

# ISAS Insights

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## PRIME MINISTER DR MANMOHAN SINGH'S VISIT TO THE UNITED STATES, 18-20 JULY 2005

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### Summary

1. This paper analyses the recent visit of the Indian Prime Minister, Dr Manmohan Singh, to the United States. It :-
  - i) considers the objectives of the visit;
  - ii) analyses the outcomes and achievements of the visit in light of both the United States and Indian perspectives;
  - iii) assesses the future of Indo-United States relations; and
  - iv) examines the significance of Indo-United States relations for Southeast Asia.
  
2. Despite being respectively the largest and oldest democracies in the world, India and the United States have, at best, had a lukewarm relationship with several ups and downs in the past few decades. A confluence of strategic and economic factors since the 1990s has brought about a positive change in Indo-United States relations. The Indian Prime Minister's visit to the United States builds on this platform of interlinked strategic and economic issues.

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## **Objectives of the visit for the United States**

### Democracy and Combating Terrorism

3. The United States is increasingly using democracy as a yardstick to determine its political and economic engagement with other countries. An important objective for the United States was to strengthen its relationship with India to bring together the most powerful (the United States) and the largest (India) democracies in the world, which will help foster a global partnership that can effectively spread democracy and peace throughout the world.
4. The events of September 11 awakened the United States to the threat of fundamentalist Islamist terrorism, which India has had to contend with for decades. Recognising that they have a common cause, the United States sees India's cooperation as vital in the war against terrorism, given the madrasahs and training camps operating in India's neighbouring countries, Pakistan and Afghanistan.

### Economy

5. India's high growth rate continues to be sustained and is projected to be around 7-7.5% for 2005. The United States, which is already India's largest trading partner with two-way trade in the first five months of 2005 exceeding US\$10 billion, is keen to tap the booming Indian market and enhance its investment opportunities.
6. American companies can increase their competitiveness through low cost outsourcing of information technology and backroom services. India is an attractive location for American firms engaging in production of high-end services in software, engineering design and pharmaceutical research. India has a large pool of highly skilled, English speaking population which provides a valuable source of human resources for service industries.

## Nuclear Issue

7. The United States has a clear objective to engage with India as a responsible nuclear power in the changing world order. Rather than continuing to treat India as a Non-Proliferation Treaty (NPT) outcast, the United States has agreed to cooperate with India on the transfer of civil nuclear energy, reversing its past policy of denying nuclear technology to India. In return, India will subject itself to greater international scrutiny of its nuclear programme.

## Regional Security

8. The United States also has a strong interest in maintaining peace and stability in South Asia, particularly in light of various conflicts that have bedevilled the region. For a stable South Asia, it is important for the United States to engage constructively with India so that it can create an environment that is conducive to fulfilling its other objectives in the region, such as containing fundamentalist terrorism and checking the proliferation of nuclear weapons.
9. Some sceptics argue that a hidden objective of the United States is to use its new-found relationship with India to counter the rising strength of China, both in strategic and economics spheres. The United States can use India as an alternative to China to increase its leverage in extracting greater concessions from China on contentious economic and political issues. In the textiles area for example, Walmart is now shifting more of its orders to India, boosting purchases by 30% due to the Chinese revaluation of the Yuan.

## **Objectives of the Visit for India**

10. An important objective of Prime Minister Singh's visit to the United States was to secure its cooperation in the transfer of civil nuclear technology in order to meet its energy crisis. India wanted to do this without having to sign the NPT.

11. From the Indian perspective, there was recognition that democracies, with their commitment to open societies and individual freedom, are particularly vulnerable to terrorist activities. India, in particular, has to respond to diverse constituencies and it clearly wants a powerful partner at the global level to support its commitment to defeating terrorism.
12. Another important objective was to enhance economic interaction with the United States in order to accelerate growth through increased trade and transfer of technology and knowledge. In addition, a key objective was to attract more foreign direct investment (FDI), especially to modernize and develop India's infrastructure, which is critical to India's economic development, and to close the gap with China. India's aim is to more than double its annual FDI to US\$15 billion, which is still a long way from China, which already attracts about US\$50 billion in annual FDI.
13. India is also pushing for an expansion of the United Nations Security Council (UNSC) with a view to gaining the United States' support for India's inclusion as a permanent member.
14. Prior to Prime Minister Singh's visit to the United States, positive dialogue had taken place between India, Pakistan and Iran on the gas pipeline project to ease both Pakistan and India's energy crises. One of India's aims was to seek the United States' support to garner international financial backing for the \$US4 billion pipeline which would supply natural gas from Iran.

### **Achievements and Outcomes**

15. Based on their mutual objectives and shared vision, India and the United States issued a Joint Statement on 18 July 2005, reflecting the areas in which consensus was achieved. Both parties agreed not only to strengthen their bilateral relationship but also to establish a global partnership to tackle some of the issues of international concern.

## Democracy and International Terrorism

16. It is apparent that the leadership in both the United States and India view the protection and promotion of democratic practices as paramount. They have agreed to work together through the new United States-India Global Democracy Initiative to promote democratic values and institutions in countries which need such assistance.
17. As victims of international Islamist terrorism, both the United States and India have an urgent common objective to foster international cooperation in the war against terrorism. Both leaders affirmed their commitment to the conclusion of a United Nations comprehensive convention against international terrorism by September 2005.

## Economy

18. Both leaders agreed to revitalise the United States-India Economic Dialogue and establish a Chief Executive Officer Forum to allow business leaders to acquire a greater understanding of each other's perspectives as well as to allow the government to draw on the expertise of these people to fully realise the economic potential of the Indo-United States relationship. There was also the United States' commitment to invest in India's infrastructure to facilitate the continued growth of the Indian economy.
19. Two key areas of economic growth were identified during the visit. These are outsourcing and agriculture. India is projected to garner 25% of the outsourcing market in the information technology enabled sector, with the United States providing 60% of the business. The two leaders also agreed to launch a second 'green revolution' similar to the first one in 1960s that helped India to become self-sufficient in food production.

### Security and Technology

20. There was general approval of the various initiatives for collaborations in high technology research, space exploration and disaster relief as well as non-proliferation of weapons of mass destruction.

### Energy and Environment

21. Energy security issues loomed large on the leaders' agenda and there was recognition of the need to develop more efficient, affordable and diversified energy technologies. The United States-India Energy Dialogue launched on 31 May 2005 was given the task of carrying the energy agenda forward. India's current energy demands exceed supply by 11% and projections are that India's energy requirements will double by 2020 if present growth rates are to be sustained.
22. India presently imports 70% of its oil. The lack of domestic energy resources and the spiralling cost of imported energy present India with an imminent energy crisis. Two critical sources of energy that India is keen to develop for which the United States' support was sought during the visit were civil nuclear energy and natural gas, piped from Iran.

### Civil Nuclear Energy

23. The nuclear agreement is the most significant outcome of Prime Minister Singh's visit, as the United States and other nuclear powers had banned the supply of nuclear technology to India following its 'peaceful nuclear explosion' in 1974. India has also been increasingly isolated internationally after its nuclear tests in 1998.
24. As a result of this, India's nuclear energy programme has faltered due to lack of fuel and technology. For example, the key nuclear power station at Tarapur has limited fuel supplies, which are projected to run out in 2006. The nuclear agreement is a major breakthrough as it provides access to much needed

foreign capital, fuel and reactors. This will allow India to significantly increase its nuclear energy, which presently accounts for only 3% of its total power generation.

25. In the Joint Statement, President Bush pledged to ‘seek agreement from Congress to adjust the United States’ laws and work with other nations to enable full civil energy cooperation and trade with India, including but not limited to expeditious consideration of fuel supplies for safeguarded nuclear reactors at Tarapur.’ This agreement is a significant departure from the United States’ policy of banning nuclear assistance to any country that is not a signatory to the NPT.
26. In exchange for access to American nuclear technology and conventional weapons systems, Prime Minister Singh gave the assurance that India “will identify and separate its civilian and military nuclear facilities in a phased manner and voluntarily place its civilian nuclear facilities under the International Atomic Energy Agency safeguards.”
27. In addition, Prime Minister Singh agreed to various other conditions regulating and controlling nuclear technology, including a unilateral moratorium on nuclear testing, supporting international efforts to limit the transfer of nuclear technology and to follow the Missile Technology Control Regime and Nuclear Suppliers Group (NSG) guidelines in procuring nuclear weapons and technology; in effect, committing itself to NPT criteria, even if not being a formal signatory.
28. The agreement has been criticized in both the United States and India. In the United States, sceptics are concerned of a potential floodgate effect, whereby if an exception is made for India, other countries may also demand similar concessions. Further, there is the concern that this deal would undermine efforts to confront North Korea and Iran over their nuclear programmes. It also provides an incentive for countries such as Brazil, Japan and South Korea, who have so far refrained from producing nuclear weapons to establish

themselves as nuclear powers, may do so and then demand similar treatment from the United States.

29. The United States' action also provides a precedent for other nuclear countries to flout the NSG mandate. This leads to the possibility of Russia providing nuclear assistance to Iran, and China doing the same with respect to Pakistan. It has even been argued that the United States is naïve in assuming that India will not divert the nuclear products intended for civilian facilities to its military programme.
30. United States advocates argue that India deserves to be treated differently from Iran and North Korea, which signed the NPT but then failed to comply with the terms. India has demonstrated its sincerity in behaving as a responsible nuclear power, which has committed itself to non-proliferation. The nuclear agreement is illustrative of the two leaders' shared approach of balancing pragmatism and principle.
31. From the Indian perspective, the United States has tacitly recognized India's nuclear status, and by entering the nuclear agreement, has informally treated India as a member of the privileged nuclear club (the United States, Britain, France, China and Russia). This agreement allows India to acquire the same benefits and advantages as states which have signed up to the NPT, without itself being a signatory. It is also important as it does not require India to cease production of weapons-grade uranium, which enables India to expand its nuclear arsenal, if it decides to do so.
32. There is however, strong domestic criticism from the left wing of the ruling coalition as well as the opposition of Prime Minister Singh's commitment to open Indian civilian nuclear facilities to international inspections. According to the former Prime Minister, Mr Atal Bihari Vajpayee, the agreement may have long term national security implications as it will be very difficult to separate India's civilian and military programmes. Further, it may also deny India any flexibility in determining the size of its nuclear deterrent which needs to be assessed periodically.



33. To allay these fears, Prime Minister Singh, in his post-visit address to the Indian Parliament on 29 July 2005, was categorical in stating that India will retain complete autonomy over its strategic nuclear weapons programme and that its commitments under the agreement were “conditional upon, and reciprocal to, the United States fulfilling its side.”

#### Gas Pipeline and UNSC

34. While there was agreement on most issues, from the Indian perspective, there were two objectives that were not achieved: support for the gas pipeline and the expanded UNSC.
35. The United States’ strategic reasons for not backing the gas pipeline project included the possibility that Iran could use the hard currency from the deal to develop its own nuclear program and the concern that India and China were doing energy deals with countries such as Iran and Sudan, which the United States perceive as threatening global stability and energy security.
36. One can also speculate that the United States is not keen on the pipeline which will connect Iran, India, Pakistan and possibly China, as this will increase energy cooperation between these countries and potentially mount a unified challenge to the unilateral domination of the United States.
37. Coincidentally, after the United States visit, Prime Minister Singh reportedly expressed concern over the viability of the pipeline on the grounds that the project is too risky to attract sufficient international financial backing. There is speculation that Prime Minister Singh’s new position on the pipeline may well be a trade off with the United States for its concession on the nuclear agreement.
38. The United States, with its own agenda for United Nations reforms, also did not support India’s aspirations for an expanded UNSC with a seat for India, although President Bush acknowledged that India’s central and growing role on the international stage would eventually have to be recognised.

## **Future of Indo-United States Relations**

39. President Bush has accepted Prime Minister Singh's invitation to visit India in 2006 and that visit will serve as a useful gauge to determine the extent to which this new relationship will develop. The future of Indo-United States relations hinges on the extent to which the issues in the joint statement are translated into concrete actions. This would mean that both the United States and India have to honour their respective commitments to make this a basis for their future interactions.
40. On the nuclear issue, for example, the challenge is for President Bush to persuade Congress to amend the law that prohibits the United States from providing nuclear energy assistance to nuclear weapons states that have not signed the NPT. President Bush will also have a difficult task convincing the other nuclear powers to support the United States' position with respect to India.
41. Both leaders will also have to win over the critics in their own constituencies. President Bush will have to pacify those who are concerned that the deal may open a Pandora's Box that has so far been contained thus far by long established policy. Prime Minister Singh will have to allay public concern in India that its national security interests have been compromised. He will also have to placate the opposition, and more importantly, the left wing parties that are part of his ruling coalition in India. This is critical in the Indian context given its history of fragile coalition governments.
42. It should be noted that even though the United States has made some concession in terms of cooperation in civil nuclear energy and recognised India as a responsible nuclear power akin to the five nuclear powers that are on the UNSC, it has nevertheless not supported India's claim to a permanent seat on an expanded UNSC, lending credence to the voices of sceptics in India.

43. The visit of Prime Minister Singh will have a positive impact on India's economy. Fostering a closer relationship between the countries will provide an advantage, as seen in Air India's awarding of a US\$6.9 billion contract to United States-based Boeing rather than French-based Airbus, following personal intervention by President Bush. India can capitalise on the goodwill generated by the successful visit and dramatically increase FDI if it takes concrete steps to continue with reform of its administrative, regulatory and taxation regimes as well as further liberalising the key sectors of banking, insurance, aviation, retail, civil aviation, telecommunications and construction.
44. The United States, for its part, may need to ease back on immigration restrictions to facilitate greater mutual trust and freer movement of people. United States firms already lead the foreign investment drive in India and, according to Prime Minister Singh, 400 of the Fortune 500 companies already have a presence in India. Further, the strong presence of Indians in high technology industries in the United States is an additional catalyst to the existing economic synergies.
45. In terms of regional stability, the Indo-United States relations may have some impact on bilateral relations within the complex geopolitical matrix of India, Pakistan and China. Any substantial improvement in Indo-United States relations is contingent on convincing China and Pakistan that Indo-United States cooperation will not be at the expense of either Chinese or Pakistani interests. Both the United States and India are acutely aware of Chinese and Pakistani concerns and United States Secretary of State, Condoleezza Rice and Prime Minister Singh were quick to issue statements to reassure Pakistan and China.
46. It is important that China and Pakistan view Indo-United States relations positively; otherwise, there is a possibility that China and Pakistan may feel compelled to strengthen their strategic and military (including nuclear) cooperation, to balance the new Indo-United States relationship. Pakistani discontent at closer Indo-United States relations may also fuel reprisals in India through Islamist terrorism.

47. Pakistan has already demanded that it receive equal treatment on defence and nuclear matters. The United States, which needs to engage with both India and Pakistan to protect its strategic interest in South Asia, has taken the position that it has to develop independent relationships with India and Pakistan, that is, de-hyphenate the two countries in terms of its strategic framework for South Asia, particularly in the case of civil nuclear cooperation.
48. With respect to China, even though both India and the United States have categorically denied that their relationship is directed against China, there is no doubt that it empowers India to play a more important role in the region and of balancing Chinese power, should a serious rivalry between the US and China emerge in the future. Nevertheless, India and China will continue to cooperate bilaterally, particularly in terms of their energy needs and their economies. During Chinese Prime Minister Wen Jiabao's visit to India in April 2005, both countries agreed to boost bilateral trade to US\$20 billion by 2008.
49. Energy cooperation is another strong priority for both nations. India and China have partnered each other in oil and gas ventures in the Yadavaran oilfield in Iran, the Greater Nile Project in Sudan and are considering purchasing some of the assets of the Yukos Oil Company in Russia. Both countries are pouring billions into overseas gas and oil exploration. China National Petroleum Corporation has earmarked US\$18 billion between now and 2020, while India's Oil and Natural Gas Company has already invested US\$3.5 billion since 2000.
50. It may be mentioned here that even as China seeks better relations with India, it will not do this at the expense of its friendship with Pakistan.
51. At the same time, Indo-United States relations may have some repercussion on other major powers that have an interest in the region, especially Russia and Japan.

52. India's foreign policy is increasingly being dictated by energy security. Indeed, India's Minister for Petroleum and Natural Gas, Manishankar Aiyar, has publicly stated that India ranks energy security as highly as national security. This being the case, Russia, with its natural gas and nuclear technology, becomes a very important player in New Delhi's foreign policy calculations.
53. Russia has previously had to buckle under United States pressure in 2001 and stop supplying nuclear fuel for the Tarapur nuclear plant. Following the Indo-United States nuclear agreement where the United States reverse its policy on civil nuclear energy cooperation with India, Indo-Russian nuclear collaboration should be considerably eased, further strengthening the historical friendship and close ties shared by the two countries.
54. In 2004, Russian President Vladimir Putin visited India and the two countries signed a memorandum of understanding for joint exploration and distribution of natural gas in the Caspian Basin. India is also investing heavily in the Russian energy sector and Russia has welcomed this to counter United States dominance over the energy sector in the region.
55. Russia and India are also linked through the Shanghai Cooperation Organisation (SCO). Comprising four Central Asian republics, China and Russia, with Iran and India joining in as observers, the SCO is seen as another strategic move to curtail the unilateral dominance of the United States by checking its military presence in Central Asia.
56. The recent visit of Prime Minister Singh will also have implications for Japan, an important Asian power and an ally of the United States. Japan has been critical of India's 1998 nuclear tests and its refusal to sign the NPT. The Indo-United States nuclear agreement may force Japan to rethink its policy towards India and may give Japan the opportunity to develop closer links with India. Bilateral trade between India and Japan was over US\$4 billion in 2003-2004, leaving tremendous potential for growth.

57. Strategically, it is important for Japan that, as India's relation with the United States and China grows, Japan should not be sidelined. Not surprisingly, Prime Minister Junichiro Koizumi visited India in April 2005, just two weeks after Chinese Prime Minister Wen Jiabao's visit. It should also be noted that Japan and India have supported each other in pushing for each other's inclusion in an enlarged UNSC.
58. A final observation on the future of Indo-United States relations is that the nature of the relationship will change as India closes the gap with the United States as a true global power. At this point, the relationship may be subject to the pulls and pressures that inevitably arise when an aspiring global power begins to, or is perceived to, threaten the existing global superpower.

### **Implications for Southeast Asia and Singapore**

59. Singapore welcomes the United States' engagement in Asia, especially in light of the emergence of China and India as major global powers. From Singapore's perspective, the United States remains a vital player in the region's security. By engaging India as well as China, the United States can play a valuable role in maintaining the regional balance of power in Asia.
60. Greater economic cooperation between the United States and India may have beneficial spin-offs for Southeast Asia as neither Indian nor Chinese companies can create the investment and employment opportunities that American multinational corporations can. India's engagement with the United States is a strong signal that it intends to continue on its path of liberalisation, which will be reassuring to its regional neighbours, including Southeast Asia.
61. Singapore, which has recently signed the Comprehensive Economic Cooperation Agreement with India, stands to benefit from India's enhanced economic cooperation with the United States. Singapore is India's fastest growing export market with recently released data showing a record 79% increase in exports and 50% increase in imports in 2004 over 2003.

62. On the downside, if there is any fallout affecting regional stability in South Asia as a result of Chinese or Pakistani dissatisfaction with the new Indo-United States relationship, Southeast Asia will inevitably feel some of the repercussions given the interconnectedness of the global economy and political landscape.

## **Conclusion**

63. Indo-United States relations have historically been in the shadow of the Cold War. It is a positive development that these two great democracies have been able to put their past behind them, strengthen their bilateral relations and forge a global partnership that can only benefit the emerging world order.
64. Given their mutual economic interests and shared democratic values, Indo-United States relations have the right synergies for a successful partnership, notwithstanding the fact that there will always be some issues on which both countries will not see eye to eye. Also, any successful Indo-United States relationship must take into the account the sensitivities of China and Pakistan, which have vital stakes in the region and will need to be accommodated in order to maintain regional stability in South Asia and beyond.
65. The visit also highlights the paramount significance of energy as the driving force of India's foreign policy. As such, the United States, China and Russia will remain key interconnected players in India's foreign policy, weaving a complex web of interdependent bilateral and multilateral relationships. India will therefore have to engage with these countries both as allies and competitors, negotiating partnerships without compromising strategic interests.

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