



**OCTOBER**  
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## **Natural Allies**

*A Blueprint for the Future of U.S.-India Relations*

By Richard L. Armitage, Co-Chair  
R. Nicholas Burns, Co-Chair  
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*The recommendations in this report are based on the belief that the United States has an interest in working more closely with India and in assisting its further emergence as one of the world's great powers. This will require policy changes by both the United States and India. Many of these changes will be difficult, and some differences may endure. But the potential gain is worth the effort. Now is a critical time in this partnership, a moment to transform past bilateral accomplishments into regional and global successes. We urge American and Indian leaders to seize it.*

## A BLUEPRINT FOR THE FUTURE OF U.S.-INDIA RELATIONS

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and Richard Fontaine

The emergence of India as a new major global power is transforming the world's geopolitical landscape, with profound implications for the future trajectory of our century and for America's own global interests.

A strengthened U.S.-India strategic partnership is thus imperative in this new era. The transformation of U.S. ties with New Delhi over the past 10 years, led by Presidents Clinton and Bush, stands as one of the most significant triumphs of recent American foreign policy. It has also been a bipartisan success. In the last several years alone, the United States and India have completed a landmark civil nuclear cooperation agreement, enhanced military ties, expanded defense trade, increased bilateral trade and investment and deepened their global political cooperation.

Many prominent Indians and Americans, however, now fear this rapid expansion of ties has stalled. Past projects remain incomplete, few new ideas have been embraced by both sides, and the forward momentum that characterized recent cooperation has subsided. The Obama administration has taken significant steps to break through this inertia, including with its Strategic Dialogue this spring and President Obama's planned state visit to India in November 2010. Yet there remains a sense among observers in both countries that this critical relationship is falling short of its promise.

We believe it is critical to rejuvenate the U.S.-India partnership and put U.S. relations with India on a more solid foundation. The relationship requires a bold leap forward. The United States should establish a vision for what it seeks in the relationship and give concrete meaning to the phrase "strategic partnership." A nonpartisan working group of experts met at the Center for a New American Security (CNAS) over the past eight months to review the main pillars of the U.S.-India relationship and we articulate here a specific agenda of action.

In order to chart a more ambitious U.S.-India strategic partnership, we believe that the United States should commit, publicly and explicitly, to work with India in support of its permanent membership in an enlarged U.N. Security Council; seek a broad expansion of bilateral trade and investment, beginning with a Bilateral Investment Treaty; greatly expand the security relationship and boost defense trade; support Indian membership in key export control organizations, a step toward integrating India into global nonproliferation efforts; and liberalize U.S. export controls, including the removal of Indian Space Research Organization (ISRO) subsidiaries from the U.S. Entity List.

These and the other actions outlined in this report will require India to make a number of commitments and policy changes, including taking rapid action to fully implement the Civil Nuclear Agreement; raising its caps on foreign investment; reducing barriers to defense and other forms of trade; enhancing its rules for protecting patents and other intellectual property; further harmonizing its export control lists with multilateral regimes; and seeking closer cooperation with the United States and like-minded partners in international organizations, including the United Nations.

The U.S. relationship with India should be rooted in shared interests and values and should not be simply transactional or limited to occasional collaboration. India's rise to global power is, we believe, in America's strategic interest. As a result, the United States should not only seek a closer relationship with India, but actively assist its further emergence as a great power.

U.S. interests in a closer relationship with India include:

- Ensuring a stable Asian and global balance of power.
- Strengthening an open global trading system.
- Protecting and preserving access to the global commons (air, sea, space, and cyber realms).
- Countering terrorism and violent extremism.
- Ensuring access to secure global energy resources.
- Bolstering the international nonproliferation regime.
- Promoting democracy and human rights.
- Fostering greater stability, security and economic prosperity in South Asia, including in Pakistan, Afghanistan, Nepal, Bangladesh and Sri Lanka.

A strong U.S.-India strategic partnership will prove indispensable to the region's continued peace and prosperity. Both India and the United States have a vital interest in maintaining a stable balance of power in Asia. Neither seeks containment of China, but the likelihood of a peaceful Chinese rise increases if it ascends in a region where the great democratic powers are also strong. Growing U.S.-India strategic ties will ensure that Asia will not have a vacuum of power and will make it easier for both Washington and New Delhi to have productive relations with Beijing. In addition, a strengthened relationship with India, a natural democratic partner, will signal that the United States remains committed to a strong and enduring presence in Asia.

The need for closer U.S.-India cooperation goes well beyond regional concerns. In light of its rise, India will play an increasingly vital role in addressing virtually all major global challenges. Now is the time to transform a series of bilateral achievements into a lasting regional and global partnership.

Our recommendations are based on the belief that a stronger and more prosperous India will allow for a more vibrant U.S.-India relationship and that the United States should encourage and facilitate India's rise as a full stakeholder in the international community.

## Security and Defense

The United States and India are strategic partners with a shared interest in security throughout Asia. While the two countries are unlikely ever to become formal treaty allies, security ties between India and the United States already form a key pillar of the new relationship. Military-to-military ties have expanded significantly, counterterrorism cooperation has increased and dialogue on regional security issues has improved. The United States now holds more military exercises with India than with any other country. The United States and India should build on this foundation, moving toward a greatly expanded security relationship in which the two militaries aim to achieve a greater degree of cooperation in equipment and doctrine.

*Counterterrorism.* The United States and India share a resolve to stop violent extremism and the threat it poses to our open and democratic way of life. Counterterrorism cooperation accelerated rapidly after the deadly 2008 Mumbai attacks and was formalized in a memorandum of understanding between the two governments in July 2010. The United States and India should continue to enhance this cooperation by sharing information about key threats, coordinating their approaches to terrorist threats throughout the South Asia region and undertaking other joint actions to protect our democracies.

*Defense trade.* An expanded U.S.-India military partnership, including enhanced defense trade, should be a key aim of American policy and will contribute to stronger security ties. After some initial success, defense trade with India has all too often fallen victim to bureaucratic inertia in both countries. Indian leaders believe that the U.S. export control system hinders India's acquisition of American high technology goods, including defense items. The United States should modify its export-control measures as described below, permitting increased exports of defense-related technology and goods to India.

India will need to take steps of its own for the security relationship to reach its full potential. India's current cap on foreign investment in the defense sector and onerous requirements for "offsets" (mandatory investments in the local defense industry) inhibit defense trade. By modifying its offset policy, and increasing its cap on foreign investment, India could boost such trade. Moreover, completing outstanding agreements (including the Communication Interoperability and Security Memorandum of Agreement, or CISMOA, and the Mutual Logistic Support Agreement, or MLSA) would give India increased access to advanced U.S. defense technology. Finally, both governments should note that the ongoing competition for India's next tactical fighter aircraft, known as the medium multi-role combat aircraft, will, because of its importance and visibility, constitute a significant milestone in the defense and security relationship between the two countries.

*Regional issues.* A more frank and open dialogue on regional issues must be at the center of the bilateral relationship. While U.S.-India discussions about China have expanded significantly, discussions of Pakistan and Afghanistan remain inadequate. The United States and India should deepen their dialogue on those two countries, recognizing that we may continue to differ on elements of our respective approaches. The aim of these discussions should be not only to increase mutual understanding, but to identify specific areas of common action. This is particularly important in the case of Afghanistan, with which India has historic ties and to which it has provided substantial development aid. The United States should work with India to identify further potential contributions – taking into consideration other regional sensitivities – to the international effort in Afghanistan. In addition, the United States and India should engage in a robust dialogue about Pakistan and cooperate more effectively in the global effort to end Iran's pursuit of nuclear weapons.

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*Global Commons.* As India emerges as a key stakeholder in protecting the global commons, the United States and India should seize the opportunity to shape international regimes to manage air, sea, space and cyber realms that encourage all global powers to use the commons responsibly. In protecting sea lines of communication, preserving freedom of navigation and ensuring the security of cyber networks and satellites, the United States and Indian militaries will help ensure the continued availability of realms critical to continued global prosperity. Toward that end, the two countries should continue to enhance their bilateral and multilateral maritime cooperation, particularly in the Indian Ocean and the Persian Gulf. In addition, the United States should view India as a partner in outer space, beginning by modifying its export controls as described below.

### **Economics and Trade**

The economic relationship between the United States and India has grown significantly in recent years but continues to fall short of its full potential. Freer flows of trade and investment between the two countries would increase prosperity, create jobs and embed the overall bilateral relationship in a web of private sector ties. Growing trade and investment creates stakeholders in both countries, constituents who see the benefits of deepening the

relationship and can help maintain continuity during times of overall stasis or occasional stress.

*Bilateral trade and investment.* The United States and India should prioritize the need to advance the multilateral trading system. They can accomplish this by adopting bilateral trade and investment measures that they would like to see other countries emulate. This should begin with the launch of serious negotiations toward the long-delayed Bilateral Investment Treaty that would, in light of the tremendous domestic Indian market and increasing bilateral investment flows, create a more stable environment for growth.

To further enhance bilateral trade flows, the U.S. and Indian governments should convene leaders of various sectors to harvest specific ideas, including on such issues as green technologies, agricultural production, and the protection of intellectual property. The United States should also liberalize its H1B visa regime so that additional talented Indians can contribute to the American economy.

India will need to take several steps of its own. To encourage greater economic activity with the United States, the Indian government should establish robust rules for protecting patents and other intellectual property and adequately enforce those rules. It should also increase access to the Indian market by lowering tariffs, eliminating offset requirements, increasing investment caps and facilitating business visas.

*Regional trade agreements.* Both countries have an interest in a set of trans-Pacific institutions and relationships that help ensure that the region remains stable and secure, permits the free flow of goods and capital and is not dominated by any one Asian power. India could play a significant role in this effort. The United States and other nations that have pledged to negotiate the new Trans-Pacific Partnership (TPP) should consult with India on the development of the TPP to identify pragmatic steps that could ultimately lead to India's participation.

*Global trade talks.* The United States and India are well placed to aid the expansion of the global trading system. While the possibility of reviving the Doha Round of global trade talks appears remote, the United States and India together should seize a leadership role either by presenting to World Trade Organization (WTO) members a package of proposals for concluding the Doha Round, or by outlining steps to launch a post-Doha initiative that will move the WTO forward. This will require India to soften its insistence on maintaining its ability to raise tariffs on agricultural and many other imports at any time, and it will require the United States to be willing to further reduce its own tariffs and agricultural subsidies.

*The G-20 and International Financial Institutions.* The G-20 is a select group of key powers that has already benefited from India's participation. The United States should coordinate with India before each G-20 session and work with it to encourage the free and properly regulated flow of financial capital across borders, in part by actions coordinated through the Financial Stability Forum. At the same time, India's voting shares at the World Bank and the International Monetary Fund are increasing, permitting those institutions to better reflect the contemporary global power balance. The United States and India should use this positive development to help address the challenge of destabilizing financial imbalances and currency practices.

*Agriculture and Education Cooperation.* Dr. Norman Borlaug and other Americans were instrumental in launching India's first Green Revolution, which transformed agricultural production in the 1960s. India's Prime Minister, Manmohan Singh, has spoken of the importance of spurring a second Green Revolution in the subcontinent, and U.S.-India collaboration in this area should represent a major new bilateral initiative. Comprehensive reform of Indian agriculture will require research into methods for increasing

yields and, in pursuit of this goal, the United States should explore ways in which American land-grant universities can increase their involvement. The potential to involve American universities goes beyond agriculture; the United States and India should seek ways of increasing cooperation in higher education. This could include the establishment of satellite campuses and other higher education collaborations in India as the country liberalizes its laws to permit foreign investment in Indian higher education.

### **Energy and Climate Change**

India's emergence as a key actor at the Copenhagen summit on climate change in December 2009 represented a turning point in its global activism. The Copenhagen talks put new stresses on the bilateral relationship when India sided with the BASIC (i.e., Brazil, South Africa, India, and China) bloc rather than with the United States and its other partners. At the same time, direct Indian engagement in these global negotiations demonstrated that it is essential to any international solution to this pressing problem.

While real differences exist – and will likely continue – on the best methods for reducing carbon emissions, this effort should not be seen as a competition between developed and developing countries. On the contrary, any meaningful reduction in carbon emissions will require the active collaboration of the world's largest energy consumers. India, one of the two fastest-growing energy markets in the world today, is critical to this effort.

*Climate change.* Given the divergence in views over caps on carbon emissions, the United States and India should focus on reducing emissions on the supply side – that is, through greater efficiency in energy production and distribution and the adoption of new green technologies. Such a focus will require greater protections for intellectual property rights in India. In addition, given the wide distribution of responsibilities for managing climate

change issues, particularly within the Indian government, the United States and India should establish more direct bilateral channels for discussions and negotiations.

Bilateral progress can create positive momentum in multilateral frameworks, and the United States should enhance its climate change dialogue with the BASIC countries and the European Union in the post-Copenhagen era. Given the two sides' differences, the United States should avoid pursuing agreements that will lead to zero-sum contests with India and other states that could become pillars of the emerging international order.

*Energy security.* Currently, membership in the International Energy Agency (IEA), the major organization representing energy consumers, requires membership in the Organization of Economic Cooperation and Development (OECD). Given the unlikelihood that India will join the OECD in the near term, the United States should support observer status for India or the creation of an "IEA+2" or an "IEA+5" that would include India together with China and possibly a handful of other countries. The aim should be to ensure that India, a country with growing energy needs, has a seat at the table as IEA member states coordinate policy and discuss energy security issues.

### **Nonproliferation and Export Controls**

Despite tremendous achievements in recent years, significant work remains for the United States and India in the areas of nuclear trade, nonproliferation, and export controls. While the two sides agreed on the historic Civil Nuclear Agreement in July 2007, U.S.-India nuclear trade has not commenced. In addition, India views the U.S. export control regime as anachronistic and sees U.S. denials of licenses to access sensitive technology as conflicting with the intent of the new bilateral relationship. We believe that U.S. export control reform is indeed necessary. Changes to U.S. export control regulations would permit the increased

export of high-technology U.S. goods to India and demonstrate a degree of mutual trust commensurate with the ambitious goals of the strategic relationship.

*Civil nuclear cooperation.* The Civil Nuclear Agreement constituted a historic step forward in U.S.-India ties and has become the cornerstone of the new partnership. Failure to complete the steps necessary to implement the agreement, however, risks severely damaging the rest of the relationship. Consequently, the United States and India must press vigorously for rapid implementation of the agreement. The Indian Parliament recently passed a nuclear-liability law that deviates significantly from international standards and renders equipment suppliers potentially liable for as long as 80 years. This law is a major disappointment to private and public officials in the United States, and India should take quick and resolute action to resolve this issue. Failure to do so will undermine the most important agreement the two countries have negotiated and pose grave risks for the relationship at the political level. By resolving the issue of legal liability, and by providing the remaining nonproliferation assurances that the United States requires, India can secure this historic achievement.

*Export controls and high-technology trade.* Since the lifting of sanctions on India in 2001 and the establishment of the U.S.-India High Technology Cooperation Group in 2003, there has been substantial liberalization of U.S. export controls and a steady increase in the volume of high-technology trade with India. Nevertheless, for India, both the dual-use and munitions export-control systems continue to be sources of irritation in the relationship, restricting many of the very items India seeks. Removing some of these controls, consistent with U.S. law and legitimate concerns about the spread of sensitive technology, is in America's interest. Doing so would facilitate defense cooperation and military-to-military ties, expand bilateral trade in the high-technology,

commercial space, and civil nuclear sectors and enable the two countries to focus on other bilateral priorities, including reducing other market barriers that restrict bilateral trade.

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The Obama administration's current review of U.S. export controls presents a unique opportunity to grant India preferred access to both dual-use and munitions items. The United States should remove Indian Space Research Organization (ISRO) subsidiaries from the U.S. Entity List and consider removing other organizations from the list as the Indian government draws clearer lines between its civil space and civil nuclear activities on the one hand, and its ballistic missile and nuclear weapons activities on the other. Such distinctions would clarify and ease licensing policy for Indian acquisition of more sophisticated defense items and technology. India could enhance and accelerate these changes by further harmonizing its export control lists with those of certain multilateral regimes,

permitting all end-use assurance visits, concluding key defense agreements with the United States, allowing greater foreign investment in its defense sector and strengthening its export-control infrastructure and enforcement capacity. Taking such steps will require active top-down guidance in both governments and sustained attention from political leaders to break through longstanding bureaucratic obstacles. As part of this effort, the two governments should consolidate the various dialogues regarding export controls and technology transfer into a single forum that addresses dual-use, munitions and civil nuclear trade. The United States should designate an appropriate senior official at the cabinet level to coordinate export-control issues related to India and take the lead in resolving overlapping regulatory and policy issues.

*Nonproliferation.* Building on past nuclear and nonproliferation achievements, the United States should further integrate India into the mainstream of global nonproliferation institutions. This should include unambiguous American support for India's membership in multilateral export-control regimes (i.e., the Nuclear Suppliers Group, the Australia Group, the Wassenaar Arrangement and the Missile Technology Control Regime). To the extent that India remains outside these regimes, the United States should encourage it to harmonize its policies and practices with the underlying guidelines and control lists of the multilateral regimes.

The United States should also cease calling for India to join the Nuclear Non-Proliferation Treaty (NPT) as a non-nuclear state, as it has for many years; rather, the United States should encourage India to fully conform its laws, policies and practices to those of NPT members, irrespective of its non-member status. For its part, India should work closely with the United States and the rest of the international community to prevent Iran's development of nuclear weapons.

### International Institutions

The United States should support India's emergence as a full stakeholder in the international community and full integration into international institutions. India's leadership in the G-20 has contributed positively to U.S.-India relations. As the United States enters a period in which building and sustaining international partnerships is ever more critical, American policymakers must sketch out a future of broad U.S.-Indian cooperation across the range of global issues and within the spectrum of global institutions.

*United Nations Security Council.* As the United States and India build a strategic relationship in the years and decades ahead, the two countries must cooperate more closely within international bodies. Today, the U.N. Security Council quite plainly fails to reflect the distribution of power in today's world, and it does not take into account India's rise to global power status. As a result – and in light of U.S. aspirations for the U.S.-India strategic partnership – the United States should commit, publicly and explicitly, to work with India in support of its permanent membership in an enlarged U.N. Security Council.

The two countries should view cooperation at the U.N. – including cooperation on key votes – as comparable to cooperation between the United States and its major allies. This kind of partnership may take time to develop. While the United States and India have worked together closely on issues related to U.N. peacekeeping, they differ on a number of issues that have recently come before the Security Council. New Delhi has long leaned toward noninterference, and India and U.S. votes in the U.N. General Assembly last year matched just 30 percent of the time. With U.S. support for Indian permanent membership on the U.N. Security Council, the character of bilateral cooperation at the U.N. will need to change. The two countries should establish a robust dialogue that examines all of the pressing global issues and

develops specific actions on which the United States and India can collaborate. India's upcoming nonpermanent Security Council membership provides an important opportunity for the two countries to work together.

This will not be a painless process; bilateral cooperation historically has been easier than U.S.-India collaboration in multilateral organizations. Given the countries' differing perceptions of interest on key issues such as Burma, Iran, and the general efficacy of economic sanctions, unambiguous support for deeper Indian integration into global governance holds short-term risks. But the long-term benefits outweigh these risks. A true strategic partnership with India will remain incomplete without fuller cooperation at the multilateral level. And multilateral institutions that exclude India will become increasingly anachronistic, failing to reflect the world as it is.

### Values and Democracy

Twelve years ago, then-Prime Minister Atal Bihari Vajpayee declared that the United States and India, the world's biggest democracies, were "natural allies." Parties in both countries routinely offer as a central rationale for the growing bilateral relationship precisely those values that trump differences in global outlook. And whereas during the Cold War the interests and values of India and the United States frequently pulled in opposite directions, today they reinforce each other in a number of areas. Democracy, an inherent strength of the Indian and American systems, infuses the bilateral relationship with its unique character and forms the bedrock on which countries can pursue shared interests. The United States and India should work together to spread the culture of democracy in lands where it does not yet exist.

There are limits to values-based cooperation. The United States and India have genuine differences both on their approaches to the expansion of democracy and human rights and on the countries

best suited for such support. These differences manifest themselves in policy disagreements about several of the countries in India's neighborhood such as Pakistan and Burma. But our leaders should not allow occasional disagreements to preclude wider cooperation in support of the universal values that form the heart of the two democracies. Moreover, this cooperation should not be limited to the two governments; on the contrary, supporting democracy and human rights should involve the people of both countries.

*Support for democracy and human rights.* India offers the world a unique perspective as a successful, diverse, non-Western democracy; perhaps for this reason Indian efforts to support democracy abroad have accelerated in recent years. India was one of 10 founding members of the Community of Democracies and a co-founder and contributor to the U.N. Democracy Fund. It has participated in the multilateral activities of the Center for Democratic Transitions, the Partnership for Democratic Governance and the Asia-Pacific Democracy Partnership. These activities and the resilience of India's own political system demonstrate vividly that democracy is not a Western invention or an American export.

Given the strength of Indo-U.S. people-to-people ties and the civic nature of democracy assistance, the two countries should channel much of their bilateral cooperation in this area through non-governmental organizations. The two countries recently launched a women's empowerment initiative that could be expanded beyond Afghanistan. In addition, India could consider establishing a nongovernmental organization that could work with American counterparts to support democracy abroad. At the intergovernmental level, the United States should seek to reinvigorate its cooperation with India in key multilateral forums, including the U.N. Democracy Fund and the Asia-Pacific Democracy Partnership.

*Development assistance.* Long a recipient of foreign assistance, India has emerged as a donor in its own right. The United States should explore with India whether some of the dramatic reforms in U.S. foreign aid, such as channeling aid through the Millennium Challenge Corporation, which enshrines commitments to democratic governance and economic and social development, could be coordinated with Indian aid programs. To begin, the two countries should choose one major development project and coordinate their aid, linking it to a domestic reform plan in the target nation. By doing so, both countries would have the opportunity to maximize the impact of their aid and to better promote reforms in recipient countries.

*Internet freedom.* As open societies that benefit greatly from unfettered access to the cyber commons, India and the United States have an economic interest in the free flow of information over the Internet. As a result, the United States and India could form part of a core group of countries, including partners in Europe, to launch a new global Internet-freedom initiative. Such an effort could include a code of conduct that establishes basic norms of governmental and corporate behavior impacting privacy, freedom of online speech and assembly and protections for national security.

## **Conclusion**

More than six decades have passed since Prime Minister Jawaharlal Nehru addressed a joint session of the United States Congress. "Though we may know the history and something of the culture of our respective countries," the prime minister said, "what is required is a true understanding and appreciation of each other even where we differ. Out of that understanding grows fruitful cooperation in the pursuit of common ideals."

For many years, that fruitful cooperation remained far below its potential. Only 15 years ago, collaboration in many of the areas described above would have been unthinkable. Since then, relations

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– PRIME MINISTER  
JAWAHARLAL NEHRU

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between the United States and India have grown by leaps and bounds, and the pace has exceeded the predictions of even the most optimistic proponents. But this progress is not self-sustaining. It requires bold leadership to expand and deepen the U.S.-India partnership in a spirit commensurate with its vital importance.

Progress also requires vision. In this young century, the United States and India must articulate an ambitious agenda of cooperation that will serve both countries for decades to come. Acting as strategic partners, our two countries can better promote peace and stability in Asia, increase the prosperity and economic opportunity of our populations, tackle key transnational issues like terrorism and climate change, embark on a close and enduring defense relationship and spread the culture of democracy on which our two nations are built.

The recommendations in this report are based on the belief that the United States has an interest in working more closely with India and in assisting its further emergence as one of the world’s great powers. This will require policy changes by both the United States and India. Many of these changes will be difficult, and some differences may endure. But the potential gain is worth the effort. Now is a critical time in this partnership, a moment to transform past bilateral accomplishments into regional and global successes. We urge American and Indian leaders to seize it.

## *About the Center for a New American Security*

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