

GROWING APART

India, US see differences widen over trade, diplomatic issues

Ties lose momentum as tensions grow between the two countries on matters ranging from Iran to import duties

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NEW DELHI

After reaching a high-water mark in 2008 with the signing of a civil nuclear deal, the relationship between India and the US has seen a downward spiral, with widening differences on trade and diplomatic issues.

The nuclear pact, which was pushed through by the US and helped India throw off its 34-year-old nuclear pariah status and become eligible to buy atomic reactors and technology from the international market, was seen by analysts as the catalyst, making the two countries so-called engaged democracies—a far cry from the days of the Cold War when they were on opposite sides and known as estranged democracies, when India was perceived closer to the erstwhile Soviet Union.

The civil nuclear deal was expected to open the doors for US businesses but has made little progress because of India's stringent liability conditions. This was followed last year when the US lost to France a lucrative \$12.6 billion contract for 126 fighter aircraft



MANISH SWARUP/AP

On opposing sides: During a visit to New Delhi last week, US secretary of state Hillary Clinton pressed India to do "even more" to reduce its oil purchases from Iran, even as foreign minister S.M. Krishna highlighted Iran as an important source of oil.

pute.

India says it has the right to impose import restrictions on countries, whenever they report outbreaks of low pathogenic avian influenza, the only kind of avian influenza found in the US since 2004.

India, meanwhile, took the US to the WTO for consultations over import duties levied on Indian steel products. India has announced that it will seek consultations at WTO against

not elicit any response.

The US is India's third largest trading partner after the United Arab Emirates and China, with bilateral trade standing at \$45.6 billion in 2010-11.

The US has also raised concern over India allowing Hyderabad-based **Natco Pharma Ltd** to manufacture and market a copy of **Bayer AG's** liver and kidney cancer drug **nexavar**—the first time a local firm was granted the so-called com-

relationship between the two countries, but it is only worsening."

However, Biswajit Dhar, director general at Research and Information System for Developing Countries, said he does not think it is proper to see the recent developments as worsening of economic relationship and sees the US move to hike visa fees as a step to win electoral mileage with US votes.

for the Indian Air Force.

More recently, the two countries are being seen on opposite sides over ties with Iran, with Washington keen to see New Delhi reduce its oil imports from the Persian Gulf country, till recently India's second-largest supplier after Saudi Arabia. Washington wants New Delhi to cut its oil trade with Iran to ensure that the financial sanctions it announced in December take effect.

The sanctions are aimed at crippling revenues generated by Iran's oil industry that Western countries say is funding Tehran's disputed nuclear programme.

During a visit to New Delhi last week, US secretary of state Hillary Clinton pressed India to do "even

more" to reduce its oil purchases from Iran, even as foreign minister S.M. Krishna highlighted Iran as an important source of oil. To sort out the differences, the US is despatching top energy diplomat Carlos Pascual to India for further talks starting Monday.

However, it is the growing tension between the two countries on trade that has taken analysts by surprise. The US in March took India to the WTO seeking a consultation on India's ban on the import of poultry products from the US. On Friday, the US approached the WTO asking it to set up a dispute settlement panel on the matter, holding that the consultations between the two countries had failed.

A consultation at the WTO is the first step towards resolving a disagreement before entering into a full-fledged legal dis-

what it calls a discriminatory US government procurement and visa-fee regime.

India alleges that the US' visa fee hikes are targeted towards its information technology companies, who are widely perceived in the US to be taking away jobs from native Americans.

Through the James Zadroga 9/11 Health and Compensation Act of 2010, the US imposes additional 2% tax on countries that are not signatories of its government procurement agreement.

India considers this law a violation of the most favoured nation status under the WTO, which seeks to ensure non-discrimination among trading partners. Both sides have also postponed twice the crucial eighth round of US-India trade policy forum talks.

"We are currently in the process of preparing the brief through a lawyer. Once the brief is ready, we will take up the issue at the WTO," a commerce ministry official said under condition of anonymity. The law is in spirit, not by design, against Indian interest, he said.

When asked about the souring of economic relations between the two countries, the official said: "The relationship between the two countries had great promise on trade front. But wrong policy choices by the US trade officials have spoiled the relationship. Because they know they cannot get anything from countries like India and China, they have gone ahead and started pricking us."

A questionnaire sent to US embassy officials in India did

pulsory licence.

The US has placed India on a priority watch list in its latest trade representative's report, which raises concerns over the country's enforcement of intellectual property rights. Trade minister Anand Sharma has strongly objected to the US move, writing a letter to his US counterpart Ron Kirk that termed the move as "unilateral, unfortunate and unjustified".

Anwarul Hoda, professor and a trade expert at the Indian Council for Research on International Economic Relations, said there are deep-rooted problems between the two nations although the ongoing presidential election process in the US has aggravated the situation.

"The White House has to show to its domestic constituencies that it is very tough with its trading partners," Hoda said. "The government is basically playing to the gallery,"

He said unlike the Republic Party, the incumbent Democratic Party are not pro-trade. "They are totally confused about their trade policy," he said.

The Obama administration has often been accused of lacking a trade policy and has widely been blamed for not showing any resolve to complete the Doha round of multilateral trade agreement under the WTO.

Hoda said the malaise in the trade relationship is deeper than it appears. "The US is losing its competitiveness. In the 80s, they were losing competitiveness against the Japan. Now they are losing competitiveness in manufacturing to China and in services to India," he said. "They have the usual habit of blaming the other side for their own problems."

Hoda who is also a member of the India-US private sector advisory group, said, "We have been trying to improve the re-

lationship. On India threatening to take the US to WTO on the visa fee hike, Dhar says this is an attempt by India to avoid any crisis in its external payment situation. "India is trying to ensure that its balance of payment problem does not further worsen," Dhar said. "The dollar outflows are hurting us more now than in the past."

Taken together with growing differences on diplomatic front, it is perceived as signs of the ties between the two countries losing momentum.

Former Indian ambassador to the US Naresh Chandra conceded that ties had "plateaued" but he attributed this to domestic reasons in India and the US with the US busy with presidential polls in November and Indian government seemingly caught in a series of scams that has paralysed policymaking.

"Neither side is in a position to make gestures to the other," Chandra said. "So this situation will continue at least till the end of this year."

"But to say that India-US relations will be severely affected or slide back to what they were two decades ago is far-fetched," Chandra said.

Uma Purushotaman, an analyst at the Observer Research Foundation in New Delhi was of the view that the differences across the board—economic and strategic—were containable.

"There will be differences, but it will not go to the point of straining ties too much," she said. "There is too much at stake for both sides."

"Given the changing global scenario, the geo-politics of Asia in the sense of the changing balance of power—the emergence of China, the imminent change in leadership there and the emergence of India—the US and India both have a lot in common. What the US can bring to the table, no one else can," she said.

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