

CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

**INDIA AND THE UNITED STATES:
LOOKING BACKWARD,
LOOKING FORWARD**

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STEPHEN COHEN: Ashley Tellis, who should be here, is out of the country so he's asked me to sub for him and I'm honored to do it, both because Ashley is a great friend and I have great respect for Ambassador David Mulford. Years ago when the U.S. ambassador to India promised his president, quote, "I will bring you India or I will bring India to you," of course he didn't. India was not his to bring to anyone. Nor is Kashmir.

I would note that Brookings Institute is publishing a masterful history of American failures to resolve the Kashmir question, something Ambassador Howard Schaffer has just written, Brookings publishing, something I would recommend highly to this new administration, and especially to Ambassador Holbrooke, who seems to be headed in that direction here in a couple of weeks.

However, while no one can bring India, Ambassador David Mulford can claim rightly that he's played a major role in the transformation of Indian attitudes toward the United States and American policy towards India. I might also give him credit for the Oscar winner, "Slumdog Millionaire," but that might be stretching things a little bit too far. I'm not sure, Ambassador Mulford, whether you were in Mumbai with a camera or what your role was, but certainly it's put India on the map, again, in America for reasons which we might want to discuss because it's sort of an ambivalent place in the American psyche.

In truth, Ambassador Mulford played a critical role in the U.S.-India deal in expanding India-U.S. trade, including Indian investment in America as well as American investment in India, and in other areas. I personally would note his intervention in the matter of educational exchanges, which could be critical to Indian knowledge development, as well as a factor in American understanding of India. Ambassador Mulford brings to India a long and distinguished record of public and private service – you have his vitae; I won't read it – both in the U.S. Treasury and in the banking world. He was armed for this with two great assets – a Midwestern upbringing and a Ph.D. from Oxford University. You can tell where I come from – not Oxford either.

I won't go into further details but I would say that it is likely that he will join the ranks of extremely distinguished former ex-ambassadors to India – with Pickering, Wisner, Blackwell, Celeste – who've continued to build bridges and enhance understanding between their two nations.

The ground rules for this are that it's on the record. Ambassador Mulford is still ambassador, but he'll speak to the subject, and we'll have a brief – some remarks and then we can enter into discussion and dialogue.

AMBASSADOR MULFORD: Thank you very much. Well, Stephen, thank you for that introduction, and good morning, everybody. I'm delighted to have the chance to be here at the very end of my service as ambassador to India. I'm a little concerned about the press being here, simply because I'll have to be cautious in my remarks. I had hoped to be a little more uncautious, but I suppose that's just how it goes.

Looking back, looking forward – I think it's a good theme for today because we are at something of a crossroads. I think everybody can see that in the region, and although I'm not going to discuss regional affairs today, it is obviously a time of change, not only new administration in the United States but an election soon to be held in India, and developments in Pakistan that are causing people to be very concerned about what happens next. So I thought it rather useful to sit down and

just make a few notes and to talk off the cuff to you for a bit. And then I would have thought we'd open up and have some discussion.

Looking back: I operate on the basis in government that what you do in government depends very heavily on what you bring. Therefore, when I was asked if I would serve as ambassador to India, I looked at that opportunity through perhaps a rather different lens than other people might have because I had quite a lot of contact with India of a distant type when I was at the Treasury in the '80s and then more personal in the '90s when I was in the investment banking business out in India doing business, learning about the country.

And what crossed my mind at the time that I was asked – and my wife and I decided within one hour that we would go to India – was that I might have a chance to be involved in a really major historic event, namely the rise and the emergence of India, which in my view was already happening but had yet to really blossom – not that it wouldn't for sure blossom, but that it seemed to me from my experience around the world with different countries, with the reform process in various countries, that India was in the process of emerging in a major way in the world economy and in the world political system.

Likewise, I also believed at that time that there was a major shift taking place in the world towards Asia which would fundamentally alter the interests and policies of the United States. That is happening, and it would be happening on a more accelerated basis in the future. But at the time, five years ago, five-and-a-half years ago, it seemed to me we were on the verge of a major shift that would be historic in its dimension. So there was a chance to be there at this historic time. I think it's important to remember that.

The condition of the relationship at the time seemed to me to be one that was still much affected by the long past between the two countries. And I just wrote down a few words that characterized the comments about that relationship at the time that I was preparing to go to India. The word distrust, suspicion, uncomfortable sanctions, non-reliability of the United States as a partner, an obsession with Indo-Pak linkages, low confidence, and even in the case of the State Department it suggested to me that I might have trouble finding people who would really want to serve in India at that point in time. So there was clearly a sort of pall of some kind.

I had had exposure to India in the 1980s at the Treasury, and frankly India was at that time on the opposite side of every single international economic issue I could think of, whether it was the IMF, the World Bank, development issues, and so on. So I could sympathize with some of these characterizations. But I nevertheless felt that a change was taking place that would alter India's position, and I was much affected by President Bush's recognition of the importance of India as a potential strategic partner or relationship to the United States. That helped me to determine how I would go about the task when I did get to India.

Obviously what I focused on was changing India – I mean, India changing itself, the process of change. And this really was a major sort of philosophical approach, if you want to call it that, because I took the view that when I got to India that what marked India away from many, many other countries was the fact that it had a very broad what I referred to at the time as a sort of comprehensive type of relationship with the United States, which was very, very heavily civil society, private sector, and people-to-people in nature, as opposed to official bilateral in the usual sense of that word.

It seemed to me that that gave one the ability to treat the ambassadorship differently than just an official bilateral representational challenge. But it seemed to me to encompass the entire society and economy of India because what was important and what was visible starting in the '90s was that the reform process, the opening of India, which was very slow, very tentative but fairly steady, was making India for the first time closer in touch with the world, and it was going to be influenced increasingly by globalization and by opening its economy to the world at large, even if it was doing it very slowly.

So I saw a foundation being built in the '90s, however haltingly, that I thought as it progressed would accelerate and you would see a major transformation. The fact is, the transformation has moved more quickly than I thought it would. That is – we can discuss why, but it took place, you know, at an accelerated pace and it had major implications. But so far as being ambassador was concerned, I treated the job as basically a CEO job, where you are in charge of a large number of divisions, and as it stands in the mission today, the mission is now the largest in the system, apart from Iraq, and has 25 different agencies and departments represented in it.

I treated those groupings and sections as divisions with certain business interests and duties, and decided that if I were going to be ambassador I would need to be on top of every single one of those, instead of focusing on the official side of the relationship. That doesn't mean I could master everything, but I needed to be present, visible, in touch with the people responsible for those activities because they represented the broad interface with India. And the broad interface with India is where I thought the United States should be, as opposed to issue-specific relationships, you know, that are more strictly speaking official bilateral.

That dictated, then, a priority for rather specific building blocks. In other words, one of the ways to overcome a relationship where you have a problem with somebody or something or an organization, if you want to build a relationship, is to get down to the nitty-gritty of building blocks and do things that are real, that work, and that build confidence and inspire trust and create admiration by virtue of accomplishment, and to pick and choose those things that have some chance of major fallout into the society or economy.

So, for example, this meant really focusing on the open skies agreement, for example, which would, if it were negotiated, transform the entire transportation arrangement between the United States and India, which it's done. And, by the way, add a major piece of business for the sale of aircraft. Or to actively work with India to promote and encourage the implementation of the VAT, which would have the effect when it was implemented, which it was, of creating a more national seamless market in India, instead of a highly segmented, state-by-state market for businesses, for investment, and so on.

Another change was the introduction of intellectual property rights, the patent law. And I'm giving examples here of things if implemented would have macro fallout. Another one is financial market liberalization. We initiated fairly early on – in fact, it was already going on when I arrived – the NSSP initiative, and that was aimed at reducing barriers and constraints between us in a wide variety of areas that affected four or five agreed fields: pretty mundane, pretty specialized work, but to open the avenues of dialogue and cooperation in high technology of various kinds and so on, all activities not requiring further changes in U.S. legislation. And that was a very successful enterprise, but it was really down in the weeds. It was really very much a specialized affair.

The CEO Forum was another effort to create the dialogue between CEOs, real CEOs, not vice chairmen, not regional presidents, but the people in major companies who make the strategic decisions and commit capital. That was proposed and I stuck with that in the sense that I felt it had to be CEOs. We could accept no less. They would then come to the meetings, and we had to keep it from being a government forum. That turned out to be successful because what happened was the CEOs began to meet, they began to share ideas.

It was a completely safe vehicle. There was no bureaucracy, there was no secretariat, there were no communiqués issued. There was just dialogue. And senior people from both governments came to those meetings. They of course were invited but the governments didn't run those meetings but were attended by, in every case that I can think of, at least three cabinet level people from each side, each time. They turned up. There was also full attendance by the CEOs, and the dialogue helped to open conduits. It wasn't necessarily a problem-solving exercise, but it did deepen relations. I don't know whether it will continue or not, but the point is it was something that was a strictly private-sector orientated exercise.

The same is true of other areas, military exercises and efforts to increase foreign direct investment, to remove limitations. I'm sorry to go through this in such detail, but the point here is that this is the way the relationship was built. And in my view, when we get to looking ahead, this is how the relationship will have to be advanced if we wish to keep the same kind of momentum and build something that will be durable and will last into the future, even if times become a little harder.

So other areas – infrastructure, another area, energy cooperation, agriculture, education – all of these things were addressed as ways for the United States to advance its interests, first and foremost, but also in a way that would help promote India's own vision for itself. Because I knew it, I could see when I got there that India's ambitions to emerge as a world player were perfectly valid and likely to be accomplished, and I still believe that. India growing at 9 percent will arrive at a position of top table influence within a period of 10 to 12 years, and maybe sooner in the kind of financial crisis we're going through at the moment. But maybe at eight or 7 percent it will take a little bit longer.

But the point is, India is going to be one of the top economies in the world in a certain period of time. Like China, it will have to be dealt with by the United States in a fair and even-handed fashion. We will have to find ways for countries like this to be properly represented in international institutions. That will not be easy but it will be absolutely necessary. And it would be better to seek to start on that resolution than to be forced later by events into the position where one is simply conceding what already should have happened.

But the object here was to help promote this – India's vision for itself. That is why civil nuclear, when it followed on with the NSSP initiative, was so important because it was a multi-dimensional initiative with far more at stake than simply civil nuclear power. It was really the beginning of a recognition by the United States that if there were, as I thought, three major constraints to India's realizing its goal – one was world class infrastructure; two, transformation of its rural economy; and three, energy – if it didn't solve those three problems, they would become constraints on its ability to grow and they would have other fallouts as well.

Energy was something that, because the president was willing to address the civil nuclear question, became a very real possibility to resolve one of these constraints, and that was a very important ingredient in going forward with the initiative. And it was certainly seen in India in that light by the people that were engaged in the beginning as a means for India to address its future energy problems.

We can go into this in the question and answer period if you want to, but India was and still is, generates only about 2.5 or 3 percent of its total electricity with the civil nuclear. It's quite clear that if they were to grow at the rates projected, and they were to do the power side entirely dependent on their dirty coal supplies, that India would become the world's greatest polluter. Likewise, a competitor in the importation of oil with the United States and others for those resources in the Gulf and elsewhere, thus having an upward pressure over time on prices. So there were many pieces of this thing as it was put together.

I think you all know, we don't need to go through the whole history of that negotiation, but the fact that we accomplished that is really, in all of this list of items that I've been talking about, is the cornerstone initiative. It had the effect at times of sort of, as I think the media said, sucking the oxygen out of everything else. So a lot of the other things I mentioned became in a way non-events or less important, didn't get much following, didn't get a lot of press coverage in the way that civil nuclear absolutely dominated the media for quite a long period of time, as well as the political process of course.

And the United States' position, once we had completed the negotiation of the 1-2-3 agreement, you may remember, was to permit with respect and patience the Indian political process to work its way through from October of 2007 through until July of 2008. And during that time it looked as if the initiative would not go forward, that there would be too much political opposition.

And during that period I think I appeared in the press maybe on only two or three occasions, only to make the point that time was passing and there were time constraints, never commenting on the domestic political process, but having faith that there was so much logic in that transaction that ultimately they would find a way to resolve the political issues, which in fact they did. And then the rest of the story is one of a rather miraculous finish by everybody cooperating in the summer recess and in the nuclear suppliers' group and the IAEA and the United States Congress, and against all odds it was finished.

I mention this point because the deal is completed, but the work isn't done. There is unfinished business there to be done, so when we move to the look forward, this is going to be an issue of prime importance.

The fact is that over this period of time there was a process going on of accomplishment, and when you have a process of accomplishment, even though it's difficult and even though there are failures, and even though there are frustrations at how long it takes to get something that seems to be rather simple done, there is nothing like building on success to build confidence. And this is what the relationship needed and needs – confidence and trust at the heart of the relationship.

And when you have that established then I think you have the capability of addressing all kinds of other issues much more successfully. So those issues, which you now see on the horizon, are going to pose certain challenges. This has already started, and I'm happy to report, at least in my

opinion, that the U.S.-India relationship is likely to prove durable and sustainable during this period, and unlikely to revert, as it has in the past under times of stress, to its older format.

What this means is that India is fundamentally changed in terms of its own level of confidence in international affairs and in the U.S.-India relationship in general, and this is very important. So I say to people that when you look at what's happened, you need to catalog the items that have happened, but then you need to try to gauge – and this is where I think the new people coming in will have a bit of catching up to do because you need to catch – you need to gauge the sort of emotional or psychological aspects of the relationship which have changed.

So when you approach a problem, there now is a much more likely optimistic response, a can-do attitude, a sort of willingness to listen, a sort of willingness to make an effort, a belief that, yes, we can probably do something like this. We're beginning to see this in a very important way, and only just recently in the counter-terrorism field. This was an area where I felt we were not making progress during the period that I was in India in the way that we should have done, until maybe 12 or 18 months ago, when we began to see some improvements in our level of cooperation.

But I have to say now that there's been a sudden and major shift post-Mumbai, really because, in my opinion, of the superb performance of the FBI in Mumbai, which arrived on the scene – going back, first of all I should mention that the offer of FBI assistance after attacks in India was always made. The first time I made it to the chief secretary or the governor of Assam I was called in and dressed down at the MEA for interfering in domestic affairs. There were calls in the media for me to be returned to Washington and so on and so forth. Now, the FBI came and one member in the Indian government said, well, there's nothing adverse in the media.

The next time we have an event like this, the stories will be why the FBI isn't here. I think there's some truth in that because the work that was done – and it was done on the ground, policeman to policeman, not in Delhi – cooperating on the accumulation of evidence, and the FBI did, as I said, a superb job in assisting with that, so that what could be put together was a very convincing body of evidence that was used to distribute to other countries who had been adversely affected by the attack, as well as to the Pakistani government.

There's nothing really private about that because most of that has been reported in the media. The evidence itself has been exposed for the most part, and I think it's the judgment of the media in India that one of the reasons that there's been some degree of success in response out of Pakistan is that the credibility of the evidence from India and the U.S. together, together with the fact there were U.S. people killed in that attack, has really, you know, put a certain pressure on Pakistan that has encouraged them to face the reality. There's been some forward movement, and I think India is appreciative of that. That's a recent development, and I think may turn out to be a very, very important area of future cooperation.

Now, looking forward, because I don't want to go on too long here, the civil nuclear deal. First of all, understanding the importance of that deal in India is really key. The deal is important in India because it is seen as returning India to the world and providing – ending India's isolation of 35 years. A knowledge society, a technically orientated society, a knowledge with great pride in its expertise, its knowledge of technology, its education institutions, a country that developed its own nuclear capacities by itself, nonproliferating in or out, and a country that abided by the rules of the

nonproliferation treaty rather better than many other members who actually signed it. This emergence of India back into the world is understood pretty well widely in society as a major event.

Secondly, it is an initiative by a great nation, the United States, that was not a selfish initiative. In other words, India was opened to the world for nuclear commerce and it's already moving in that direction with countries other than the United States. This again is seen in a very special light in India. So we have to be absolutely sure that whatever the loose ends are, whatever housekeeping items are still out there need to be completed because if they're not then one might fall into early sort of an uncomfortable situation.

So let me just comment on some of the things that need to be done. First of all, India has things to do, and they have indicated that they're ready now to complete the additional protocol with the IAEA, hopefully next month. And they also I think are getting close now to finalizing their ideas about a site for U.S. nuclear companies. That's very important. Sites have been given to the French and to the Russians, and there's a certain restlessness in U.S. industry, as you might expect.

There is a need to address the so-called liability issue. India has indicated it will do that, but it has also indicated that it will not do it until after the election. That is likely to be a quite sensitive process. It may in fact result, since legislation will be needed, in something of a re-debate of the issues of 2008. One hopes not, but they do have to work that through their system and it is something that in the long run U.S. companies will need before they can compete effectively in that field.

There is the issue of the reprocessing provision in the civil nuclear agreement, the 1-2-3 agreement, where that right to reprocess was granted under certain arrangements that then have to be set up. The notification process has started on that, so that's something that will have to be engaged and it will have to be completed in the time that's been set aside for that. There are also, of course, licensing issues in both countries.

These are rather technical matters, but in the United States that is done by the Department of Energy, and the Department of Energy was not sitting at the table during the negotiation, just as the nuclear suppliers group wasn't. So there is a process of getting comfortable with this new arrangement because it was not without controversy that it was done. One hopes that the licensing process on both sides is able to go forward smoothly so that no time is lost because India is going to be the home, in my view, of a major civil nuclear industry that will involve colossal investment potential, both in India and from outside.

This is a new industry. It's happening, as it happened, at a time when stimulating economies in the West, it's important, these are important business opportunities. They take a long time to develop, but they are major investment opportunities. They create jobs in India as well as in other countries. So it's an important initiative from an economic standpoint to see move forward.

You can go down the list of other things. Broadening the trade relationship: This is happening. We have reduced our trade deficit very significantly with India and although there's been a slowdown recently in U.S. exports, we do remain India's principal trading partner, and this is likely to be the case, although we did think China would overtake us, but it looks as if it will be the case for a short time.

Ex-Im bank is very active in its ambitions in India, and there's a variety of different programs under way, each of which of course represent major projects in India. The promotion of FDI. India has recently made some changes in its FDI calculation arrangements, and this will have some effect on making FDI perhaps a little easier and perhaps increasing the growth in FDI. India's in a very important place today in the world because the projections for its economy range from 5 percent growth to 7 percent growth. It depends who you talk to. But let's take 6 percent as the figure.

If that is the figure that we see going forward, that looks pretty good against 0 in other parts of the world. India, therefore, becomes a major potential positive influence in the recovery prospects of countries like the United States. This gives India a uniquely important position for the time being, which will, I hope, materialize in our relationship because India, and other countries like India, developing countries in general, have tended to be recipients during times of difficulty, but this time some of them may be stimulators and providers. That is an important thought to bear in mind when you're in the condition that the United States is today.

I think there will be a continuing focus on rural economic transformation. That's what I call agriculture because it is so much more than agriculture. There's a couple of statistics that have just come out that I thought were very interesting, and that is that rural economic activity no longer means just agriculture, or primarily agriculture. If you take rural GDP, which figures have just come out on, and divide it, it's 41 percent agricultural and 30 percent industry and 28 percent services, which gives you some idea of changes in the rural economy in India that are rather profound and are going to have a bearing on what India does with its population movement, city growth, and the levels of income.

It's also true that the rural, the agricultural economy continues to grow at a steady pace. There's been a series of good monsoons, and the overall growth level has come down. So you could argue that the spread between the overall growth level and the agricultural growth level will prove to be in a way politically more acceptable because there was this feeling that the rural economy wasn't participating enough in the benefits of globalization. That now is perhaps a more muted differential and will have, I think, positive implications in some way if you want to look on the bright side of these things.

The other statistic that I think is quite interesting is that per capita income in India has doubled in the last 14 years, from 1994 to 2008, and it doubled previously but it took 40 years to double before. So you can see the implications here with very large population, doubling of per capita income, it is a major accomplishment and has implications for the future.

As I've said, there will be an advance, I think, in counter-terrorism cooperation. It will be necessary for us to press ahead with military exchanges, exercises, defense sales, closer cooperation. There will have to be more cooperation and exchange of ideas on environmental issues. That will be a very important part of the agenda going forward. There will of course be the whole question of India's position in the region and in Asia. That opens up a whole broader field.

So that sets us up for what I hope you thought was a useful summary because you know, if you come to a group like this and talk about strong relationship and so on, I just think it's very important to get right down to what a strong relationship means, and how you build a relationship.

You don't do it with pronouncements, and you don't do it with sort of broad ideological statements about democratic cooperation and things like that.

It's a nuts-and-bolts affair, especially important in a country as large, as competent, as independent as India is, where you have a counterparty who is willing and able to engage in such activities, and rather importantly, wants to exploit these kinds of opportunities today for its own development.

So it's been a very positive experience to be there, and my hope is that in the next years, there will also be somebody there who will follow the sort of detailed – more detailed approach to building this relationship. That will assure us, it seems to me, that the relationship will be stable and durable, and that both sides will have the confidence and comfort of having perfectly frank discussions about their major national interests, and they're going to be different, and we will see some of that.

But my view is that we can overcome that in a way in which – in the past in which we were self-defeated by that sensitivity and insecurity between us. But I think that's over. And our interests now run more closely together and it seems to me the maturity that's coming through this relationship now will stand us in good stead. Thank you very much.

(Applause.)

MR. COHEN: Thank you, Ambassador Mulford, for a masterful overview of the state of U.S.-India relations. You've come back to Washington where I think 90 percent of our think-tank community has been working on other countries. And I think it's critically important to remind us that India is a long-term investment; it's not something we look at in the short run, but a long-term investment, and we should look at it in the perspective of 10, 15 years, not simply two weeks or the next electoral cycle.

I will not abuse my privilege as chair, but I will make some comments later. Ambassador Schaffer.

Q: Thank you very much, Mr. Ambassador. I like your building-blocks oriented approach. But I wanted to ask you about – I wanted to ask you about the building block that I think hasn't yet been built, and that is the multilateral one. Historically we've had trouble with India in multilateral settings more than we have bilaterally. You mentioned in introducing your subject that one of the things that needed to change was the way we approached international financial institutions. And I wonder if you could expand a little bit more on that, talk about how you see the institutional architecture for dealing with today's financial crisis evolving, where the U.S. and India fit in that, and what we ought to be doing about it.

AMB. MULFORD: Well, we're in – in my view at the moment, we're in a very dangerous situation because we have yet been unable – we being the major economies – we have not yet been able to come up with a unified approach to address the global crisis that we're in, and therefore we're gradually moving to an increasingly threatening situation, which if it continues could well lead to a very serious depression situation reminiscent of the past calamities.

I don't want to overstate it; I don't want to frighten people, but when you think that we are obsessed with such things as, you know, what wine people are drinking in the financial business and various other things like that instead of how do we restart the process of cross-border flows of tradable goods and finance as the top priority, understanding that we're going to need everybody playing in that game – producers, financiers, managers – and we're going to need open borders; we're going to need free financial flows.

It's very important, and I happen to have had a career, an entire career in this field, going back to the beginning of the international markets in the 1960s, you know, we lived in a world then where global markets were compartmentalized in national markets, and there was not free capital movement. I was at the Treasury in 1965 and '66 when we had closed the United States capital market with the interest equalization tax. We had the Institute of Foreign Direct Investment limitation program and telling U.S. companies that the only way they could invest overseas was to raise the money overseas. And that was the beginning of the euro market because it was discovered that dollars being held by a non-American could be tapped. It was bankers who did that and it gave birth to the euro bond market, the euro currency market.

And over the years, you saw more open markets develop; regulations came down, and we now have in the world a prosperity in the developing world that was unimaginable before. We've had 15 or 20 years of real solid growth, rising prosperity, rising incomes. If you think back to the days where foreign aid was supposed to do that exclusively, it didn't work.

But capital movements around the world have worked, and we have seen a global market development. And if you look at global financial flows, which I think were just recently reported by the Institute of International Finance, falling from \$970 billion last year to \$165 billion this year, you understand that if resources – financial resources don't flow cross-border, and people don't move across border, and tradable goods don't move across borders, you're headed for a very serious situation where the very highest priorities would be not to take punitive measures and excess regulatory steps against those processes that have generated such favorable results.

I mean, I constantly hear the refrain that we must make sure this never happens again. Well, I don't know. The last 40 years is something we would like to happen again in terms of what has been accomplished by way of growth around the world for all kinds of countries and peoples. So I think one has to really reflect on those terms. And if you look at the challenge the G20 faces, and you ask yourself who can do what, then one has to say the countries that are growing and the countries that hold reserves, surpluses, who traditionally have been recipient countries, they need to come forward and offer to help because they are sources of generation of economic activity.

And so in my book, I think that there should be thought given to how those kinds of resources would be assembled, and in return, how do international financial institutions get restructured to reflect that change in power and that contribution to global prosperity. It's like anything else. You've got to accept and reflect reality. So that's the nature of the challenge. And it's a very big time – very big-time challenge.

MR. COHEN: Mr. – (inaudible) – could you wait until the microphone comes – (off mike).

Q: Thank you. Thank you, Mr. Ambassador, for the review of India-U.S. relations. You have been instrumental –

MR. COHEN: Name, please.

Q: Raghbir Goyal for India Globe and Asia Today. Mr. Ambassador, you have been instrumental for U.S.-India relations all of these years for the last administration and even now. And you are a household name in India as far as your contributions and so on. My question is that as far as the new administration is concerned, many Indians in India and here feel that India has been ignored so far because of the secretary's trip to China and also the delegations from Afghanistan and Pakistan, and also as far as a review of this Afghanistan and Pakistan. What does it mean for India-U.S. relations under the new administration and whether you think – you think that the new administration is going to follow the path – the administration of President Bush or President Clinton?

AMB. MULFORD: Well, I think first of all your premise is not really right. I think the new administration understands the importance of the U.S.-India relationship. Some people would say that their request for me to stay on was a reflection of that. It's quite clear to me that India will be every bit as important a priority to them as ever it was to the previous administration. That doesn't mean they'll handle every issue the same way, but I think there's no doubt about the fact that it's important to them.

And I think you have to give some space to people because it's a new administration. They're very challenged, they're very busy, they've got a lot of other things to do, and the fact that they haven't done some things first with India may reflect the fact that they think the relationship is so important and in such good shape that they don't have to address it immediately. But I have no doubt that the relationship would be every bit as important, and I wouldn't really worry about. I wouldn't think it's worth speculating about really.

Q: What is your view of this new Afghanistan – (inaudible, off mike).

AMB. MULFORD: Well, I think one has to wait and see, and I'm not in the position to really address that because I've been the ambassador to India, not to the region.

MR. COHEN: This gentleman here. Bring the microphone. Your name and –

Q: Julian Heriot, documentary film producer.

I'm very interested in a point that you raised at the end of your talk but did not go into, and that is India's emerging role in Asia. I'm particularly interested in the relationship, the future relationship between India and China. And as China grows absolutely and relatively vis-à-vis India, which I think it will, what is India's likely reaction? Is it going to be competitive, perhaps destructively competitive working against our goals in climate control? How do you see this evolving.

AMB. MULFORD: I don't – I mean, India and China are in a way competing economically. There's always been issues between the two countries, but I think relations are really quite good at the moment, and certainly the economic relations have strengthened very, very sharply. China is probably going to become India's major trading partner in the next one or two years, passing the

United States. And the future of Asia, it seems to me is such that it can accommodate both countries. I don't see them as posing the kind of problem that you outlined.

India will – I mean, the multilateral issue was raised. I think India, in a way its domestic policies have run ahead of its multilateral positions on things. And that's I think a function of history and the sort of time it takes to transform these things. But I think – I'm not pessimistic about that.

I also would challenge the view that China is going to sort of leave India behind in growth terms. I was rather struck the other day when I saw the monthly sale of handset figures that came out. I remember when China was selling 8 million handsets a month and India caught up and passed them. I was surprised to see the most recent month of India was 15 million handset sales in one month.

I think democracies grow and develop differently than more disciplined systems. And it doesn't mean they don't ultimately get to the same place or even better places, but I just don't think those are so worrisome right now.

MR. COHEN: That is one of the great euphemisms of all time: more disciplined systems. (Laughter.) I love that. I'm going to use that.

AMB. MULFORD: You learned something in this – (inaudible). Rajesh Kadian.

Q: Thank you, Steve. Mr. Ambassador, thank you for a very intense talk.

I'd rather stay with the multilateral issues again but concentrating on the Himalayas because there's been a sharp decline in the water content of the rivers. And that includes – that touches all of the countries across the Himalayas. And where do you see in the U.S. collaboration in some sense, in the management of water.

And a related question, again, since I'm talking on the Himalayas and on China, is the sale of the C-130s and the Indian development of three new airstrips in the Himalayas, and now you're seeing some Chinese noises about the border being again unsettled. And is that – because if we look back in 1962, the most tangible the aid the U.S. gave to India was a squadron of C-130s. And the Chinese remember that, as do I. Do you see China in that sense being a limiting factor on sales of military hardware to India?

AMB. MULFORD: First of all, we're not giving the C-130s; we're selling them. (Laughter.) And I don't know what we did before but it's part of a very large change that's taking place. When I arrived in India, the United States had minimal defense sales to India, absolutely infinitesimal share of that defense market. And the preoccupation in India was with the fact that the United States was not seen as a reliable partner, reliable supplier, and that was what dominated most conversations at that point. We did have a rising exchange program of military people and growing joint exercises, but very little in the way of defense sales.

India indicated that it wanted to diversify its military defense supply base, and it also wanted top-of-the-line technology, and the United States can certainly provide that at competitive prices. And gradually the reliability issue has drifted into the background. There's still sensitivities about

dealing with the United States, but gradually these are being overcome, and we've had several major breakthroughs. The C-130 Js are one and the P-8 aircraft deal is another, and those two deals alone add up to something over \$3 billion.

So I think that the two sides are finding that there's some benefits, real benefits in working more closely together. The air show which had just been held was a big success – more U.S. companies than ever before, more aircraft than ever before. And I see that as a very bright future because the technology is very impressive that the U.S. has.

I don't see it impacting the U.S.-China relationship at this point in time. I don't think it's significant enough to do that, and I just don't – haven't felt that at all out there. And the water issue, I think it's an agenda item for the future, but up till now it hasn't been, but it could be. And when I mentioned environmental issues, I meant all of those things together. This is a field where there's infinite potential for the United States and India to cooperate together, because we're both knowledge societies. We both believe that technology can be used to improve environmental issues. And we have all of the natural makings of a working relationship there.

MR. COHEN: Let me add one point of my own on that last point. I think that one area where the U.S. could make a big impact, or should be thinking of making an impact, is in the whole water issue, Himalayan development, without reference to Kashmir because this involves Nepal, Pakistan, China, India. And you look ahead 15, 20 years at the rate of melting of glaciers, and so forth, it's going to be a critical issue for a number of the states in the region, especially Pakistan, but also India. And unless they act now, at least think now about what kind of action they're going to take, it's going to lead to a major – possible major crisis in the region.

Next on the list is Ambassador Schaffer.

Q: I'm Howard Schaffer from Georgetown University. Thank you very much, Mr. Ambassador. And thank you too, Steve, for moving up the street and sharing this meeting.

You mentioned environmental matters. And I wonder if you could comment on this. This administration in Washington is likely to pursue a more vigorous approach to global warming than was true of its predecessor. Do you see this as portending a serious problem between the United States and India?

AMB. MULFORD: Well, I think that remains to be seen. It depends on how – as with everything else, it depends on how those issues are advanced, what the proposals are for working together, and I think it's too early to really – for me, certainly, to make a judgment.

But I would go back to why I made the kind of remarks I made today, which were unusually sort of detailed in a way. I think one has to reflect on the capacity of India and the United States to sit down and really work complicated issues together. I think it's possible. I think we both have the mentality and the general willingness to do so. That's a tremendous asset in today's world.

And my message would be that whether it's water in the Himalayas, whether it's disease control, whether it's agricultural technology improvements, whatever the challenges are, I feel very confident that the United States and India can work these issues together for all kinds of reasons, most of which I have already touched on. And if we don't do that, in my view it will be because

we've chosen not to do it. The opportunity is there. The format is there. The willingness on the Indian side is there.

Of course it's always difficult. I'm not saying they're going to just stand up and sort of do what they're asked to do. They are a major nation; they are a major counterpart, and they are a very independent nation. And they are going to be – it's going to take patience and time, but it's a real possibility. And that is why I come back – and I've said this often in the past – that I believe that over a period of these 15 years that we were talking about, the U.S.-India relationship will become one of the most important and maybe the most important to the United States – but certainly right up there.

MR. COHEN: Chindu Rajghatta was next on the list, and we'll get Helen. We can have time for a couple more questions. Chindu.

Q: Thank you, Steve. Chindu Rajghatta at the Times of India.

Ambassador, if the Indian political and the electoral system keeps throwing up the kind of fractured mandates and coalition governments as it has done during the last few cycles, how do you think this will impact, or relate at all – impact U.S.-India relations.

And your term in New Delhi actually coincided pretty much with the full life of one coalition government. Are you nostalgic for a government, which was strong and which could have gotten the nuclear deal done much easier?

AMB. MULFORD: Well, I think there's a very important principle in Indian thinking, which at least in my experience going back, say, to 1990, is that in the reform process, the view in the political leadership circles that I've come across in India is that it's better to do reform slowly, and often that can be frustrating, but in such a way that when it's accomplished it stays because there is a sufficient public consensus in the political process. And I think that's been a very sound approach for India. I'm now speaking as a person who has had to deal with that, and there are a lot of frustrations in getting some things done, but it is true that when India decides to do something and does it, it stays in place. And this I think is important.

The second point I'd make is that coalition governments have been the rule in the period of India's reform, starting, say, 1991 forward. So you could say – well, I mean, maybe India could have grown at 15 or 20 percent if it had had a different kind of political lineup. I don't think so. I think that the governing process in India is complicated, it's democratic, but it has produced results.

And the reason for the growth levels that you've seen since the year 2000, 2002, in my view, and if you look at the long history of growth in India, which has been relatively low for long periods of time, and then bumping up and gradually in the year 2000 crossing the 5 to 6 percent level and moving up from there is that the reform process in the '90s was really laying a foundation, the benefits of which began to emerge after 2000. So you do have to take in the reform process, whether it's in India or in Latin American countries, or elsewhere, a long-term view on reform. It's a complicated task in the political process. And it takes time to be implemented, and then for its results to be visible.

And India has I think demonstrated – I mean, I would say that in my time in India, dealing with two different governments, each of which was a coalition of many parties. To me it means that almost all political parties while serving in government in India have favored a strong U.S.-India relationship. I think that's really saying something. It's not that one group doesn't and the other one does; it's that every political player does. There are differences, nuances, et cetera, but there is a sort of national consensus on that. So I think coalition government will probably go on. And it's – you know, it's complicated, but it's how India works.

MR. COHEN: Muthiah

Q: Muthiah Alagappa from the East-West Center.

Ambassador, I wanted to thank you for a very enlightening presentation, and I'm really taken by the building block approach, which I think is really very critical in terms of getting the relationship and the broad-based nature of the relationship that you pointed. I have a couple of questions. One is the Indian economy. You mentioned, depending on whom you speak to, the rate of growth may be in (five and seven ?), and it took the media in six.

I just want to ask you a question, how do you think India will whether is crisis, and whether in fact the prime minister's statement to the parliament that it will come out at least affected by the ongoing crisis – your assessment of the situation, that's one. And second I think is the – you referred to this, the knowledge community. And I was thinking what kind of actions can be taken – (inaudible) – much closer interaction on this issue of knowledge between the U.S. and India?

AMB. MULFORD: Those are really interesting questions. Let me give you – generally I don't use statistics; I speak in general terms. But I can't resist referring to a couple here because they are so compelling. First of all, India has been to some extent shielded from the global financial crisis by some of its own conservative approaches to things. For example, I have advocated financial liberalization. They have been protected by the fact that they did not liberalize in the direction that the United States did. Risk is still located in the banks that made the loans in India. That's a major advantage today if you want to bring borrowers and lenders together. That's something we can't do in the United States with the structured loans and so on that have been put together and sold.

India's capital controls and other more conservative financial management tools of its markets, which it depended on in 1997 to avoid the worst of the Asian crisis, they've left sort of in place – liberalized very slowly. But once again, it's given them some degree of protection. The statistics I want to give you, though, are quite interesting in that there are in just recently released statistics signs of revival in India.

Now, there has been a very sharp downward adjustment in India, which has been you know, on the receiving end of this global crisis. But in the December-January figures, it shows that the cement sector is up 10 percent in that period, and up 11 percent in the previous year. It shows that steel production in December and January, after declining for three or four straight months, has turned as is up slightly. The sale of passenger cars – up 32 percent in January over the month before. And fast-moving consumer goods, which are personal items of one kind or another, an important guide to the confidence people feel in spending their hard-earned money, up 26 percent in the October to December quarter, and food and beverage up 28 percent during the same period.

So after this very sharp decline, there's some signs of revival. Now, those could be aberrations, but our judgment, at least, is that they are rather significant, and therefore the generalizations that go on about how this and that is spreading around the world – I mean, there seems to be some resistance here. So a 5 or 6 or 7 percent growth rate, it isn't just one stop on the way to one. It seems to me that's where it is, and maybe Monta Kalowali (ph) is right when he thinks the economy will bounce back up to 7 percent next year. Well, it's a possibility. I think these are very important signposts.

Now, on the education thing that you mentioned, I think we've had visits from something like 70 university presidents and chancellors and provosts. There is massive interest in the United States in the education market in India. And the Indian system needs growth, resources, attention, and there is a debate going on, as you no doubt know, about how India should open to the world more in its educational system. This is not resolved at this point, but there's certainly a lot of people who would like to see the federal government take some measures to be more open and so on.

One of the big accomplishments I didn't mention, but which, again is another building block is that we transformed the Fulbright Program after 50-plus years into a program which for the first time India is going to co-finance with the United States. And when I went to them on this, I said, you know, this has been a U.S. finance program. All these years other countries contribute, I think you should become a co-partner with us. And they agreed.

And we rewrote or amended the Fulbright treaty agreement in two important ways: one, they put in half the money and the program doubles over night; and secondly, they've agreed that on each side it will be possible to raise private resources. I see the Fulbright Program – there's no reason it shouldn't go to a thousand students moving around each year instead of 130. But it has a long-term – I mean, it's a good brand name in India, as you know, and it's been there since 1951.

MR. COHEN: Alan, just a quick question and a short answer because we're running out of time.

Q: Thanks. Thank you. I'm Alan Kronstadt from the Congressional Research Service. I'll just act quickly about human rights in India. We know that India is the site for some serious ongoing systemic human rights abuses. Given its population, these can affect tens of hundreds of millions of people even. It seems there's a dynamic that since the – over the course of this decade with the blossoming of a U.S.-India strategic partnership that human rights has kind of fallen off the agenda as far as the U.S. government's kind of top-tier issues go. And we saw on Secretary Clinton's recent visit to China that in our relationship to China, human rights is still very much a high-visibility issue. Do you see any problem here, and what do you see going forward as U.S. government's engagement on human rights with New Delhi.

AMB. MULFORD: Well, first of all I would say that you're quite incorrect that it has fallen off the agenda. I have made a great personal effort out there to approach ministerial-level people and bring our people in, in a way that previous ambassadors did not on two issues: human rights – three issues: human rights, religious freedom, and trafficking in persons. And each of these are areas of enormous interest. The United States, in my view, has a good approach in terms of the effort put in on the ground to trying to understand what's going on, document it, and put out its reports.

India isn't ranked as well as it would like to be. It's very controversial between the two countries, but they accept the process, and we go through this each year, and it is very carefully done.

So I don't want to sound defensive but I think that India is a large complex place, and these are very, very difficult issues to work with. I think the State Department does an excellent job at this and has done so during my entire five years. And as ambassador, I have really gone to bat to get the people the access they need, and to discuss these issues at ministerial level at the time these reports are done. And I've had very good responses.

When I arrived, I was told that these were issues that were so sensitive they couldn't be discussed, and so on, but I didn't find that. I found that not all was happy, but all was willing to discuss the issues.

I would like to come back to this question because you asked about knowledge and research. There is one big change taking place that I think is very, very important between the United States and India. There's a long history of cooperative efforts in research, in agriculture, and other fields, and so on. Where we have diverged in a way is that in India, the research is more or less often rather pure academic, government-sponsored research, which often in my experience does not lead to commercial exploitation, whereas in the United States, research is often linked to – in such a way so that the researcher enjoys certain benefits. There's equity investment made, there's business developed, there's endowment flow back from equity participation in the sort of results of research.

What I find in India is there's a significant effort being made to move in this direction to address some of the limitations that exist there, and a recognition that research has to be in a way more applied, more exploitable, potentially commercially. And I think that efforts are being made to look at that in some of the key departments.

MR. COHEN: There's a tradition in India and probably British where the moderator gives the vote of thanks, in which case he usually turns to the speaker who doesn't have a chance to respond, and attacks him. (Laughter.) I've had that happen to me. At least I'm – well, I don't know if that has happened to you, but in this case I can't say much in the way – say much that's critical, but I will say that I do like the notion of a complex relationship, a building-block approach to U.S.-Indian relations, because it's one of those countries which has a very dense, complex interaction.

And at Brookings we have a project which I'd like you to join, at least as an advisor, where we sort of sorted out the relationship in terms of the military relationship, the economic relationship, which was nonexistent 20 years ago, the cultural ties between the two countries, which is now symbolized by the Oscar, and also strategic relationship. And you can't look at this as a monotone relationship. It's too complex; it's too involved with ethnic minorities here, American investment there, Indian investment here. It is complex. And I'd like to invite you to join a Brookings project next door on looking – on how we analyze this and how we track it.

But I think that overall, you have to look at U.S.-Indian relations as sort of like a baseball batter. You know, if you get three out of 10 right, if you get three out of 10 hits, you're doing very well. Four out of 10, you're a superstar. Five out of 10 is unheard of. So in a sense, the U.S.-Indian relationship is complex, can't be evaluated on a single criteria. The criteria rise and decline in importance, but I think it's an enduring deep relationship which will have the strategic, economic, cultural, and political aspects to it over time.

And that's why I hope this administration sees it not in terms of next week or next year or what we have to do before the next summer in Afghanistan, but really as a five-, 10-, 20-year investment of American interest and American engagement. And I hope the Indians see it that way also. I think we'd both benefit if we saw these things in these larger terms.

So let me thank you very much for coming to speak to Carnegie, even though I'm from Brookings. And I hope that now that you're going to soon leave your post as ambassador, you'll be more frequently on the seminar circuit and think-tank circuit in Washington. Thank you.

AMB. MULFORD: Thank you very much.

(Applause.)

(END)