

Deepening US-India trade relations

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TRADE with India represents a big prize for the United States because of the size and strength of the Indian economy, but there are still challenges for US companies doing business in India.

The United States can address these challenges by adopting a multi-pronged strategy for solving trade conflicts and maximizing the underlying potential of the bilateral trade relationship.

The Indian economy's figures are convincing. India has had 30 years of 6.5 per cent growth, and 8.5 per cent growth in the last decade. In 2012, the Indian economy became the third largest (measured purchasing power parity dollars), surpassing Japan and now only behind China and the United States. Its trade in goods and services is worth about US\$1 billion. Its

US\$4.7 trillion economy is forecasted to double every 710 years and its US\$1 trillion dollar trade figure is forecasted to double every seven years. India will need an investment of over US\$1 trillion dollars in infrastructure, natural gas and services, and in all of these areas the United States has a comparative advantage as a supplier.

In the last decade, US exports of goods to India increased by around 700 per cent. Exports of services have doubled in the last four years, US FDI has increased from US\$200 million to US\$6 billion, and US-India trade is balanced trade. This mini-

mises the scope for macroeconomic and currency-related tensions that the United States has experienced with other countries.

India has had recent macroeconomic troubles but it is still opening up to the outside world. FDI regulation has been dramatically liberalised, and foreign financial investors now have much greater access to Indian equities, corporate and government bonds, and debt and foreign exchange. These changes are the result of a bipartisan domestic consensus that there are no alternatives to openness and globalisation.

But US businesses still face three challenges.

First, sectoral protectionism in India has re-surfaced through localisation. This protectionism favours domestic providers of inputs and equipment over foreign providers. It is a result of India's desire to create a manufacturing base for robust employment. Protectionism is not the best policy to achieve this goal, but it is politically difficult to implement better policies in this area. Moreover, India has caught the Chinese bug it is inducing foreign investors to indigenise and localise.



and Canada. Soon, if not already, this discrimination may be the biggest challenge for US business. Because India's barriers are high and the market is large and growing, this disadvantage to American companies could be substantial.

The United States can address these challenges by adopting three tactics.

First, the United States should use the WTO for resolving conflict. This is especially true in cases where Indian policies are out of line with global norms, and there is no better way of assessing their claims than getting independent adjudication. The WTO is a

particularly effective tool because India has an excellent record of compliance with WTO rulings against it. For example, after a US-initiated WTO dispute panel found that India's broad quantitative restrictions on consumer goods violated WTO rules, India launched one of its most sweeping trade reforms.

Second, US business must adapt to the Indian environment. India's regulatory environment needs to improve substantially, but this will not happen any time soon. US business must learn to navigate

an Indian market where there will be some irreducible messiness on rule of law and legal certainty. If it does not, it risks losing out to firms from other countries in what is one of the world's largest and most dynamic markets.

Third, there needs to be a broad and strategic framework for US-India trade relations. This kind of framework will address the small problems, as well as the big ones. A broad and strategic framework is necessary because of the deep commonality between the two great democracies. It can reverse the disadvantage that each country is inflicting on the other. The US-India relationship also has a key role to play in revitalising the multilateral trading system by moving beyond a Doha Round to a possible China Round. This would be a way of keeping China tethered to the multilateral system that has served the world so well.

There is a lot of potential to deepen US-India trade relations. The United States can meet the challenges it faces in India by taking a strategic approach to solving the problems which still remain.

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WMD proliferation threatens the world

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WEAPONS of mass destruction are back in the news, raising fresh fears of proliferation and use. On April 2 North Korea announced its nuclear reactor would restart. Two weeks earlier the Syrian government and rebel forces accused each other of discharging a deadly chemical near the city of Aleppo, although what exactly happened remains murky. The threat from nuclear, chemical and biological weapons hangs over the planet.

Six conventions, two treaties, one protocol, one regime, one arrangement, one code, one initiative and ten regional or zone treaties have been instituted since 1925 to control these instruments of mass murder. Most of the accords require only passive agreement and are trumped by influence-peddling, profit-seeking and ideology-spreading considerations. As a result the danger of nuclear, chemical and biological agents passing to non-state actors is on the rise, too.

Countries have spurred proliferation of every WMD category since the 1950s. Figure 1 shows major patterns of WMD proliferation.

Disseminating the weapons, relevant technologies and dual-use materials remains a surefire way for not only rogue states and terrorist organizations but even superpowers to sway other nations, make quick profits or destabilize foes.

Not surprisingly, the United Nations Institute for Disarmament Research concluded: "The non-proliferation treaties lack effective mechanisms

to enforce compliance.

The less formal export control regimes suffer

from the same lack and

have limited membership."

Mustard gas was used

extensively during World War I. Negative public reaction led to the

Geneva Protocol of 1925.

Yet Italy in 1936, Japan

from 1937 to 1945, Egypt

from 1963 to 1967 and

Iraq in the 1980s all

deployed chemicals

against military and

civilian targets. Owing to the transfer of materials

and technologies, 23 countries stockpile or have

chemical WMD capability: China, Egypt, India,

Indonesia, Iran, Iraq, Israel, Japan, Kazakhstan,

Libya, Myanmar, North Korea, Pakistan, Russia,

Saudi Arabia, Serbia, South Africa, South Korea,

Sudan, Syria, Taiwan, United States and Vietnam.

Syria, for example, began receiving material

and technological assistance from Egypt in the

early 1970s and from Iraq in the 1980s to establish

its facilities and arm SCUD missiles with chemical warheads. Pakistan served as another source of dual-use technologies and raw materials for the Assad regime. Iran too added to Damascus' stockpiles.

Nuclear WMD began as an offensive tool

dropped on Hiroshima and Nagasaki in 1945. The

horrible results meant that no rational, civilized

state could use them again. Those weapons

shifted toward defensive deterrent and emblems

of power. So, other nations followed the path laid

out by the US. The Soviet Union proliferated

technology and hardware widely. China supplied

Pakistan with highly enriched uranium for a

bomb in 1982. Presently nine countries possess

nuclear warheads: Britain, China, France, India,

Israel, North Korea, Pakistan, Russia and the US.

The number of nations tempted by nuclear

WMD is growing. Iran's nuclear program, having drawn upon Chinese, North Korean and Pakistani expertise, has fissile material for at least five warheads. China has benefited by receiving several billion dollars in revenue, securing access to crude oil, and strengthening its foreign footprint. Iran could even buy a nuclear weapon off the shelf from China or North Korea the next stage in proliferation. So a broader nuclear acquisitions cascade is building as Sunni Arab nations like Saudi Arabia seek to neutralize both their Shi'ite neighbor's might and Israel's WMD program.

Biological WMD are popularly considered the most taboo of offensive capabilities. Nonetheless the Imperial Japanese Army from 1939 to 1940

and guidance systems are essential components. The Israelis sell those technically non-WMD items to the Chinese who resell to the North Koreans who then resell to Iran, Egypt, Syria, Libya, Yemen, the UAE and Pakistan. As countries like North Korea and Iran collaborate on missile development, the WMD one develops could fit the other's delivery systems.

Many deals are conducted covertly with countries like Malaysia and Dubai serving as third-party transfer venues. Equally unsettling for global security, WMD trades for profit and ideology have taken place through private outlets such as Pakistan's former atomic chief A. Q. Khan. Materials siphoned from Russia and the Ukraine also continue fueling the nuclear black market.

Indeed the danger of nuclear, chemical and biological agents passing to non-state actors is on the rise. Since 2001 Al Qaeda and its affiliates have sought WMD capability. During Syria's civil war some sarin, mustard gas and cyanide from government depots reportedly have fallen into illicit hands. The possibility of Islamists wresting materials from Pakistan's WMD facilities increases as that nation's political instability grows. Iran for its part appears to have transferred some technologies to regional militant organizations such as Hamas and Hezbollah.

Sensing the growing dangers from both state and non-state agents, nations are adding themselves to the lists of signatories to nuclear, chemical and biological accords. However, many countries have signed only some accords, as shown in the map. Egypt, for instance, which once explored nuclear power and may recommence its quest as Iran did after its revolution, has not ratified the Comprehensive Test Ban Treaty, the Convention on the Physical Protection of Nuclear Material or the Nuclear Terrorism Convention.

Only when proliferators see it in their own best interests of preservation and growth to stanch the flow of those weapons and technologies between countries, to exclude non-state entities as recipients and to dismantle weapon programs and stockpiles will the world become safer. Until then, generating consensus for strict implementation of existing accords and taking firm action such as economic and diplomatic sanctions against violators remains necessary. Such action can sway states away from WMD as it did with Muammar Gaddafi's Libya.

Increasingly the US has been at the forefront of non-proliferation efforts through multilateral negotiations with Iran and North Korea and with the Proliferation Security Initiative. Yet those attempts are seen by others as attempts to impose agendas rather than safeguard the world. Therefore the United Nations, in addition to individual nations, must function much more vigorously as the center of initiatives to curb WMD proliferation. Global consensus through the UN would demonstrate shared resolve. Then accords, implementations and dissuasive actions can have maximum impact.

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China sets a new foreign policy agenda to enhance its clout

THE contours of China's foreign policy under the new leadership became clear with the conclusion of the 12th National People's Congress (NPC) held in March 2013. The conference approved senior government appointments responsible for the execution of the new agenda.

These personnel appointments viewed along with the first speeches of Chinese President Xi Jinping and Premier Li Keqiang, reveal that China will persist with its foreign policy objective of trying to establish dominance in the Asia-Pacific, while insulating and preserving its relationship with the US and strengthening ties with Russia.

China's foreign policy is set to become more vigorous as Beijing tries to counter what it feels are US-led efforts to contain its rise. Its relations with the US will, however, remain its "most important bilateral relationship" and Beijing will try to insulate it from damage. It will at the same time seek to safeguard its interests especially in the Asia-Pacific. The People's Liberation Army will be used to reinforce Chinese diplomacy. China will not yield on its maritime territorial claims in the region, which it perceives not only as a territorial issue but the recognition of which by world powers would mean acknowledgement of China's pre-eminent position in the region.

The promotion of erstwhile foreign minister, 62-year-old Yang Jiechi, as state councillor is important. He replaces Dai Bingguo who has been China's pointsman for negotiations with important countries like the US and Russia and is China's special representative for border talks with India. Jiechi is an expert on American affairs, a fluent English speaker and a graduate of the London School of Economics.

His effort to keep Sino-US relations in good repair will be supported on the ground by the new Chinese ambassador to USA, Cui Tiankai, who has been ambassador to Japan and is a postgraduate from the School of Advanced International Studies, Johns Hopkins University.

China's minister of state security (MOSS), Geng Huicheng, is also an America expert.

The new foreign minister, Wang Yi, is a fluent Japanese speaker and former ambassador to Japan and head of China's Taiwan affairs office. A consummate diplomat and skilled negotiator, he conducted secret talks with current Japanese Prime Minister Shinzo Abe, which helped break the impasse in Sino-Japanese ties in 2001-2006. Wang Yi's appointment is intended to reduce tensions with Japan and nudge Tokyo towards possibly accepting China's claims. The appointments reflect the importance Beijing attaches to its relations with the US and this region, especially in the present context.

China has simultaneously moved to ensure its influence is not undermined by the US in countries where it has strategic investments. It has appointed well-connected 71-year-old Wang Yifan, a former vice foreign minister in-charge of Asian affairs, as special envoy for Myanmar. New ambassadors have been appointed to Myanmar and Nepal, the latter tasked especially to curb and control the activities of Tibetans in Nepal and India. Beijing's concern is that at some stage the US may use the Tibetans to destabilise China.

It has also attempted to prevent a sudden chill in India-China relations which could push India closer to the US, and in the past many months anti-India rhetoric by Chinese officials, analysts and state-controlled media has been suspended. China has also for the first time posted an ambassador of the rank of vice minister to India.

This agenda reflects the policies and programmes of Xi Jinping and Li Keqiang who are determined to preserve the CCP's legitimacy and supremacy and ensure 'China's rise'.

The writer is a Member of the National Security Advisory Board. Views expressed are personal.

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