

Associate Paper

15 October 2019

“Howdy Modi”: A Diplomatic *Tour de Force* Superimposed on US-India Bilateral Issues

Dr Auriol Weigold
FDI Senior Visiting Fellow

Key Points

- Modi’s “rapturous welcome” at Madison Square Garden in 2014 was repeated at the Howdy Modi festival in Houston, where his rapport with Trump was on display.
- “Make in India” and “America First” were evident at the leaders’ unresolved tariff equity discussions.
- The cost advantage for US firms to operate in low-waged India and questions around H-1B visas are background issues.
- New collaborations are crucial to Indo-US strategic interoperability.
- The US-proposed tri-service exercise aims to consolidate US-India defence ties.

Summary

US and Indian national and strategic interests play out across a range of issues and areas of potential engagement. The anticipated resolution of their tariff war did not occur during the events of Howdy Modi week despite the leaders’ personal rapport. Background issues linked with “America First” and “Make in India” are also considered in this paper. They include the value to the US of India as a consumer market, India’s corporate tax cuts to promote “Make in India” production, and the low-wage cost advantage to American firms operating there. Curbs on the H-1B visa remain an uncertainty for Indian high-skilled IT workers.

Economic disparities may also have an effect on the two countries’ broad strategic interests. India’s strategic autonomy has extended but not fully replaced its non-alignment policy. Its flexibility has allowed India to be a signatory to The Logistics Exchange Memorandum of

Agreement (LEMOA) in 2016 and the Communications Compatibility and Security Agreement (COMCASA) in September 2018, while the Basic Exchange and Cooperation Agreement (BECA) awaits India's signature. It is seen by the US as crucial to counterbalancing its concerns about a Russia-China-Pakistan axis but ignores India's bilateral economic and trade relations with Russia and China. Also in play is India's ongoing development engagement with Iran, permitted with a continuing US waiver.

Analysis

Re-jigging the Relationship

Indian Prime Minister Narendra Modi received “a rapturous welcome from thousands of Indian-Americans” at Madison Square Garden on 28 September 2014, some four months after his first landslide election victory. Now, after his second and increased election success in May 2019 and almost to the day, this year on 22 September, he received another resounding welcome from some non-resident Indians (NRIs) in Houston, Texas, with President Trump by his side. Modi successfully refreshed and re-established his brand. Trump's desire, however, is to re-jig ongoing strategic relations, courting and coaxing Modi's India into an alliance posture while, in the “Howdy Modi” carnival context, to agree to resolve their tariff war and meet in a “fair trade” ballpark.



Their personal rapport was evident, as was Modi's with President Obama in 2014 and subsequent visits, also with Trump, as they made their Joint Statement in the White House Rose Garden in June 2017. Their messages have been refined since but continue to espouse essentially like-minded approaches to citizenship, migration and associated often-discriminatory practices. With “Make in India” and “America First”, their domestic unilateral interests resonated, although in each country's national interest, re-negotiating a trade relationship that was deemed fair by both appeared the most urgent matter to resolve. That elephant is still very much in the room. The strategic one is yet to re-enter.

Economic Disengagement

Trump [stated](#) after a bilateral meeting with Modi on 24 September that ‘We’ll have [a] trade deal very soon’. Previously discussed by them on the sidelines of the Osaka G20 meeting, and despite their personal rapport and America’s desire to elevate its relations with India, the US expelled it from the US Generalized Scheme of Preferences (GSP). Its expulsion in June, some two weeks before the G20 meeting, continues to deny it duty-free entry under the US trade preference scheme granted to developing countries. India was the largest beneficiary. Now penalised are economically-vulnerable medium-sized Indian sectors including agriculture, chemicals, jewellery, pharmaceuticals and plastics. India responded by imposing higher tariffs, described as “retaliatory” and “unacceptable” by the President.

It was not New Delhi’s first retaliatory action. It had raised import taxes on a range of American items a year ago after Washington refused to exempt India from higher steel and aluminium tariffs and the “trade-war” continues. A [comparison](#) of India’s tariff rates with those of other emerging economies is of interest. Talks have not yet seen either side withdraw their disputes at the World Trade Organisation (WTO), nor the removal of “unacceptable” tariffs, nor the restoration of access to the GSP for India.

Two-way trade with the huge Indian consumer market would benefit the US economy. The Modi Government has marketed the value of its lower-waged workforce, flagging the cost advantage for American firms to operate in India and, at the same time introduced [two cuts](#) to the Indian corporate tax rate. The first gives India a competitive regional rate, the second stimulates its “Make in India” programme and benefits newly-incorporated domestic manufacturing companies. The tax breaks, however, do not directly assist India’s high-skilled and over-supplied IT workforce.

While promoting its economic advantages as an investment destination, and as a side bar to its “trade war” with the US, India is still wary of the 2016 Hire American programme which saw restrictions being placed on H-1B work visas. It curbed the flow of highly-skilled Indian immigrants, employed mainly in the US technology industry. Curbing the H-1B work visa emerged again as a likely issue in June this year but was refuted by the US Secretary of State during his visit to India. Nonetheless, Indian and other IT firms in the US are hiring locally as a result of the tightened visa rules, initially introduced as a response to unease about unemployment among Trump’s voter base, leaving India with an over-supply of highly trained IT workers. It has been argued that it is unlikely that the H-1B visa programme will be withdrawn completely as it is the pathway for the US to acquire highly qualified employees. [Plans](#) for close to half a million new skilled jobs over the next five years, however, raise questions about the US education system’s ability to fill them from locally-sourced graduates.

Domestically-spurred economic disparities may also have an effect on Indo-US broad strategic interests which merit discussion. As Tanvi Madan [notes](#), unless India and the US get ‘off their respective high horses and show a willingness to make concessions, find compromises and strike deals across all sectors’, their relationship will remain under stress. New forms of collaboration including agreement to an Indo-US tri-services exercise in November 2019 seemed a possible pathway.

Strategic Balancing or Divergence?

India's strategic autonomy has extended but not fully replaced its non-alignment policy. Its flexibility had paved the way for India to take part in multi- and bilateral relations with new collaborations that fall short of alliances. Modi has on occasion shifted the term to "strategic alignment" a position that is difficult to define given India's commitment to the vestiges of non-alignment, but which, the Prime Minister has [suggested](#), may be attainable 'through strengthened partnerships instead of avoiding partnerships'. Outside a formal alliance and without a model to follow, the US is paving a way forward with interoperability agreements. The [Logistics Exchange Memorandum of Agreement](#) (LEMOA) in 2016 that put in place reciprocal provisions of support 'between the armed forces of India and the United States' including during port visits, joint exercises and training, designated India as a major defence partner. The Communications Compatibility and Security Agreement (COMCASA) signed early in September 2018, gave India access to US defence systems, while the [Basic Exchange and Co-operation Agreement](#) (BECA) awaits India's signature. BECA would allow India the use of geospatial maps to track weapon systems, and this third agreement is seen as 'crucial' to counterbalance US concerns about a Russia-China-Pakistan axis. Raising concerns for Pakistan, its long-term pact with the US needs a reset. India, however, has relations with China that do not accord with the US, and also with Russia, its largest supplier of weapons. Arguably its national security and national interests are delaying India's signature, and compromise on the draft agreement is under way.

While the interoperability agreements are partnerships in the terms above, a shift to alignment is the policy adjustment the US would most like to have in place. India's US ambassador, Harsh Vardhan Shringla, has given some ground for optimism in the very long term, [stating](#) that the India-US strategic relationship 'has the potential to become the defining partnership within this century'. That was not, however, the time-frame President George Bush envisaged when the Indo-US nuclear agreement took much of a decade to reach a limited operability. The Trump administration, binding India to it in joint commitments, has described India as a "lynchpin" in its Indo-Pacific strategy, and cites their shared values as points of connectivity. Such rhetoric is not new, and there have been long-running military exercises, but Trump's announcement of the first Indo-US tri-service exercise, [Tiger Triumph](#), scheduled to take place in November this year off the Andhra Pradesh coast in south-east India, is a clear next step in cementing defence ties. It will involve some 400 troops – US Marine Corps and a Special Forces reconnaissance team – and the Indian Navy's P8i long-range maritime reconnaissance and anti-submarine warfare aircraft will participate based on the ports of Visakhapatnam and Kakinada. Final planning took place at a conference held at India's Eastern Naval Command during mid-September and was announced by the President at the Howdy Modi event on 22 September, to demonstrate the 'dramatic progress of our defence relationship'.

Possible Outcomes – Iran Still in the Picture

Purported to insulate Indo-US defence ties from bilateral disturbances, the *Tiger Triumph* announcement and India's anticipated place in Indo-US defence relations, also disregards

the country's ongoing relations with China and Russia and, arguably most contentiously, with Iran.

Modi [met with Iranian President Hassan Rouhani](#) on the sidelines of the UN General assembly in New York during the "Howdy Modi" visit. While US sanctions against Iran prevented India's high-level import of Iranian oil, it has left China with open trade and development opportunities there. India's waiver to continue the operationalisation of Iran's Chabahar Port, however, remains in place.

While progress has been slow, the 2016 trilateral transit agreement between India, Iran and Afghanistan, bypassing Pakistan's Gwadar Port and eventually providing an alternative route east separate from the China-Pakistan Economic Corridor, was discussed by Modi and Rouhani. The first phase of Chabahar Port opened in December 2017, the start of the Pakistan bypass route, but progress on the next stage, the rail project to Zahedan near the Afghan-Pakistani border, lagged due to lack of resources. The Iranian Cabinet has recently [allocated funds](#) to contribute to the completion of the overland rail route, a decision that suggests an emerging problem for the US Government.

Committed to its current position on Iran and having developed LEMOA and COMCASA, agreed by India while the Joint Comprehensive Plan of Action (JCPOA) was in place, to draw India into its defence strategy, India's ongoing relationship with Iran is likely to add further complexity to Trump's immediate strategic objective: courting and coaxing Modi away from India's strategic autonomy with its regional advantages in favour of an alliance with the US.

About the Author: Dr Auriol Weigold is an Adjunct Associate Professor at the School of Government and Politics, Faculty of Business, Government and Law at the University of Canberra. She has been a Fellow and Honorary Fellow at the Australian Prime Ministers Centre at Old Parliament House, Canberra, between 2010 and 2015, publishing on Australian and Indian prime ministerial relationships. In 2016, she spent a period as a Guest Scholar at the Indian Institute of Advanced Studies at Shimla. Previously, she was Convenor of the BA International Studies at the University of Canberra and an Editor of the South Asia Masala weblog, hosted by the College of Asia and the Pacific at the Australian National University. In 2008, she published her first book: Churchill, Roosevelt and India: Propaganda during World War II. Since then, she has co-edited and contributed to two further books. Her research interests include the Australia-India bilateral relationship, India's energy and security needs, and Indo-British relations in the 1940s.

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Published by Future Directions International Pty Ltd.
Suite 5, 202 Hampden Road, Nedlands WA 6009, Australia.
Tel: +61 8 6389 0211
Web: www.futuredirections.org.au