Chapter 1

Introduction
This study is an attempt to bring out the various dimensions of Indo-US diplomacy in trade and investment during the period 1981-1998. It begins with the first administration of President Ronald Reagan of the United States, which was marked by an aggressive shift in the US diplomacy especially with regard to trade.¹ The beginning of the Reagan administration roughly coincides with the return to power of Congress (I) in India with Indira Gandhi as the Prime Minister in 1980. From the Indian point of view too, the period is of significance because there was a shift towards economic liberalisation.²

The study is on the bilateral diplomacy of India and the United States with regard to trade and investment. The relationship between India and the United States is asymmetric and unequal in terms of size, military strength and economic wealth. The thesis tries to establish that despite the imbalance in the power relationship between the two countries in favour of the United States, India was able to safeguard its national interest. The study attempts to understand this in the sphere of India's economic diplomacy with the United States in trade and investment. The study also looks at the bilateral diplomacy of the two countries in the multilateral forum of Uruguay Round of trade negotiations and the forces that acted and influenced this process.

¹ "American Leadership is Back", Address by President Reagan at the Centre for Strategic and International Studies, George University, 6 April 1984.
Meaning of Diplomacy

Diplomacy is a term that can be better comprehended through a consideration of its usages, rather than attempting to assert or capture a precise or fixed meaning. The word is derived from the Greek *diploma* which meant a folded document, and is linked to the study of official handwriting and the idea of credentials confirming the claims of the bearer.³

It is customary to distinguish between broad and narrow conceptions of diplomacy. Harold Nicolson tells us that the term carries different connotations and variedly signifies foreign policy, negotiation, processes and machinery through which such negotiation is carried out, a branch of the “foreign services”, an abstract quality or gift: meaning, the skill to negotiate with guile and tact. Both the narrow and broad characterisations of diplomacy can be gleaned in the various writings on the subject. Nicolson reproduces the definition rendered in the *Oxford English Dictionary*, “Diplomacy is the management of international relations by negotiation; the method by which these relations are adjusted and managed by ambassadors and envoys; the business or the art of the diplomatist”.⁴ This definition defines diplomacy from a diplomat-centric view, which is agency oriented. This is a very narrow conception of the term to include only

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the execution rather than the legislative aspects of the diplomatic process. Sir Ernest Satow defines diplomacy in the following words,

"Diplomacy is the application of intelligence and tact to the conduct of official relations between the Governments of independent States, extending sometimes also to their relations with vassal States; or more briefly still, the conduct of business between States by peaceful means."\(^5\)

In this diplomacy was looked at from a state-centric perspective. It further lays emphasis on the normative aspect of peaceful means. According to G.V.G. Krishnamurthy, the primary objective of diplomacy is to safeguard and protect the national interest. In an interdependent world the practice of diplomacy is essential for any nation to 'preserve its own existence, survival and self-determination'.\(^6\)

Krishnamurthy also writes,

"In fact diplomacy embraces the totality of the complex methodology employed in the intercourse of States. It covers all aspects of a State's activities with other States: be they engagements in power-politics, economic understandings or ideological interests... an attempt to define diplomacy would be futile unless we take into account the sum total of the dealings of a state with other states or governments in promoting its own national interests to the maximum extent, avoiding, by all scrupulous means, resort to the use of force."\(^7\)

Thus, he defines diplomacy in terms of a goal-oriented perspective.

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\(^7\) ibid., p.9.
Francois de Callieres\(^8\) provides a functional definition when he says that international relations is a distinct political activity and represented and presented diplomacy as the mechanism through which that activity was conducted. According to him the principal function of diplomacy is to moderate and manage the clash of conflicting interests as efficiently as possible.

To some diplomacy is ‘the policy of a state towards the other states.’ It is defined by some others as a ‘method, the ceremonies and the practices in negotiations with foreign countries.’ Another view is that “diplomacy is the exclusive preserve of international law in international relations.”\(^9\) Though the various conceptions of diplomacy discussed above differ in their emphasis on different aspects of diplomacy, they all have a narrow approach towards the subject. A narrow conception of diplomacy inhibits a proper understanding of the process.

“As a consequence, not only did diplomacy as a profession in the narrow sense suffer, but, so too did the ideas of diplomacy as a broader social practice. In the way they asserted modern diplomacy’s hegemony over the conduct of international relations and the determination of what is important to them, diplomats and their advocates contributed to its apparent isolation. And they did so without improving on the notion that diplomacy was both a small and a big matter in the general scheme of things in international relations.”\(^10\)

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\(^9\) Krishnamurthy, n. 6, p.18.

\(^10\) ibid., p.19.
The broader conception is especially characteristic of the United States, where diplomacy is often used as a synonym for statecraft, foreign policy, and international relations in general. James Baker's Memoirs, The Politics of Diplomacy and Henry Kissinger's Diplomacy are good examples of this broader conception.\textsuperscript{11}

The problems with such distinctions between broad and narrow conceptions of diplomacy came to the fore with Gordon Craig's work on diplomacy in 1994. The first volume covers the period in primarily European diplomatic history between 1919 and 1939, whereas the second dealt with the period up to the 1970s.\textsuperscript{12} In a review of the works Smith Simpson commented that the second volume, unlike the first, was not properly about diplomacy.\textsuperscript{13} The reviewer was critical of the broad approach to diplomacy adopted. Instead, he argued that it was the diplomats who ‘day in and day out, indeed hour in and hour out, get much of the world’s affairs rationally attended to.’\textsuperscript{14} According to him, diplomacy was to be confined to the endeavours of these diplomats rather than being concerned about the political leadership of various nations and questions of international magnitude.

\textsuperscript{14} cited in ibid., p. 38.
As Costas Constantinou notes, Nicolson's writings on diplomacy and other examples of this genre are striking in their attempt to define authoritatively what true diplomacy is and what it is not.\textsuperscript{15} It is not, for example, foreign policy nor is it usually practised by anyone other than the officially accredited representatives of sovereign states and international organisations. Within the narrow conception of diplomacy, it was argued that while political leaders may determine the goal of policy and the means by which it might be achieved, they should do this on the advice of professional diplomats. It was also contended that they should leave most of the execution of policy to the latter. While certain scholars saw diplomacy as the act of diplomats, Jules Cambon foresaw a 'diplomacy without diplomats'.\textsuperscript{16}

Diplomacy cannot be confined merely to the acts of diplomats. Such a narrow conception ignores the complex nature and the nuances of the diplomatic process. Firstly, diplomats are not freewheeled agents in international politics. The activities of diplomats have to be necessarily located within the broader context of happenings within any nation and its relationship with other nations. In other words, it is our contention that diplomats should be viewed as agents embedded in conditions, which not only enable but also constrain them.

\textsuperscript{15} Constantinou, n.3, pp. 86-89.
\textsuperscript{16} Quoted in George F. Kenan, "Diplomacy without Diplomats", \textit{Foreign Affairs} (New York), vol. 76, no. 5, October 1997, p. 198.
Diplomacy has grown out of its limited confines of the diplomats to the ambit of other actors. Actors such as non-governmental organisations, transnational corporations, etc have come to play an important role in diplomacy. Such intrusions are now termed as 'Track Two' diplomacy. Hence, this study proceeds to understand the Indo-US economic diplomacy not from a dichotomic narrow versus broad conception of diplomacy. Instead, it comprehends diplomacy to be inclusive of the narrow definition but not confined to it.

**Diplomacy and Foreign Policy**

There is a distinction between diplomacy and foreign policy. Foreign policy is formulated by the decision makers in the government. Diplomacy is the implementation of this policy. According to Victor Wellesley,

> "Diplomacy is not policy but the agency for giving effect to it. Both are complementary to each other since the one cannot act without the cooperation of the other. Diplomacy has no separate existence from foreign policy, but the two together form an executive policy – policy determining the strategy, and diplomacy the tactics."\(^\text{17}\)

But we cannot take this distinction much forward. Policymaking and execution cannot be rigidly separated from each other. The success or failure of a diplomat has got to be determined in the light of the effectiveness and wisdom of the foreign policy. In a way the impact of foreign policy on the role of a diplomat is immense. A powerful state

always helps a diplomat to be equally powerful in his dealings. A bargaining and a weaker state have to necessarily instruct its diplomat to function in concessional terms, however strong and individualistic the diplomat may be.

According to Freeman,

"Statecraft guides the way the state deploys and applies its power abroad. These ways embrace the arts of war, espionage, and diplomacy. ...Diplomacy is the power of persuasion. Diplomats are the statecraft's visible eyes, ears, and hands. They are the voice of their state in foreign lands. They are the peaceable heralds of its power. Statesmen use diplomacy to apply this power through overt measures short of war."\(^{18}\)

Diplomacy cannot be seen in isolation from and it is closely interrelated with the other policies of the state.

"Diplomatic strategy, like grand strategy, is ultimately the responsibility of statesmen rather than diplomats. The primary task of a diplomat is the tactical implementation of strategy where they are assigned, rather than its formulation. Diplomats are nevertheless active participants in the formulation of diplomatic strategy. No strategy can succeed unless it is tactically implementable."\(^{19}\)

The diplomat has a crucial role to play in the practice of diplomacy. "A good foreign policy may yield poor results by employing a bad diplomat; on the other hand a futile foreign policy, devoid of merits can be improved provided the diplomat has got the necessary dexterity and competence."\(^{20}\) A representative of his government and its interests abroad, the diplomat is saddled with the responsibility of

\(^{18}\) Chas. W. Freeman, Jr., *Arts of Power* (New Delhi, 1997), p.67.  
\(^{19}\) ibid., p.73.  
\(^{20}\) Krishnamurthy, n.6, p.23.
maintaining good relations with the foreign state. Earlier with communications being slow and limited, the diplomat enjoyed unlimited powers of representation and his independent judgement and handling of issues was essential in the maintenance of good relations among states. However, with the improvement in communications in modern times and the increasing specialization of the international issues the role and powers of the diplomat has been clipped to an extent.

**Domestic Political Factors and Diplomacy**

 Normally foreign policy remains separate from the domestic policy, but it is not independent of it. A significant factor that contributes often to the making of foreign policy of a country is its financial stability. If economic aid is granted by a big power, irrespective of its motives, the recipient state of such aid has to necessarily frame its policy in tune with the interests of the aiding state.

 Further in modern democratic nation-states the ratification of the agreements and treaties entered into by diplomats by the Parliament becomes essential. In many cases we find that such agreements are not ratified. This has contributed to the decline in powers of the diplomat. So specialists are appointed to deal with each issue. Decisions are taken at home and in many cases the diplomats are to merely repeat them in the international fora rather than forming
independent judgement and act accordingly. Moreover, the meetings of the elected representatives of both the governments such as the foreign ministers, finance ministers, commerce ministers, defence ministers assume significance. So are the summit meetings of the heads of state as they are the decision makers in foreign policy. Hence, political appointees and representatives frequently interact circumscribing the powers of the career diplomats. Modern diplomacy is also influenced by new actors such as the press, public opinion, and other civil society elements.

**National Interest**

The purpose of governments is to protect the sovereignty of its people and to promote their welfare and tranquillity.

"National interests are the relationships a government perceives to exist between these purposes and the wealth and power of other states. The national interests of a state constitute a hierarchy of imperatives guiding its decisions and actions in the international arena. ...As change proceeds, the national interests of a state conflict or coincide in varying degrees with those of other states."\(^{21}\)

Freeman speaks of interests as supreme interests, vital interests, strategic interests and tactical interests.\(^{22}\) The supreme interest of a state is its continued independent existence. Survival is the supreme national interest. Vital interests are those that are the objectives of the State's formation such as security, well-being and

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\(^{21}\) Freeman, n.18, p.12.  
\(^{22}\) ibid., p.13.
domestic tranquillity. Strategic interests are those that have the capability to affect vital interests. They include,

"those arising from the strengthening or weakening of adversaries and allies; shifting international alignments and patterns of influence; the discovering of new resources and technologies; changes in the international state system and in regulatory regimes established under it; the emergence of new patterns of economic development and trade, as well of new doctrines and ideologies; and challenges to the status and treatment of citizens and their property abroad."23

The job of diplomacy is to protect such interests and deal with threats posed to the above interests according to its gravity. The first duty of diplomats as officers of their state, taking precedence over all others, is to advance its purposes and, hence, the interests of their nation. They are bound as a matter of their profession to execute actions dictated by reasons of state.

"The way of statecraft lies in reasons of state, system, and relationship. Diplomacy, like covert action and war, is the obedient instrument of reason of state. ...reason of state takes precedence over all else in statecraft. The profession of diplomacy is an aspect of statecraft. For diplomats as professionals, soundly composed reason of state must outweigh all other considerations."24

**Power and diplomacy**

Power plays an important role in the practice of diplomacy. Diplomacy is influenced to a large extent by the power that shapes international relations. Power in international relations has two aspects, one its ability to alter the behaviour of other states and the

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24 ibid., p.23.
other, the will to use that ability. A third element is the perception of other states of this power.

National will is gauged by its reputation, perseverance and determination in its application. This will operates on a nation's strength, which is of political, cultural, economic and military in character. The actual capacity to use these strengths in relation to other states reflects the national potential of a state.

"Power is the capacity to control the course of events, including the decisions and actions of others. The joining of will to strength and potential produces power. In politics, however, perceptions are reality. In diplomacy, perceived power is real power. The balance of perceived power between states decides the outcome of struggles short of war."25

**Indo-US Relations: An Overview**

India's contacts with the United States are very old and started with General Washington commissioning a Consul to Calcutta. The U.S. had direct official contacts with India from the very first days of its founding as a free and independent republic. Trade and commerce between the two countries were also well developed and American ships arrived at Indian ports regularly. They ferried cargoes such as tobacco, naval stores, copper, pine board and even ice.26 However, diplomatic contacts came to be established only after India attained independence in 1947.

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Indo-U.S. relations ever since their inception have been through ups and downs. Global and regional issues steered the bilateral relations rather than purely bilateral concerns. In the initial years of diplomatic relations between the two countries two factors played a major role. One was the Cold War that existed between the United States and the Soviet Union, which had an inevitable fallout on Indo-U.S. relations. The other was India’s policy of non-alignment, perceived by the United States to be in opposition to its policies. India’s policy of non-alignment was viewed by the United States as, to borrow a phrase from Norman D. Palmer, ‘non-aligned on the side of the Soviet Union’. This had an inevitable fallout on the United States’ perception of the region. India and Pakistan were looked upon as balancing forces by the United States. The chequered relationship between the two countries is a result of their divergent worldviews and diametrically opposite stands on many an international issue.

The history of Indo-U.S. relations has been a story of ups and downs, of frequent misunderstandings and constant strife. The relationship between the two countries has been plagued by differences in perception and lack of a proper understanding of each other’s stand. The relationship has been characterised variously as

'uneasy', 28 'fragile', 29 'unfriendly', 30 'a pattern of misunderstandings, miscalculations and missed opportunities' 31 and so on. All these, despite the professed democratic ideals and anti-imperialistic policies of both the countries.

High expectations were generated by the support of the United States towards the cause of India's freedom and its avowed claim of being anti-imperialist and anti-colonialist. The end of the Second World War introduced a new element in international politics, viz., the Cold War. Post-War conditions forced the United States to look at the world through the prism of the Cold War. The United States' worldview was essentially conditioned by its communist phobia. This was in stark contrast to the worldview held by India, a newly independent country. India, freed from colonial subjugation, was left with no other option but to follow a policy of non-alignment in a world divided into two opposing blocs. This was perceived by the United States as not supporting its anti-communist crusade and hence supporting the Soviet Union.

The United States' approach towards India was conditioned by global and regional considerations rather than bilateral issues per se. The United States' interest in India centred on the growing influence

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of the Soviet Union and from the geo-political perspective of the Soviet Union's extending arm over West Asia. The protection of oil resources in West Asia forced the United States to arm Pakistan, which it found to be an useful ally. The move of using Pakistan to contain communism was against the interest of India, which found its archenemy armed with American weapons as a threat to its Kashmir territory. India saw no reason in the U.S. arming of Pakistan, alienating it from the United States. To add to this, the United States was not openly coming out in support of India in the Kashmir dispute. For fear of upsetting its geo-strategy, the United States did not interfere in favour of India.

India and Pakistan have always been looked upon as balancing forces, in an essentially "two-track diplomacy" of the United States. Girilal Jain, noted Indian journalist writes,

"Few people even at the policy-making level in the two countries, recognise that Indo-U.S. relations has generally run on two tracks...This two-track approach has...been the result of a simultaneous divergence and convergence of perceived interest between the two countries."32

As he says, the arming of Pakistan in 1954 to contain communism, Kissinger' s balancing act to set right President Nixon's tilt towards Pakistan and President Reagan's two-track approach of arming of Pakistan and at the same time accommodating Indian interests are typical examples of 'two-track diplomacy'.

The alienation of India from the United States was complete when India moved towards the Soviet Union for modernising its armed forces, as help was not forthcoming despite its setback against the Chinese aggression and Pakistan’s use of American weapons and tanks against India, notwithstanding the assurances of the President of the United States to the contrary.

The relationship between India and the United States has been unequal and asymmetrical. India received its highest aid from the United States for a number of decades. During the 1950s and 1960s India was dependent on aid from the United States to a large extent. In 1952, under the Mutual Security Act, a $53 million programme of economic and technical assistance to India was started. By the mid-1950s, the United States’ food aid through PL-480 was worth $58 million in goods. Between 1952 and 1956, around $518 million were disbursed in loans and grants. By the end of the Second Five Year Plan, US aid increased six-fold to over $3 billion. By 1960, the aid reached the highest level since the Five Year Plans were started.

During the Third Five Year Plan, a strong aid relationship was established between the two countries. India received $2.29 billion from the Aid India Consortium of which forty percent came directly from the United States. The bilateral assistance through PL-480 was even larger. An agreement concluded on March 26, 1962 allowed for

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an aid of $256.8 million from the sales proceeds of agricultural commodities. It was to meet the local currency costs of development projects including hydroelectric and thermal power plants. It also provided for the sale of food fibre valued at $1370 million at low rates of interest with payment in rupees. The Agency for International Development, created by Kennedy in 1961, contributed substantially. It gave $200 million in 1961, $465 million in 1962, $397 million in 1963, and $336.5 million in 1964.34

Eisenhower and Dulles used this economic assistance as an instrument of gaining the supportive alliance. They were mainly what are known as tied aid and was used to exert influence on Indian policies. However, Kennedy discontinued this policy of using economic aid as leverage in political bargaining. But still the goal of containing communism was valid. Only that Kennedy believed economic growth and political stability went hand in hand and that in itself would stave off communism. He sought to remove the political constraints on aid allocation. But his policies encountered congressional opposition. As a result the nearly automatic increase in aid was criticised and the promised aid to the state owned Bokaro steel plant project fell through.

To make matters worse, India, despite receiving aid from the United States, did not shy away from criticising U.S. actions. This

34 ibid., p.102.
attitude of India strained the Indo-U.S. relations to a great extent on a number of occasions. One such was India’s criticism of the U.S. role in Vietnam in 1966, which President Lyndon B. Johnson took offence to and it resulted in the short-tether policy of sending wheat to India. This led to widespread anti-American sentiment in India. However, during this period, in dire need of economic aid, particularly as a result of drought, India acceded to the World Bank demands to devalue its currency and to make changes in regulatory policy. This led to a lot of criticism on the domestic front, which forced the then Prime Minister Indira Gandhi to take a publicly more critical stand on U.S. involvement in Vietnam and to send Mr. Ashok Mehta, the then Planning Minister to Moscow to obtain pledges of aid.

The following decade saw the worsening of the relationship between India and the United States. For Nixon and Ford, South Asia in general and India in particular never figured in their strategy. In January 1972, the United States voted against an International Development Agency loan to India. It also cut off economic assistance to the tune of $82 million. Further, the United States also voted, though ineffectively, against some Indian applications to international lending agencies. The period also witnessed the drastic scaling back of

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35 Chester Bowles, Mission to India: A Search for Alternatives (New Delhi, 1974), p. 151. Lyndon B. Johnson took the issue of sending wheat to India into his own hands and stalled the sanction until the last minute, thereby putting India under enormous strain.
the U.S. aid programme in India-AID mission. It was symbolic of the deteriorating economic relations between the two countries. In the 1960s about 48 percent of all aid came directly from the United States. But in the 1970s it was less than 5 percent. Thus, the politics of aid that characterised the Indo-U.S. relations during the 1950s and 1960s became inconsequential.

The 1970s witnessed India moving towards indigenisation and import substitution. India's Foreign Exchange Regulation Act imposed restrictions on foreign equity investment in a company, which could not exceed 40 percent. Exceptions were given to a few high technology areas and export-oriented undertakings. As a result the U.S. equity investments in India in 1979 and 1980 was $350 million, about 30 percent of the foreign investment in the country. Further, the expulsion of IBM and Coca Cola created negative impressions among the U.S. business community. The two-way trade between the two countries was about $2 billion in 1980. India's exports to the U.S. were 24 percent of all Indian exports. But they were a miniscule portion of all U.S. imports. The situation has not changed much but for the enormous opportunities that the present atmosphere provides for two-way trade between the two countries.

However, one finds that there is a non-concern for each other's point of view. This non-concern can be explained by perception of

each other's images. This influences the attitude of both the countries towards each other to a considerable extent. "These images affect international relations and the perceptions of international relations; and perceptions as well as the realities of interest and power shape relations between nations."37

Chester Bowles, who served in various positions, as Governor of the State of Connecticut, as a member of the United States Congress, as Under Secretary of State, 1961-63, and most importantly as President Kennedy's Special Representative and Adviser on Asian, African and Latin American Affairs and as Ambassador to India, 1951-53 and 1963-69, says 'the people of both the countries had developed seriously distorted views of the other.' In his words,

"Partly as a consequence of the steady flow of American movies, many Indians visualized America as a land of cowboys, gangsters, CIA agents, millionaires and movie stars, while many Americans visualized India as a land of too many babies, cows and monkeys, famines, maharajahs, polo players and cobras, with economic and political problems so appallingly great that neither we, nor anyone else could solve them."38

The understanding of the American officials, at the decision-making level, was no better. The best illustration of this would be the decision-making on shipment of grains to India. To quote Chester Bowles again,

37 Sulochana Raghavan Glazer and Nathan Glazer, eds., Conflicting Images: India and the United States (Glenn Dale, 1990), p. i.
38 Chester Bowles, n. 35, p. 74.
"...it was evident that there was little understanding at the higher levels in the white House or State Department of India's predicaments. Not only did we fail to secure a specific commitment and schedule of grain shipments; we had to fend off well-intentioned but inappropriate "solutions" to India's agricultural problems which would only have added to our difficulties. For instance, Department of Agriculture... had recommended to the President that one thousand U.S. Department of Agriculture extension workers be sent immediately to India to introduce "American know how" to the Indian cultivators."39

Coupled with this imagery of both the countries are the real politik decisions, which pull them apart. India has always looked at U.S. relationship with China sceptically. So did the United States, of India's close link with the Soviet Union, a result of U.S. assistance to Pakistan, and the non-aligned movement, few of which were democracies.

However, it is the differences that have attracted more attention than commonalities. To quote Girilal Jain, "The divergence has attracted more attention than the convergence." In the words of Norman D. Palmer. "Anyone who examines the record of the relations between the United States and India will find many more conscious examples of differences and disagreements than of cooperation..."40 Thus, India and the United States found themselves drifting away from one another.

The relationship between India and the United States has been unequal and asymmetrical. The United States is a Super Power, while

39 ibid., p.149.
40 Palmer, n. 2, p. 3.
India is yet to live up to its enormous potential. India received its highest aid from the United States for a number of decades and it continues to be one of the largest donor. While India's major trading partner is the United States, United States trade with India is insignificant and inconsequential to the United States trade. To make matters worse, the United States and India represent the North and the South respectively in various international fora. This often puts them across the table leading to bitter feeling of each other. India, inspite of receiving aid from the United States, did not shy away from criticising the U.S. actions. This attitude of India created a great strain on Indo-U.S. relations on a number of occasions. One such occasion was India's criticism of the U.S. role in Vietnam in 1966, which the President Lyndon B. Johnson took offence to and it resulted in the to "short-tether policy" of sending wheat to India. This led to widespread anti-American sentiment in India. India has voiced the problems of the developing and underdeveloped countries in international conferences. This was opposed to the United States views on many issues.

Thus, we find a number of problems in the relationship between India and the United States. Over the years, the embittered relationship could not come to grips with the above differences. It was an on - and-off relationship, sometimes friendly and sometimes unfriendly, unable to cope with the differences. However, conscious efforts were made to overcome differences and rise above to a higher
place for mutual benefit. Some such examples are Indira Gandhi's devaluation of Indian rupee in 1966, consistent with the recommendation of the World Bank. India, continuously received a large amount of aid from the United States. However, the circumstances discussed in detail above, always propped up and played a spoilsport in Indo-U.S. relations.

With the end of the Cold War and growing globalisation, much has been expected from the Indo-U.S. relationship. The end of Cold War has been seen by many, as marking a break in the ice, in the relationship between India and the United States. The post-Cold War era was expected to usher in a new era of friendship between the United States and India, with both emphasising on trade and other issues of commonality.

Indo-U.S. relations in the 1990s changed drastically. With the end of the Cold War, the United States began to head a unipolar world. No more was it concerned of containment of Communism and hence the importance of Pakistan to the United States. The issues dominating the world cut across national boundaries and homogenisation became the order of the day. Issues like human rights, environment, trade, disarmament became important, pushing the politics of power to the back seat. That does not mean that the politics of power is obliterated, but rather more sophisticated in the idea of homogenisation. It is an attempt at homogenisation of the world by the United States and other developed countries, trying to
construct a world of their choice—the world that would suit them and benefit them the most. This put the United States and India at the opposite ends of the spectrum. Nevertheless, they have been able to come together on issues of mutual interests such as trade.

The major disagreement between India and the United States was in the security arena. India was averse to the United States espoused Non-Proliferation Treaty (NPT) and the Comprehensive Test Ban Treaty (CTBT). The NPT was extended perpetually and the CTBT came into force, in spite of the opposition of India. According to V.C. Shukla, India would not be a signatory to the nuclear non-proliferation treaty which was discriminatory in nature. The support to this was universal and any attempt of seeming conciliation was not possible as is evidenced by the uproar in the Parliament over reported secret talks between India and the US in London. This has put enormous strains on the bilateral relationship. India's opposition to CTBT arose from the fact that it was not linked to global disarmament and that it gave the nuclear powers the monopoly of the technology, which they could maintain through sophisticated computer simulation methods in their laboratories. Further, India insisted on its linkage with time-bound nuclear disarmament which the nuclear powers were against. Thus, India found itself isolated on an issue on which the

41 This statement was made in response to the demand of the opposition members for a statement regarding Non Proliferation Treaty during the zero hour on 25 April 1994. Summary of World Broadcasts, Part III, April 1994, p. FE/1981 A/2.
42 Ibid., p. FE/1984 A/1.
whole world agreed. This led to India being pressurised by the United States in the various fora especially in bilateral trade. India's refusal to sign the CTBT cost it dear when it lost an election to the non-permanent seat in the Security Council.

India's missile programme, with its advanced level of technology, has reached a stage where the United States feared that "India's missile and nuclear programs have attained almost all the technological capabilities of nuclear power status."43 This is in direct opposition to the United States idea of a nuclear free South Asia. The United States denial of exports of advanced and dual-use technologies for space and missile programs which was part of the 1987 U.S. sponsored Missile Technology control Regime (MTCR) does not have any impact on India. According to Dr. A.P.J. Abdul Kalam, head of the Defence Research and Development Organisation (DRDO), "...now no embargo can do anything to us. The MTCR has been rendered harmless. It can't even, scratch us, leave alone throttle our programme."44

A constant irritant, between India and the United States, was the equation of India and Pakistan on security issues. Any hope that the end of Cold War would change the American stance was put paid to when in November 1995; the Congress passed the Brown

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44 ibid., p. 143.
Amendment. The Brown Amendment, though did not include the 26 F-16s, allowed for the transfer of military equipment worth $658 million, including maritime aircrafts and missiles.

The tension further escalated when the United States failed to take any action against China for violating the MTCR. China, according to intelligence reports, had supplied M-ll missile systems, technical assistance for producing weapon's grade plutonium, ring magnets, part of a system to produce weapons grade enriched Uranium among other things to Pakistan. This antagonised India further from the United States.

The United States fears that India's nuclear capability might trigger a nuclear arms race between India and Pakistan in South Asia and might even trigger a nuclear war over the question of Kashmir. The Indian argument, however, is that the nuclear capability would serve as a minimum deterrent, and normalise the tension due to mutual suspicion in the area. Thus the differences in the perception of security issue in South Asia are basically because of varied national interests. In the words of Francine R.Frankel, "Differences rooted in divergent national interests separate the United States and India on nuclear and missile relate issues."^{45}

However, while differences persist between the United States and India on a number of issues, especially the security issue, both

^{45} ibid., p. 144.
nations during the 1990s made a conscious attempt to concentrate on issues of mutual consent and convergence, leaving aside issues of contention to take their own course. Thus, during the decade, economic cooperation between the two countries was given more attention while the security issues were deliberately ignored. To give a boost to this, the Narasimha Rao Government (1991-96) embarked upon a policy of economic liberalisation. This tried to normalise the relations between the two nations as it gave enough opportunity for the United States' industries to thrive upon the vast India market. Towards this end, Manmohan Singh created a more positive image of the Indian economy. The macro-economic indicators were stabilised to a remarkable extent, alleviating any fear about the growth of Indian economy. The result was a stream of delegations from the United States, which included the visits of U.S. Secretary of Energy and the Secretary of Commerce. During the period 1991-95 the Multinational companies (MNCs) from the United States accounted for the largest amount of foreign direct investment-26 per cent of the total foreign direct investment. Nearly half the amount was invested in the manufacturing sector. Some of the other areas, where major investments were made, are in banking, energy and computers and software.46

However, notwithstanding the buoyant atmosphere in the economic relations, the political situation in India rather raises many doubt in the future of the relationship. The political opposition to the MNCs in India has been quite vociferous and many a protest has been led. Moreover, the political instability of the country has left the MNCs and American negotiators pondering about the continuity of the policies. The Enron controversy is a case in point, which has led the foreign investors to rethink about their options in India. While no doubt, it has given an opportunity to show that there is a legal option to solve the problems.47

A major hurdle in a smooth Indo-U.S. trade relationship is the persistent opposition to the international trade regime. The Indian Patent Act of 1970 could not be amended in accordance with the World Trade Organisation (WTO) regulations, as the bill was passed to a committee by the Rajya Sabha. This prompted the United States to place India on the 'priority watch list under the 'Super 301' provisions of the U.S. Omnibus Trade Act.48

However, discounting the difference in the extent of economic liberalization and the kind of industries to be opened for foreign investment, all the political parties has understood the inevitability of globalising its economy. In fact, Francine Frankel has argued that the messy political process, at the loss of Congress in 1996 elections, has

47 Frankel, n. 16, p. 135.
helped in evolving national consensus on the next phase of economic reforms. Both the BJP's 'interim' government and the United Front have been clear that there will be no departure from the market-based reforms introduced by the Rao government.\(^{49}\)

Thus, the Indo-U.S. relationship, after years of uncertainty and unevenness, has been poised for a lasting and steady course. Among the various sectors of interaction, both the nations have found commercial relations to be of significance to both the sides. In a world of increasing globalisation both nations found each other to be of crucial importance in terms of trade. India's vast potential market and technical manpower, and the United States' technology and capital are bound to bear fruits, which both could enjoy. This is not to say that India and the United States do not have any differences in terms of trade relations.

Some of the major problems in Indo-U.S. relations also hinges on trade. Throughout the negotiations in the Uruguay Round of General Agreement on Trade and Tariffs India had several disagreements. Some of the major issues that bring India and the United States to conflict were the Trade Related Intellectual Property Rights (TRIPs) Trade Related Investment Measures (trims) and Trade in Services (TIS). Even while negotiations were going on, these issues loomed large over Indo-U.S. relations with the United States listing

\(^{49}\) Frankel, n.16, p.140.
India under 'Super 301' provision of the 1988 Omnibus Trade Act. However, India and the United States were able to successfully steer clear of these problems and set a new trend.

The following are the objectives of the study:

1. to bring out the various dimensions of Indo-US diplomacy in trade and investment;

2. to show how the diplomacy in trade and investment between India and the United States shifted from a position of divergence to convergence;

3. how the conduct of diplomacy had an impact on the institutional framework for interaction and how the latter in turn affected diplomacy;

4. how economic diplomacy is not isolated from policies in other areas such as nonproliferation;

5. how economic diplomacy was affected by domestic factors;

6. to diplomacy in trade and investment is pursued by India and the United States at both bilateral and the multilateral level, each having an impact on each other;

7. to analyse the divergent position of India and the United States in the Uruguay Round of negotiations, and India’s opposition to the agenda of its large trading partner; and
8. to understand how the national interest of India was defended by its economic diplomacy.

The methodology adopted in pursuing this research is descriptive and analytical. The study has been based on the primary sources like Government of India documents such as Industrial Policy Statements, Directorate General of Foreign Trade statistics, etc. Also used were the US government documents some of which were compiled in a government publication itself. The Foreign Trade Barriers Report brought out by the United States Trade Representative Office and the Country Commercial Report of the US Department of State were of much help in pursuing the research. The interview provided by the Mr. P. K. Kaul, former Ambassador to the United States of America was of much value in providing useful insights. These primary sources were augmented by secondary sources.