.
- Next, India has one of the highest tax regimes in the world. For example, the Corporate Income Tax is 30% for the non MSME sector. For MSME's, it is 25%. The worldover, the rates of Corporate Income tax are around 20%, or 15%.
- Currently, investments may move out of China. They would alternatively be coming into other destinations. These destinations include Vietnam, Indonesia, Malaysia, Mexico, etc. In these nations, by and large the Corporate Income Tax is about 15%.
- The high levels of Corporate Income Tax levels in India would be a big dampener on the investment decisions taken by companies. In order to attract investments, one would have to choose which sectors would want these investments. Policy makers in India should choose labour intensive sectors as well as high-technology sectors (as the future lies in high-technology sectors).

Areas of Common Ground between India and the U.S.

- The relationship between India and the U.S. has grown leaps and bounds in recent times.
- The Indo-Pacific concept is something which even the Obama administration had recognized. It had recognized India as one of the linchpins of their foreign policy. Furthermore, the entire pivot strategy of Obama focussed and relied very heavily on India playing an active role. While the Indo-Pacific is very important to India, one should also keep in mind, that the Indo-Pacific is important to India independently of the U.S.
- The Indo-Pacific has been India's focus since 1992. India evolved the "Look East" policy which is now the "Act East" policy.
- India has also stepped up its engagement with ASEAN, and with the BIMSTEC. Thus, India has concerns over the Indo-Pacific independent of the concerns that the U.S. has over the region. However, the fact that the U.S. has co-opted India as being one of the major players, and has included India as part of the QUAD mechanism, a certain strategic heft has also been given to India in the process.
- Having said this, India cannot be coerced into taking actions which are seen as being hostile to any other country in the Indo-Pacific. Furthermore, India shares a long boundary with China, and to keep the border issue diffused, and to avoid a Doklam like standoff, it is important that India has cordial relations with China. Thus, India would need to balance her interests. The signalling is very important. India has done well to highlight its partnership with Japan in the Indo-Pacific.
- Shinzo Abe and Modi both share a very special relationship, and economically both India and Japan want to do a lot together, including looking at connectivity corridors. Thus the economic via media that India is trying to explore, independent of the United States, is something very important for India.

Concluding Remarks:

- The Americans are wise enough not to rock the relationship which has grown so much in the past 20 years. The Americans should look at the broader canvas of India-US relations. Also, if India needs to realize its domestic objectives of development, the U.S. has an important role to play.
- Next, India cannot put all her eggs in one basket. The Russians have been staunch allies of India over decades. Thus, we cannot abandon them just because the U.S. is asking us to do so. Turkey is also buying the S-400 from Russia, and it has told the U.S. that it would carry on with its plans.

- As far as trade is concerned, India would need to keep talking. There are also some genuine concerns of the U.S. which need to be addressed.
- Wherever India has certain elbow-room to accommodate their requests, she should not shy away from doing so. Again, this should not be done at the cost of India's national interest.

