

U.S.-India Insight

VOLUME 8 | ISSUE 4 | APRIL 2018

The Strategic Importance of India's Rise

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The strategic importance of India's economic rise is often portrayed as a tool to increase domestic spending on defense priorities and to provide a capital base to compete economically in the region through infrastructure and other types of spending. But it has a second, less-discussed impact that China has exploited—creating the sort of economic gravity that has allowed China to strengthen its influence in foreign capitals and compelling firms from the United States and other countries to warp principles in favor of returns. The world needs India's positive economic gravity to help “remerge” economic opportunity and values.

For decades, China has been a critical juncture of global supply chains and an increasingly important market for global services firms. Many manufacturers felt the need to have a base in China or to source products from Chinese producers in order to remain competitive. Services firms have eyed the market hungrily, hoping for improved market access in the hopes of tapping into an exploding middle class.

This hunger to “be big in China” had two strategic effects. First, U.S. firms actively petitioned the U.S. government to pursue “normalcy” in the U.S.-China economic relationship. Examples include the push to usher China into the World Trade Organization (WTO) and lobbying efforts to block any attempts to enact trade sanctions that could have soured the environment. For more than 20 years, presidential candidates have articulated tough China agendas, only to have their positions watered down once in office—at least partially due to business lobbying on China's behalf.

The second strategic effect is seeing the “value distortion field” China creates, pressuring firms to abandon values like free speech to secure favor with the Chinese government. News firms and social media sites must **censor their content** in China and are under increasing pressure to do so abroad. Airlines, among others, **are pressured** to not refer to Taiwan as a country. Technology firms are required to **store critical data** in China. Other firms are forced to publicly apologize for the horrific crime of **quoting the wrong person** in an advertisement.

The U.S. business community has rarely shown an interest in actively petitioning its government to defend the relationship with India. There was a modest and successful drive to remove the Glenn Amendment sanctions after

KEY DATA

+21.5%

U.S.-INDIA GOODS TRADE, 12-MONTH YOY
COMPARISON, PER [U.S. CENSUS BUREAU](#)

+1.0%

FOREIGN DIRECT INVESTMENT, 12-MONTH
YOY COMPARISON, PER [RBI](#)

+29.4%

FII ASSETS UNDER CUSTODY, 12-MONTH
YOY COMPARISON, PER [NSDL](#)

the 1998 nuclear tests and a more robust lobbying drive to support congressional approval of the civilian nuclear agreement in 2005–2008. However, these initiatives were short lived. And the nuclear agreement, for all the time and treasure spent in securing congressional approval, was ultimately undercut by passage of a weak nuclear liability law in India. That Herculean effort has not yet resulted in the development of a single new nuclear reactor in India by a U.S. firm.

Today, more effort is spent advocating *against* India due to harmful economic policies. Some examples from recent weeks:

- **GSP Review by USTR:** In April, the Office of the U.S. Trade Representative (USTR) announced a review of India’s benefits under the Generalized System of Preferences (GSP) due to pressure from the dairy and medical devices industries.
- **Currency Manipulation Concerns by Treasury:** In April, the U.S. Department of the Treasury added India to a list of five other countries that “merit close attention” due to concerns about currency manipulation used to help their exports and harm imports.
- **WTO Consultations by USTR:** In March, USTR formally launched a WTO challenge to India’s export subsidy programs.

It is not to argue that these steps are unwarranted. India has initiated **dramatic hikes in customs duties** this year, and it has increased a range of other antimarket regulations such as price controls and local manufacturing rules. While these regulations impact a narrow range of U.S. firms, there has not been a meaningful effort from other firms to push back against these moves—yet these trade moves could threaten the growing U.S.-India security partnership.

The Indian government does, at times, press against free speech in favor of local values. One notable example was when External Affairs Minister Sushma Swaraj demanded an apology from Amazon for selling an **Indian flag** doormat. But India has rule of law, however slow, and Amazon could have expected a fair albeit lengthy process for remediation if the government of India had decided to press its interests.

Washington, D.C., sometimes tries to connect economic and security interests. A recent example is the Trans-Pacific Partnership; these new trade linkages among participants were meant to deepen economic integration among key strategic partners. But there is a deeper game that India must play by continuing its process of economic liberalization: building a powerful business constituency in global capitals that will press for stability, while not having to step away from modern values.

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MODI’S REFORM SCORECARD

This month: Many key reforms require legislative action, and we update our reforms scorecard regularly. Our entire reforms scorecard can be found at indiareforms.csis.org