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Engaging India as a Global Strategic Partner

Executive Summary

- Under President Bush, great strides have been made both in strengthening relations between India and the United States and in transforming India into global strategic partner of the United States.
- A robust U.S. relationship with India is of particular economic, political, and strategic importance. Current bilateral relations are arguably at their best ever.
- India's economy is the 12th largest in the world, the second fastest-growing in the world (behind China's), and the fourth largest in terms of purchasing-power parity. India accounts for nearly 80 percent of the entire economic output of South Asia.
- The United States is India's largest trading partner. Bilateral trade in 2003 was \$18.1 billion. U.S. exports to India grew by 25 percent in 2004.
- In order for U.S.-India economic relations to continue to grow, India must: reduce barriers to U.S. and foreign investment and reduce its tariff and non-tariff barriers; continue the reform process of liberalizing its economy, including further deregulation and privatization; conclude efforts to establish a harmonized federal system of taxation; and enact and enforce strong intellectual property-right laws, and impose stiff penalties and punishments for those that violate them.
- On June 28, 2005, India and the United States signed the "new framework for the U.S.-India defense relationship," building on the substantive developments in bilateral security relations.
- Possible next steps in the U.S.-India security relationship include: conducting joint military operations; working with India on global War on Terrorism efforts; enhancing collaboration on trafficking issues; and granting India the same "Major Non-NATO Ally" status as Pakistan.
- On July 18, 2005, the White House announced its intention to share sensitive nuclear technologies with India. Before the United States could begin sharing nuclear technology with India, Congress would have to modify current, domestic nonproliferation laws.
- The development of good relations with India has not come at the expense of U.S. relations with Pakistan. The fact that the United States can have good relations with both India and Pakistan is a notable historical accomplishment in which the Bush Administration should take pride.

Introduction

On July 18, President Bush welcomed Dr. Manmohan Singh, India's Prime Minister, to the White House, marking the first time an Indian head of government has visited Washington in nearly five years. The meeting was intended to serve as an opportunity to deepen the U.S.-India relationship. Today's Joint Session address of the Prime Minister is the fourth time in U.S. history that an Indian prime minister has addressed Congress.

A transformed U.S. relationship with India is of particular economic, political, and strategic importance. India is the world's largest democracy and the second most populous country on the planet. Its economy is already the second fastest-growing in the world, and is the world's fourth largest in terms of purchasing-power parity. Meanwhile, residing in India's neighborhood are some of the most dangerous challenges to global security and stability (nuclear weapons proliferation, terrorism, and human and weapons trafficking) in the world. India, itself, is a declared nuclear weapons state.

Despite the fact that the United States and India are the world's largest democracies, historically, the two nations have not always had close relations. During the Cold War, relations between the two were strained because India decided to pursue the policy of being "nonaligned" in the struggle against communism. However, following some significant strategic reevaluations by both successive Indian governments and the Bush Administration, great strides have been made in the past few years both in bringing the two nations closer and in making India a global strategic partner of the United States. In March 2005, Secretary of State Condoleezza Rice remarked on this new relationship, noting that the United States will "help" India in becoming a "major world power in the 21st century."¹

The development of good relations with India has not come at the expense of U.S. relations with Pakistan, a key American partner in the War on Terrorism. In the recent past, relations with India and Pakistan were viewed as a zero-sum game: the United States could be friendly with one, but not both. Today, that is not the case. The United States maintains good (and, in fact, improved) relations with both India and Pakistan. Of equal importance, both India and Pakistan value and want good relations with the United States.

Why India Matters to the United States

India gained its independence from the United Kingdom in 1947 and became a parliamentary democracy. For more than 50 years, India has remained the preeminent democracy in South Asia, holding numerous elections and transferring power from one administration to the next.

With a population of more than one billion people, India supports nearly 15 percent of the world's population on a little more than 2 percent of the world's land area. India's population continues to grow, with birth rates (22.32/1000) far exceeding death rates (8.28/1000).² The vast majority, 81 percent, of India's population, is Hindu (the largest Hindu population in the world),

¹ U.S. Department of State, "Background Briefing by Administration Officials on U.S.-South Asia Relations," March 25, 2005.

² CIA, World Factbook, India, July 2005.

while 12 percent of the population (or roughly 130 million people) is Muslim, giving India the second-largest Muslim population in the world (Indonesia has the largest Muslim population).³

Economy

India's economy is the 12th largest in the world, but as noted above, is the second fastest-growing in the world (behind China's), and is the fourth largest in terms of purchasing-power parity.⁴ India accounts for nearly 80 percent of the entire economic output of South Asia.⁵ Since the introduction of market-oriented economic reforms in the early 1990s, India has posted an average growth rate of 6.8 percent.⁶ In 2004, India's GDP growth was 8 percent.⁷ While the workforce is still largely agricultural based, the major source of economic growth has been in India's service sector.

The United States is India's largest trading partner. Bilateral trade in 2003 was \$18.1 billion.⁸ U.S. exports to India grew by 25 percent in 2004. According to Robert Blackwill, former U.S. Ambassador to India, the United States is "the largest cumulative investor in India, both in foreign-direct investment and portfolio investment. More than 50 percent of America's Fortune 500 companies now acquire some of their information technology needs to Indian companies."⁹ For the United States, the rapid growth in India's service-sector workforce is significant given that it is English speaking and highly educated. More than 41 percent of H1-B visas designated for temporary employees in specialized fields go to Indians each year.¹⁰

Security

After China, India has the largest standing armed forces in the entire Asia-Pacific region, and is also an active participant in U.N. peacekeeping operations. In recent years, India has undertaken plans to expand its navy, army, and air force, and has invested in technologies to make its armed forces more modern, efficient, and effective. Since 2002, the Indian government has increased defense spending by nearly one-third (\$6 billion), thus spending \$19.1 billion in 2004.¹¹

India maintains a large military force because, during the past half century, it has repeatedly gone to war with Pakistan over Kashmir, a disputed territory of historical significance to both Muslims and Hindus. The dispute was not resolved when both countries became independent in 1947. In recent years, progress has been made in maintaining the peace and in discussing ways to resolve the impasse over Kashmir. In 2004, the two sides agreed to a ceasefire; and, earlier this year, they agreed to start a bus service across the Line of Control in Kashmir. Additional confidence-building measures have been undertaken by both sides as well.

³ CIA, July 2005.

⁴ U.S. Department of State, "Background Note: India," November 2004.

⁵ International Institute for Strategic Studies, "The Military Balance 2004-2005," October 2004. South Asia includes Afghanistan, Bangladesh, Bhutan, India, Nepal, Pakistan, Sri Lanka, and the Maldives.

⁶ CIA, July 2005.

⁷ CIA, July 2005.

⁸ U.S. Department of State, "Background Note: India," November 2004.

⁹ Robert Blackwill, "Why India is America's Natural Ally?" *National Interest*, Spring 2005.

¹⁰ Robert Blackwill, *National Interest*, Spring 2005.

¹¹ International Institute for Strategic Studies, "The Military Balance 2004-2005," October 2004.

In addition to tensions with Pakistan, Indian officials historically have been wary of Chinese intentions in the region. India, like the United States, has concerns regarding the shape and character of rising Chinese power. Interestingly, earlier this year in an attempt to improve relations, China and India entered into a “strategic partnership” to broaden defense links and expand economic relations. It remains to be determined whether this “strategic partnership” will be anti-American and whether it will be inconsistent with U.S.-Indian strategic goals.

India is not a signatory to the Nuclear Non-Proliferation Treaty (NPT). In May 1998, India surprised the world by conducting a series of nuclear tests. Pakistan responded three weeks later with its own series of nuclear tests. Immediately following these tests, the Clinton Administration imposed sanctions on both India and Pakistan; however, most of these sanctions were lifted following the September 11, 2001 terrorist attacks. Late last year, though, the Bush Administration sanctioned two Indian nuclear scientists (Doctors C. Surendar and Y. S. R. Prasad, who have first-hand knowledge of both India’s nuclear weapons and nuclear power programs), under the authority of the Iran Nonproliferation Act of 2000 (PL 106-178), for providing weapons of mass destruction-related equipment or technologies to Iran.

U.S.-India Relations Under Bush Presidency

Current bilateral relations are arguably at their best ever. The upswing began during the Clinton years, and has steadily improved since. In addition to imposing sanctions following the 1998 nuclear tests, the Clinton Administration undertook efforts to engage the Indians in dialogue to ensure that peace remained in the region. President Clinton visited India in March 2000; in October 2000, India’s then Prime Minister Atal Bihari Vajpayee visited the White House.

President Bush and his senior aides have transformed the bilateral relationship to treat India as a rising great power and a strategic collaborator of the United States. This has included encouraging India to play a greater role in regional and global military, political, and economic institutions. In the past two years or so, the Administration has also tried to foster highly positive relations between India and Pakistan — and has refused to allow the two to play off of each other in their relations with the United States. The fact that the United States can have good relations with both India and Pakistan is a notable historical accomplishment in which the Bush Administration should take pride.

During the past four years, significant developments in the bilateral relationship between the United States and India include:

Economy

U.S.-India Economic Dialogue Initiative. Initiated during the final year of the Clinton Administration, the purpose of the dialogue was to institutionalize bilateral economic cooperation focusing on trade, commercial, and financial issues. In November 2001, the United States and India agreed to expand the dialogue by enhancing private-sector interaction, and by adding energy and environment components to the dialogue. The rationale behind adding a private-sector component was to broaden and deepen ties between the American and Indian

business communities. On May 31, 2005, an inaugural meeting of the formal U.S.-India Energy Dialogue was held, beginning an exchange of ideas on U.S. and Indian energy needs.

“Open Skies Aviation Agreement.” In April 2005, the U.S. and India signed an “Open Skies Aviation Agreement” with the goal of increasing air services between the two countries. The agreement also helps lower flight fares, increase flight routes and frequency of flights, and strengthen economic ties between the two countries. In fact, on April 26, Air India announced approval of a \$6.9 billion deal to purchase 50 Boeing passenger aircraft.¹²

Security

War on Terrorism Partnership. As Robert Blackwill recently noted, “India in the past 15 years has lost more people to jihadi killers than any other nation in the world.”¹³ In December 2001, militants attacked the Indian Parliament. In June 2005 alone, more than 50 Indians died and more than 100 were injured as a result of attacks by separatist militants regarding Kashmir.¹⁴ Following the 9/11 attacks, India offered the use of its military bases for counterterrorism operations. Within the past few years, the United States has worked closely with the Indian government in anti-terrorism efforts, including: engaging in joint patrols in the straits of Malacca; adding terrorist groups operating against India to the U.S. Foreign Terrorist Organization List; and prosecuting in Virginia and Pennsylvania eight alleged terrorists plotting against foreign targets in Kashmir.¹⁵ India has purchased \$29 million worth of counterterrorism equipment for its special forces and has received sophisticated sensors to help stem the tide of militant infiltration from Kashmir.¹⁶

New Defense Cooperation Framework. On June 28, 2005, the two democracies signed the “new framework for the U.S.-India defense relationship.” Building on the goodwill and substantive developments of the previous few years in bilateral security relations, the framework stated that the United States and India have entered a “new era,” noting that the two countries are building a “strategic partnership” in pursuit of the principles of “economic freedom, democratic institutions, the rule of law, security, and opportunity around the world.”¹⁷ Specifically, the agreement states that the two countries shall: conduct joint and combined exercises and exchanges; collaborate in multinational operations; strengthen the capabilities of their militaries to promote security and defeat terrorism; enhance capabilities to combat the proliferation of weapons of mass destruction; expand two-way defense trade; expand collaboration regarding missile defense; and establish a Defense Policy Group, a Defense Joint Working Group, and a Defense Procurement and Production Group, among other things.

¹² Congressional Research Service, “India: Chronology of Recent Events,” June 20, 2005.

¹³ Robert Blackwill, “Why is India America’s Natural Ally,” *National Interest*, Spring 2005.

¹⁴ Congressional Research Service, “India-U.S. Relations,” June 21, 2005.

¹⁵ Remarks by Christina Rocca, Assistant Secretary of State for South Asian Affairs, on “The United States and India: Moving Forward in Global Partnership,” on September 11, 2003.

¹⁶ Congressional Research Service, “India-U.S. Relations,” June 21, 2005.

¹⁷ Text of “New Framework for the U.S.-India Defense Relationship” signed June 28, 2005.

Next Steps in the Bilateral Relationship

The Bush Administration is committed to expanding and deepening the U.S. relationship with India, and engaging India as both a rising great power and a strategic partner of the United States. The Administration's agenda for furthering the U.S.-India partnership should emphasize the following:

Economy

Encourage greater trade and investment. While India and the United States do not have a bilateral trade agreement, economic relations between the two countries have grown dramatically in recent years. However, there remain significant barriers to even greater economic cooperation. India maintains high tariff rates on imports and also assesses high surcharges and taxes on a variety of imports.¹⁸ Major non-tariff barriers include sanitary and phytosanitary restrictions,¹⁹ import licenses, discriminatory government practices, licensing fees, and the use of export subsidies. India also maintains price controls on many commodities as well as extensive government regulation and public ownership over many sectors of the economy. In addition, India places restrictions on foreign-direct investment, which has hurt U.S. companies trying to invest in India.²⁰ Finally, although some progress has been made, intellectual property rights remain an obstacle to an improved U.S.-India bilateral economic relationship. There has been great concern over India's poor record of intellectual property rights, resulting in 2004 with nearly \$468 million in losses to U.S. companies due to trade piracy.²¹ In fact, the U.S. Trade Representative (USTR) has placed India on its "Special 301 Priority Watch List" because its intellectual property rights are weak. In a related matter, India is a major producer of counterfeit pharmaceuticals.²²

During Prime Minister Singh's visit to Washington, U.S. Trade Representative Rob Portman will announce the establishment of the U.S.-India Trade Policy Forum. This will meet periodically to discuss bilateral trade concerns. USTR also intends to use the Forum to talk about World Trade Organization (WTO) issues with India, e.g., anti-dumping measures and consistency and transparency in application of foreign investment laws. The United States has used the WTO as a forum to discuss ways in which to make the Indian economy more market-oriented as well as to seek clarification and an understanding of India's trade laws.

In order for the U.S.-India economic (as well as overall) relationship to grow and develop fairly, the United States must continue to press India to provide additional export opportunities for U.S. service providers. To accomplish this, India must reduce barriers to U.S. and foreign investment and reduce its tariff and non-tariff barriers. India must continue the reform process of

¹⁸ See CRS, "India-U.S. Economic Relations," February 10, 2005. According to USTR India maintains a 20 percent tariff on non-agricultural goods. See U.S. Trade Representative, "2005 National Trade Estimate Report on Foreign Trade Barriers," March 30, 2005.

¹⁹ According to the U.N.'s Food and Agricultural Organization, "phytosanitary measures" refers to any legislation, regulation, or official procedure having the purpose to prevent the introduction and/or spread of quarantine pests, or to limit the economic impact of regulated non-quarantine pests. See http://www.fao.org/documents/show_cdr.asp?url_file=/docrep/007/ad515e/ad515e04.htm.

²⁰ U.S. Trade Representative, "2005 National Trade Estimate Report on Foreign Trade Barriers," March 30, 2005.

²¹ International Intellectual Property Alliance, "2005 Special 301 Report: India," February 11, 2005.

²² Lola Nayer, "Every Fourth Drug in India is a Fake," *India Times*, April 24, 2005.

liberalizing its economy, including further deregulation and privatization, and must conclude efforts to establish a harmonized federal system of taxation. India must also enact and enforce strong intellectual property-right laws and impose stiff penalties and punishments for those that violate them.²³ Finally, the U.S. Congress should continue to conduct oversight on international trade issues by monitoring India's compliance with its WTO obligations.

Expand energy cooperation. As noted earlier, due to the size of the country's population as well as the growth of its economy, India is a vast consumer of energy, and is looking for more foreign sources to meet its energy needs. Because India does not have "full-scope safeguards agreements" with the International Atomic Energy Association (IAEA) and is not a signatory to the NPT, the United States is prohibited by its international obligations (and domestic laws) from providing India with civilian nuclear technology. Moreover, the United States is prohibited from sending nuclear reactor fuel to India without violating its commitments under the Nuclear Suppliers Group (NSG). That said, on July 18, the White House announced that it intends to share sensitive nuclear technology with India. For its part, India agreed to place its civilian nuclear facilities under international monitoring and pledged to maintain its moratorium on nuclear testing. Interestingly, as noted in the *Washington Post*, the agreement does not require India to cease production of weapons-grade plutonium.²⁴

Before the United States could begin sharing nuclear technology with India, Congress would have to modify current, domestic nonproliferation laws. During debate over the new U.S.-India nuclear technology sharing initiative, some in Congress will likely raise the following arguments. First, until the recent announcement by the Bush Administration, the concept had been that a non-NPT country would be denied sharing in other nations' advancements in peaceful nuclear power if it decided to pursue a nuclear weapons program. Second, whatever regime is created by the United States for India (a non-signatory to the NPT and an actual nuclear weapons state) could likely become an incentive and model for other countries who either are not a party to the NPT or who determine that leaving the NPT has positive rewards (e.g., Iran).

Security

Continue to strengthen bilateral relationship. During Secretary Rice's recent trip to India, she "opened up wide the possibility of U.S.-India cooperation on nuclear power generation; co-production with India of multi-role combat aircraft; intensified collaboration on missile defense and expanded defense trade and cooperation; and a larger role for India in international organizations."²⁵ Such projects are in the interests of both countries and should be encouraged.

Continue to work with India on global War on Terrorism efforts. On April 20, 2005, Prime Minister Singh told the Indian Parliament that "the threat to the [Indian-Pakistani] peace process from extremist forces and terrorist organizations has not been eliminated."²⁶ Both the

²³ On December 27, 2004, the Indian government issued a Patent Amendment Ordinance that extends product patent protection to pharmaceuticals and agricultural chemicals. For more information, see USTR's 2005 Foreign Trade Barriers report.

²⁴ Dana Milbank, "U.S., India May Share Nuclear Technology," *Washington Post*, July 19, 2005.

²⁵ Robert Blackwill, "A New Deal for New Delhi," *Wall Street Journal*, March 21, 2005.

²⁶ Congressional Research Service, "India: Chronology of Recent Events," June 20, 2005.

United States and India share a common goal in addressing and eradicating the threat to their citizens posed by extremism and terrorism. The Bush Administration should continue to work with the Indian government to provide it with the necessary military items needed to combat separatist militant groups operating in India. The two countries should continue to build on tenets of the June 28, 2005 “new framework” and conduct more joint counterterrorism and military operations and exercises.

Enhance collaboration on trafficking issues. As it was reaffirmed on May 17, 2005 during the U.S.-India Global Issues Forum, the United States and India must continue their mutual efforts in addressing the threats of drug, weapon, and human trafficking that traverse India. On June 3, the State Department released its annual report on “Trafficking in Persons” annual report and found that India demonstrated an “inability to show evidence of increased efforts to address trafficking in persons.”²⁷ This is largely due to the fact that India’s state governments (and not the Indian national government) have been the entities engaged in enforcing anti-sex trafficking measures. However, the effort has been inhibited by the fact that the state governments cannot operate outside of their jurisdictions. The United States is pressing the Indian government to establish a national enforcement agency regarding all trafficking matters. Presently, India has a national enforcement agency for drugs, but nothing for sex trafficking or child/bonded labor. The Administration should work with the Indian government to address this challenge and ensure the Indian government addresses this as an issue of national importance.

Consider granting India the same “Major Non-NATO Ally” status as Pakistan. Last year, the Bush Administration extended “Major non-NATO Ally” (MNNA) status to Pakistan, as a way to acknowledge its role as a key U.S. partner in the War on Terrorism.²⁸ The designation means that Pakistan is eligible for priority delivery of excess defense articles, the stockpiling of U.S. defense articles, and participation in cooperative research and development programs, among other things. (Current MNNA countries include Australia, New Zealand, Japan, Egypt, Israel, South Korea, Argentina, Bahrain, and Jordan.) The Indian government quickly expressed its objections to Pakistan being afforded this designation. Given the strength of the U.S. relationship with India, the Bush Administration and Congress should consider granting equal MNNA status to India.²⁹ This would be a significant gesture in reaffirming the commitment the United States to India.

Conclusion

During the past four years, U.S.-India relations have reached a high point in terms of the frequency of contacts, the understanding of key issues, and the achievement of mutually beneficial goals. India is of major geo-strategic significance to the United States. The U.S.-India relationship encompasses cooperation that will shape the regional security situation in

²⁷ U.S. Department of State, “Trafficking in Persons Report,” June 3, 2005.

²⁸ On June 16, 2004, the Bush Administration designated Pakistan as a MNNA for purposes of the Foreign Assistance Act (FAA) and the Arms Export Control Act (22 U.S.C. § 2751 *et seq.*

²⁹ Presently, India has MNNA status under Title 10 and Title 22 of the U.S. Code, (AECA Section 27 [22 U.S.C. § 2767 and 10 U.S.C. § 2350b]), which allows it to conduct cooperative research and development projects on defense equipment and munitions with the United States.

Asia, including the encouragement of China to play a constructive role in the international system.

The road ahead promises great rewards for both the United States and India. The Bush Administration is committed to deepening and broadening bilateral relations with India. As part of this effort, the Administration and Congress should encourage New Delhi to take steps to resolve trade and investment issues. And, both nations will benefit from a more robust security relationship.