

**U.S.-Japan-India Track Two Strategic Dialogue
March 1-2, 2012
New Delhi, India**

SUMMARY OF DISCUSSION

Delegations from the United States, India and Japan met for the ninth U.S.-Japan-India Track Two Strategic Dialogue in Delhi on March 1-2. The session was organized by the Center for Strategic and International Studies, the Confederation of Indian Industry (CII), in collaboration with Aspen Institute India, and the Japan Institute of International Affairs (JIIA) and co-chaired by former Deputy Secretary of State Richard Armitage, former CII Chief Mentor Tarun Das, and Yoshiyuki Kasai, Chairman of the Central Japan Railway Company. The delegates met with senior ministers and officials of the Indian government for briefings on foreign affairs, energy and economic development, as well as discussions of the recently established government level U.S.-Japan-India trilateral. The delegates also engaged in candid, off-the-record assessments of political, security, economic and energy issues.

Delegates acknowledged that there have been both positive developments and new challenges in the bilateral relationships of all three countries, but reaffirmed that each has invested in relations with the other for longer term strategic objectives and not just immediate transactional returns on specific economic or security issues. Indeed, all three nations share strong common interests in an open and secure Indo-Pacific maritime domain; in the emergence of an inclusive and integrated Asia-Pacific economic architecture; in stability and development in Afghanistan; in the development of safe and secure energy resources, including nuclear power; in countering terrorism and proliferation challenges, particularly those emanating from Iran and North Korea; and in continuing support for the adoption of democratic norms internationally. At a fundamental, Japan and the United States benefit from a strong and prosperous India, India and the United States from a strong and prosperous Japan, and both Japan and India from continued American leadership in the international system.

POLITICAL OVERVIEW

Participants shared perspectives on domestic political developments in each country, representing the views of various political parties. All three delegations discussed the prospect of more years of divided or coalition governments and the recipe for gridlock in their countries. Nevertheless, there was broad agreement that whatever the outcome of forthcoming elections in the United States and India (and possibly Japan), there will likely be continued bipartisan support for strengthening all three bilateral relationships and building on trilateral cooperation recently started at the first track among the three governments. Indeed, it was noted that none of the major opposition political candidates in the three nations were challenging the direction of their nation's relations with the other two. The three delegations stressed that the building blocks for stronger relations among the countries—including the U.S.-Japan Treaty of Mutual Cooperation and Security; the U.S.-India Civil Nuclear Agreement; and the Japan-India Joint Declaration on Security Cooperation and Comprehensive Economic Partnership Agreement—all enjoy bipartisan support going forward.

Nevertheless, there are new requirements for cooperation and coordination that will test the pace and depth of improving relations, including developments in Iran, Afghanistan, and U.S. forward military presence in Asia. These were discussed in depth and with candor.

ECONOMIC ISSUES

Japanese participants again expressed their appreciation for U.S. and Indian assistance in the recovery from the mega-disaster of March 11, 2011, in Northern Japan. It was noted that Japan is now attempting three sets of complex reforms aimed at recovery from 3-11: reconstruction, fiscal stability, and long-term economic growth. Japanese participants conveyed their confidence that recovery efforts will now be accelerated with the passage of necessary legislation and establishment of reconstruction headquarters in Japan.

U.S. participants noted the challenges facing the U.S. economy from household debt, flat or falling wages, and the housing market to rising oil prices, looming fiscal issues and uncertainty over Europe. The participants also highlighted strengths in the U.S. economy, namely: low interest rates; low inflation; strong corporate balance sheets; the renaissance of manufacturing; a growing population and continued entrepreneurial spirit.

Indian participants explained the wake-up call represented by the fall of growth rates below 7 percent, the falling share of manufacturing in the economy, and rising interest rates and emphasized the need for new growth strategies to bring the nation's growth potential up to the 8-9 percent mark.

Participants discussed the shared challenges posed to Western liberal capitalism by the rise of the global unemployment rate and by uncertainty caused by political paralysis and unclear government regulations and fiscal strategies in all three countries.

It was agreed that U.S.-Japan participation in the Trans-Pacific Partnership (TPP) and that Japanese and Indian participation in the CEPEA ASEAN Plus Six agreement could be mutually reinforcing, contributing to a virtuous process of competitive trade liberalization in the region, as long as these agreements were WTO-consistent.

There was considerable discussion of the investment environment in India, with Japanese participants expressing the hope that India could become the next manufacturing export hub in the global economy, while acknowledging the need for Indian policies on foreign direct investment (FDI), based on government-to-government dialogue and other bilateral exchanges, to further improve regulatory frameworks for public private partnership (PPP) infrastructure projects in power, transportation and other sectors. Such policies would include the establishment of an independent regulator and a more transparent bidding process including technical evaluation to recognize foreign investors' requirements.

ENERGY COOPERATION

U.S. participants expressed long-term confidence in the ability of the United States to increase energy security and stable exports of LNG to Japan and India, but short-term concern about gasoline prices in the United States. There was discussion of a possible energy revolution in the United States in the coming decade.

Japanese participants provided an update on the decommissioning of the Fukushima Daiichi reactor and participants noted the risk to Japan's economy and security and the credibility of nuclear power in both the United States and India if Japan moves precipitously away from nuclear power. It was agreed that successfully completing necessary processes (such as "stress testing") and resuming operations of nuclear power plants would be critical as the last of Japan's 54 reactors prepares to go offline in May. It was also emphasized that

Japan can play a leading role in establishing higher standards for international safety and security of nuclear power plants, based on lessons learned from the Fukushima incident.

Indian participants acknowledged that original ambitions to increase nuclear power generation have been complicated somewhat by local opposition; while renewable power generation is increasing (with India the fourth largest market for wind turbines in the world and mountains and deserts providing viable options to expand solar and hydro); and thermal coal and oil imports are increasing. Overall this painted a picture of an Indian energy market that is more dependent on imports and vulnerable to external shocks.

Participants reiterated the importance of reducing greenhouse gas (GHG) emissions, particularly through market-based incentives for increased energy efficiency and use of renewables (and through a fusion of the two), and welcomed India's commitments at the Durban meeting of the UNFCCC to reduce GHG emissions, but also expressed skepticism that the UN process was on track to provide an enduring framework for climate change reductions given the current impasse in global negotiations, particularly between developed and developing nations and within developed nations.

U.S. and Indian participants noted progress in addressing U.S. concerns about India's nuclear liability law and also the possibility that U.S. firms might have to proceed with nuclear cooperation in India without Japanese partners. U.S. and Indian participants encouraged the Japanese delegation to move forward with completion of a Japan-India peaceful nuclear cooperation agreement, recognizing that Japan should not have unrealistic expectations of special conditions different from the agreements India has negotiated with the United States or European partners.

Participants noted that American decisions on shale gas will have significant impacts on Japanese and Indian energy options and strategies going forward, just as Japan's near-term decisions on nuclear power will have an important impact in India and the United States. It was agreed that all three governments and industrial sectors need to share more information and strategic thinking on energy policies.

SECURITY AND FOREIGN AFFAIRS

All three delegations heard a briefing from the government of India on the first track trilateral meeting held in December 2011 and welcomed plans for further development of trilateral coordination and discussions at the first track.

Participants acknowledged that Pakistan appears to be struggling to put in place policies for growth or stability and that Islamabad has not given up on its vision of using Afghanistan as an arena for strategic depth. This stance complicates U.S. strategy in Afghanistan and India's own security. Nevertheless, all three delegations agreed on the importance of stability in Pakistan and expressed hope there could be greater economic interaction with that nation going forward, including India's bilateral efforts with Islamabad.

Indian participants expressed concern about Chinese linkages to Pakistan's nuclear program, including current offers for nuclear power generation and previous connections to Pakistan's weapons program. Participants expressed concerns about increases in the Pakistani nuclear arsenal and longer-term control of its nuclear weapons programs.

Participants assessed positive progress in Afghanistan over the past decade, noting for example the tripling of Afghanistan's GDP and the doubling of access to health care and education in that country. There

was also agreement on the success of NATO counterinsurgency strategy. However, participants shared concern that the military strategy can only be as successful as the civilian government in Kabul and the danger that the Taliban believes NATO is not committed to success in the long-run, an impression reinforced by the constantly shifting U.S. deadline for withdrawal. It was also noted that while dialogue with the Taliban may have some merit, there should not be any expectation that the Taliban will negotiate with any serious purpose. The U.S. and Indian delegations also expressed appreciation for Japan's major support for development in Afghanistan. All three delegations agreed on the importance of developing a better international framework to reinforce support for Afghanistan after the withdrawal of NATO forces in 2014.

Iran was a topic of intense focus, as expected. American participants took note of India's important votes to pressure Iran's nuclear programs through the IAEA as well as the decrease in Indian imports of oil from Iran from 15 percent to 10 percent of total Indian imports. All three delegations agreed on the urgency of near-term measures to dissuade Iran from developing nuclear weapons and the American delegation explained why there is bipartisan consensus in Washington on the need for India to intensify its efforts in this regard. Delegates discussed the dire implications of a nuclear-armed Iran for stability in the Middle East, proliferation, and the energy security of Japan and India.

Participants reiterated all three nations' strong commitment to comprehensive and positive relations with China, as well as the need for candid assessments of how recent Chinese actions are affecting each country's national interests with respect to market access, cybersecurity, freedom of navigation and relations with ASEAN. Participants noted the enormous internal challenges facing the leadership in Beijing and the many common global challenges each of the three nations share in common with China.

The participants reviewed progress in the East Asia Summit and noted the need for closer coordination going into these summits in the years ahead.

Participants welcomed the Japan-India bilateral naval exercise scheduled to take place this year and explored possibilities for enhanced bilateral and Japan-India-U.S. defense collaboration based on the 2008 Japan-India security declaration and Japan's new policy on arms exports. Japanese participants provided an update on U.S.-Japan collaboration on the FX (F-35) program and Japan's anti-piracy operations based out of Djibouti. The U.S. delegation welcomed the presence of Japanese forces in the Indian Ocean and the Arabian Sea, including the Strait of Hormuz. The Japanese delegation recognized the importance of Japanese forces' presence in that region.

The U.S. and Japanese delegations welcomed India's vote in the UNSC on Syria.

Delegates concluded with renewed appreciation for the common values, interests and budding friendships that have animated trilateral strategic discussions among the United States, India and Japan over the past decade and looked forward to scheduling the 10th round of discussions within the year.