

CRS Report for Congress

India-U.S. Relations

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Summary

Long considered a “strategic backwater” from Washington’s perspective, South Asia has emerged in the 21st century as increasingly vital to core U.S. foreign policy interests. India, the region’s dominant actor with more than one billion citizens, is now recognized as a nascent major power and “natural partner” of the United States, one that many analysts view as a potential counterweight to China’s growing clout. Washington and New Delhi have since 2004 been pursuing a “strategic partnership” based on shared values such as democracy, pluralism, and rule of law. Numerous economic, security, and global initiatives, including plans for “full civilian nuclear energy cooperation,” are underway. This latter initiative, launched by President Bush in July 2005 and provisionally endorsed by the 109th Congress in late 2006 (P.L. 109-401), reverses three decades of U.S. nonproliferation policy. It would require, among other steps, conclusion of a peaceful nuclear agreement between the United States and India, which would itself enter into force only after a Joint Resolution of Approval by Congress. Also in 2005, the United States and India signed a ten-year defense framework agreement that calls for expanding bilateral security cooperation. Since 2002, the two countries have engaged in numerous and unprecedented combined military exercises. The issue of major U.S. arms sales to India may come before the 110th Congress. The influence of a growing and relatively wealthy Indian-American community of more than two million is reflected in Congress’s largest country-specific caucus.

Further U.S. interest in South Asia focuses on ongoing tensions between India and Pakistan, a problem rooted in unfinished business from the 1947 Partition, competing claims to the Kashmir region, and, in more recent years, “cross-border terrorism” in both Kashmir and major Indian cities. In the interests of regional stability, the United States strongly encourages an ongoing India-Pakistan peace initiative and remains concerned about the potential for conflict over Kashmiri sovereignty to cause open hostilities between these two nuclear-armed countries. The United States seeks to curtail the proliferation of nuclear weapons and ballistic missiles in South Asia. Both India and Pakistan have resisted external pressure to sign the major nonproliferation treaties. In 1998, the two countries conducted nuclear tests that evoked international condemnation. Proliferation-related restrictions on U.S. aid were triggered, then later lifted through congressional-executive cooperation from 1998 to 2000. Remaining sanctions on India (and Pakistan) were removed in October 2001.

India is in the midst of major and rapid economic expansion. Many U.S. business interests view India as a lucrative market and candidate for foreign investment. The United States supports India’s efforts to transform its once quasi-socialist economy through fiscal reform and market opening. Since 1991, India has taken steps in this direction, with coalition governments keeping the country on a general path of reform. Yet there is U.S. concern that such movement remains slow and inconsistent. Congress also continues to have concerns about abuses of human rights, including caste- and gender-based discrimination, and religious freedoms in India. Moreover, the spread of HIV/AIDS in India has attracted congressional attention as a serious development.

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India-U.S. Relations

Most Recent Developments

- On February 13, **Commerce Secretary Gutierrez began a two-day visit to New Delhi**, where he met with top Indian officials to discuss expanding bilateral trade, enforcement of intellectual property rights, reducing bureaucratic obstacles to commerce, planned civil nuclear cooperation, and Doha multilateral trade negotiations.
- On February 3, **authorities in Kashmir exhumed the bodies of five men who may have been civilians killed in “staged encounters” with security forces**. Shortly after, four policemen, including two senior officers, were arrested, and separatist groups called for a protest strike which shut down most of Srinagar three days later.
- On January 26, **officials from India, Pakistan, and Iran reportedly agreed on a pricing formula for Iranian natural gas**, thus potentially clearing a major obstacle to the planned construction of a pipeline to deliver such gas to India via Pakistan. India’s oil minister later said he expected a final deal by June. The Bush Administration is opposed to the \$7 billion project.
- On January 25, **Russian President Putin ended a two-day visit to New Delhi**, where he met with top Indian officials; signed several bilateral agreements on energy, science, and space cooperation; and offered to sell four new 1,000-megawatt nuclear reactors to India.
- On January 15, **Prime Minister Singh attended the 5th India-ASEAN summit** meeting in the Philippines, where he sought to forward India’s “Look East” policy by calling for a Pan Asian free trade agreement.
- On January 13, **External Affairs Minister Mukherjee traveled to Islamabad** to meet with Pakistani Foreign Minister Kasuri, the first such visit in more than one year. The two men agreed to a mid-March launch of the fourth round of the Composite Dialogue that began in 2004. The dialogue had re-commenced in mid-November when the Indian and Pakistani foreign secretaries held formal meetings in New Delhi, the first such meetings since New Delhi’s suspension of the peace process in the wake of July 11 terrorist bombings in Bombay. New Indian Foreign Secretary Shiv Shankar Menon called those talks “very useful and constructive” and, along with Pakistani Foreign Secretary Riaz Khan, further developed the

planned joint anti-terrorism mechanism mandated by Prime Minister Singh and Pakistani President Pervez Musharraf on the sidelines of a September Nonaligned Movement summit in Cuba.

- On January 7, two days of **attacks by suspected United Liberation Front of Assam (ULFA) rebels killed at least 65 people**, most of them migrant workers, in the Assam state. Thousands of migrants began fleeing the region, and up to 13,000 Indian army and paramilitary troops subsequently fanned out across the state in what was termed the “largest-ever” operations there. Bombings, gunbattles, and political assassinations continue to date.
- On December 18, **President Bush signed into law H.R. 5682, the Henry J. Hyde United States-India Peaceful Atomic Energy Cooperation Act of 2006** (P.L. 109-401), to enable civil nuclear cooperation with India. A conference report (H.Rept. 109-721) had earlier been issued to accompany the bill; congressional conferees reconciled House and Senate versions of the legislation and provided a 30-page explanatory statement. Some influential political and scientific figures in India oppose the deal; in January, India’s lead negotiator, Shyam Saran, warned that existing stipulations proscribing the reprocessing spent fuel and further nuclear testing could kill the deal altogether. (See also CRS Report RL33016, *U.S. Nuclear Cooperation With India.*)
- On December 15, **Prime Minister Singh paid a visit to Tokyo**, where India and Japan inked 12 bilateral agreements to forward their “strategic partnership,” including negotiations toward a future free trade agreement. Tokyo withheld endorsement of India’s entry into the civilian nuclear club.
- On November 28, **a delegation of 250 American business executives arrived in Bombay** on a mission to explore new opportunities to invest in India and develop new partnerships with companies there. The delegation, led by Under Secretary of Commerce Franklin Lavin, represented 180 companies from a variety of sectors and is the largest-ever to visit India.
- On November 23, **Chinese President Hu Jintao ended a four-day visit to India**, the first such visit by a Chinese president since 1996. Two days earlier, India and China issued a Joint Declaration which outlined a “ten-pronged strategy” to boost bilateral socio-economic ties and defense cooperation, and to “reinforce their strategic partnership.” The two countries, which declared themselves “partners for mutual benefit” rather than rivals or competitors, also signed 13 pacts on a variety of bilateral initiatives.
- On November 18, **Agriculture Secretary Mike Johanns was in New Delhi** for meetings with top Indian officials in New Delhi to discuss trade issues and to “get the Doha talks back on track.”

Secretary Johanns urged India to further open its farm markets to exports from other countries.

- Also on November 16, a **two-day meeting of the U.S.-India Defense Policy Group** ended in New Delhi, where Under Secretary of Defense Eric Edelman and other U.S. officials expressed optimism about the potential for major arms sales to India in 2007.

Context of the U.S.-India Relationship

Background

U.S. and congressional interests in India cover a wide spectrum of issues, ranging from the militarized dispute with Pakistan and weapons proliferation to concerns about regional security, terrorism, human rights, health, energy, and trade and investment opportunities. In the 1990s, India-U.S. relations were particularly affected by the demise of the Soviet Union — India's main trading partner and most reliable source of economic and military assistance for most of the Cold War — and New Delhi's resulting need to diversify its international relationships. Also significant were India's adoption of significant economic policy reforms beginning in 1991, a deepening bitterness between India and Pakistan over Kashmir, and signs of a growing Indian preoccupation with China as a potential long-term strategic rival. With the fading of Cold War constraints, the United States and India began exploring the possibilities for a more normalized relationship between the world's two largest democracies. Throughout the 1990s, however, regional rivalries, separatist tendencies, and sectarian tensions continued to divert India's attention and resources from economic and social development. Fallout from these unresolved problems — particularly nuclear proliferation and human rights issues — presented irritants in bilateral relations.

India's May 1998 nuclear tests were an unwelcome surprise and seen to be a policy failure in Washington, and they spurred then-Deputy Secretary of State Strobe Talbott to launch a series of meetings

INDIA IN BRIEF

Population: 1.1 billion; *growth rate:* 1.4% (2006 est.)

Area: 3,287,590 sq. km. (slightly more than one-third the size of the United States)

Capital: New Delhi

Head of Government: Prime Minister Manmohan Singh (Congress Party)

Ethnic Groups: Indo-Aryan 72%; Dravidian 25%; other 3%

Languages: 15 official, 13 of which are the primary tongue of at least 10 million people; Hindi is primary tongue of about 30%; English widely used

Religions: Hindu 81%; Muslim 13%; Christian 2%; Sikh 2%, other 2% (2001 census)

Life Expectancy at Birth: female 65.6 years; male 63.9 years (2006 est.)

Literacy: female 48%; male 70% (2003 est.)

Gross Domestic Product (at PPP): \$4.24 trillion; *per capita:* \$4,239; *growth rate* 8.8% (2006 est.)

Currency: Rupee (100 = \$2.27)

Inflation: 5.6% (2006 est.)

Military Expenditures: \$21.7 billion (2.7% of GDP; 2005)

U.S. Trade: exports to U.S. \$21.8 billion; imports from U.S. \$10.1 billion (2006)

Sources: CIA World Factbook; Commerce Department; Economist Intelligence Unit; Global Insight; Military Balance

with Indian External Affairs Minister Jaswant Singh in an effort to bring New Delhi more in line with U.S. arms control and nonproliferation goals. While this proximate purpose went unfulfilled, the two officials soon engaged a broader agenda on the entire scope of U.S.-India relations, eventually meeting fourteen times in seven different countries over a two-year period. The Talbott-Singh talks were considered the most extensive U.S.-India engagement up to that time and likely enabled circumstances in which the United States could play a key role in defusing the 1999 Kargil crisis, as well as laying the groundwork for a landmark U.S. presidential visit in 2000.

President Bill Clinton's March 2000 visit to South Asia seemed a major U.S. initiative to improve relations with India. One outcome was a Joint Statement in which the two countries pledged to "deepen the India-American partnership in tangible ways."¹ A U.S.-India Joint Working Group on Counterterrorism was established that year and continues to meet regularly. During his subsequent visit to the United States later in 2000, Prime Minister Atal Bihari Vajpayee addressed a joint session of Congress and issued a second Joint Statement with President Clinton agreeing to cooperate on arms control, terrorism, and HIV/AIDS.²

In the wake of the September 2001 terrorist attacks on the United States, India took the immediate and unprecedented step of offering to the United States full cooperation and the use of India's bases for counterterrorism operations. Engagement was accelerated after a November 2001 meeting between President Bush and Prime Minister Vajpayee, when the two leaders agreed to greatly expand U.S.-India cooperation on a wide range of issues, including regional security, space and scientific collaboration, civilian nuclear safety, and broadened economic ties.³ Notable progress has come in the area of security cooperation, with an increasing focus on counterterrorism, joint military exercises, and arms sales. In late 2001, the U.S.-India Defense Policy Group met in New Delhi for the first time since India's 1998 nuclear tests and outlined a defense partnership based on regular and high-level policy dialogue.

Prime Minister Manmohan Singh paid a landmark July 2005 visit to Washington, where what may be the most significant joint U.S.-India statement to date was issued.⁴ In March 2006, President Bush spent three days in India, discussed further strengthening a bilateral "global partnership," and issued another Joint Statement.⁵ Today, the Bush Administration vows to "help India become a major world power in the 21st century," and U.S.-India relations are conducted under the rubric of three major "dialogue" areas: strategic (including global issues and defense), economic (including trade, finance, commerce, and environment), and energy. President Bush's 2002 *National Security Strategy of the United States* stated

¹ See [<http://www.usindiafriendship.net/archives/usindiavision/delhideclaration.htm>].

² See [http://clinton4.nara.gov/WH/new/html/Wed_Oct_4_105959_2000.html].

³ See [<http://www.state.gov/p/sca/rls/rm/6057.htm>].

⁴ See [<http://www.whitehouse.gov/news/releases/2005/07/20050718-6.html>].

⁵ See [<http://www.whitehouse.gov/news/releases/2006/03/20060302-5.html>].

that “U.S. interests require a strong relationship with India.” The 2006 version claims that, “India now is poised to shoulder global obligations in cooperation with the United States in a way befitting a major power.”⁶ (See also CRS Report RL33072, *U.S.-India Bilateral Agreements*.)

Recognition of India’s increasing stature and importance — and of the growing political influence some 2.3 million Indian-Americans — is found in the U.S. Congress, where the India and Indian-American Caucus is now the largest of all country-specific caucuses. Over the past six years, legal Indian immigrants have come to the United States at a more rapid rate than any other group. In 2005 and 2006, the Indian-American community, relatively wealthy, geographically dispersed, and well-entrenched in several U.S. business sectors, conducted a major (and apparently successful) lobbying effort to encourage congressional passage of legislation to enable U.S.-India civil nuclear cooperation.⁷

Current U.S.-India Engagement

Following President Bush’s March 2006 visit to New Delhi — the first such trip by a U.S. President in six years — U.S. diplomatic engagement with India has continued to be deep and multifaceted:

- The **U.S.-India Joint Working Group on Counterterrorism** met in April in Washington, where Counterterrorism Coordinator Henry Crumpton led the U.S. delegation.
- Indian Power Minister Sushil Shinde paid an April visit to Washington for meetings with top U.S. officials.
- The fourth meeting of the **U.S.-India Trade Policy Forum** took place in May in New Delhi, where talks focused on trade barriers, agriculture, investment, and intellectual property rights.
- In June, the Chairman of the U.S. Joint Chiefs of Staff, Gen. Peter Pace, met with top Indian officials in New Delhi to discuss expanding U.S.-India strategic ties.
- Also in June, new U.S. Trade Representative Susan Schwab met with Indian Commerce Minister Kamal Nath in Washington, agreeing on initiatives to strengthen and deepen bilateral trade.
- In July, President Bush met with Prime Minister Singh on the sidelines of the G-8 Summit in St. Petersburg, Russia, to discuss the 7/11 Bombay bombings and planned U.S.-India civil nuclear cooperation.
- In August, a delegation of U.S. officials, including President Bush’s top energy and environment advisor, visited New Delhi to discuss energy security and the environment with top Indian officials and business leaders.

⁶ See [<http://www.comw.org/qdr/fulltext/nss2002.pdf>] and [<http://www.comw.org/qdr/fulltext/nss2006.pdf>].

⁷ Walter Andersen, “The Indian-American Community Comes Into Its Political Own,” *India Abroad*, Sep. 1, 2006; “Indian Community Burgeoning in America,” Associated Press, Oct. 22, 2006.

- Also in August, the **U.S.-India Financial and Economic Forum** met in Washington, where officials discussed Indian efforts to liberalize its financial sector, among other issues.
- In September, U.S. and Indian army troops conducted joint counter-insurgency exercises in Hawaii.
- Defense Minister Pranab Mukherjee led an Indian delegation to the U.N. General Assembly session later in September and met with top U.S. officials in New York.
- In October, a meeting of the **U.S.-India CEO Forum** was held in New York City. Along with numerous U.S. and Indian business leaders, high-level government officials joining the session included Commerce Secretary Carlos Gutierrez and Assistant to the President for Economic Policy Allan Hubbard from the American side, and Commerce Minister Kamal Nath and Planning Commission Deputy Minister Montek Singh Ahluwalia from India.
- Assistant Secretary of State Richard Boucher made a lengthy visit to India in November for meetings with top Indian leaders.
- In mid-November, U.S. Under Secretary of Defense Edelman met with Defense Secretary Dutt in New Delhi for the eighth session of the **U.S.-India Defense Policy Group** to discuss bolstering bilateral cooperation in military security, technology, and trade.
- Also in mid-November, the U.S. Environmental Protection Agency announced establishment of a Methane to Markets Partnership to promote development of coal bed and coal methane projects in India.
- Later in November, Agriculture Secretary Michael Johannes visited New Delhi to discuss bilateral and multilateral trade issues with top Indian leaders.
- In late November, Under Secretary of Commerce Franklin Lavin led a delegation of 250 American business executives to Bombay on a mission to explore new opportunities to invest in India and develop new partnerships with companies there.
- In December, Under Secretary of Commerce and Director of the U.S. Patent and Trademark Office Jon Dudas visited New Delhi to discuss intellectual property rights and copyright protections with India leaders.
- Also in December, Under Secretary of State Nicholas Burns met with Foreign Secretary Shiv Shankar Menon in New Delhi to discuss progress in all areas of U.S.-India relations.
- In February 2007, Commerce Secretary Gutierrez paid a visit to New Delhi, where he met with top Indian officials to discuss expanding bilateral trade, enforcement of intellectual property rights, reducing bureaucratic obstacles to commerce, planned civil nuclear cooperation, and Doha multilateral trade negotiations. (See also CRS Report RL33072, *U.S.-India Bilateral Agreements*.)

India's Regional Relations

India is geographically dominant in both South Asia and the Indian Ocean region. While all of South Asia's smaller continental states (Pakistan, Bangladesh, Nepal, and Bhutan) share borders with India, none share borders with each other.

The country possesses the region's largest economy and, with more than one billion inhabitants, is by far the most populous on the Asian Subcontinent. The United States has a keen interest in South Asian stability, perhaps especially with regard to the India-Pakistan nuclear weapons dyad, and so closely monitors India's regional relationships.

Pakistan. Decades of militarized tensions and territorial disputes between India and Pakistan have seriously hamstrung economic and social development in both countries while also precluding establishment of effective regional economic or security institutions. Seemingly incompatible national identities contributed to the nuclearization of the Asian Subcontinent, with the nuclear weapons capabilities of both countries becoming overt in 1998. Since that time, a central aspect of U.S. policy in South Asia has been prevention of interstate conflict that could lead to nuclear war. In 2004, New Delhi and Islamabad launched their most recent comprehensive effort to reduce tensions and resolve outstanding disputes.

Current Status. The India-Pakistan peace initiative continues, with officials from both countries (and the United States) offering a generally positive assessment of the ongoing dialogue. In May 2006, India and Pakistan agreed to open a second Kashmiri bus route and to allow new truck service to facilitate trade in Kashmir (the new bus service began in June). Subsequent "Composite Dialogue" talks were held to discuss militarized territorial disputes, terrorism and narcotics, and cultural exchanges, but high hopes for a settlement of differences over the Siachen Glacier were dashed when a May session ended without progress. June talks on the Tubal navigation project/Wullar barrage water dispute similarly ended without forward movement.

Compounding tensions, separatist-related violence spiked in Indian Kashmir in the spring and summer of 2006, and included a May massacre of 35 Hindu villagers by suspected Islamic militants. Grenade attacks on tourist buses correlated with a late May roundtable meeting of Prime Minister Singh and Kashmiri leaders, leaving at least two dozen civilians dead and devastating the Valley's recently revitalized tourist industry. Significant incidents of attempted "cross-border infiltration" of Islamic militants at the Kashmiri Line of Control continue and top Indian leaders renewed their complaints that Islamabad is taking insufficient action to quell terrorist activities on Pakistan-controlled territory.

The serial bombing of Bombay commuter trains on July 11, 2006, killed nearly 200 people and injured many hundreds more. With suspicions regarding the involvement of Pakistan-based groups, New Delhi suspended talks with Islamabad pending an investigation. However, at a September meeting on the sidelines of a Nonaligned Movement summit in Cuba, Prime Minister Singh and Pakistani President Musharraf announced a resumption of formal peace negotiations and also decided to implement a joint anti-terrorism mechanism. Weeks later, Bombay's top police official said the 7/11 train bombings were planned by Pakistan's intelligence services and, in October, Prime Minister Singh himself said India had "credible evidence" of Pakistani involvement.

To date, India is not known to have gone public with or shared with Pakistan any incriminating evidence of Pakistani government involvement in the Bombay

bombings. In November 2006, Composite Dialogue resumed with its third round of foreign secretary-level talks when Foreign Secretary Shiv Shankar Menon hosted a New Delhi visit by his Pakistani counterpart, Riaz Khan. No progress was made on outstanding territorial disputes, but the two officials did give shape to a joint anti-terrorism mechanism proposed in September. Such a mechanism is controversial in India, with some analysts skeptical about the efficacy of institutional engagement with Pakistan in this issue-area even as Islamabad is suspected of complicity in anti-India terrorism. The India-Pakistan peace process is slated to continue in early 2007 when External Affairs Minister Pranab Mukherjee is to visit Pakistan.

Background. Three wars — in 1947-48, 1965, and 1971 — and a constant state of military preparedness on both sides of the border have marked six decades of bitter rivalry between India and Pakistan. The bloody and acrimonious nature of the 1947 partition of British India and continuing violence in Kashmir remain major sources of interstate tensions. Despite the existence of widespread poverty across South Asia, both India and Pakistan have built large defense establishments — including nuclear weapons capability and ballistic missile programs — at the cost of economic and social development. The nuclear weapons capabilities of the two countries became overt in May 1998, magnifying greatly the potential dangers of a fourth India-Pakistan war. Although a bilateral peace process has been underway for nearly three years, little substantive progress has been made toward resolving the Kashmir issue, and New Delhi continues to be rankled by what it calls Islamabad's insufficient effort to end Islamic militancy that affects India.

The Kashmir problem is itself rooted in claims by both countries to the former princely state, now divided by a military Line of Control (LOC) into the Indian state of Jammu and Kashmir and Pakistan-controlled Azad [Free] Kashmir (see “The Kashmir Issue,” below). Normal relations between New Delhi and Islamabad were severed in December 2001 after a terrorist attack on the Indian Parliament was blamed on Pakistan-supported Islamic militants. Other lethal attacks on Indian civilians spurred Indian leaders to call for a “decisive war,” but intense international diplomatic engagement, including multiple trips to the region by high-level U.S. officials, apparently persuaded India to refrain from attacking.⁸ In October 2002, the two countries ended a tense, ten-month military standoff at their shared border, but there remained no high-level diplomatic dialogue between India and Pakistan (a July 2001 summit meeting in the Indian city of Agra had failed to produce any movement toward a settlement of the bilateral dispute).

In April 2003, Prime Minister Vajpayee extended a symbolic “hand of friendship” to Pakistan. The initiative resulted in slow, but perceptible progress in confidence-building, and within months full diplomatic relations between the two countries were restored. September 2003 saw an exchange of heated rhetoric by the Indian prime minister and the Pakistani president at the U.N. General Assembly; some analysts concluded that the peace initiative was moribund. Yet New Delhi soon reinvigorated the process by proposing confidence-building through people-to-people contacts. Islamabad responded positively and, in November, took its own

⁸ See Polly Nayak and Michael Krepon, “US Crisis Management in South Asia’s Twin Peaks Crisis” at [<http://www.stimson.org/southasia/pdf/USCrisisManagement.pdf>].

initiatives, most significantly the offer of a cease-fire along the Kashmir LOC. A major breakthrough in bilateral relations came at the close of a January 2004 summit session of the South Asian Association for Regional Cooperation in Islamabad. After a meeting between Vajpayee and Pakistani President Musharraf — their first since July 2001 — the two leaders agreed to re-engage a “composite dialogue” to bring about “peaceful settlement of all bilateral issues, including Jammu and Kashmir, to the satisfaction of both sides.”

A May 2004 change of governments in New Delhi had no effect on the expressed commitment of both sides to carry on the process of mid- and high-level discussions, and the new Indian Prime Minister, Manmohan Singh, met with President Musharraf in September 2004 in New York, where the two leaders agreed to explore possible options for a “peaceful, negotiated settlement” of the Kashmir issue “in a sincere manner and purposeful spirit.” After Musharraf’s April 2005 visit to New Delhi, India and Pakistan released a joint statement calling their bilateral peace process “irreversible.” Some analysts believe that increased people-to-people contacts have significantly altered public perceptions in both countries and may have acquired permanent momentum. Others are less optimistic about the respective governments’ long-term commitment to dispute resolution. Moreover, an apparent new U.S. embrace of India has fueled Pakistan’s anxieties about the regional balance of power.

China. India and China together account for one-third of the world’s population, and are seen to be rising 21st century powers and potential strategic rivals. The two countries fought a brief but intense border war in 1962 that left China in control of large swaths of territory still claimed by India. Today, India accuses China of illegitimately occupying nearly 15,000 square miles of Indian territory in Kashmir, while China lays claim to 35,000 square miles in the northeastern Indian state of Arunachal Pradesh. The 1962 clash ended a previously friendly relationship between the two leaders of the Cold War “nonaligned movement” and left many Indians feeling shocked and betrayed. While Sino-Indian relations have warmed considerably in recent years, the two countries have yet to reach a final boundary agreement. Adding to New Delhi’s sense of insecurity have been suspicions regarding China’s long-term nuclear weapons capabilities and strategic intentions in South and Southeast Asia. In fact, a strategic orientation focused on China appears to have affected the course and scope of New Delhi’s own nuclear weapons and ballistic missile programs. Beijing’s military and economic support for Pakistan — support that is widely understood to have included WMD-related transfers — is a major and ongoing source of friction; past Chinese support for Pakistan’s Kashmir position has added to the discomfort of Indian leaders. New Delhi takes note of Beijing’s security relations with neighboring Burma and the construction of military facilities on the Indian Ocean. The two countries also have competed for energy resources to feed their rapidly growing economies; India’s relative poverty puts New Delhi at a significant disadvantage in such competition.

Analysts taking a realist perspective view China as an external balancer in the South Asian subsystem, with Beijing’s material support for Islamabad allowing Pakistan to challenge the aspiring regional hegemony of a more powerful India. Many observers, especially in India, see Chinese support for Pakistan as a key aspect of Beijing’s perceived policy of “encirclement” or constraint of India as a means of

preventing or delaying New Delhi's ability to challenge Beijing's region-wide influence.

Despite historic and strategic frictions, high-level exchanges between India and China regularly include statements that there exists no fundamental conflict of interest between the two countries. During a landmark 1993 visit to Beijing, Prime Minister Narasimha Rao signed an agreement to reduce troops and maintain peace along the Line of Actual Control that divides the two countries' forces at the disputed border. A total of 31 rounds of border talks and joint working group meetings aimed at reaching a final settlement have been held since 1981, with New Delhi and Beijing agreeing to move forward in other issue-areas even as territorial claims remain unresolved.

A 2003 visit to Beijing by Prime Minister Vajpayee was viewed as marking a period of much improved relations. In late 2004, India's army chief visited Beijing to discuss deepening bilateral defense cooperation and a first-ever India-China strategic dialogue was later held in New Delhi. Military-to-military contacts have included modest but unprecedented combined naval and army exercises. During Chinese Prime Minister Wen Jiabao's April 2005 visit to New Delhi, India and China inked 11 new agreements and vowed to launch a "strategic partnership" that will include broadened defense links and efforts to expand economic relations.⁹ In a move that eased border tensions, China formally recognized Indian sovereignty over the former kingdom of Sikkim, and India reiterated its view that Tibet is a part of China. Moreover, in 2006, dubbed the "Year of India-China Friendship," the two countries formally agreed to cooperate in securing overseas oil resources. In July of that year, India and China reopened the Nathu La border crossing for local trade. The Himalayan pass had been closed since the 1962 war. Sino-India trade relations are blossoming — bilateral commerce was worth nearly \$19 billion in 2005, almost an eight-fold increase over the 1999 value. In fact, China may soon supplant the United States as India's largest trading partner.

Indo-Chinese relations further warmed in November 2006, when Chinese President Hu Jintao made a trip to India, the first such visit by a Chinese president since 1996. There India and China issued a Joint Declaration outlining a "ten-pronged strategy" to boost bilateral socio-economic ties and defense cooperation, and to "reinforce their strategic partnership." The two countries, which declared themselves "partners for mutual benefit" rather than rivals or competitors, also signed 13 new pacts on a variety of bilateral initiatives. The Joint Declaration notably contained an agreement to "promote cooperation in the field of nuclear energy," although no details have been provided on what form such cooperation might take. Prime Minister Singh intends to visit China during the second half of 2007.

Other Countries. India takes an active role in assisting reconstruction efforts in **Afghanistan**, having committed \$650 million to this cause, as well as contributing personnel and opening numerous consulates there (much to the dismay of Pakistan,

⁹ See John Lancaster, "India, China Hoping to 'Reshape the World Order' Together," *Washington Post*, Apr. 12, 2005, at [<http://www.washingtonpost.com/wp-dyn/articles/A43053-2005Apr11.html>].

which fears strategic encirclement and takes note of India's past support for Afghan Tajik and Uzbek militias). Among Indian assistance to Afghanistan are funding for a new \$111 million power station, an \$84 million road-building project, a \$77 million dam project, and construction of Kabul's new \$67 Parliament building, to be completed in 2010. In January 2007, External Affairs Minister Mukherjee met with top Afghan officials in Kabul, where he announced a \$100 million increase in Indian aid to Afghanistan. The United States has welcomed India's role in Afghanistan.

To the north, New Delhi called King Gyanendra's February 2005 power seizure in **Nepal** "a serious setback for the cause of democracy," but India renewed non-lethal military aid to the Royal Nepali Army only months later. India remains seriously concerned about political instability in Kathmandu and the cross-border infiltration of Maoist militants from Nepal. The United States seeks continued Indian attention to the need for a restoration of democracy in Nepal.

To the east, and despite India's key role in the creation of neighboring **Bangladesh** in 1971, New Delhi's relations with Dhaka have been fraught with tensions related mainly to the cross-border infiltration of Islamic and separatist militants, and huge numbers of illegal migrants into India. The two countries' border forces engage in periodic gunbattles and India is completing construction of a fence along the entire shared border. Still, New Delhi and Dhaka have cooperated on counterterrorism efforts and talks on energy cooperation continue.

Further to the east, India is pursuing closer relations with the repressive regime in neighboring **Burma**, with an interest in energy cooperation and to counterbalance China's influence there. Such engagement seeks to achieve economic integration of India's northeast region and western Burma, as well as bolstering energy security. The Bush Administration urges India to be more active in pressing for democracy in Burma; however, New Delhi calls democracy and human rights internal Burmese issues. In January 2007, External Affairs Minister Mukherjee said New Delhi had to deal with other governments "as they exist. ... We are not interested in exporting our own ideology."¹⁰ Days later, he promised a "favorable response" to Rangoon's requests for Indian military hardware. International human rights groups have criticized New Delhi's military interactions with Rangoon.

In the island nation of **Sri Lanka** off India's southeastern coast, a Tamil Hindu minority has been fighting a separatist war against the Sinhalese Buddhist majority since 1983. The violent conflict again became serious in 2006, causing some three thousand deaths. More than 60 million Indian Tamils live in southern India. India's armed 1987 intervention to assist in enforcing a peace accord resulted in the deaths of more than 1,200 Indian troops and led to the 1991 assassination of former Indian Prime Minister Rajiv Gandhi by Tamil militants. Since that time, New Delhi has maintained friendly relations with Colombo while refraining from any deep engagement in third-party peace efforts. The Indian Navy played a key role in providing disaster relief to Sri Lanka following the catastrophic December 2004 Indian Ocean tsunami.

¹⁰ Siddharth Varadarajan, "India Not Interested in Exporting Ideology: Pranab," *Hindu* (Madras), Jan. 20, 2007.

Moscow was New Delhi's main benefactor for the first four decades of Indian independence. **Russia** continues to be "indispensable to India's foreign policy interests," according to Prime Minister Singh, who calls energy cooperation the core of the two countries' "strategic partnership."¹¹ (India's single largest foreign investment is a \$1 billion stake in a joint oil and gas venture on Russia's Sakhalin Island.) Moreover, despite some post-Cold War diversification of its defense suppliers, India continues to obtain the bulk of its imported military hardware from Russian firms. In January 2007, Russian President Putin made a visit to New Delhi — his fourth since taking office — where he met with top Indian officials; signed several bilateral agreements on energy, science, and space cooperation; and offered to sell four new 1,000-megawatt nuclear reactors to India.

Political Setting

India is the world's most populous democracy and remains firmly committed to representative government and rule of law. U.S. policymakers commonly identify in the Indian political system shared core values, and this has facilitated increasingly friendly relations between the U.S. and Indian governments.

National Elections. India, with a robust and working democratic system, is a federal republic where the bulk of executive power rests with the prime minister and his or her cabinet (the Indian president is a ceremonial chief of state with limited executive powers). As a nation-state, India presents a vast mosaic of hundreds of different ethnic groups, religious sects, and social castes. Most of India's prime ministers have come from the country's Hindi-speaking northern regions and all but two have been upper-caste Hindus. The 543-seat Lok Sabha (People's House) is the locus of national power, with directly elected representatives from each of the country's 28 states and 7 union territories. A smaller upper house, the Rajya Sabha (Council of States), may review, but not veto, most legislation, and has no power over the prime minister or the cabinet. National and state legislators are elected to five-year terms.

National elections in October 1999 had secured ruling power for a Bharatiya Janata Party (BJP)-led coalition government headed by Prime Minister Vajpayee. That outcome decisively ended the historic dominance of the Nehru-Gandhi-led Congress Party, which was relegated to sitting in opposition at the national level (its members continued to lead many state governments). However, a surprise Congress resurgence under Sonia Gandhi in May 2004 national elections brought to power a new left-leaning coalition government led by former finance minister and Oxford-educated economist Manmohan Singh, a Sikh and India's first-ever non-Hindu prime minister. Many analysts attributed Congress's 2004 resurgence to the resentment of rural and poverty-stricken urban voters who felt left out of the "India shining" campaign of a BJP more associated with urban, middle-class interests. Others saw in the results a rejection of the Hindu nationalism associated with the BJP. (See CRS Report RL32465, *India's 2004 National Elections*.)

¹¹ Vladimir Isachenkov, "Russia, India Cement Nuclear ties With Offer of 4 New Reactors," Associated Press, Jan. 25, 2007.

The Congress Party. Congress's electoral strength reached a nadir in 1999, when the party won only 110 Lok Sabha seats. Observers attributed the poor showing to a number of factors, including perceptions that party leader Sonia Gandhi lacked the experience to lead the country and the failure of Congress to make strong pre-election alliances (as had the BJP). Support for Congress had been in fairly steady decline following the 1984 assassination of Prime Minister Indira Gandhi and the 1991 assassination of her son, Prime Minister Rajiv Gandhi. Sonia Gandhi, Rajiv's Italian-born, Catholic widow, refrained from active politics until the 1998 elections. She later made efforts to revitalize the party by phasing out older leaders and attracting more women and lower castes — efforts that appear to have paid off in 2004. Today, Congress again occupies more parliamentary seats (145) than any other party and, through unprecedented alliances with powerful regional parties, it again leads India's government under the United Progressive Alliance (UPA) coalition. As party chief and UPA chair, Sonia Gandhi is believed to wield considerable influence over the ruling coalition's policy decision-making process.¹²

The Bharatiya Janata Party (BJP). With the rise of Hindu nationalism, the BJP rapidly increased its parliamentary strength during the 1980s. In 1993, the party's image was tarnished among some, burnished for others, by its alleged complicity in serious communal violence in Bombay and elsewhere. Some hold elements of the BJP, as the political arm of extremist Hindu groups, responsible for the incidents (the party has advocated "Hindutva," or an India based on Hindu culture, and views this as key to nation-building). While leading a national coalition from 1998-2004, the BJP worked — with only limited success — to change its image from right-wing Hindu fundamentalist to conservative and secular, although 2002 communal rioting in Gujarat again damaged the party's credentials as a moderate organization. The BJP-led National Democratic Alliance was overseen by party notable Prime Minister Atal Vajpayee, whose widespread personal popularity helped to keep the BJP in power. Since 2004, the BJP has been weakened by leadership disputes, criticism from Hindu nationalists, and controversy involving party president Lal Advani (in December 2005, Advani ceded his leadership post and Vajpayee announced his retirement from politics). In 2006, senior BJP leader Pramod Mahajan was shot and killed in a family dispute.¹³

Regional Parties. The influence of regional and caste-based parties has become an increasingly important variable in Indian politics; the May 2004 national elections saw such parties receiving nearly half of all votes cast. Never before 2004 had the Congress Party entered into pre-poll alliances at the national level, and numerous analysts attributed Congress's success to precisely this new tack, especially thorough arrangements with the Bihar-based Rashtriya Janata Dal and Tamil Nadu's Dravida Munnetra Kazhagam. The newfound power of both large and smaller regional parties, alike, is seen to be reflected in the UPA's ministerial appointments, and in the Congress-led coalition's professed attention to rural issues and center-state relations. Two significant regional parties currently independent of both the ruling coalition and the BJP-led opposition are the Samajwadi Party, a largely Muslim- and lower caste-based organization highly influential in Uttar Pradesh, and the Bahujan

¹² See Indian National Congress at [<http://www.congress.org.in>].

¹³ See Bharatiya Janata Party at [<http://www.bjp.org>].

Samaj Party of Bihar, which also represents mainly lower-caste constituents. State assembly elections in Uttar Pradesh — home to more than 170 million Indians and one of only four states where the Congress Party is not in power — are slated for February 2007 and may be an important indicator of national political trends, especially in gauging satisfaction with the current center coalition.

The Left Front. Although the Communist Party of India (Marxist) seated the third largest number of parliamentarians in 2004, its vote bank is almost wholly limited to West Bengal and Kerala (the Left Front coalition holds about 11% of all Lok Sabha seats). Communist parties have in the past been bitter rivals of the Congress in these states, but a mutual commitment to secularism appears to have motivated their cooperation against the BJP in 2004. Early alarm was sounded that the new influence of communists in New Delhi might derail India's economic reform efforts; Indian industrial leaders sought to assure foreign investors that Left Front members are not "Cuba-style communists," but could be expected to support the UPA reform agenda. The communist Chief Minister of West Bengal, Buddhadeb Bhattacharya, has himself actively sought corporate investment in his state. However, since coming to power, the Congress-led coalition has slowed certain aspects of its economic reform program, including suspending major disinvestment and special economic zone initiatives. These moves are widely viewed as gestures to the strongly opposed communists. The Left Front also has been vocal in criticisms of closer India-U.S. relations, taking particular aim at proposed civil nuclear cooperation and any signs that the United States seeks to make India a "junior partner" in efforts to counter China.

Bilateral Issues

"Next Steps in Strategic Partnership" and Beyond

The now-concluded Next Steps in Strategic Partnership (NSSP) initiative encompassed several major issues in India-U.S. relations. The Indian government has long pressed the United States to ease restrictions on the export to India of dual-use high-technology goods (those with military applications), as well as to increase civilian nuclear and civilian space cooperation. These three key issues came to be known as the "trinity," and top Indian officials insisted that progress in these areas was necessary to provide tangible evidence of a changed U.S.-India relationship. There were later references to a "quartet" when the issue of missile defense was included. In January 2004, President Bush and Prime Minister Vajpayee issued a joint statement declaring that the U.S.-India "strategic partnership" included expanding cooperation in the "trinity" areas, as well as expanding dialogue on missile defense.¹⁴ This initiative was dubbed as the NSSP and involved a series of reciprocal steps.

In July 2005, the State Department announced successful completion of the NSSP, allowing for expanded bilateral commercial satellite cooperation, removal/revision of some U.S. export license requirements for certain dual-use and

¹⁴ See [<http://www.whitehouse.gov/news/releases/2004/01/20040112-1.html>].

civil nuclear items. Taken together, the July 2005 U.S.-India Joint Statement and a June 2005 U.S.-India Defense Framework Agreement include provisions for moving forward in all four NSSP issue-areas.¹⁵ Many observers saw in the NSSP evidence of a major and positive shift in the U.S. strategic orientation toward India, a shift later illuminated more starkly with the Bush Administration's intention to initiate full civil nuclear cooperation with India. (See also CRS Report RL33072, *U.S.-India Bilateral Agreements and 'Global Partnership.'*)

Civil Nuclear Cooperation. India's status as a non-signatory to the 1968 Nuclear Nonproliferation Treaty (NPT) has kept it from accessing most nuclear-related materials and fuels on the international market for more than three decades. New Delhi's 1974 "peaceful nuclear explosion" spurred the U.S.-led creation of the Nuclear Suppliers Group (NSG) — an international export control regime for nuclear-related trade — and the U.S. government further tightened its own export laws with the Nuclear Nonproliferation Act of 1978. New Delhi has long railed at a "nuclear apartheid" created by apparent double standards inherent in the NPT, which allows certain states to legitimately employ nuclear deterrents while other states cannot.

The Bush Administration Policy Shift. Differences over nuclear policy bedeviled U.S.-India ties for decades and — given New Delhi's lingering resentments — have presented a serious psychological obstacle to more expansive bilateral relations. In a major policy shift, the July 2005 U.S.-India Joint Statement notably asserted that, "as a responsible state with advanced nuclear technology, India should acquire the same benefits and advantages as other such states," and President Bush vowed to work on achieving "full civilian nuclear energy cooperation with India." As a reversal of three decades of U.S. nonproliferation policy, such proposed cooperation stirred controversy and required changes in both U.S. law and in NSG guidelines. India reciprocally agreed to take its own steps, including identifying and separating its civilian and military nuclear facilities in a phased manner and placing the former under international safeguards. Some in Congress express concern that civil nuclear cooperation with India might allow that country to advance its military nuclear projects and be harmful to broader U.S. nonproliferation efforts. While the Bush Administration previously had insisted that such cooperation would take place only within the limits set by multilateral nonproliferation regimes, the Administration later actively sought adjustments to U.S. laws and policies, and has approached the NSG in an effort to adjust that regime's guidelines, which are set by member consensus.

In March 2006, President Bush and Prime Minister Singh issued a Joint Statement that included an announcement of "successful completion of India's [nuclear facility] separation plan."¹⁶ After months of complex and difficult negotiations, the Indian government had presented a plan to separate its civilian and military nuclear facilities as per the July 2005 Joint Statement. The separation plan would require India to move 14 of its 22 reactors into permanent international

¹⁵ See [<http://www.whitehouse.gov/news/releases/2005/07/20050718-6.html>] and [http://www.indianembassy.org/press_release/2005/June/31.htm].

¹⁶ See [<http://www.whitehouse.gov/news/releases/2006/03/20060302-5.html>].

oversight by the year 2014 and place all future civilian reactors under permanent safeguards. Shortly thereafter, legislation to waive the application of certain requirements under the Atomic Energy Act of 1954 with respect to India was, at the President's request, introduced in the U.S. Congress.

Potential Benefits and Costs. Secretary of State Condoleezza Rice appeared before key Senate and House committees in April 2006 to press the Bush Administration's case for civil nuclear cooperation with India. The Administration offered five main justifications for making changes in U.S. law to allow for such cooperation, contending that doing so would

- benefit U.S. security by bringing India “into the nonproliferation mainstream;”
- benefit U.S. consumers by reducing pressures on global energy markets, especially carbon-based fuels;
- benefit the environment by reducing carbon emissions/greenhouse gases;
- benefit U.S. business interests through sales to India of nuclear reactors, fuel, and support services; and
- benefit progress of the broader U.S.-India “global partnership.”¹⁷

Many leading American experts on South Asian affairs joined the Administration in urging Congress to support the new policy, placing particular emphasis on the “necessary” role it would play in promoting a U.S.-India global partnership.¹⁸

Further hearings in the Senate (April 26) and House (May 11) saw a total of fifteen independent analysts weigh in on the potential benefits and/or problems that might accrue from such cooperation. Some experts opined that the Administration's optimism, perhaps especially as related to the potential effects on global energy markets and carbon emissions, could not be supported through realistic projections. Numerous nonproliferation experts, scientists, and former U.S. government officials warned that the Bush Administration's initiative was ill-considered, arguing that it would facilitate an increase in the size of India's nuclear arsenal, potentially leading to a nuclear arms race in Asia, and would undermine the global nonproliferation regime and cause significant damage to key U.S. security interests.¹⁹

The U.S. Chamber of Commerce, which, along with the U.S.-India Business Council, lobbied vigorously in favor of President Bush's initiative, speculated that civil nuclear cooperation with India could generate contracts for American businesses worth up to \$100 billion, as well as generate up to 27,000 new American jobs each

¹⁷ See “U.S.-India Civil Nuclear Cooperation Initiative Fact Sheet,” U.S. Department of State, at [<http://www.state.gov/r/pa/scp/2006/62904.htm>]; Condoleezza Rice, “Our Opportunity With India,” *Washington Post*, Mar. 13, 2006.

¹⁸ See, for example, an open letter Congress at [http://www.indianembassy.org/newsite/press_release/2006/Mar/30.asp].

¹⁹ See, for example, open letters to Congress at [http://fas.org/intt2006/X3e_FDC01218.pdf]; [http://www.armscontrol.org/pdf/20060912_India_Ltr_Congress.pdf]; and [http://www.armscontrol.org/pdf/20051118_India_Ltr_Congress.pdf].

year for a decade.²⁰ However, foreign companies such as Russia's Atomstroyexport and France's Areva may be better poised to take advantage of the Indian market. Moreover, U.S. nuclear suppliers will likely balk at entering the Indian market in the absence of nuclear liability protection, which New Delhi does not offer at present.

Geopolitical Motives. In the realm of geopolitics, much of the Administration's argument for moving forward with the U.S.-India nuclear initiative appears rooted in an anticipation/expectation that New Delhi will in coming years and decades make policy choices that are more congruent with U.S. regional and global interests (a desire for such congruence is, in fact, written into P.L. 109-401). Proponents suggest that this U.S. "gesture" will have significant and lasting psychological and symbolic effects in addition to the strictly material ones, and that Indian leaders require such a gesture in order to feel confident in the United States as a reliable partner on the world stage.²¹ Skeptics aver that the potential strategic benefits of the nuclear initiative are being over-sold. Indeed, centuries of Indian anti-colonial sentiments and oftentimes prickly, independent foreign policy choices are unlikely to be set aside in the short run, meaning that the anticipated geopolitical benefits of civil nuclear cooperation with India remain speculative and at least somewhat dependent upon unknowable global political developments.

Congressional Action. After months of consideration, the House International Relations Committee and Senate Foreign Affairs Committee both took action on relevant legislation in late June 2006, passing modified versions of the Administration's proposals by wide margins. The new House and Senate bills (H.R. 5682 and S. 3709) made significant procedural changes to the Administration's proposal, changes that sought to retain congressional oversight of the negotiation process, in part by requiring the Administration to gain future congressional approval of a completed peaceful nuclear cooperation agreement with India (this is often referred to as a "123 Agreement," as it is negotiated under the conditions set forth in Section 123 of the Atomic Energy Act).

During the final months of its tenure, the 109th Congress demonstrated widespread bipartisan support for the Administration's new policy initiative by passing enabling legislation through both chambers (in July 2006, the House passed H.R. 5682 by a vote of 359-68; in November, the Senate passed an amended version of the same bill by a vote of 85-12). Numerous so-called "killer amendments" were rejected by both chambers (Indian government and Bush Administration officials had warned that certain proposed new provisions, such as those requiring that India halt its fissile material production or end its military relations with Iran, would trigger New Delhi's withdrawal from the entire negotiation).

²⁰ See Sridhar Krishnaswami, "'Indo-US N-deal a Historic Opportunity,'" Rediff India Abroad, Mar. 22, 2006, at [<http://www.rediff.com/news/2006/mar/22nddeal.htm>].

²¹ Some believe that offering U.S. support for a permanent Indian seat on the U.N. Security Council (UNSC) might have been a more appropriate and more readily delivered gesture. For example, the former Chairman of the House International Relations Subcommittee on Asia and the Pacific, Representative Jim Leach, called U.S. support for India's permanent seat on the UNSC a "self-apparent gesture" (House Committee on International Relations Hearing, "The U.S. and India: An Emerging Entente?," Sep. 8, 2005).

In a December 2006 “lame duck” session, congressional conferees reconciled the House and Senate versions of the legislation and provided a 30-page explanatory statement (H.Rept. 109-721). On December 18, President Bush signed the Henry J. Hyde United States-India Peaceful Atomic Energy Cooperation Act of 2006 into law (P.L. 109-401), calling it a “historic agreement” that would help the United States and India meet the energy and security challenges of the 21st century. The President also issued a signing statement asserting that his approval of the act “does not constitute [his] adoption of the statements of policy as U.S. foreign policy” and that he will construe such policy statements as “advisory.” Some Members of Congress later expressed concern that President Bush would seek to disregard Congress’s will.²²

Civil nuclear cooperation with India cannot commence until Washington and New Delhi finalize a peaceful nuclear cooperation agreement, until the NSG allows for such cooperation, and until New Delhi concludes its own safeguards agreement with the International Atomic Energy Agency. (See CRS Report RL33016, *U.S. Nuclear Cooperation With India*.)

Indian Concerns. Almost immediately upon the release of the July 2005 Joint Statement, key Indian political figures and members of the country’s insular nuclear scientific community issued strong criticisms of the U.S.-India civil nuclear initiative; critics continue to be vocal to this day. Former Prime Minister Vajpayee, along with many leading figures in his Bharatiya Janata Party (BJP), insisted that the deal as envisioned would place unreasonable and unduly expensive demands on India, particularly with regard to the separation of nuclear facilities. In reaction to the U.S. Congress’s passage of enabling legislation in late 2006, the BJP listed numerous continuing objections, and went so far as to call the deal “unacceptable” and aimed at “capping, rolling back, and eventually eliminating India’s nuclear weapons capability.”²³ Many analysts view the BJP’s opposition as political rather than substantive, especially in light of the fact that the 2004 NSSP initiative was launched during the BJP’s tenure.

India’s influential communist parties, whose Left Front provides crucial support to the Congress-led ruling coalition in New Delhi, have focused their ire on geopolitical aspects of the civil nuclear initiative. In December 2006, the leader of India’s main communist party said the U.S.-India civil nuclear deal was “not acceptable” as it would “seriously undermine India’s independent foreign policy.” Previously, the Left Front had called India’s two IAEA votes on Iran a “capitulation” to U.S. pressure. Indian leftists thus have been at the forefront of political resistance to India’s becoming a “junior partner” of the United States.

Equally stinging and perhaps more substantive criticism has come from several key Indian scientists, whose perspectives on the technical details of the civil nuclear

²² See [<http://www.whitehouse.gov/news/releases/2006/12/20061218-1.html>]; [<http://www.whitehouse.gov/news/releases/2006/12/20061218-12.html>]; Carol Giacomo, “Bush India Statement Raises Congress Concerns,” Reuters, Dec. 21, 2006.

²³ See “Press Statement of the BJP on the Indo-US Nuclear Deal,” Dec. 10, 2006, at [<http://www.bjp.org>].

initiative are considered highly credible. India's nuclear scientific community, mostly barred from collaboration with international civil nuclear enterprises as well as direct access to key technologies, has worked for decades in relative isolation, making its members both proud of their singular accomplishments and sensitive to any signs of foreign "interference." Many view the enabling legislation passed by the U.S. Congress as being more about nonproliferation and less about energy cooperation. They consider it both intrusive on and preclusive of their activities.

The seven major criticisms of existing plans for U.S.-India civil nuclear cooperation made by Indian commentators may be summarized as follows:

- Intra-U.S. government certification and reporting requirements are overly rigorous;
- India's unilateral moratorium on nuclear tests is being codified into a bilateral obligation;
- India is being denied nuclear reprocessing technologies warranted under "full cooperation;"
- India has not been given assurances that it will receive uninterrupted fuel supplies in perpetuity;
- the United States is retaining the right to carry out its own "intrusive" end-use verifications;
- India is being expected to adhere to multilateral protocols, including the Proliferation Security Initiative, the Missile Technology Control Regime, and the Waasenaar Arrangement, which it has declined to accept in the past; and
- language on securing India's assistance with U.S. efforts to prevent Iran from obtaining weapons of mass destruction limits New Delhi's foreign policy independence.²⁴

Prime Minister Singh has stood firm against such wide-ranging and high-profile criticisms, repeatedly assuring his Parliament that relevant negotiations with the United States have not altered basic Indian policies or affected New Delhi's independence on matters of national interest. Within this context, however, Singh has expressed serious concern about the points listed above and, in January 2007, India's lead negotiator warned that existing stipulations proscribing the reprocessing spent fuel and further nuclear testing could kill the deal altogether.²⁵ Regardless of the legally binding or non-binding nature of certain controversial sections of the U.S. legislation, New Delhi has found many of them to be either "prescriptive" in ways

²⁴ Ibid.; M.R. Srinivasan, "India May Lose Control of Its Nuclear Future," *Frontline* (Madras), Dec. 14, 2006; "India's Top Scientists Oppose US Deal," Agence France Presse," Dec. 16, 2006; V. Sudarshan, "Not Much Frisson," *Outlook* (Delhi), Dec. 25, 2006.

²⁵ See "Excerpts from PM's Reply to Discussion in Rajya Sabha on Civil Nuclear Energy Cooperation with the United States," Aug. 17, 2006, at [http://www.carnegieendowment.org/static/npp/Singh_speech_Aug_2006.pdf]; "India Could Dump U.S. Nuclear Deal: Envoy," Reuters, Jan. 10, 2007.

incompatible with the provisions of the July 2005 and March 2006 Joint Statements, or “extraneous” and “inappropriate to engagements among friends.”²⁶

Civil Space Cooperation. India has long sought access to American space technology; such access has since the 1980s been limited by U.S. and international “red lines” meant to prevent assistance that could benefit India’s military missile programs. India’s space-launch vehicle technology was obtained largely from foreign sources, including the United States, and forms the basis of its intermediate-range Agni ballistic missile booster, as well as its suspected Surya intercontinental ballistic missile program. The NSSP called for enhanced U.S.-India cooperation on the peaceful uses of space technology, and the July 2005 Joint Statement called for closer ties in space exploration, satellite navigation and launch, and in the commercial space arena. Conferences on India-U.S. space science and commerce were held in Bangalore (headquarters of the Indian Space Research Organization) in 2004 and 2005. During President Bush’s March 2006 visit to India, the two countries committed to move forward with agreements that will permit the launch of U.S. satellites and satellites containing U.S. components by Indian space launch vehicles and, two months later, they agreed to include two U.S. scientific instruments on India’s Chandrayaan lunar mission planned for 2007.

High-Technology Trade. U.S. Commerce Department officials have sought to dispel “trade-detering myths” about limits on dual-use trade by noting that only about 1% of total U.S. trade value with India is subject to licensing requirements and that the great majority of dual-use licensing applications for India are approved (more than 90% in FY2005). July 2003 saw the inaugural session of the U.S.-India High-Technology Cooperation Group (HTCG), where officials discussed a wide range of issues relevant to creating the conditions for more robust bilateral high technology commerce; the fourth HTCG meeting was held in New Delhi in November 2005 (in early 2005, the inaugural session of the U.S.-India High-Technology Defense Working Group was held under HTCG auspices).²⁷

Since 1998, a number of Indian entities have been subjected to case-by-case licensing requirements and appear on the U.S. export control “Entity List” of foreign end users involved in weapons proliferation activities. In September 2004, as part of NSSP implementation, the United States modified some export licensing policies and removed the Indian Space Research Organization (ISRO) headquarters from the Entity List. Further adjustments came in August 2005 when six more subordinate entities were removed. Indian entities remaining on the Entity List are four subordinates of the ISRO, four subordinates of the Defense Research and Development Organization, one Department of Atomic Energy entity, and Bharat Dynamics Limited, a missile production agency.²⁸

²⁶ Author interview with Indian government official, New Delhi, Sep. 2006.

²⁷ See U.S. Department of Commerce, Bureau of Industry and Security fact sheets at [<http://www.bis.doc.gov/InternationalPrograms/IndiaCooperation.htm>] and [<http://www.bis.doc.gov/InternationalPrograms/IndiaCoopPresentation.htm>].

²⁸ See [<http://www.bis.doc.gov/Entities>].

Security Issues

The Indian Military.²⁹ With more than 1.3 million active personnel, India's is the world's third-largest military (after China and the United States). The country's annual defense budget grew by 9.2% to more than \$20 billion in 2006 and is up 40% since 2002 (adjusted for inflation). The army — more than one million strong and accounting for nearly half of the budget — has traditionally dominated, but the navy and air force are becoming more important as India seeks to project its power. The army possesses some 4,000 main battle tanks and 3,360 pieces of towed artillery. The navy has grown rapidly in recent years, currently operating 58 principal surface combatants (including 2 aircraft carriers by 2008) and 16 submarines. There also is a significant amphibious capacity: 16 landing ships (including one recently acquired from the United States) can carry nearly 5,000 troops or 100 tanks. The air force flies more than 800 fighter and ground attack aircraft, the majority of them Russian-built MiGs, along with some late-model Sukhoi-30, as well as French-built Mirage and Jaguar aircraft. It also possesses modest airborne early warning and in-flight refueling capabilities provided by Russian-made platforms. A Strategic Forces Command oversees more than three-dozen intermediate- and short-range ballistic missiles capable of delivering nuclear warheads.

New Delhi increasingly seeks to shift advanced military imports from finished platforms to co-production with foreign suppliers. A 2005 deal with France will see technology transfers and Indian construction of six Scorpene submarines to be delivered in the next decade. In seeking to replace its aging arsenal of MiG-21 fighters, India may purchase up to 186 new jets (126 for the air force and 60 for the navy) and has signaled a desire for technology sharing and co-production in this effort. In addition to the submarines, other notable purchases for the Indian military include hundreds of the latest Russian T-90 tanks and upgrades on 600 existing T-72s; 3 new Russian-built missile frigates; 24 new MiG-29K naval jets for deployment on the *INS Vitramaditya* (formerly the Russian *Gorshkov*); major upgrades on MiG and Jaguar combat aircraft; and 66 jet trainers from Britain. Russia continues to provide the bulk of India's imported defense wares. In recent years, however, Israel has roughly equaled Russia in the value of defense exports to India, with each country reportedly providing about \$1.5 billion worth of defense supplies in 2006.

U.S.-India Security Cooperation. Defense cooperation between the United States and India is in the early stages of development (unlike U.S.-Pakistan military ties, which date back to the 1950s). Since September 2001, and despite a concurrent U.S. rapprochement with Pakistan, U.S.-India security cooperation has flourished; U.S. diplomats rate military cooperation among the most important aspects of transformed bilateral relations. The India-U.S. Defense Policy Group (DPG) — moribund since India's 1998 nuclear tests and ensuing U.S. sanctions — was revived in late 2001 and meets annually. In June 2005, the United States and India signed a ten-year defense pact outlining planned collaboration in multilateral operations, expanded two-way defense trade, increasing opportunities for technology transfers and co-production, expanded collaboration related to missile defense, and

²⁹ Most information in this section comes from *The Military Balance 2007* (Institute for International and Strategic Studies, London, 2007).

establishment of a bilateral Defense Procurement and Production Group. A Maritime Security Cooperation Agreement, inked in early 2006, commits both countries to “comprehensive cooperation” in protecting the free flow of commerce and addressing a wide array of threats to maritime security, including piracy and the illicit trafficking of WMD and related materials. The United States views defense cooperation with India in the context of “common principles and shared national interests” such as defeating terrorism, preventing weapons proliferation, and maintaining regional stability. Many analysts laud increased U.S.-India security ties as providing an alleged “hedge” against or “counterbalance” to growing Chinese influence in Asia.

Combined Military Exercises. Since early 2002, the United States and India have held a series of unprecedented and increasingly substantive combined exercises involving all military services. “Cope India” air exercises have provided the U.S. military with its first look at Russian-built Su-30MKIs; in 2004, mock air combat saw Indian pilots in late-model Russian-built fighters hold off American pilots flying older F-15Cs, and Indian successes were repeated versus U.S. F-16s in 2005. U.S. and Indian special forces soldiers have held joint exercises near the India-China border, and major annual “Malabar” joint naval exercises are held off the Indian coast (the sixth and most recent in October 2006). Despite these developments, there remain indications that the perceptions and expectations of top U.S. and Indian military leaders are divergent on several key issues, including India’s regional role, approaches to countering terrorism, and U.S.-Pakistan relations.

Arms Sales. Along with increasing military-to-military ties, the issue of U.S. arms sales to India has taken a higher profile. In 2002, the Pentagon negotiated a sale to India of 12 counter-battery radar sets (or “Firefinder” radars) worth a total of \$190 million. India also purchased \$29 million worth of counterterrorism equipment for its special forces and has received sophisticated U.S.-made electronic ground sensors to help stem the tide of militant infiltration in the Kashmir region. In 2004, Congress was notified of a possible sale to India involving up to \$40 million worth of aircraft self-protection systems to be mounted on the Boeing 737s that carry the Indian head of state. The State Department has authorized Israel to sell to India the jointly developed U.S.-Israeli Phalcon airborne early warning system, an expensive asset that some analysts believe may tilt the regional strategic balance even further in India’s favor. In 2006, New Delhi approved a \$44 million plan to purchase the USS Trenton, a decommissioned American amphibious transport dock. The ship, now the second largest in the Indian navy, set sail for India in January 2007 carrying six surplus Sikorsky UH-3H Sea King helicopters purchased for another \$39 million. In February 2007, Maryland-based Lockheed Martin reported being close to concluding a deal in which India would buy six C-130J Hercules transport aircraft, with an option to purchase six more.

The Indian government reportedly possesses an extensive list of desired U.S.-made weapons, including PAC-3 anti-missile systems, electronic warfare systems, and possibly even combat aircraft. The March 2005 unveiling of the Bush Administration’s “new strategy for South Asia” included assertions that the United States welcomed Indian requests for information on the possible purchase of F-16 or F/A-18 multi-role fighters, and indicated that Washington is “ready to discuss the sale of transformative systems in areas such as command and control, early warning, and missile defense.” India is expected by mid-2007 to issue a tender for the

purchase of 126 new fighter jets in a deal that could be worth up to \$10 billion. Lockheed Martin and Illinois-based Boeing are competing with aircraft built in Russia, France, and Sweden.

American defense firms eagerly pursue new and expanded business ties with India, lobbying most recently at India's biennial air show in Bangalore in February 2007, where 52 U.S. companies exhibited their wares and sought deals. According to the U.S. Ambassador to India, David Mulford, there is a widespread expectation in the United States that U.S. companies should get "favorable treatment" following American gestures to India, even as he denied there was any "negotiated *quid pro quo*" related to planned bilateral civil nuclear cooperation. Still, some top Indian officials express concern that the United States is a "fickle" partner that may not always be relied upon to provide the reciprocity, sensitivity, and high-technology transfers sought by New Delhi.³⁰ (In February 2006, the Indian Navy declined an offer to lease two U.S. P-3C maritime reconnaissance aircraft, calling the arrangements "expensive.")

In a controversial turn, the Indian government has sought to purchase a sophisticated anti-missile platform, the Arrow Weapon System, from Israel. Because the United States took the lead in the system's development, the U.S. government has veto power over any Israeli exports of the Arrow. Although Defense Department officials are seen to support the sale as meshing with President Bush's policy of cooperating with friendly countries on missile defense, State Department officials are reported to oppose the transfer, believing that it would send the wrong signal to other weapons-exporting states at a time when the U.S. is seeking to discourage international weapons proliferation. Indications are that a U.S. interest in maintaining a strategic balance on the subcontinent, along with U.S. obligations under the Missile Technology Control Regime, may preclude any approval of the Arrow sale.

Joint U.S.-India military exercises and arms sales negotiations can cause disquiet in Pakistan, where there is concern that induction of advanced weapons systems into the region could disrupt the "strategic balance" there. Islamabad worries that its already disadvantageous conventional military status vis-à-vis New Delhi will be further eroded by India's acquisition of sophisticated "force multipliers." In fact, numerous observers identify a pro-India drift in the U.S. government's strategic orientation in South Asia. Yet Washington regularly lauds Islamabad's role as a key ally in the U.S.-led counterterrorism coalition and assures Pakistan that it will take no actions to disrupt strategic balance on the subcontinent. (See also CRS Report RL33072, *U.S.-India Bilateral Agreements*, and CRS Report RL33515, *Combat Aircraft Sales to South Asia: Potential Implications*.)

U.S.-India Counterterrorism Cooperation. One facet of the emerging "strategic partnership" between the United States and India is greatly increased counterterrorism cooperation. In November 2001, President Bush and then-Indian

³⁰ Rajesh Mahapatra, "U.S. Ambassador Says Nuke Deal does Not Oblige India to Buy American Jets," Associated Press, Feb. 2, 2006; "Defense Firms Seek Sales in India," *Chicago Tribune*, Dec. 21, 2006.

Prime Minister Vajpayee agreed that “terrorism threatens not only the security of the United States and India, but also our efforts to build freedom, democracy and international security and stability around the world.”³¹ In 2002, India and the United States launched the Indo-US Cyber Security Forum to safeguard critical infrastructures from cyber attack. The June 2005 “New Framework for the U.S.-India Defense Relationship” lists “defeating terrorism and violent religious extremism” as one of four key shared security interests, and it calls for a bolstering of mutual defense capabilities required for such a goal.³² An April 2006 session of the U.S.-India Joint Working Group on Counterterrorism — the seventh such meeting since the group’s founding in January 2000 — ended with a statement of determination from both countries to further advance bilateral cooperation and information sharing on such areas of common concern as bioterrorism, aviation security, advances in biometrics, cyber-security and terrorism, WMD terrorism, and terrorist financing.³³ Expanding military-to-military links have included company-level joint counterinsurgency training of army units.³⁴

There have been signs that U.S. government agencies have taken greater notice of links apparent between Pakistan-based terrorist groups and wanted Indian criminal boss Dawood Ibrahim, who is suspected of residing in Karachi, Pakistan. In 2003, the U.S. Department of the Treasury formally designated Ibrahim as a terrorist supporter and accused him of collaborating with Al Qaeda in South Asia.³⁵ In October 2005, the United States and India concluded a treaty on criminal matters that would institutionalize law enforcement cooperation and create a regularized channel for mutual assistance. Among the hoped-for benefits has been more effective counterterrorism efforts.³⁶ It was reported in May 2006 that the United States had offered demining assistance, counterinsurgency training for police forces, and humanitarian relief for persons internally displaced by conflict related to the Maoist rebellion.³⁷ Moreover, three months after the July 2006 Bombay terrorist bombings, senior CIA officials reportedly traveled to New Delhi to discuss improving counterterrorism cooperation with Indian leaders, and an FBI official later called for closer law enforcement and intelligence coordination with India in light of terrorist attacks in that country’s interior.³⁸

³¹ “Joint Statement of U.S., India on Terrorism, Bilateral Ties,” U.S. Department of State Washington File, Nov. 9, 2001.

³² See [http://www.indianembassy.org/press_release/2005/June/31.htm].

³³ See [<http://usinfo.state.gov/is/Archive/2006/Apr/24-821244.html>].

³⁴ John Lancaster, “U.S. Troops on Front Line of Expanding India Ties,” *Washington Post*, Jan. 25, 2006.

³⁵ “Hunting for India’s ‘Most Wanted,’” *Jane’s Intelligence Digest*, Dec. 9, 2005; Treasury notification at [<http://www.ustreas.gov/press/releases/js909.htm>].

³⁶ “U.S.-India Treaty on Mutual Legal Assistance in Criminal Matters Ratified,” U.S. Embassy New Delhi Press Release, Oct. 3, 2005.

³⁷ “US Offers India Help to Fight Maoists: Official,” Reuters, May 26, 2006.

³⁸ “CIA Big Guns in Huddle,” *Telegraph* (Calcutta), Oct. 24, 2006; “FBI Looks to Boost Intelligence Ties With India,” Reuters, Nov. 27, 2006.

Nuclear Weapons and Missile Proliferation. Some policy analysts consider the apparent arms race between India and Pakistan as posing perhaps the most likely prospect for the future use of nuclear weapons by states. In May 1998, India conducted five underground nuclear tests, breaking a self-imposed, 24-year moratorium on such testing. Despite international efforts to dissuade it, Pakistan quickly followed. The tests created a global storm of criticism and represented a serious setback for two decades of U.S. nuclear nonproliferation efforts in South Asia. Following the tests, President Clinton imposed full restrictions on non-humanitarian aid to both India and Pakistan as mandated under Section 102 of the Arms Export Control Act. India currently is believed to have enough fissile material, mainly plutonium, for 55-115 nuclear weapons; Pakistan, with a program focused on enriched uranium, may be capable of building a similar number. Both countries have aircraft capable of delivering nuclear bombs. India's military has inducted short- and intermediate-range ballistic missiles, while Pakistan itself possesses short- and medium-range missiles (allegedly acquired from China and North Korea). All are assumed to be capable of delivering nuclear warheads over significant distances.

Proliferation in South Asia is part of a chain of rivalries — India seeking to achieve deterrence against China, and Pakistan seeking to gain an “equalizer” against a conventionally stronger India. In 1999, a quasi-governmental Indian body released a Draft Nuclear Doctrine for India calling for a “minimum credible deterrent” (MCD) based upon a triad of delivery systems and pledging that India will not be the first to use nuclear weapons in a conflict. In January 2003, New Delhi announced creation of a Nuclear Command Authority. After the body's first session in September 2003, participants vowed to “consolidate India's nuclear deterrent.” India thus appears to be taking the next steps toward operationalizing its nuclear weapons capability. According to the director of the U.S. Defense Intelligence Agency, India is building its stockpile of fission weapons and is likely to continue work on advanced warhead and delivery systems.³⁹ (See also CRS Report RL32115, *Missile Proliferation and the Strategic Balance in South Asia*, and CRS Report RS21237, *Indian and Pakistani Nuclear Weapons*.)

U.S. Nonproliferation Efforts and Congressional Action. Soon after the May 1998 nuclear tests in South Asia, Congress acted to ease aid sanctions through a series of legislative measures.⁴⁰ In September 2001, President Bush waived remaining sanctions on India pursuant to P.L. 106-79. During the 1990s, the U.S. security focus in South Asia sought to minimize damage to the nonproliferation regime, prevent escalation of an arms race, and promote Indo-Pakistani bilateral dialogue. In light of these goals, the Clinton Administration set out “benchmarks”

³⁹ Statement of Lt. Gen. Michael Maples before the Senate Select Committee on Intelligence, Jan. 11, 2007, at [<http://intelligence.senate.gov/070111/maples.pdf>].

⁴⁰ The India-Pakistan Relief Act of 1998 (in P.L. 105-277) authorized a one-year sanctions waiver exercised by President Clinton in November 1998. The Department of Defense Appropriations Act, 2000 (P.L. 106-79) gave the President permanent authority after October 1999 to waive nuclear test-related sanctions applied against India and Pakistan. On October 27, 1999, President Clinton waived economic sanctions on India (Pakistan remained under sanctions as a result of an October 1999 military coup). (See CRS Report RS20995, *India and Pakistan: U.S. Economic Sanctions*.)

for India and Pakistan based on the contents of U.N. Security Council Resolution 1172, which condemned the two countries' nuclear tests. These included signing and ratifying the Comprehensive Nuclear Test Ban Treaty (CTBT); halting all further production of fissile material and participating in Fissile Material Cutoff Treaty negotiations; limiting development and deployment of WMD delivery vehicles; and implementing strict export controls on sensitive WMD materials and technologies.

Progress in each of these areas has been limited, and the Bush Administration quickly set aside the benchmark framework. Along with security concerns, the governments of both India and Pakistan faced the prestige factor attached to their nuclear programs and domestic resistance to relinquishing what are perceived to be potent symbols of national power. Neither has signed the CTBT, and both appear to be producing weapons-grade fissile materials. (India has consistently rejected the CTBT, as well as the Nuclear Nonproliferation Treaty, as discriminatory, calling instead for a global nuclear disarmament regime. Although both India and Pakistan currently observe self-imposed moratoria on nuclear testing, they continue to resist signing the CTBT — a position made more tenable by U.S. Senate's rejection of the treaty in 1999.) The status of weaponization and deployment is unclear, though there are indications that this is occurring at a slow but steady pace. Section 1601 of P.L. 107-228 outlined U.S. nonproliferation objectives for South Asia. Some Members of Congress identify "contradictions" in U.S. nonproliferation policy toward South Asia, particularly as related to the Senate's rejection of the CTBT and U.S. plans to build new nuclear weapons. In May 2006, the United States presented in Geneva a draft global treaty to ban future production of fissile material (a Fissile Material Cutoff Treaty) that it hopes will be supported by India. Some analysts speculated that the move was meant to bolster U.S. congressional support for proposed U.S.-India civil nuclear cooperation.

India-Iran Relations. India's relations with Iran traditionally have been positive and, in 2003, the two countries launched a bilateral "strategic partnership."⁴¹ Many in the U.S. Congress have voiced concern that New Delhi's policies toward Tehran's controversial nuclear program may not be congruent with those of Washington, although these concerns were eased when India voted with the United States (and the majority) at the International Atomic Energy Agency sessions of September 2005 and February 2006. In each of the past three years, the United States has sanctioned Indian scientists and chemical companies for transferring to Iran WMD-related equipment and/or technology (most sanctions have been chemical-related, but one scientist was alleged to have aided Iran's nuclear program); New Delhi called the moves unjustified. Included in legislation to enable U.S.-India civil nuclear cooperation (P.L. 109-141) was a non-binding assertion that U.S. policy should "secure India's full and active participation" in U.S. efforts to prevent Iran from acquiring weapons of mass destruction.⁴² Some in Congress also have noted

⁴¹ See text of the January 2003 "New Delhi Declaration" at [<http://meaindia.nic.in/declarestatement/2003/01/25jd1.htm>].

⁴² Although President Bush indicated he has not adopted the law's statements of policy as U.S. foreign policy, this provision has rankled many in New Delhi who view it as an "extraneous" constraint on India's foreign policy independence. In their explanatory (continued...)

with alarm reports of contacts between the Indian and Iranian militaries, although such contacts may be insubstantial.⁴³

There are further U.S. concerns that India will seek energy resources from Iran, thus benefitting financially a country the United States is seeking to isolate. Indian firms have in recent years taken long-term contracts for purchase of Iranian gas and oil. Purchases could be worth many billions of dollars, but thus far differences over pricing have precluded sales. Building upon growing energy ties is the proposed construction of a pipeline to deliver Iranian natural gas to India through Pakistan. The Bush Administration has expressed strong opposition to any gas pipeline projects involving Iran, but top Indian officials insist the project is in India's national interest and they remain "fully committed" to the multi-billion-dollar venture, which may begin construction in 2007. The Iran-Libya Sanctions Act (P.L. 107-24) required the President to impose sanctions on foreign companies that make an "investment" of more than \$20 million in one year in Iran's energy sector. The 109th Congress extended this provision in the Iran Freedom Support Act (P.L. 109-293). To date, no firms have been sanctioned under these Acts. (See also CRS Report RS22486, *India-Iran Relations and U.S. Interests*, and CRS Report RS20871, *The Iran-Libya Sanctions Act*.)

India's Economy and U.S. Concerns

Overview. India is in the midst of a major and rapid economic expansion, with an economy projected to be the world's third largest in coming decades. Although there is widespread and serious poverty in the country, observers believe long-term economic potential is tremendous, and recent strides in the technology sector have brought international attention to such high-tech centers as Bangalore and Hyderabad. However, many analysts and business leaders, along with U.S. government officials, point to excessive regulatory and bureaucratic structures as a hindrance to the realization of India's full economic potential. The high cost of capital (rooted in large government budget deficits) and an "abysmal" infrastructure also draw negative appraisals as obstacles to growth. Constant comparisons with the progress of the Chinese economy show India lagging in rates of growth and foreign investment, and in the removal of trade barriers.

India's per capita GDP is only about \$800 (\$3,510 when accounting for purchasing power parity). The highly-touted information technology and business processing industries only employ about one-third of one percent of India's work force and, while optimists vaunt an Indian "middle class" of some 300 million

⁴² (...continued)

statement accompanying P.L. 109-401, congressional conferees repeatedly emphasized their belief that securing India's assistance on this matter was "critical" (H.Rept. 109-721).

⁴³ See, for example, Vivek Raghuvanshi and Gopal Ratnam, "Indian Navy Trains Iranian Sailors," *Defense News*, Mar. 27, 2006; "India-Iran Military Ties Growing," *Strategic Affairs*, June 16, 2001; "Rice Downplays India's Iran Links," CNN.com, Apr. 6, 2006.

people, a roughly equal number of Indians subsist on less than \$1 per day.⁴⁴ Yet, even with the existence of ongoing problems, the current growth rate of India's increasingly service-driven economy is among the highest in the world and has brought the benefits of development to many millions of citizens. The U.N. Development Program ranked India 126th out of 177 countries on its 2006 human development index, up from 127th in both 2004 and 2005.

After enjoying an average growth rate above 6% for the 1990s, India's economy cooled with the global economic downturn after 2000. Yet sluggish Cold War-era "Hindu rates of growth" became a thing of the past. For the fiscal year ending March 2006, real change in GDP was 8.5%, the second-fastest rate of growth among the world's 20 largest economies. Robust growth in the services and industry sectors continues, but is moderated by a fluctuating agricultural sector (low productivity levels in this sector, which accounts for about one-fifth of the country's GDP, are a drag on overall growth). Estimated growth for the current fiscal year is about 8.7% and short-term estimates are encouraging, predicting expansion well above 7% for the next two years. A major upswing in services is expected to lead; this sector now accounts for more than half of India's GDP. As of June 2006, India's foreign exchange reserves were at a record \$163 billion.

India's central bank warned in January 2007 that rising inflation and surging stock and property markets were "signs of overheating" in the country's economy. Some analysts criticize the bank for being too timid in reining in domestic demand.⁴⁵ Consumer price inflation has risen (a year-on-year rate near 7% in October 2006), but is predicted to again drop to around 5% or less in 2007. The soaring Bombay Stock Exchange tripled in value from 2001-2006, then apparently overheated with the worst-ever daily decline of its benchmark Sensex index on May 22, 2006, when almost 11% of its total value was lost. The market subsequently stabilized and apparently recovered, reaching new highs in the closing months of 2006.

A major U.S. concern with regard to India is the scope and pace of reforms in what has been that country's quasi-socialist economy. Reforms begun in 1991, under the Congress-led government of Prime Minister Rao and his finance minister, current Prime Minister Manmohan Singh, boosted growth and led to major new inbound foreign investment in the mid-1990s. Reform efforts stagnated, however, under weak coalition governments later in the decade, and combined with the 1997 Asian financial crisis and international sanctions on India (as a result of its 1998 nuclear tests) to further dampen the economic outlook. Following the 1999 parliamentary elections, the BJP-led government launched second-generation economic reforms, including major deregulation, privatization, and tariff-reducing measures.

Once seen as favoring domestic business and diffident about foreign involvement, New Delhi appears to gradually be embracing globalization and has

⁴⁴ A December 2006 study by the Indian Ministry of Statistics found that more than 200 million citizens in rural areas subsist on less than 12 rupees (about 27 cents) per day. A February 2007 government survey found that nearly half of the country's children are malnourished.

⁴⁵ "India Overheats," *Economist* (London), Feb. 3, 2007.

sought to reassure foreign investors with promises of transparent and nondiscriminatory policies. In February 2006, a top International Monetary Fund official said that India's continued rapid economic growth will be facilitated only by enhanced Indian integration with the global economy through continued reforms and infrastructure improvements. A July 2006 World Bank report identified the country's main economic challenges as

- improving the delivery of core public services such as healthcare, education, power and water supply for all India's citizens;
- making growth more inclusive by diminishing existing disparities, accelerating agricultural growth, improving the job market, and helping lagging states grow faster;
- sustaining growth by addressing its fiscal and trade deficits, and pushing ahead with reforms that facilitate growth, and;
- addressing HIV/AIDS before the epidemic spreads to the general public.⁴⁶

A January 2007 report from Goldman Sachs, a global investment banking and securities firm, called India's recent high growth rates a result of structural rather than cyclical increases and projected a sustainable growth rate of about 8% through 2020. It identified the major risks to growth as political developments, including a rise in protectionism; supply-side restraints, including business climate, education, and labor market reforms; and environmental degradation.⁴⁷ Other analyses identify water shortages and urban woes as further potential threats to Indian prosperity.⁴⁸

Trade and Investment. As India's largest trade and investment partner, the United States strongly supports New Delhi's continuing economic reform policies; a U.S.-India Trade Policy Forum was created in November 2005 to expand bilateral economic engagement and provide a venue for discussing multilateral trade issues. India was the 22nd largest export market for U.S. goods in 2005 (up from 24th the previous year). Levels of U.S.-India trade, while relatively low, are blossoming; the total value of bilateral trade has doubled since 2001 and the two governments intend to see it doubled again by 2009. U.S. exports to India in 2006 had a value of \$10.1 billion (up 27% over 2005), with aircraft; business and telecommunications equipment; pearls, gemstones, and jewelry; fertilizer; and chemicals as leading categories. Imports from India in 2006 totaled \$21.8 billion (up 16% over 2005). Leading imports included cotton apparel; textiles; and pearls, gemstones, and jewelry. Annual foreign direct investment to India from all countries rose from about \$100 million in 1990 to nearly \$6 billion for 2005 and an estimated \$11 billion in 2006.⁴⁹ About one-third of these investments was made by U.S. firms; in recent months and years, the major U.S.-based companies Microsoft, Dell, Oracle, and IBM

⁴⁶ See [http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/DPR_overview.pdf]

⁴⁷ See [http://www.usindiafriendship.net/viewpoints1/Indias_Rising_Growth_Potential.pdf].

⁴⁸ See, for example, Prमित Mitra, "Running on Empty," CSIS South Asia Monitor 103, Feb. 3, 2007, at [<http://www.csis.org/media/csis/pubs/sam103.pdf>]; World Bank, "Urban Challenges in India," Feb. 5, 2007.

⁴⁹ See [<http://www.census.gov/foreign-trade/statistics/country/index.html>].

announced plans for multi-billion-dollar investments in India. Strong portfolio investment added another \$10 billion in 2005. India has moved to raise limits on foreign investment in several key sectors, although U.S. officials prod New Delhi to make more rapid and more substantial changes to foreign investment ceilings, especially in the retail, financial services, and banking sectors.

During his March 2006 visit to Delhi, President Bush noted India's "dramatic progress" in economic reform while insisting "there's more work to be done," especially in lifting caps on foreign investment, making regulations more transparent, and continuing to lower tariffs. That same month, the U.S.-India CEO Forum — composed of ten chief executives from each country representing a cross-section of key industrial sectors — issued a report identifying India's poor infrastructure and dense bureaucracy as key impediments to increased bilateral trade and investment relations.⁵⁰

Barriers to Trade and Investment. Despite significant tariff reductions and other measures taken by India to improve market access, according to the 2006 report of the United States Trade Representative (USTR), a number of foreign trade barriers remain, including high tariffs, especially in the agricultural sector. The USTR asserts that "substantial expansion of U.S.-India trade will depend on continued and significant additional Indian liberalization."⁵¹ The Commerce Department likewise encourages New Delhi to continue lowering tariffs as a means of fostering trade and development. Indian Finance Minister P. Chidambaram agrees that high rates of investment must be maintained to sustain the country's economic growth and hopes to see the current annual rate more than doubled. In January 2007, India regained full investment-grade status after a 15-year hiatus when Standard & Poor's upgraded India's sovereign rating, but the country's public finances remain much weaker than comparable state: India has a public debt-to-GDP ratio (85%) more than three times higher than China's and interest consumes nearly one-third of total revenue.⁵²

India's extensive trade and investment barriers have been criticized by U.S. government officials and business leaders as an impediment to its own economic development, as well as to stronger U.S.-India ties. For example, in 2004, the U.S. Ambassador to India told a Delhi audience that "the U.S. is one of the world's most open economies and India is one of the most closed." Later that year, U.S. Under Secretary of State Alan Larson opined that "trade and investment flows between the U.S. and India are far below where they should and can be," adding that "the picture for U.S. investment is also lackluster." He identified the primary reason for the suboptimal situation as "the slow pace of economic reform in India."⁵³

⁵⁰ See "U.S.-India Strategic Economic Partnership," U.S.-India CEO Forum, Mar. 2006 at [<http://planningcommission.nic.in/reports/genrep/USIndia.pdf>].

⁵¹ See [http://www.ustr.gov/Document_Library/Reports_Publications/Section_Index.html].

⁵² Jo Johnson, "India's Sovereign Credit Rating Upgraded," *Financial Times* (London), Jan. 30, 2007.

⁵³ See [<http://www.state.gov/e/rls/rm/2004/36345.htm>].

Inadequate intellectual property rights protection is another long-standing issue between the United States and India. The USTR places India on its Special 301 Priority Watch List for “inadequate laws and ineffective enforcement” in this area. The International Intellectual Property Alliance, a coalition of U.S. copyright-based industries, estimated U.S. losses of \$443 million due to trade piracy in India in 2005, three-quarters of this in the categories of business and entertainment software (estimated loss amounts for 2005 do not include motion picture piracy, which in 2004 was estimated to have cost some \$80 million).⁵⁴ In December 2006, Under Secretary of Commerce and Director of the U.S. Patent and Trademark Office Jon Dudas told a New Delhi audience that “further modifications are necessary” in India’s intellectual property rights protection regime and that India’s copyright laws are “insufficient in many aspects.” He also warned that “piracy and counterfeiting rates will continue to rise without effective enforcement.”⁵⁵

While the past two decades have seen a major transformation of the Indian economy, it remains relatively closed in many aspects. The Heritage Foundation’s *2006 Index of Economic Freedom* — which may overemphasize the value of absolute growth and downplay broader quality-of-life measurements — again rated India as being “mostly unfree,” highlighting especially restrictive trade policies, heavy government involvement in the banking and finance sector, demanding regulatory structures, and a high level of “black market” activity.⁵⁶ The Vancouver-based Fraser Institute provides a more positive assessment of economic freedom in India, while also faulting excessive restrictions on capital markets and regulations on business.⁵⁷ Corruption also plays a role: Berlin-based Transparency International placed India 70th out of 163 countries in its 2006 “corruption perceptions index.” The group’s 2006 “bribery index” found India to be the worst offender among the world’s top 30 exporting countries.⁵⁸ (See also CRS Report RS21502, *India-U.S. Economic Relations*.)

Special Economic Zones (SEZs). In March 2005, New Delhi announced plans to allow Indian states to establish Chinese-style special economic zones that would encourage foreign investment and boost employment by bypassing the country’s strict labor laws. Later, with 237 such zones approved and hundreds more planned, these SEZs have become a matter of controversy. Proponents view them as sensible means of growing the economy and improving infrastructure. Yet the policy has elicited energetic opposition from interest groups representing the political left and right, alike. Some critics says that building SEZs on fertile agricultural land will impoverish farmers without adequate compensation. Even Congress Party chief Sonia Gandhi openly opposed exposing farmers to “unscrupulous developers.” Other opponents, including India’s finance minister, warn that the government will be denied billions of dollars in tax revenues lost due to special concessions offered to

⁵⁴ See [<http://www.iipa.com/rbc/2006/2006SPEC301INDIA.pdf>].

⁵⁵ See [<http://newdelhi.usembassy.gov/pr120706.html>]. Bush Administration policy is at [http://mumbai.usconsulate.gov/chris_israel.html].

⁵⁶ See [<http://www.heritage.org/research/features/index/country.cfm?id=India>].

⁵⁷ See [<http://www.fraserinstitute.ca/admin/books/chapterfiles/3aEFW2006ch3A-K.pdf#>].

⁵⁸ See [<http://www.transparency.org>].

participating firms. In January 2007, after the Left Front parties demanded extensive curbs on the SEZ initiative, New Delhi suspended approval of 304 more SEZs pending decisions on issues including compensation for displaced farmers.⁵⁹

Multilateral Trade Negotiations. In July 2006, the World Trade Organization's "Doha Round" of multilateral trade negotiations were suspended indefinitely due to disagreement among the WTO's six core group members — which include the United States and India — over methods to reduce trade-distorting domestic subsidies, eliminate export subsidies, and increase market access for agricultural products. The United States and other developed countries seek substantial tariff reductions in the developing world. India, like other members of the "G-20" group of developing states, has sought more market access for its goods and services in the developed countries, while claiming that developing countries should be given additional time to liberalize their own markets. In particular, India is resistant to opening its markets to subsidized agricultural products from developed countries, claiming this would be detrimental to tens of millions of Indian farmers and result in further depopulation of the countryside. India's Commerce Minister, Kamal Nath, blamed U.S. intransigence for the Doha Round's collapse. In November 2006, during a visit to New Delhi to discuss trade issues with top Indian leaders, U.S. Agriculture Secretary Mike Johanns urged India to match "ambitious" U.S. offers and "lead the way toward unlocking the Doha negotiations by offering real market access."⁶⁰ (See also CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, and CRS Report RL33144, *WTO Doha Round: The Agricultural Negotiations*.)

The Energy Sector. India's continued economic growth and security are intimately linked to the supply of energy resources. Indeed, Indian leaders insist that energy security is an essential component of the country's development agenda, calling for an integrated national energy policy, diversification of energy supplies, greater energy efficiency, and rationalization of pricing mechanisms. The country's relatively poor natural energy resource endowment and poorly functioning energy market are widely viewed as major constraints on continued economic growth. Estimates indicate that maintaining recent rates of growth will require that India increase its commercial energy supplies by 4%-6% annually in coming years.⁶¹ The U.S. government has committed to assist India in promoting the development of stable and efficient energy markets there; a U.S.-India Energy Dialogue was launched in July 2005 to provide a forum for bolstering bilateral energy cooperation.⁶²

⁵⁹ Paranjoy Guha Thakurta, "Economic Zone Plans Polarize India," BBC News, Oct. 2, 2006; Mark Sappenfield, "India's Special Economic Zones Bring Rags and Riches," *Christian Science Monitor*, Jan. 18, 2007; Jo Johnson, "India Puts Brakes on Tax-Break Zones," *Financial Times* (London), Jan. 23, 2007.

⁶⁰ "India Blames U.S. for Failure of WTO Talks," *Hindu* (Madras), July 26, 2006; Secretary Johanns at [<http://newdelhi.usembassy.gov/pr112106b.html>].

⁶¹ See Vibhuti Hate, "India's Energy Dilemma," Center for Strategic and International Studies, Sep. 7, 2006, at [<http://www.csis.org/media/isis/pubs/sam98.pdf>].

⁶² See U.S. Department of State fact sheet at [<http://www.state.gov/p/sca/rls/fs/2005/>]
(continued...)

India is the world's fifth largest energy consumer and may become third by the middle of this century. Overall power generation in the country more than doubled from 1991 to 2005.⁶³ Coal is the country's leading commercial energy source, accounting for more than half of national demand. India is the world's third most productive coal producer, and domestic supplies satisfy most demand (however, most of India's coal is a low-grade, high-ash variety of low efficiency). Oil consumption accounts for some one-third of India's total energy consumption; about 70% of this oil is imported (at a rate of 1.7 million barrels per day in 2005), mostly from the West Asia/Middle East region. India's domestic natural gas supply is not likely to keep pace with demand, and the country will have to import much of its natural gas, either via pipeline or as liquefied natural gas. Hydropower, especially abundant in the country's northeast and near the border with Nepal, supplies about 5% of energy needs. Nuclear power, which Indian government officials and some experts say is a sector in dire need of expansion, currently accounts for only 1% of the country's energy supplies and less than 3% of total electricity generation.⁶⁴ Even optimistic projections suggest that nuclear power will provide less than 10% of India's generation capacity in 25 years.⁶⁵ One-fifth of the country's power is consumed by farmers' irrigation systems, making the farm lobby a powerful obstacle to curtailing subsidies provided by State Electricity Boards, which collectively lose \$4.5 billion annually. Moreover, from one-quarter to half of India's electricity is said to disappear though "transmission losses," i.e., theft.⁶⁶

The Kashmir Issue

Although India suffers from several militant regional separatist movements, the Kashmir issue has proven the most lethal and intractable. Gunbattles and bomb blasts reportedly kill an average of between four and six people every day in India's Jammu and Kashmir state.⁶⁷ Conflict over Kashmiri sovereignty also has brought global attention to a potential "flashpoint" for interstate war between nuclear-armed powers. The problem is rooted in competing claims to the former princely state, divided since 1948 by a military Line of Control (LOC) separating India's Muslim-majority Jammu and Kashmir state and Pakistan-controlled Azad [Free] Kashmir. The dispute relates to the national identities of both countries: India has long sought to maintain its secular, multi-religious credentials, in part by successfully

⁶² (...continued)

49724.htm]. In May 2006, the Senate Foreign Relations Committee passed S. 1950, to promote global energy security through increased cooperation between the United States and India on non-nuclear energy-related issues, but the full Senate took no action on the bill.

⁶³ See [http://powermin.nic.in/reports/pdf/ar05_06.pdf].

⁶⁴ Data from U.S. Department of Energy, Energy Information Administration, Dec. 2005 at [<http://www.eia.doe.gov/emeu/cabs/india.html>]; Tanvi Madan, "India," Brookings Institution Energy Security Series Report, Nov. 2006 at [<http://www.brookings.edu/fp/research/energy/2006india.pdf>].

⁶⁵ John Stephenson and Peter Tynan, "Will the U.S.-India Civil Nuclear Cooperation Initiative Light India?," Nov. 13, 2006, at [<http://www.dalberg.com/npec.pdf>].

⁶⁶ Mark Gregory, "India Struggles With Power Theft," BBC News, Mar. 15, 2006.

⁶⁷ "India Says Kashmir Toll Over 41,000, Others Differ," Reuters, Dec. 7, 2006.

incorporating a Muslim-majority region, while Pakistan has since independence been conceived as a homeland for the subcontinent's Muslims. India and Pakistan fought full-scale wars over Kashmir in 1947-48 and 1965. Some Kashmiris seek independence from both countries. Spurred by a perception of rigged state elections in 1989, an ongoing separatist war between Islamic militants (and their supporters) and Indian security forces in Indian-held Kashmir has claimed at least 41,000 and perhaps as many as 66,000 lives.

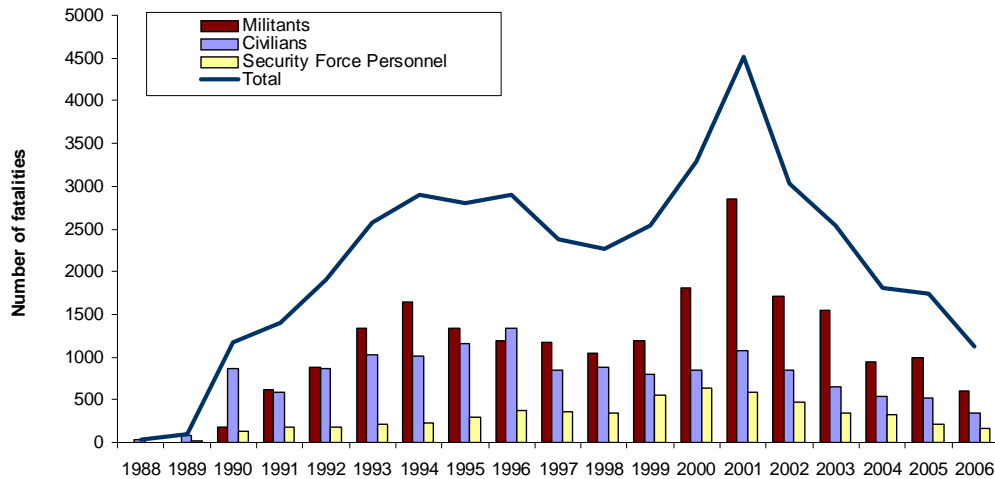
India blames Pakistan for supporting "cross-border terrorism" and for fueling a separatist rebellion in the Muslim-majority Kashmir Valley with arms, training, and militants. Islamabad, for its part, claims to provide only diplomatic and moral support to what it calls "freedom fighters" who resist Indian rule and suffer alleged human rights abuses in the region. New Delhi insists that the dispute should not be "internationalized" through involvement by third-party mediators and India is widely believed to be satisfied with the territorial status quo. In 1999, a bloody, six-week-long battle near the LOC at Kargil cost more than one thousand lives and included Pakistani army troops crossing into Indian-controlled territory. Islamabad has sought to bring external major power persuasion to bear on India, especially from the United States. The longstanding U.S. position on Kashmir is that the issue must be resolved through negotiations between India and Pakistan while taking into account the wishes of the Kashmiri people.

Some separatist groups, such as the Jammu and Kashmir Liberation Front (JKLF), continue to seek an independent or autonomous Kashmir. Others, including the militant Hizbul Mujahideen (HuM), seek union with Pakistan. In 1993, the All Parties Hurriyat [Freedom] Conference was formed as an umbrella organization for groups opposed to Indian rule in Kashmir. The Hurriyat membership of more than 20 political and religious groups has included the JKLF (now a political group) and Jamaat-e-Islami (the political wing of the HuM). The Hurriyat Conference, which states that it is committed to seeking dialogue with the Indian government on a broad range of issues, calls for a tripartite conference on Kashmir, including Pakistan, India, and representatives of the Kashmiri people. Hurriyat leaders demand Kashmiri representation at any talks between India and Pakistan on Kashmir. The Hurriyat formally split in 2003 after a dispute between hardliners allied with Islamabad and those favoring negotiation with New Delhi. Subsequent efforts to reunify the group failed. In September 2005, the Congress-led government renewed high-level contact with moderate Hurriyat leaders begun by the previous BJP-led coalition. New Delhi vowed to pull troops out of Kashmir if militant infiltrations and violence there cease, but to date only nominal troop withdrawals have come in response to a somewhat improved security situation in the region.

In December 2006, Pakistani President Musharraf issued a newly-modified version of his "out-of-the-box" thinking on resolution to the Kashmir problem, saying Pakistan is "against independence" for Kashmir, and offering instead a four-point proposal that would lead to "self-governance," defined as "falling between autonomy and independence." Many analysts saw the proposal as being roughly in line with New Delhi's Kashmir position. Some Kashmiri separatist groups rejected the proposal as an abandonment of Islamabad's long-held policy, but Indian leaders welcomed Musharraf's statements; in February 2007, Prime Minister Singh said the Pakistani government was "saying the right thing" in rejecting armed militancy as a

solution to the Kashmir problem. Still, a lack of consensus among Kashmiri leaders and political parties is likely to hamper progress. Even Kashmiri political figures who accept the principle of a solution within the framework of the Indian Constitution cannot agree on what such a solution may look like, and the Hurriyat Conference — which boycotted the state’s 2002 elections — remains rife with its own divisions. Some analysts urge greater U.S. efforts to prod the New Delhi and Islamabad governments along in the ongoing search for a final resolution.⁶⁸

Figure 1. Deaths Related to Kashmiri Separatism, 1988-2006



Source: Adapted by CRS from data provided by the South Asia Terrorism Portal, Institute for Conflict Management, New Delhi, India.

Figure 1 shows that levels of violence in Kashmir were high and steady through the mid- and late 1990s, peaked in 2001, and have been in decline since. Despite waning rates of infiltration and separatist-related violence, the issue continues to rankle leaders in New Delhi and remains a serious potential impediment to progress in the current India-Pakistan peace initiative. Even as the normalization of India-Pakistan relations moves forward — and to some extent in reaction to their apparent marginalization in the face of this development — separatist militants continue their attacks on both civilians and Indian security forces, and many observers in both India and the United States believe that active support for Kashmiri militants remains Pakistani policy. The militants, seeing their relevance and goals threatened by movement toward peaceful resolution, regularly lash out with bloody attacks meant to derail the process. For example, on May 1, 2006, suspected Islamist separatists massacred at least 35 Hindu villagers just ahead of a meeting between Prime Minister Manmohan Singh and a group of moderate Kashmiri figures. Likewise, as a relatively violence-free 2006 spring season seemed to be approaching, the Valley’s struggling tourist industry was on the brink of recovery, with hotels reporting full

⁶⁸ See, for example, Lisa Curtis, “India and Pakistan Poised to Make Progress on Kashmir,” Heritage Backgrounder No. 1997, Jan. 12, 2007, at [<http://www.heritage.org/Research/AsiaandthePacific/bg1997.cfm>].

bookings for coming months. Yet a series of grenade attacks specifically targeting tourists killed and injured scores of people throughout May and June, and had the result of again devastating what could be a major source of income and development for the region: most hotels were deserted by July.⁶⁹

Despite this ongoing violence, many indications point to positive long-term trends. The steadily reduced rates of infiltration may be attributed to the endurance of India-Pakistan dialogue and, with a flurry of diplomatic exchanges in late 2006, many analysts believe prospects for a meeting of minds between New Delhi and Islamabad are better than ever before (determining and incorporating the desires of the Kashmiri people remain highly problematic).⁷⁰ In October 2006, India's army chief credited much of a 20% drop in levels of violence in the region to the surrender of more and more "disillusioned" militants. At the same time, the state's political leadership has lauded a major decline in reported human rights abuses by security forces, attributing the improvement to policies of restraint launched by the Peoples Democratic Party-Congress Party coalition which took power in late 2002.⁷¹ While those responsible for Kashmir's security remain vigilant and convinced that the Islamabad government "controls the tap" of cross-LOC infiltration, the people of Srinagar are widely approving of the "flexibility" exhibited by Pakistan's president and hopeful that such flexibility will be mirrored in New Delhi so as to create a resolution that works for all stakeholders.⁷²

Other Regional Dissidence

The United States maintains an ongoing interest in India's domestic stability and the respect for internationally recognized human rights there. The U.S. Congress has held hearings in which such issues are discussed. As a vast mosaic of ethnicities, languages, cultures, and religions, India can be difficult to govern. Internal instability resulting from diversity is further complicated by colonial legacies such as international borders that separate members of the same ethnic groups, creating flashpoints for regional dissidence and separatism. Beyond the Kashmir problem, separatist insurgents in remote and underdeveloped northeast regions confound New Delhi and create international tensions by operating out of neighboring Bangladesh, Burma, Bhutan, and Nepal. Maoist rebels continue to operate in numerous states. India also has suffered outbreaks of serious communal violence between Hindus and Muslims, especially in the western Gujarat state. According to the Indian Home Ministry, there were 4,542 incidents of domestic terrorism in 2006 — down from 4,930 the previous year — costing 2,863 lives, about two-fifths of them civilian. (See also CRS Report RL32259, *Terrorism in South Asia*.)

⁶⁹ Author interviews in Srinagar, Kashmir, Sep. 2006.

⁷⁰ "Army Chief Confirms Reduced Infiltration in Kashmir," *Hindustan Times* (Delhi), Oct. 7, 2005; A.G. Noorani, "A Step Closer to Consensus," *Frontline* (Madras), Dec 15, 2006.

⁷¹ Nita Bhalla, "India's Army Says Tide Turning in Restive Kashmir," Reuters, Oct. 1, 2006; "Kashmiri Leader Lauds Drop in Custodial Killings, Disappearances," Agence France Presse, Oct. 30, 2006.

⁷² Author interviews, Srinagar, Kashmir, Sep. 2006.

The Northeast. Since the time of India's foundation, numerous militant groups have fought for greater ethnic autonomy, tribal rights, or independence in the country's northeast region. Some of the tribal struggles in the small states known as the Seven Sisters are centuries old. It is estimated that more than 50,000 people have been killed in such fighting since 1948, including some 10,000 deaths in 15 years of fighting in the Assam state. The United Liberation Front of Assam (ULFA), the National Liberation Front of Tripura, the National Democratic Front of Bodoland (NDFB), and the United National Liberation Front (seeking an independent Manipur) are among the groups at war with the central government. ULFA, like other groups, accuses New Delhi of exploiting their state's resources while doing little to forward development and allowing thousands of non-indigenous people (often from Bihar) to flood the local job markets. In April 2005, the U.S. State Department's Counterterrorism Office named ULFA in its list of "other groups of concern," the first time an Indian separatist group outside Kashmir was so named.⁷³

New Delhi has at times blamed Bangladesh, Burma, Nepal, and Bhutan for "sheltering" one or more of these groups beyond the reach of Indian security forces, and New Delhi has launched joint counter-insurgency operations with some of its neighbors. India also has accused Pakistan's intelligence agency of training and equipping militants. Bhutan launched major military operations against suspected rebel camps on Bhutanese territory in 2003 and appeared to have routed the ULFA and NDFB. In 2004, five leading separatist groups from the region rejected New Delhi's offer of unconditional talks, saying talks can only take place under U.N. mediation and if the sovereignty issue was on the table. Later, in what seemed a blow to the new Congress-led government's domestic security policies, a spate of lethal violence in Assam and Nagaland was blamed on ULFA and NDFB militants who had re-established their bases in Bhutan. Major Indian army operations in late 2004 may have overrun Manipur separatist bases near the Burmese border.

New Delhi's hesitant year-long efforts at negotiation with ULFA rebels and a six-week-old cease-fire in Assam collapsed in October 2006, leading to a spike of lethal violence that included multiple bombings the final months of 2006 (one series of bombings left at least 15 people dead and dozens more injured in November). Some analysts criticized the central government for allowing the militants to revive their strength during the cease-fire period. By January 2007 a full-blown separatist war was again underway in Assam, with ULFA launching bomb and gun attacks that killed scores of civilians, most of them Hindi-speaking migrant workers, threatening and assassinating ruling Congress Party politicians, and warning Hindi-speakers to "stay away" from the region. In response, New Delhi sent up to 13,000 Indian army and paramilitary troops to fan out across the state in what was termed the "largest-ever" operations against ULFA rebels. Following this latest rash of violence, Defense Minister A.K. Antony said defeating the rebels would require the help of the Bangladesh and Burma governments.

Maoist Insurgency. Also operating in India are "Naxalites" — Maoist insurgents ostensibly engaged in violent struggle on behalf of landless laborers and tribals. These groups, most active in inland areas of east-central India, claim to be

⁷³ See [<http://www.state.gov/s/ct/rls/crt/2005/65275.htm>].

battling oppression and exploitation in order to create a classless society. Their opponents call them terrorists and extortionists. The groups get their name from Naxalbari, a West Bengal village and site of a militant peasant uprising in 1967. In April 2006, Prime Minister Singh identified a worsening Maoist insurgency as “the single biggest internal security challenge” ever faced by India, saying it threatened India’s democracy and “way of life.” The U.S. State Department’s *Country Reports on Terrorism 2005* warned that attacks by Maoist terrorists in India are “growing in sophistication and lethality and may pose a long-term threat.”⁷⁴ Naxalites now operate in half of India’s 28 states and related violence caused more than 700 deaths in 2006, including nearly 300 civilians.

The most notable of these outfits are the People’s War Group (PWG), mainly active in the southern Andhra Pradesh state, and the Maoist Communist Center of West Bengal and Bihar. In 2004, the two groups merged to form the Communist Party of India (Maoist). Both appear on the U.S. State Department Counterterrorism Office’s list of “groups of concern” and both are designated as terrorist groups by New Delhi, which claims there are nearly 10,000 Maoist militants active in the country. PWG fighters were behind a 2003 landmine attack that nearly killed the chief minister of Andhra Pradesh. In 2004, that state’s government lifted an 11-year-old ban on the PWG, but the Maoists soon withdrew from ensuing peace talks, accusing the state government of breaking a cease-fire agreement. Violent attacks on government forces then escalated in 2005 and continued with even greater frequency in 2006.

The Chhattisgarh state government has since 2005 sponsored a grassroots anti-Maoist effort. This “Salwa Judum” (“Campaign for Peace” or, literally, “collective hunt”) militia is viewed by some as an effective countervailing people’s movement, but others label it a vigilante group that has engaged in its own coercive and violent tactics against innocent tribals, and that only serves to accentuate the conflict.⁷⁵ New Delhi has also expressed concern that indigenous Maoists are increasing their links with Nepali communists that recently ended their war with the Kathmandu government. Many analysts see abundant evidence that Naxalite activity is spreading and becoming more audacious in the face of incoherent and insufficient Indian government policies to halt it.

Hindu-Muslim Tensions. Some elements of India’s Hindu majority have at times engaged in violent conflict with the country’s Muslim minority. In late 1992, a huge mob of Hindu activists in the western city of Ayodhya demolished a 16th century mosque said to have been built at the birth site of the Hindu god Rama. Ensuing communal riots in cities across India left many hundreds dead. Bombay was especially hard hit and was the site of coordinated 1993 terrorist bombings believed to have been a retaliatory strike by Muslims. In early 2002, another group of Hindu activists returning by train to the western state of Gujarat after a visit to the site of the now razed Babri Mosque (and a proposed Hindu temple) were attacked by a Muslim mob in the town of Godhra; 58 were killed. Up to 2,000 people died in the fearsome

⁷⁴ See [<http://www.state.gov/s/ct/rls/crt/2005/64345.htm>].

⁷⁵ See, for example, an Asian Center for Human Rights press release at [<http://www.achrweb.org/press/2007/IND0307.htm>].

communal rioting that followed, most of them Muslims. The BJP-led state and national governments came under fire for inaction; some observers saw evidence of state government complicity in anti-Muslim attacks.

The U.S. State Department and human rights groups have been critical of New Delhi's largely ineffectual efforts to bring those responsible to justice; some of these criticisms were echoed by the Indian Supreme Court in 2003. In March 2005, the State Department made a controversial decision to deny a U.S. visa to Gujarat Chief Minister Narendra Modi under a U.S. law barring entry for foreign government officials found to be complicit in severe violations of religious freedom. The decision was strongly criticized in India.

Sporadic communal violence in India is ongoing. Recent examples include three days of rioting that followed the May 2006 demolition of a Muslim shrine in the western Gujarat state. Six people died and dozens of others were injured; more than 1,000 Indian army troops were deployed to quell the violence. In June, clashes between Hindus and Muslims in the Uttar Pradesh state left 2 children dead and more than 100 homes destroyed by fire. July saw two policemen and two civilians killed, and at least three dozen people injured, in communal clashes in the western Maharashtra state. In October, 2 people were killed and 86 others injured over several days of communal violence in the southern Kerala state.

Human Rights Issues

According to the U.S. State Department's *India: Country Report on Human Rights Practices, 2005*, the Indian government "generally respected the human rights of its citizens; however, numerous serious problems remained." These included extensive societal violence against women; extrajudicial killings, including faked encounter killings; excessive use of force by security forces, arbitrary arrests, and incommunicado detentions in Kashmir and several northeastern states; torture and rape by agents of the government; poor prison conditions and lengthy pretrial detentions without charge; forced prostitution; child prostitution and female infanticide; human trafficking; and caste-based discrimination and violence, among others. Terrorist attacks and kidnappings also remained grievous problems, especially in Kashmir and the northeastern states.⁷⁶ New York-based Human Rights Watch's latest annual report noted "important positive steps" by the Indian government in 2005 with respect to human rights, but also reviewed the persistence of problems such as abuses by security forces and a failure to contain violent religious extremism.⁷⁷

The State Department's Bureau of Democracy, Human Rights, and Labor has claimed that India's human right abuses "are generated by a traditionally hierarchical social structure, deeply rooted tensions among the country's many ethnic and religious communities, violent secessionist movements and the authorities' attempts

⁷⁶ See [<http://www.state.gov/g/drl/rls/hrrpt/2005/61707.htm>].

⁷⁷ See [<http://hrw.org/wr2k6/wr2006.pdf>].

to repress them, and deficient police methods and training.”⁷⁸ India’s 1958 Armed Forces Special Powers Act, which gives security forces wide leeway to act with impunity in conflict zones, has been called a facilitator of “grave human rights abuses” in several Indian states (in December 2006, Prime Minister Singh said he would seek to amend the controversial Act). India generally denies international human rights groups official access to Kashmir and other sensitive areas. State’s 2005-2006 report on *Supporting Human Rights and Democracy* calls India “a vibrant democracy with strong constitutional human rights protections,” but also asserts that “poor enforcement of laws, widespread corruption, a lack of accountability, and the severely overburdened court system weakened the delivery of justice.”⁷⁹

Human Trafficking. The State Department’s June 2006 report on trafficking in persons said that New Delhi “does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so” and it placed India on the “Tier 2 Watch List” for the third consecutive year “due to its failure to show evidence of increasing efforts to address trafficking in persons.” New Delhi later downplayed the claims and said the report was “not helpful.” The trafficking of women and children is identified as a serious problem in India.⁸⁰

Religious Freedom. An officially secular nation, India has a long tradition of religious tolerance (with occasional lapses), which is protected under its constitution. The population includes a Hindu majority of 82% as well as a large Muslim minority of some 150 million (14%). Christians, Sikhs, Buddhists, Jains, and others total less than 4%. Although freedom of religion is protected by the Indian government, human rights groups have noted that India’s religious tolerance is susceptible to attack by religious extremists.

In its annual report on international religious freedom released in September 2006, the State Department found that despite positive steps taken by the central government, “the status of religious freedom in India generally remained the same” as in the previous year. It lauded the New Delhi government for demonstrating a commitment to policies of religious inclusion, while again claiming that “the government sometimes in the recent past did not act swiftly enough to counter societal attacks against religious minorities and attempts by some leaders of state and local governments to limit religious freedom.”⁸¹ A May 2006 report of the U.S. Commission on International Religious Freedom lauds continued improvements since the May 2004 election of the Congress-led coalition, but warns that concerns about religious freedom in India remain. These include ongoing attacks against religious minorities, perpetrated mainly by Hindu activists and most often in states with BJP-led governments. The Commission also continues to criticize allegedly

⁷⁸ *Supporting Human Rights and Democracy: The U.S. Record 2002 -2003*,” U.S. Department of State, at [<http://www.state.gov/g/drl/rls/shrd/2002/21760.htm>].

⁷⁹ See [<http://www.state.gov/g/drl/rls/shrd/2005/63948.htm>].

⁸⁰ See [<http://www.state.gov/g/tip/rls/tiprpt/2006/65989.htm>].

⁸¹ See [<http://www.state.gov/g/drl/rls/irf/2006/71440.htm>].

insufficient state efforts to pursue justice in cases related to 2002 communal rioting in Gujarat.⁸²

HIV/AIDS

The United Nations estimates that 5.7 million Indians are infected with HIV/AIDS, giving India the largest such population worldwide (India overtook South Africa in this category in 2006). Due to the country's large population, prevalence rates among adults remain below 1%. India's AIDS epidemic has become generalized in four states in the country's south (Andhra Pradesh, Tamil Nadu, Karnataka, and Maharashtra) and two in the northeast (Manipur and Nagaland). According to USAID, these six states account for 80% of the country's reported AIDS cases.⁸³ India first launched its AIDS control program in 1992; New Delhi boosted related funding to about \$120 million in the most recent fiscal year. As part of its foreign assistance program in India, the U.S. government supports integrated HIV/AIDS prevention, treatment, and support services in high prevalence states. Stigma, gender inequalities, and discrimination present major obstacles to controlling India's HIV/AIDS epidemic. In the country's traditional society, open discussion of sexuality and risk of infection is rare, making education and awareness difficult. Analysts have said substantially greater resources are needed to address HIV/AIDS in India than are currently available.⁸⁴ (See also CRS Report RL33771, *Trends in U.S. Global AIDS Spending: FY2000-FY2007*.)

U.S. Assistance

Economic. According to the U.S. Agency for International Development (USAID), India has more people living in abject poverty (some 385 million) than do Latin America and Africa combined. From 1947 through 2005, the United States provided nearly \$15 billion in economic loans and grants to India. USAID programs in India, budgeted at about \$68 million in FY2006, concentrate on five areas: (1) *economic growth* (increased transparency and efficiency in the mobilization and allocation of resources); (2) *health* (improved overall health with a greater integration of food assistance, reproductive services, and the prevention of HIV/AIDS and other infectious diseases); (3) *disaster management*; (4) *energy and environment* (improved access to clean energy and water; the reduction of public subsidies through improved cost recovery); and (5) *opportunity and equity* (improved access to elementary education, and justice and other social and economic services for vulnerable groups, especially women and children).⁸⁵

⁸² See [<http://www.uscirf.gov/countries/publications/currentreport/index.html>].

⁸³ See "Health Profile: India," U.S. Agency for International Development, at [http://www.usaid.gov/our_work/global_health/aids/Countries/ane/india_05.pdf].

⁸⁴ See, for example, Primit Mitra and Teresita Schaffer, "Public Health and International Security: The Case of India," July 2006 at [http://www.csis.org/-media/csis/pubs/060731_aids_india.pdf].

⁸⁵ See USAID India at [<http://www.usaid.gov/in>].

Security. The United States has provided about \$161 million in military assistance to India since 1947, more than 90% of it distributed from 1962-1966. In recent years, modest security-related assistance has emphasized export control enhancements and military training. Earlier Bush Administration requests for Foreign Military Financing were later withdrawn, with the two countries agreeing to pursue commercial sales programs. The Pentagon reports military sales agreements with India worth \$288 million in FY2002-FY2005.

Table 1. U.S. Assistance to India, FY2001-FY2007
(in millions of dollars)

Program or Account	FY2001 Actual	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Est.	FY2007 Request
CSH	24.6	41.7	47.4	47.8	53.2	47.7	48.4
DA	28.8	29.2	34.5	22.5	24.9	10.9	10.0
ESF	5.0	7.0	10.5	14.9	14.9	5.0	6.5
IMET	0.5	1.0	1.0	1.4	1.5	1.2	1.5
NADR	0.9	0.9	1.0	0.7	4.2	2.4	1.5
Subtotal	\$59.8	\$79.8	\$94.4	\$106.2	\$98.7	\$67.2	\$67.9
Food Aid*	78.3	105.7	44.8	30.8	26.1	43.0	—
Total	\$138.1	\$185.5	\$139.2	\$137.0	\$124.8	\$110.2	\$67.9

Sources: U.S. Departments of State and Agriculture; U.S. Agency for International Development.

Abbreviations:

CSH: Child Survival and Health

DA: Development Assistance

ESF: Economic Support Fund

IMET: International Military Education and Training

NADR: Nonproliferation, Anti-Terrorism, Demining, and Related (mainly export control assistance, but includes anti-terrorism assistance for FY2007)

* P.L.480 Title II (grants) and Section 416(b) of the Agricultural Act of 1949, as amended (surplus donations). Food aid totals do not include freight costs.

Figure 2. Map of India



Source: Map Resources. Adapted by CRS. (K.Yancey 7/6/06)