



**Congressional
Research Service**

Informing the legislative debate since 1914

India-U.S. Relations: Issues for Congress

(name redacted), Coordinator

Specialist in South Asian Affairs

(name redacted)

Specialist in International Trade and Finance

June 19, 2017

Congressional Research Service

7-....

www.crs.gov

R44876

Summary

India will soon be the world's most populous country, home to about one of every six people. Many factors combine to infuse India's government and people with "great power" aspirations: the Asian giant's rich civilization and history, expanding strategic horizons, energetic global and international engagement, critical geography (with more than 9,000 total miles of land borders, many of them disputed) astride vital sea and energy lanes, major economy (at times the world's fastest growing) with a rising middle class and an attendant boost in defense and power projection capabilities (replete with a nuclear weapons arsenal and triad of delivery systems), and vigorous science and technology sectors, among others.

In recognition of India's increasingly central role and ability to influence world affairs—and with a widely-held assumption that a stronger and more prosperous democratic India is good for the United States in and of itself—the U.S. Congress and two successive U.S. Administrations have acted both to broaden and deepen America's engagement with New Delhi. Such engagement is unprecedented after decades of Cold War-era estrangement and today takes place "across the spectrum of human endeavor for a better world," as described in a 2015 U.S.-India Declaration of Friendship. Washington and New Delhi launched a "strategic partnership" in 2005, along with a framework for long-term defense cooperation that now includes large-scale joint military exercises and significant defense trade. Bilateral trade and investment have increased while a relatively wealthy Indian-American community is exercising newfound domestic political influence, and Indian nationals account for a large proportion of foreign students on American college campuses and foreign workers in the information technology sector.

Yet more engagement has meant more areas of friction in the partnership, many of which attract congressional attention. India's economy, while slowly reforming, continues to be a relatively closed one, with barriers to trade and investment deterring foreign business interests. Differences over U.S. immigration law, especially in the area of nonimmigrant work visas, remain unresolved; New Delhi views these as trade disputes. India's intellectual property protection regime comes under regular criticism from U.S. officials and firms. The June 2017 announcement of U.S. withdrawal from the Paris Agreement on climate change dismayed many in India and brought into question significant ongoing bilateral collaboration in the energy field. Other stumbling blocks—on localization barriers and civil nuclear commerce, among others—add to sometimes argumentative associations. Meanwhile, cooperation in the fields of defense trade, intelligence, and counterterrorism, although vastly superior to that of only a decade ago, runs up against the obstacles variously posed by India's bureaucracy, limited governmental capacity, difficult procurement process, seemingly incompatible federal institutions, and a lingering shortage of trust, not least due to America's ongoing security relationship with and aid to India's key rival, Pakistan. Finally, Members of Congress take notice of human rights abuses in India, perhaps especially those related to religious freedom.

Despite these many areas of sometimes serious discord, the U.S. Congress has remained broadly positive in its posture toward the U.S.-India strategic and commercial partnership. Meanwhile, the Trump Administration has thus far issued amicable rhetoric overall (with some lapses) that suggests an intention to maintain the general outlines of recent U.S.-India ties.

This report reviews the major facets of current U.S.-India relations, particularly in the context of congressional interest. It discusses areas in which perceived U.S. and Indian national interests converge and areas in which they diverge; other leading Indian foreign relations that relate to U.S. interests; the outlines of bilateral engagement in defense, trade, and investment relations, as well as important issues involving energy, climate change; and human rights concerns. This report will be updated.

Contents

Overview	1
Notable Current Developments	3
The New U.S. Administration and India	3
U.S. Withdrawal from the Paris Agreement on Climate Change	4
U.S. Immigration Policy and Anti-Immigrant Sentiment in the United States	5
Immigration and H-1B Visas	5
Anti-Immigrant Sentiment	6
India's Economy, "Demonetization," and the Goods and Services Tax (GST).....	7
Indian State Elections, BJP Dominance, and Hindu Nationalism	8
India's Foreign Relations and U.S. Interests	9
India-Pakistan Relations and Kashmir	10
India-Afghanistan Relations.....	12
India-China Relations.....	12
India-Japan Relations	13
India-Iran Relations.....	14
U.S.-India Security Relations	14
Combined Military Exercises.....	17
Defense Trade.....	18
Intelligence and Counterterrorism Cooperation	19
Nuclear Weapons Proliferation and Multilateral Export Controls	21
U.S.-India Bilateral Trade and Investment Relations	23
Potential Avenues for Engagement	24
Bilateral Dialogues	25
Bilateral Investment Treaty (BIT) Negotiations	25
Multilateral and Plurilateral Engagement	25
Bilateral Free Trade Agreement (FTA) Negotiations.....	26
Key Issues in Trade and Investment Relations.....	26
Tariffs.....	26
Services.....	27
Agriculture.....	27
Intellectual Property Rights (IPR)	28
Localization Barriers to Trade	29
Investment.....	30
APEC Membership	30
Generalized System of Preferences (GSP).....	30
Trade Financing and Promotion.....	31
U.S.-India Civil Nuclear Cooperation.....	32
Temporary Workers in the United States.....	32
Energy and Climate Issues	33
Human Rights Concerns in India	34
U.S. Foreign Assistance to India	37
Outlook and Issues for Congress.....	38

Figures

Figure 1. Map of India.....	2
Figure 2. Map of the Kashmir Region.....	10
Figure 3. Map of the Indian Ocean Region	17
Figure 4. U.S. Trade with India, 2005-2016.....	23
Figure 5. U.S. and India Overall Tariff Rates.....	27
Figure 6. U.S.-India FDI	30

Tables

Table 1. Selected U.S. Trade Promotion Agencies, FY2013-2016 Activity.....	31
Table 2. Direct U.S. Foreign Assistance to India, FY2001-FY2018	37

Contacts

Author Contact Information	39
----------------------------------	----

Overview

India—South Asia’s dominant actor with about 1.3 billion citizens and the world’s third-largest economy by purchasing power—has been characterized as a nascent great power and “indispensable partner” of the United States.¹ Many analysts view India as a potential counterweight to China’s growing international clout.² For more than a decade, Washington and New Delhi have pursued a “strategic partnership.” In 2005, the United States and India signed a ten-year defense framework agreement to expand bilateral security cooperation; in 2015, the agreement was renewed for another decade. Bilateral trade in goods and services has grown significantly, valued at over \$115 billion in 2016, more than double the amount in 2006. Indians accounted for 70% of all H1-B (non-immigrant work) U.S. visas issued in FY2016, and more than 165,000 Indian students are attending U.S. universities, second only to Chinese. The influence of a relatively wealthy community of about 3 million U.S. residents of Indian descent is reflected in Senate and House India caucuses, among Congress’s largest country-specific caucuses.³

President Barack Obama sought to build upon the deepened U.S. engagement with India that began under President Bill Clinton in 2000 and expanded under President George W. Bush. An annual, bilateral Strategic Dialogue, established in 2009, met five times before its September 2015 “elevation” as the “Strategic and Commercial Dialogue” (S&CD). Indian Prime Minister Narendra Modi—the Bharatiya Janata Party (BJP) leader who took office in May 2014—made his first visit to the United States as prime minister in September 2014, when U.S. and Indian leaders issued a vision statement entitled “Forward Together We Go.” President Obama made his second state visit to India in 2015, becoming the first U.S. President to visit India twice while in office. The resulting Joint Statement’s 59 points were the most extensive and detailed ever produced by the two countries.⁴ The two countries issued a new “Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region,” which affirms the importance of safeguarding maritime security and includes language that could be seen as directed at a Chinese audience, with direct reference to the disputed South China Sea.⁵

Following the second S&CD in August 2016, U.S. officials issued a Joint Statement with their Indian counterparts that expressed “deep satisfaction” with the course of bilateral ties.⁶

¹ For example, in June 2010, then-Secretary of State Hillary Clinton said, “India is an indispensable partner and trusted friend. We believe that a rising India is good for the United States and good for the world” (see the June 3, 2010, State Department transcript at <https://go.usa.gov/xNvjB>).

² See, for example, Harsh Pant and Yogesh Joshi, *The US Pivot and Indian Foreign Policy* (Palgrave, 2016), and Amitabh Mattoo, “Shadow of the Dragon: Indo-US Relations and China,” in Gary Bertsch, Seema Gahlaut, and Anupam Srivastava, eds., *Engaging India: US Strategic Relations with the World’s Largest Democracy* (Routledge, 1999).

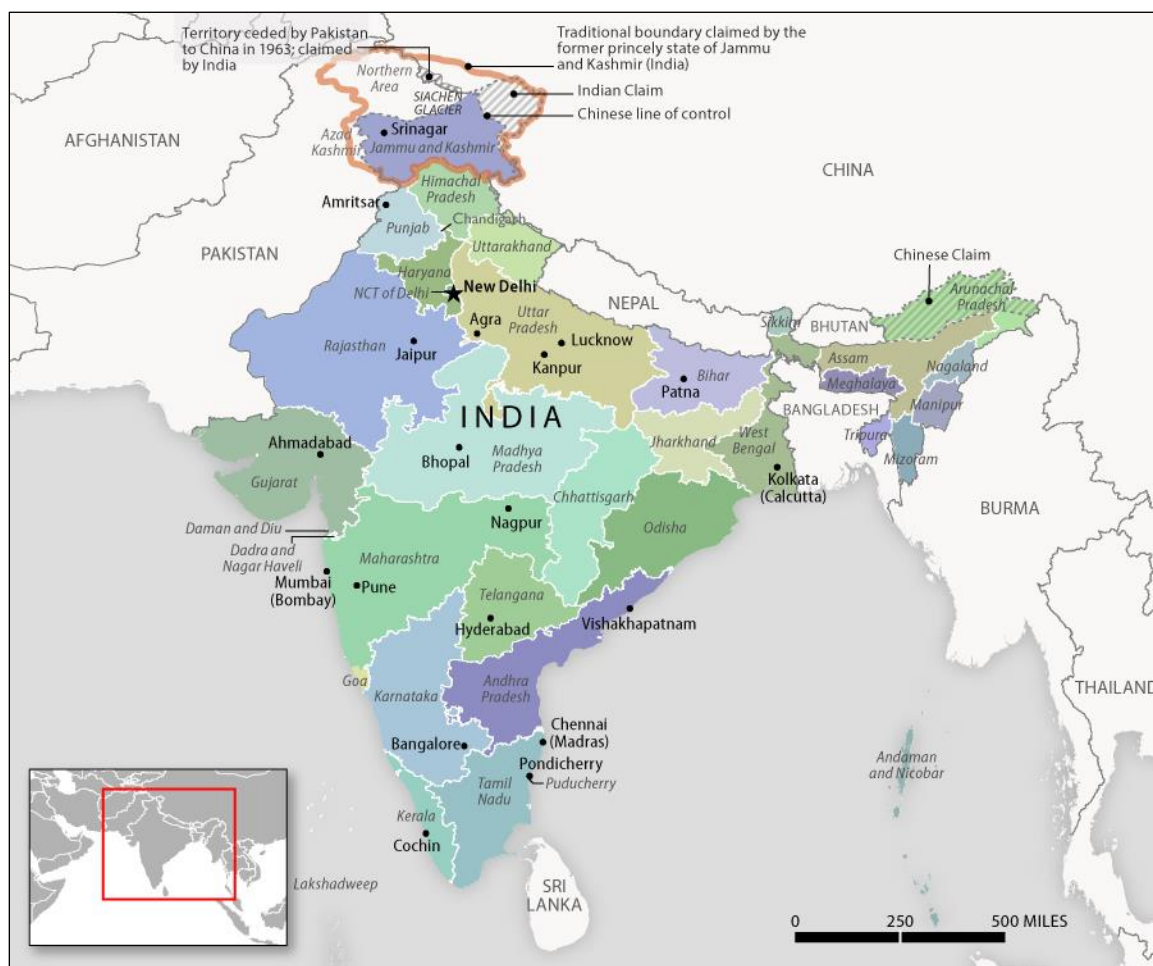
³ The U.S. Census Bureau estimates that there are 3.07 million people of Asian Indian descent living in the United States (see the data at <https://go.usa.gov/xNv6U>).

⁴ See the September 29, 2014, document at <http://go.usa.gov/Gr6h>. Under the heading “Shared Effort; Progress for All,” in 2015 the two leaders again pledged to enhance already expansive cooperation and to further elevate the relationship with a new bilateral “Declaration of Friendship” (see the January 25, 2015, document at <http://go.usa.gov/3cFWe>, and the Declaration of Friendship at <http://go.usa.gov/3cFZH>).

⁵ The one-page document includes affirmation of “the importance of safeguarding maritime security and ensuring freedom of navigation ... especially in the South China Sea,” and a call on all parties to resolve territorial disputes peacefully and in accordance with international law, including the U.N. Convention on the Law of the Sea (emphasis added; see <http://go.usa.gov/3cFBk>).

⁶ The two governments lauded “the expanded and strengthened course of bilateral engagement in recent times and (continued...)”

Figure I. Map of India



Source: Graphic created by CRS. Map information generated by (name redacted), Information Research Specialist, using data from personal conversations with the Department of State (2016); Department of State international boundary files (2015); Esri (2014); and DeLorme (2014).

Note: Boundary representations are not necessarily authoritative.

Cooperation has come through dozens of institutionalized dialogue mechanisms, as well as through people-to-people contacts; investment partnerships, infrastructure and “smart cities” collaboration; environment; science, technology, and space; health and education; persistent efforts to bolster a growing defense partnership through trade and joint exercises; and myriad cooperative initiatives in energy and climate.⁷

India’s decades of economic growth and new status as a donor government have contributed to a reduction in U.S. foreign assistance to India over time, from more than \$150 million in FY2005

(...continued)

reiterated their shared commitment to advance mutual prosperity, global peace, and stability.... The Sides noted that the deepening strategic partnership between the United States and India is rooted in shared values of freedom, democracy, universal human rights, tolerance and pluralism, equal opportunities for all citizens, and rule of law” (see the August 31, 2016, Joint Statement at <https://go.usa.gov/xNvjZ>).

⁷ See the relevant late August 2016 documents at <https://go.usa.gov/xNvj9>.

to \$85 million in FY2016. President Donald Trump's Administration has requested \$33.3 million in aid for FY2018 (see **Table 2**). To date, the Administration has made public only one major policy change likely to affect aspects of the course and scope of the U.S.-India partnership: a June announcement of U.S. withdrawal from the Paris Agreement on climate change, discussed below. New Delhi is closely monitoring other potential shifts in U.S. policy.

Notable Current Developments

The New U.S. Administration and India

While the Trump Administration has yet to name key policy figures for South Asia—including an Ambassador to New Delhi and relevant assistant secretaries for the region at the Departments of State and Defense—analysts have speculated on President Donald Trump's potential approach to the region. To date, the President himself has offered only limited indicators of how he might engage India going forward, but in an initial telephone conversation with Prime Minister Modi he referred to India as “a true friend and partner in addressing challenges around the world.”⁸ In a February phone conversation with his Indian counterpart, Defense Secretary James Mattis said the Trump Administration would build upon the “tremendous progress in bilateral defense cooperation made in recent years.” During an April visit to New Delhi and other regional capitals, the President's National Security Advisor, H.R. McMaster, met with Prime Minister Modi and other top Indian leaders to convey to them “the importance of the U.S.-India strategic relationship” and to reaffirm India's designation as a Major Defense Partner.⁹ President Trump is scheduled to meet with the visiting Indian leader in the White House in late June.

Numerous Indians appear to perceive President Trump as a “strong leader” with strident views on the threat posed by Islamist militancy. In this respect, many reportedly see in him a worthy partner for their own leader, one who may take a more adversarial posture toward India's key rival, Pakistan (recent reporting suggests that the President's Afghanistan policy may entail just this¹⁰). Some observers have thus anticipated what they refer to as a Trump-Modi “bromance” rooted in the two leaders' status as strong nationalists and their emphases on “majority grievance politics.”¹¹

However, expectations some have of personal bonhomie between the two leaders may be thwarted by substantive differences over immigration, trade, and relations with other countries, not least Iran, a major energy supplier for India. India's interest in continued immigration flows—

⁸ See the January 24, 2017, readout notice at <http://go.usa.gov/x9uRF>.

⁹ Pentagon's February 9, 2017, release at <https://go.usa.gov/xNwWb>. U.S. Embassy's April 18, 2017, release at <https://go.usa.gov/xNwDR>. The Republican Party's official 2016 platform called India “our geopolitical ally and a strategic trading partner,” and urged the New Delhi government to “permit expanded foreign investment and trade,” and to provide all of the country's religious communities “protection against violence and discrimination” (*Republican Platform 2016* at <https://www.gop.com/the-2016-republican-party-platform>).

¹⁰ “Trump Seen Hardening Line Toward Pakistan After Afghan War Review,” Reuters, June 20, 2017.

¹¹ Andrew North, “A Trump and Modi Bromance?,” *Foreign Affairs*, March 8, 2017. See also Srinath Raghavan, “If You Think Trump Is Good for India You Are in for a Shock” (op-ed), *Hindustan Times* (Delhi), February 15, 2017. One longtime Washington-based South Asia watcher, while acknowledging significant differences in their respective backgrounds and outlooks, predicts good chances for successful meetings between President Trump and Prime Minister Modi, contending that they are the most business-friendly leaders either country has had since India's 1947 independence. He notes that both also are suspicious of China's strategic objectives, and both are likely to favor increased Indian assertiveness in the Indian Ocean region (Walter Andersen, “South Asia and the Trump Administration” (notes for a presentation), February 18, 2017).

especially as related to the movement of information technology (IT) professionals, and issuance of related H1-B and other visas to Indian nationals—has New Delhi wary of any restrictive new U.S. policies. Some Indians variously express concerns that the Trump Administration could strike a broad “G-2”-like deal with Beijing, that India may rank low on the White House’s priority list, and that the U.S. President’s India team may be thin and ill-prepared.¹²

Some observers have been comfortable with the Trump Administration’s relative “silence” and “slow start” on India to date, with expectations that long-standing strategic considerations will continue to obtain and bring the two countries closer. Others note President Trump’s sometimes combative style and warn that his “America First” policies and Prime Minister Modi’s “Make in India” policies may prove difficult to reconcile.¹³

From a broad perspective, many independent analysts in both capitals express hope that the current U.S. Administration will continue the India-friendly approach taken by its two predecessors, perhaps especially to include an avoidance of the kinds of “transactional” expectations that, these observers argue, may impede progress.¹⁴ Regardless of policy preferences, most analysts in India stress the importance of having a consistent and credible U.S. actor in the region.¹⁵

U.S. Withdrawal from the Paris Agreement on Climate Change

President Trump’s June announcement of U.S. withdrawal from the Paris Agreement on climate change generally was received poorly in India, where both government and private sector are focused in earnest on developing renewable energy sources (see the “Energy and Climate Issues” section below).¹⁶ During his announcement, President Trump singled out India, claiming that the country “makes its participation contingent on receiving billions and billions and billions of dollars in foreign aid from developed countries.” The claim was later discredited.¹⁷ India’s external affairs minister responded by telling reporters there was “absolutely no reality” in the U.S. President’s allegations.¹⁸

¹² Indrani Bagchi, “Ride into the Storm” (op-ed), *Times of India* (Delhi), May 26, 2017; author interviews with Indian officials and independent analysts, New Delhi, April 2017.

¹³ “Experts Clash Over India-US Relations Under Trump,” *Defense News*, May 3, 2017.

¹⁴ For a representative example, see the essay by senior American India-watcher Ashley Tellis in “Avoiding the Labors of Sisyphus: Strengthening U.S.-India Relations in a Trump Administration,” Carnegie Endowment for International Peace, January 17, 2017.

¹⁵ In the words of one longtime analyst of India’s foreign relations, “An erratic and unpredictable American president is not helpful for a rising India” (author interview with senior Indian journalist, New Delhi, April 2017).

¹⁶ See the June 1, 2017, speech transcript at <https://go.usa.gov/xNv9k>. See also CRS In Focus IF10668, *Potential Implications of U.S. Withdrawal from the Paris Agreement on Climate Change*, by (name redacted).

¹⁷ “Fact-Checking President Trump’s Claims on the Paris Climate Change Deal,” *Washington Post*, June 1, 2017.

¹⁸ Quoted in “India Hits Back at Trump in War of Words Over Climate Change,” CNN.com, June 6, 2017. The speech was described by one leading Indian news outlet as “shrill ... replete with claims of American victimhood at the hands of the rest of the world” and was predicted to “cast a chill” on the Indian leader’s visit. A recent lead U.S. diplomat for the region offered that a “surprising swipe” at India had added to “a little bit of tension in the atmosphere” (“Trump Rant Against India Casts Shadow on PM Modi Visit to US,” *Times of India* (Delhi), June 2, 2017; former Assistant Secretary of State for South and Central Asia Nisha Biswal quoted in “Trade Expectations Likely During Modi’s US Visit,” *Straits Times* (Singapore), June 15, 2017).

U.S. Immigration Policy and Anti-Immigrant Sentiment in the United States

U.S. immigration policies and laws, and signs of anti-immigrant sentiment in the United States, receive headline coverage in India, where concerns about new restrictions on the former and increasing incidence of the latter are acute.

Immigration and H-1B Visas

The U.S. Administration's immigration policies, especially as related to the H-1B visa for highly-skilled foreign workers, are watched closely in India (see also the "Temporary Workers in the United States" section below). In recent years, Indian nationals have accounted for the great majority of such U.S. visa issuances—70% in FY2016—as well as work visas for their spouses.¹⁹ Critics of the H-1B program, a grouping that has included President Trump, contend that there is no shortage of qualified American workers to fill domestic jobs and that technology companies could be more energetic in efforts to recruit them.²⁰ This argument is contested by many sector executives, who report that the number of Americans with necessary skills is insufficient.²¹ The President's April Executive Orders that seek to ensure only the "most skilled and highest-paid" foreign workers receive U.S. visas are aimed at protecting American jobs in the IT sector.²² Indian opposition parties have urged Prime Minister Modi to press the American leader to reconsider his decision on limiting the issuance of H-1Bs.²³

¹⁹ While Indians receive the bulk of H-1Bs worldwide, Indian firms receive only 20%. According to the U.S. State Department, Indian nationals received more than 70% of the 180,057 H-1B and 84% of the 131,051 H-4 visas issued in FY2016 (see the data at <https://go.usa.gov/xXQKH>). A regulatory change in May 2015 gave H-4 dependent spouses who have started the process of obtaining employment-based legal permanent residence or who have obtained their own H-1B status eligibility to apply for employment authorization as an H-4. The Trump Administration is considering reversing this change, thereby removing work eligibility for H-4 dependent spouses, which could create a deterrent to future H-1B applicants.

²⁰ In defending his policy, the President said, "Right now, widespread abuse in our immigration system is allowing American workers of all backgrounds to be replaced by workers brought in from other countries to fill the same job for sometimes less pay." Jared Bernstein, a Senior Fellow at the Center on Budget and Policy Priorities and former Chief Economic Adviser to Vice President Joe Biden, has written, "There is simply no credible economic argument I've seen based on wage or employment trends that would support the notion that there's a near-term shortage in these fields. The wage trends in particular simply do not reflect excess demand relative to available supply" (see the President's April 18, 2017, remarks at <https://go.usa.gov/xNvXM>, and Bernstein's January 13, 2013, article "The Economics of Immigration" at <http://jaredbernsteinblog.com/the-economics-of-immigration>; see also a July 18, 2012, Brookings Institution symposium, "Geography of H-1B Workers," transcript at <https://www.brookings.edu/events/geography-of-h-1b-workers>).

²¹ According to the Information Technology Industry Council,

The skills gap is reflected in the employment market where vacancies in STEM fields outnumber qualified applicants by nearly two to one. Without skilled applicants to fill the void of STEM knowledge, we cannot keep the fast-growing occupations requiring these skills headquartered in the United States or provide American students to fill those vacancies. In short, STEM skills are needed today, and they will be even more sought after tomorrow. The U.S. and our students should not be left behind (see <http://www.itic.org/policy/skillsstem>).

See also "Meet the Foreign Tech Workers Left in Limbo by Trump," *New York Times*, April 19, 2017; "Will Trump H-1B Visa Reforms Hurt Businesses Across Arizona?," *Arizona Republic* (online), May 19, 2017.

²² Quoted in "Trump Orders Review of Visa Program to Encourage Hiring Americans," Reuters, April 19, 2017.

²³ "Press Trump to Reverse H-1B Visa Rules: Congress to PM Modi Ahead of US Visit," *Times of India* (Delhi), June 15, 2017.

Representatives of India’s IT sector—which employs some 4 million Indians and finds 60% of its business in the U.S. market—seek to promote the idea that it is a net generator of American jobs and raises billions of dollars in annual U.S. local, state, and federal tax revenue.²⁴ According to one widely-cited 2011 analysis published by the American Enterprise Institute, “Immigrants with advanced degrees boost employment for U.S. natives,” with each H-1B worker creating an average of 1.83 jobs for Americans.²⁵ Any relevant U.S. policy shifts raise new concerns for some Indian technology companies, as well as some other observers who see a link between any efforts to slow and/or reduce the issuance of such nonimmigrant work visas and the broader anti-immigrant advocacy seen in politics.²⁶

Pending legislation in Congress would raise the minimum annual wage for H-1B holders, currently \$65,000 (H.R. 670, for example, would double that to \$130,000, but IT firms resistant to such increases reportedly seek to keep the level closer to \$75,000). Some analysts argue that the higher wages could erode U.S. competitiveness and so result in a net loss of jobs.²⁷

Anti-Immigrant Sentiment

In February, an inebriated man in a Kansas bar reportedly verbally harassed two Indian nationals who were in the United States as tech workers on H-1B visas. The man reportedly suggested they did not belong in the country before allegedly shooting both with a handgun, killing one and injuring the other. The incident sparked a wave of outrage in the Indian media, with many linking it to a perceived xenophobic populism in Donald Trump’s presidential campaign (a similar incident in Washington state in March left a Sikh U.S. citizen of Indian origin with a gunshot wound).²⁸ Alleged anti-immigrant hate crimes in the United States capture the attention of many in India, with attendant worries that the United States may be becoming less safe for India’s visiting, students, scholars, and tech workers. Many prospective 2017 graduate students reportedly adjusted their plans as a result.²⁹

²⁴ Author meeting at India’s National Association of Software and Service Companies (NASSCOM), Noida, April 2017. In May, leading Indian IT firm Infosys announced an intention to create 10,000 new American jobs in what press reports characterized as partly a response to “political pressure from a Trump administration that wants to curb immigrant work visas.” (“Infosys, an Indian Outsourcing Company, Says It Will Create 10,000 U.S. Jobs,” *New York Times*, May 2, 2017.)

²⁵ See the report “Immigration and American Jobs” at <http://www.aei.org/publication/immigration-and-american-jobs>.

²⁶ “What Does the Suspension of Premium Processing of H1B Visas Mean?,” *Hindu* (Chennai), March 6, 2017; Seema Sirohi, “Down the H-1B Visa Hole: What the Other Side Says” (op-ed) *Wire* (New Delhi, online), March 10, 2017.

²⁷ H.R. 670, the “High-Skilled Integrity and Fairness Act of 2017,” was introduced in the House in January 2017. The reported annual median software industry salary in Silicon Valley is \$150,000 (“How India Will Benefit From Trump’s Protectionist Visa Curbs,” *Financial Times* (London), May 16, 2017). H.R. 392, the “Fairness for High-Skilled Immigrants Act of 2017,” also introduced in January, seeks to eliminate the per-country numerical limitation for employment-based immigrants, among other purposes.

²⁸ “An Act of Terror in America’s Heartland,” *Washington Post*, February 27, 2017. According to one analysis, violence and harassment of Americans of South Asian descent has increased in the last year, with 140 incidents recorded for the period November 2015–November 2016, as compared with 76 for the period January 2011–April 2014 (South Asian Americans Leading Together data cited in “After Kansas Shooting, a Community in Fear,” *New York Times*, March 3, 2017).

²⁹ “‘Everyone’s Nervous’: Some Students in India Rethink U.S. Study Plans After Kansas Shooting,” *Washington Post*, February 25, 2017; “After Kansas Shootings, Indians Are Wary of Coming to U.S.,” *New York Times*, February 26, 2017; “For Indians, Trump’s America is a Land of Lost Opportunity,” *New York Times*, April 23, 2017.

India's Economy, "Demonetization," and the Goods and Services Tax (GST)

Early 2017 growth data have dented India's claims to be the world's fastest-growing major economy, with China reclaiming the title, at least temporarily. India's growth rate in the first quarter of 2017 was 6.1%, bringing an annual rate of 7.1%, down from 8% the previous fiscal year.³⁰ May 2017 marked the third anniversary of Narendra Modi's seating as India's prime minister, spurring numerous assessments of the self-proclaimed reformer's progress at the national level. Conclusions on Modi's performance to date are decidedly mixed; one representative accounting finds little movement on the opening of markets, but sees considerable progress on liberalization and the reduction of FDI restrictions.³¹ Moreover, the rapid expansion of India's work force—roughly 1 million new workers enter the market each *month*—lead to complaints of "jobless growth" and persistent worries that India's "demographic dividend" could become a "demographic debacle."³²

In part, India's economic slowdown resulted from the Modi government's demonetization policy—implemented with two-hour's notice in November 2016—which was meant to cleanse the national economy of counterfeit and black market currency. It entailed the government's announcement that 500 and 1,000 rupee notes would cease to be legal tender.³³ The policy likely was harmful to India's short-term economic growth. In the longer term, however, lack of consistently robust investment, traceable largely to the existence of large-scale nonproductive loans, may be behind an apparent sputtering in India's growth rate. Some analysts contend that only deeper reforms will allow the economy to expand faster, and that the federal government needs to further remove bureaucratic obstacles, strengthen judicial and dispute resolution bodies, and ease restrictive land and labor laws.³⁴

India's domestic commerce has long been complicated by inconsistent levies among the myriad state governments. After years of debate, the federal government succeeded in passing new legislation to establish a uniform Goods and Services Tax (GST). In May, following lengthy negotiations among all state finance ministers, the federal Finance Ministry finalized the GST rate schedule for more than 1,200 items in 5 brackets, effectively creating a single market with a greater population than the United States, Europe, Brazil, Mexico, and Japan combined.³⁵

³⁰ The Chinese economy grew by 6.8% during the quarter ending in March ("India's GDP in Q4 Grows 6.1%, Loses Fastest Growing Economy Tag," *Times on India* (Delhi), May 31, 2017).

³¹ With 8 of the 30 "India Reforms Scorecard" items listed by a U.S.-based think tank completed, Modi arguably has made worthy progress given India's systemic hurdles and the BJP's inability to push certain measures through Parliament's upper house. (Richard Rossow, "Three Years of Modi Government: The Global Business View" (op-ed), Bloomberg-Quint (online), May 26, 2017; see the Center for Security and International Studies index at <http://indiareforms.csis.org>).

³² "India Must Be Careful: Jobless Growth Can Lead to Social Unrest," *Hindustan Times* (Delhi), March 15, 2017; "Modi Falls Short on Job Creation Promise," *Deccan Chronicle* (Bengaluru), May 23, 2017.

³³ The notes (worth roughly \$7.75 and \$15.50, respectively) accounted for about 86% of all circulating currency at the time. They were replaced with two new notes that were issued slowly, causing country-wide economic shocks (stock indices dropped by 6%) and leaving millions of people standing in long ATM lines to collect the new tender. The approach was widely panned by Indian and international economists, and was identified as a central cause of economic slowdown thereafter. Still, surveys indicated that Indians broadly approved of the effort, despite the hardship that resulted (see Bhaskar Chakravorti, "Early Lessons From India's Demonetization Experiment," *Harvard Business Review*, March 14, 2017).

³⁴ See, for example, Mahir Sharma, "India's No. 2 Again and Modi Should Be Worried" (op-ed), Bloomberg News, June 2, 2017.

³⁵ "A 'Tax Revolution' Set to Sweep India's \$2 Trillion Economy," Bloomberg News, May 21, 2017.

Implementation is expected to begin within months, with many analysts optimistic about the potential spike in interstate trade that could result.³⁶ Moreover, a newly implemented bankruptcy law may improve the attractiveness of India's credit markets, which currently house more than \$100 billion in gross nonperforming loans.³⁷

Indian State Elections, BJP Dominance, and Hindu Nationalism

India's federal system provides significant power to the various states, and state-level politics has significant influence on both the course of national politics and on the relative levels of legal and regulatory constraints on commerce within the states. Elections to state legislatures in five Indian states took place in March 2017, most notably in Uttar Pradesh (UP), the country's most populous state with more than 200 million residents and nearly 15% of parliamentary seats (see **Figure 1**). In an unexpected sweep, the BJP had won 71 of those 80 seats in the 2014 national elections—up from only 10 in 2009. The March polls were widely expected to provide a crucial measure of existing political support for the federal government of Prime Minister Modi and his party, especially in the wake of its controversial autumn 2016 “demonetization” policy.

The long-dominant Indian National Congress Party, which had been ousted at the federal level in 2014, looked to the March elections as an opportunity to recover from recent setbacks. The relatively new and corruption-focused Aam Aadami Party, which runs the Delhi state government, hoped to expand its base. Meanwhile, the large caste-based regional parties traditionally strong in UP saw the elections as a chance to push back against the “BJP wave.”³⁸

All of these contenders were disappointed when the BJP took 325 of UP's 403 legislature seats (the Congress Party was able to find some solace in displacing the BJP-allied government in Punjab). The win solidified the BJP's status as the country's dominant political party, as well as Modi's apparent status as the country's most popular politician.³⁹ It also appeared to indicate that Modi in a strong position for reelection in 2019 federal elections. The UP win will most likely lead to a BJP majority in Parliament's upper house in coming years, potentially facilitating passage of pending economic reform legislation. Meanwhile, the results brought into high relief the weakened position of India's opposition parties.⁴⁰

Numerous commentators argue that apparent the new dominance of Prime Minister Modi and the BJP bode poorly for the future of India's democratic and pluralist traditions.⁴¹ This relates to some of the human rights concerns expressed by some in the U.S. Congress, among others. Modi,

³⁶ Author interviews with Indian government officials and independent analysts, New Delhi, April 2017.

³⁷ “India's Bad Debt Is Looking Better to Investors,” *New York Times*, May 29, 2017.

³⁸ See also CRS In Focus IF10359, *Pakistan's Domestic Political Setting*, by (name redacted) .

³⁹ “Maximum Leader,” *India Today* (Delhi), May 18, 2017. By many broad measures, India's economic and security circumstances have not significantly changed in the three years since the Modi government took power. Some observers explain the prime minister and his party's continued political dominance by arguing that Modi's communication and public relations skills have succeeded in defining the country's political narrative despite a mixed governance record (see, for example, Shivam Vij, “The 7 Cs of Narendra Modi's Political Success” (op-ed), *Huffington Post India* (online), May 18, 2017).

⁴⁰ Soutik Biswas, “How PM Modi Destroyed Rivals in India's Uttar Pradesh,” *BBC News*, March 11, 2017; Milan Vaishnav, “Modi's Victory and the BJP's Future,” *Foreign Affairs*, March 15, 2017.

⁴¹ One warns that “India has moved from a constitutional democracy to a populist democracy” that could give way to outright dictatorship. Another faults Modi for “trying to build a homogenous national community in an irrevocably diverse country” (Dushyant Dave, “Ambedkar Is Losing, Modi Is Winning,” *Wire* (New Delhi, online), March 10, 2017; Pankaj Mishra, “What's Wrong with Modi's Outmoded Idea of India” (op-ed), *Bloomberg News*, May 23, 2017).

a self-avowed Hindu nationalist, had a controversial past as chief minister of Gujarat, but as a national politician has postured himself as a provider of economic growth and development rather than as a religious ideologue. That posture may be changing in 2017: his decision to install a Hindu cleric and hardliner, Yogi Adityanath, as UP chief minister surprised and baffled analysts, with one U.S.-based observer calling it a “regressive choice” and another labeling it “interesting and risky.”⁴² There are new fears of rising Hindu chauvinism among many in the country’s large Muslim minority of roughly 200 million persons, as well as significant Christian and other minority communities.⁴³ (See also the “Human Rights Concerns in India” section below.)

India’s Foreign Relations and U.S. Interests

India’s long-held focus on maintaining “non-alignment” in the international system—more recently conceived by Indian officials as “strategic autonomy”—is, in the current century, shifting toward increased bilateral engagements, perhaps especially with the United States and with greater energy under the Modi government. At present, the most important state actors when India looks outward are Pakistan (which is often described by New Delhi as “an epicenter of terrorism” and urgent “threat”) and China (a growing “challenge” now increasingly present in India’s neighborhood).⁴⁴ India shares lengthy disputed borders with both countries and sits astride vital sea lanes.⁴⁵

New Delhi has long sought a permanent seat on the UN Security Council, a goal for which the U.S. government indicated support in 2010, when President Obama told a joint session of India’s Parliament that he looked forward, “in the years ahead ... to a reformed UN Security Council that includes India as a permanent member.” New Delhi today insists that it has all necessary credentials, as well as support from four of the five current permanent members (the outlier, China, has not publicly opposed).⁴⁶

What follows is a brief review of five key Indian bilateral relations having direct bearing on perceived U.S. national interests, those with Pakistan, Afghanistan, China, Japan, and Iran.⁴⁷ New

⁴² Milan Vaishnav quoted in “Firebrand Hindu Cleric Yogi Adityanath Picked as Uttar Pradesh Minister,” *New York Times*, March 18, 2017; “Choice of Adityanath is Risky, Says Walter Andersen” (interview), *Hindu* (Chennai), March 23, 2017.

⁴³ Abdul Shaban, “A New Normal in UP” (op-ed), *Indian Express* (Mumbai), March 17, 2017; Pratap Bhanu Mehta, “In the Moment of His Political Triumph, Modi Has Chosen to Defeat India” (op-ed), *Indian Express* (Mumbai), March 20, 2017.

⁴⁴ Author meeting with Indian Deputy National Security Advisor Avirind Gupta, National Security Council Secretariat, New Delhi, April 2017.

⁴⁵ See also CRS In Focus IF10560, *The Changing Geopolitics of Asia: Issues for Congress*, by (name redacted), (name redacted), and (name redacted).

⁴⁶ India emphasizes that any initiative to expand the Security Council should not create a tiered system, but should provide each new permanent member all the same prerogatives, including the power to veto resolutions (“India Will Become Permanent Member of UN Security Council: Swaraj,” Press Trust India, April 4, 2017; President Obama’s November 8, 2010, speech transcript at <https://go.usa.gov/xNwKM>).

⁴⁷ India also maintains historic political and primary defense trade relations with Russia; growing diplomatic and high-technology defense trade relations with Israel; key energy sourcing from and the presence of millions of Indian expatriates providing remittances in Saudi Arabia and the Gulf Cooperation Council states; and various levels of political, economic, and defense relations with its other South Asian neighbors (Bangladesh, Nepal, and Sri Lanka), as well as Australia, Taiwan, South Korea, and the Association of South East Asian Nations states, among others.

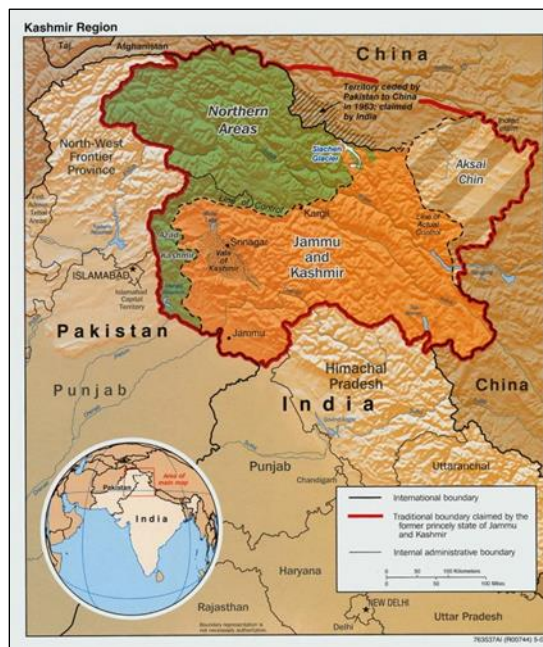
Delhi is also pursuing an “Act East” policy in Southeast and East Asia that in some aspects dovetailed with the Obama Administration’s policy of “rebalance” toward Asia.⁴⁸

India-Pakistan Relations and Kashmir

The India-Pakistan border and disputed territory of Kashmir have been sites for multiple wars and are regularly identified as a potential nuclear “flashpoint.” Both countries formally claim sovereignty over the former princely state, with India controlling roughly two-thirds of that territory, including the Muslim-majority Valley region (see **Figure 2**). New Delhi has long been wary of close U.S.-Pakistan relations, especially those involving significant transfers of funds and equipment to the Pakistani military. The decades-long history of India-Pakistan rivalry and conflict is again in a delicate phase in the early 2017, with lethal gun and artillery duels across the Kashmiri Line of Control (LOC) that separates Indian and Pakistan forces more frequent.⁴⁹

Since taking office in 2014, Prime Minister Modi’s government has tread cautiously with Pakistan while some of his Hindu nationalist ministers have issued belligerent rhetoric about Pakistan’s assumed status as a hotbed of anti-India terrorists. Sporadic high-level engagement was cut off in mid-2015, but year’s end saw new signs of Indian willingness to negotiate, culminating with Modi’s surprise Christmas Day 2015 visit to Pakistan. The opening of 2016, however, again brought the fragile process into question following a January attack on an Indian military base at Pathankot, Kashmir, by Pakistan-based militants that left seven Indian soldiers dead. Then, in September, 4 heavily-armed militants raided an Indian base in Uri, Kashmir, and killed 19 soldiers before dying themselves after a day-long gun battle. Following the latter attack, New Delhi claimed to have

Figure 2. Map of the Kashmir Region



Source: Adapted by CRS.

Notes: Boundary representations are not necessarily authoritative.

⁴⁸ In 2014, the Modi government relabeled India’s decades-old “Look East” policy as “Act East” to signify more concrete progress in developing greater political, trade, and defense ties in eastern Asia. While engagement with regional institutions and security cooperation are progressing, physical connectivity—primarily via Bangladesh into ASEAN—remains limited (see Dhruva Jaishankar, “Actualizing East: India in a Multipolar Asia,” *ISAS Insights* (Singapore), May 23, 2017).

⁴⁹ Bellicose rhetoric between New Delhi and Islamabad increased following May 1, when two Indian soldiers in Kashmir allegedly were beheaded by Pakistani forces (Pakistani officials deny the charge). Moreover, Pakistan has threatened to execute an alleged Indian spy it arrested in southern Pakistan in 2016 (India denies the man is a spy and a UN court has ordered Pakistan to halt the planned execution) (“Nine Killed in Indian-Controlled Kashmir as Violence Grows in the Disputed Territory,” *Los Angeles Times*, May 1, 2017; “UN Court Orders Pakistan Not to Execute Indian Spy,” *BBC News*, May 18, 2017).

launched a “surgical strike” against militant targets in Pakistan-held Kashmir, spurring Islamabad to condemn India’s alleged “naked aggression.”⁵⁰

New Delhi blamed both the Pathankot and Uri attacks on the Pakistan-based Jaish-e-Mohammed terrorist group and insists that the Islamabad government cooperate in bringing alleged conspirators to justice. Many analysts saw the attacks as expressions of opposition to the India-Pakistan peace process emanating at least in part from Pakistan’s military and intelligence institutions. A top Trump Administration official recently noted Pakistan’s “failure to curb support to anti-India militants” and made note of “New Delhi’s growing intolerance of this policy.”⁵¹

Violent street protests in India’s Muslim-majority Jammu and Kashmir state spiked after the mid-2016 killing of well-known young militant leader Burhan Wani in a firefight with Indian security forces (the region’s sovereignty is disputed by Pakistan, which has actively supported armed separatist militants there). Scores of protesters were killed and many others maimed by police using controversial “non-lethal” pellet ammunition.⁵² In the spring of 2017, new discord is emerging with apparently rising levels of anger among youth in the Kashmir Valley, as well as civilian support for insurgency. A new spike in street protests came in May with the killing of another well-known militant commander and childhood friend of Wani’s.⁵³ Most recently, India’s military says it destroyed several militant outposts on the Pakistani side of the LOC (Islamabad denies the claim) and Pakistan says five Indian soldiers were killed in a June gun battle at the LOC (New Delhi denies the claim).⁵⁴

The long-standing U.S. position on Kashmir is that the issue should be resolved between India and Pakistan while taking into account the wishes of the Kashmiri people. In April 2017, U.S. Ambassador to the United Nations Nikki Haley told reporters that the Trump Administration would seek to “find its place to be a part of” efforts to de-escalate India-Pakistan tensions, suggesting that the United States might alter its policy of not engaging in the bilateral dispute. While Pakistan welcomed the statement, India quickly rejected any notion of third-party mediation of what New Delhi insists is a strictly bilateral dispute.⁵⁵

⁵⁰ “Kashmir Attack: India ‘Launches Strike Against Militants,’” BBC News, September 30, 2016.

⁵¹ As described by the U.S. Director of National Intelligence in his May 2017 “Worldwide Threat Assessment” for the Senate Armed Services Committee,

Relations between India and Pakistan remain tense following two major terrorist attacks in 2016 by militants crossing into India from Pakistan. They might deteriorate further in 2017, especially in the event of another high-profile terrorist attack in India that New Delhi attributes to originating in or receiving assistance from Pakistan. Islamabad’s failure to curb support to anti-India militants and New Delhi’s growing intolerance of this policy, coupled with a perceived lack of progress in Pakistan’s investigations into the January 2016 Pathankot cross-border attack, set the stage for a deterioration of bilateral relations in 2016 (see the statement and other documents from the May 23, 2017, hearing at <https://go.usa.gov/xNvj4>).

⁵² See, for example, a July 12, 2016, release by Human Rights Watch at <https://www.hrw.org/news/2016/07/12/india-investigate-use-lethal-force-kashmir>.

⁵³ “Kashmir Unrest Enters ‘Dangerous New Phase’ as Protests Threaten India’s Grip,” *Time*, May 10, 2017; “With Stones—and Phones—Kashmiri Youth Show Deepening Resolve Against India,” *Christian Science Monitor*, June 1, 2017; “Protests Erupt in India’s Kashmir After Militant Commander Is Killed,” *Washington Post*, May 27, 2017.

⁵⁴ “India Hits Positions Across the Line of Control With Pakistan,” Bloomberg News, May 23, 2017; “Five Indian Soldiers Killed in LoC Firing, Claims Pakistan,” *Hindu* (Chennai), June 3, 2017.

⁵⁵ “Pakistan Accepts, India Rejects US Peace Talks Offer,” *Dawn* (Karachi), April 4, 2017.

India-Afghanistan Relations

The U.S.-led effort to stabilize Afghanistan has faced numerous setbacks, and a top U.S. military commander told a Senate panel in February that U.S. and allied forces there face a “stalemate.”⁵⁶ New Delhi takes a keen interest in maintaining positive relations with the Kabul government, and India is the largest regional contributor to Afghan reconstruction, pledging at least \$2 billion toward that effort since 2001. Indian leaders say they envisage a peaceful Afghanistan that can serve as a hub for regional trade and energy flows. Geography dictates that Afghanistan serve as India’s trade and transit gateway to Central Asia, but Pakistan blocks a direct route, so India has sought to develop Iran’s Chabahar Port on the Arabian Sea as a means of bypassing Pakistan (see Iran discussion below).

By many accounts, India and Pakistan are vigorously jockeying for influence in Afghanistan, and high-visibility Indian targets have come under attack there, allegedly from Pakistan-based and possibly -supported militants. Indian leaders remain deeply skeptical of an apparent U.S. reliance on Pakistani interlocutors there and have taken some moves toward providing security-related assistance to the Kabul government.⁵⁷ Many Indians now welcome a substantive and lasting U.S. presence in Afghanistan, a notable shift from only a few years ago.⁵⁸

India-China Relations

India’s relations with China have been fraught for decades, with signs of increasing enmity in recent years. A brief, but bloody 1962 India-China War left in place what is among the world’s longest disputed international borders, with Beijing today formally claiming the entirety of India’s Arunachal Pradesh state as its territory, calling it “South Tibet.” The Chinese also take issue with the presence of the Dalai Lama and a self-described “Central Tibetan Administration” and “Tibetan Parliament in Exile” on Indian soil. The Dalai Lama’s April 2017 visit to the Buddhist temple in Tawang, Arunachal Pradesh, spurred Beijing to issue a formal protest, demanding that New Delhi “stop using the Dalai Lama to do anything that undermines China’s interests.” It was the first such protest in nine years, and India’s insistence on allowing the visit may reflect a Modi government response to China’s newly expanded investment in Pakistan.⁵⁹

China has long been a major supporter of Pakistan—providing advanced weapons, nuclear technology, and fulsome foreign investment—and is increasing its presence in the Indian Ocean region in ways that could potentially constrain India’s regional influence. The China Pakistan Economic Corridor (CPEC) is a Chinese initiative to develop energy, commercial, and infrastructure links between its western Xinxiang province and Pakistan’s Arabian Sea coast. CPEC is a major facet of China’s broader Belt and Road Initiative (BRI), also known as the One Belt One Road (OBOR).⁶⁰ Formally launched in late 2014, the effort may see Beijing invest up to

⁵⁶ “Afghan War Faces Flurry of Setbacks as New US Policy Nears,” *Washington Post*, June 18, 2017. See also CRS Report RL30588, *Afghanistan: Post-Taliban Governance, Security, and U.S. Policy*, by (name redacted) and (name redacted) .

⁵⁷ “India to Support Afghan Govt With Russian-Made Arms,” *Daily Times* (Lahore), November 29, 2016; “India, Afghanistan Plan Air Cargo Link Over Pakistan,” *Economic Times* (Mumbai), December 3, 2016.

⁵⁸ Author interviews in New Delhi, April 2017.

⁵⁹ “China Bursts Out Against Dalai Lama Visit to Tawang,” *Times of India* (Delhi), April 5, 2017.

⁶⁰ See CRS In Focus IF10273, *China’s “One Belt, One Road,”* by (name redacted) and (name redacted).

\$60 billion in Pakistan. India formally objects to the BRI and refrains from any participation due to complaints that the transit lines run across territory claimed by India.⁶¹

Combined with ongoing Chinese outreach to other South Asian littoral states, notably including port projects in Sri Lanka and Bangladesh—and a recent sale of a pair of Chinese-built diesel-electric submarines to the latter—the CPEC and BRI have New Delhi watchful for further signs that Beijing seeks to “contain” Indian influence. By some accounts, China has shifted from establishing a presence in South Asia and the Indian Ocean region to seeking preeminence there, as manifested in the BRI, thus sharpening India-China competition.⁶²

In 2017, two key issues appear to be obstructing a turn to friendlier India-China ties. One entails Beijing’s status as the sole member of the UN Security Council refusing to allow the United Nations to designate Pakistani national Masood Azhar, leader of the anti-Indian terrorist group Jaish-e-Mohammed, as a “global terrorist” (China claims there is insufficient evidence to do so). Another grows from China’s role as the most influential state to oppose India’s accession to the Nuclear Suppliers Group, which many Indian analysts view as another of China’s numerous efforts to prevent India from increasing its global influence and prestige.⁶³

Despite these multiple sources of bilateral friction, China has emerged as India’s largest trade partner in recent years. Greater Chinese investment capital, technology, and management skills is welcomed by many in India, and China has pledged to invest hundreds of billions of yuan in India over the next five years. New Delhi officials regularly state a desire to maintain non-adversarial, if not friendly relations with Beijing. In June, India (along with Pakistan) became a full member of the Shanghai Cooperation Organization (SCO).⁶⁴

India-Japan Relations

India’s deepening engagement with Japan is an aspect of New Delhi’s broader “Act East” policy.⁶⁵ Relations only began to blossom in the current century after being significantly undermined by India’s 1998 nuclear weapons tests. Today, leaders from both countries acknowledge numerous common values and interests as they engage in a “strategic and global partnership” formally launched in 2006. A bilateral free trade agreement was finalized in 2011. Japanese companies have made major investments in India over the past decade, most notably with the \$100 billion Delhi-Mumbai Industrial Corridor project.

⁶¹ Some U.S. officials suggest that Indian leaders fear the BRI could create a circumstance in which “all roads lead to Beijing,” allowing China to establish “debt bondage” in South Asia. There has been criticism of Modi’s decision to boycott the BRI forum by allegedly sacrificing potentially significant gains for India’s infrastructure through participation in the BRI for a rigid rhetorical commitment to Gilgit’s territory that is unlikely to alter the status quo (author interviews with U.S. officials, New Delhi, April 2017; Prem Shankar Jha, “Modi’s Beijing Policy is Like Cutting Off India’s Nose to Spite China’s Face” (op-ed), *The Wire* (online, New Delhi), May 12, 2017).

⁶² “Purchase of Chinese Subs by Bangladesh ‘An Act of Provocation’ Toward India,” *Defense News*, November 23, 2016; Shayam Saran, “In Year Four, Modi’s Foreign Policy Needs Some Course Correction,” (op-ed), *The Wire* (online, New Delhi), May 29, 2017.

⁶³ See, for example, Mayuri Mukherjee, “India-China Strategic Dialogue: Big Talk, Little Progress,” *South Asian Voices* (online), February 28, 2017; Rakesh Krishnan Simha, “The Dragon Is Cornered—Here’s What to Do Next,” *Swarajyamag* (online), March 7, 2017.

⁶⁴ New Delhi appears to view SCO membership as a path to better accessing Central Asia, especially by benefiting from the Russia-China trade routes that transit that region. But some analysts warn that the SCO, an otherwise unaccomplished grouping, serves primarily to elevate China’s regional status while constraining American influence, and that New Delhi’s status as the body’s sole member that rejects the BRI could undercut India’s influence in the SCO (Harsh Pant, “The SCO Illusion Takes India,” *Observer Research Foundation* (New Delhi), June 9, 2017).

⁶⁵ See also CRS Report RL33436, *Japan-U.S. Relations: Issues for Congress*, coordinated by (name redacted).

U.S., Indian, and Japanese naval vessels held unprecedented combined naval exercises in the Bay of Bengal in 2007, trilateral exercises that continue. In 2015, then-Secretary of State Kerry hosted his Indian and Japanese counterparts for the inaugural U.S.-India-Japan Trilateral Ministerial, a dialogue that has sought to highlight the growing convergence of the countries' respective interests in the Indo-Pacific region and to be a platform for strengthened three-way cooperation.⁶⁶ Indian Defense Minister Arun Jaitley was in Tokyo in May to discuss with his Japanese counterpart ways to further bolster their bilateral military engagement.⁶⁷

India-Iran Relations

India's relations with Iran traditionally have been positive and are marked by what successive governments in both capitals call "civilizational ties." As India has grown closer to the United States and other Western countries in recent decades, however, its Iran policy has become more nuanced. New Delhi fully cooperated with U.S.-led sanctions by significantly reducing its importation of Iranian oil before 2016, at some cost to its relationship with Tehran,⁶⁸ and had previously withdrawn from a project to construct a pipeline to deliver Iranian natural gas to India through Pakistan (the "IPI" pipeline). Yet Iran remains a vital source of hydrocarbon fuels to meet India's booming energy needs, and New Delhi has committed some \$500 million to develop Iran's Chabahar port, in large part to provide India with access to Central Asian markets bypassing Pakistan. Current uncertainty about U.S. policy may be causing significant delays in Chabahar's development, with international bankers reportedly unwilling to finance contracts that could run afoul of unilateral U.S. sanctions.⁶⁹

U.S.-India Security Relations

The Obama Administration focused increased attention on development of closer U.S.-India defense relations during 2016; then-Secretary of Defense Ashton Carter was in India in mid-year for his fourth meeting with his Indian counterpart. The visit produced a Joint Statement reviewing "important steps" taken over the preceding year and identifying priorities for the next, including expanding collaboration under the Defense Technology and Trade Initiative (DTTI), supporting New Delhi's "Make in India" efforts to boost indigenous manufacturing, and new opportunities to deepen cooperation in maritime security and maritime domain awareness, among others.⁷⁰ Before leaving office, Secretary Carter met with his Indian counterpart twice more, and departed lauding the strategic and technological progress made during his tenure.⁷¹

Proponents of deeper bilateral defense engagement—government officials and independent analysts, alike, in both capitals—expressed appreciation for the principal-level attention Carter brought to India within the U.S. government; some privately express alarm that may not be the

⁶⁶ See the State Department's September 29, 2015, release at <https://go.usa.gov/xNvNk>.

⁶⁷ "Japan, India to Strengthen Defense Cooperation," Associated Press, May 8, 2017.

⁶⁸ See CRS Report RS20871, *Iran Sanctions*, by (name redacted) .

⁶⁹ "India's Plans to Develop Key Iranian Port Faces U.S. Headwinds," Reuters, June 9, 2017. See also CRS Report RS20871, *Iran Sanctions*, by (name redacted) .

⁷⁰ See the April 12, 2016, Joint Statement at <http://go.usa.gov/cJc6w>.

⁷¹ Carter praised the two "handshakes" between the U.S. and Indian militaries: (1) a "strategic handshake" in the confluence of President Obama's Asia rebalance policy with the Modi government's Act East policy, and (2) a "technological handshake" expressed through new efforts at cooperation and co-production in the defense realm (see the August 29, 2016, remarks at <http://go.usa.gov/x8EMa>. See the same day's Joint Statement at <http://go.usa.gov/x8EMg>).

case going forward. While DTTI engagement remains robust at the middle levels, the absence of senior-level confirmed appointees in several leadership positions in the U.S. administration is seen by some as likely to obstruct better progress, and there currently are no new arms sales in the pipeline meeting the threshold for congressional notification.⁷²

President Obama recognized India as a “major defense partner” during Prime Minister Modi’s June 2016 visit to Washington, DC, a designation allowing India to receive license-free access to dual-use American technologies that was formalized by Congress in December.⁷³ The DTTI and Joint Technical Group (JTG) both met in New Delhi in mid-2016, with U.S. officials accompanied by representatives of several American defense firms. During the visit India inked a \$1.1 billion contract to purchase an additional four Boeing P-8I *Poseidon* maritime patrol aircraft.⁷⁴

The India-U.S. Defense Policy Group—moribund after India’s 1998 nuclear tests and ensuing U.S. sanctions—was revived in 2001 and has met annually since. Its four subgroups—a Military Cooperation Group, a Joint Technology Group, a Senior Technology Security Group, and a Defense Procurement and Production Group—have met throughout the year. In 2005, the United States and India signed a ten-year defense pact outlining planned collaboration in multilateral operations, expanded two-way defense trade, increased opportunities for technology transfers and co-production, and expanded collaboration related to missile defense. In 2015, the pact was both enhanced and renewed for another ten-year period.⁷⁵

U.S.-India security cooperation has blossomed in the 21st century in a relatively new dynamic of both Asian and global geopolitics. This new U.S. defense engagement with India has developed despite a concurrent U.S. rapprochement and military alliance with India’s main rival, Pakistan. U.S. diplomats have rated military cooperation among the most important aspects of transformed bilateral relations, viewed the bilateral defense partnership as “an anchor of global security,” and extolled India’s growing role as a net provider of security in the Indian Ocean Region (IOR, see **Figure 3**). However, other observers call attention to what they view as significant and ongoing limitations on India’s ability to fully embrace this role.⁷⁶

Despite general optimism among U.S. officials and independent boosters about India’s potential in this realm, some analysts contend that India’s ability to influence regional security dynamics significantly will continue to remain limited in coming years and decades.⁷⁷ Moreover, signs that “New Delhi remains a priggish suitor in the face of Washington’s ardent embrace,” as articulated

⁷² Author interviews with U.S. government officials and meeting with analysts at the Institute for Defense Studies and Analyses, New Delhi, April 2017.

⁷³ See the June 7, 2016, Joint Statement at <http://go.usa.gov/x8EFV>. This status was recognized by Congress later in 2016 in Section 1292 of the National Defense Authorization Act for FY2017 (P.L. 114-328), which discusses “enhancing defense and security cooperation with India.”

⁷⁴ In 2016, the two governments agreed to establish five new joint working groups, including Naval Systems; Air Systems, Intelligence, Surveillance, and Reconnaissance; Chemical and Biological Protection; and Other Systems (see the Pentagon’s DTTI fact sheet at <http://www.acq.osd.mil/ic/DTTI.html>; see also Jeff Smith and Alex Werman, “Assessing US-India Defense Relations: The Technological Handshake,” *Diplomat* (Tokyo), October 6, 2016).

⁷⁵ See the June 3, 2015, document at <http://www.defense.gov/Portals/1/Documents/pubs/2015-Defense-Framework.pdf>.

⁷⁶ See, for example, the December 10, 2015, comments of Secretary Carter at <http://go.usa.gov/cnsyW>; Arzan Tarapore, “India’s Slow Emergence as a Regional Security Actor,” *Washington Quarterly*, Summer 2017.

⁷⁷ See, for example, the views of a longtime Indian observer who finds that India’s “great power” aspirations are not supported by “the resource profile that must underpin such ambitions” in the military realm, and another senior analyst who takes a similar view in arguing that India’s intelligence and counterterrorism agencies remain poorly trained and resourced, and woefully understaffed (Ajai Sahni, “Don’t Bet on a Big Role for India in Regional Security,” *East Asia Forum*, February 20, 2016; Praveen Swami, “A Deep Malaise” (op-ed), *Indian Express* (Mumbai), February 25, 2016).

by one analyst—a perceived Indian hesitance rooted largely in wariness about U.S.-Pakistan ties and an aversion to antagonizing China—may present further obstacles.⁷⁸

Some Indian observers continue to express concern that the United States is a fickle partner on which India may not always rely to provide the reciprocity, sensitivity, and high-technology transfers it seeks, and that may act intrusively in defense affairs. This contributed to New Delhi’s years-long political resistance to signing three “foundational” defense cooperation accords with the United States (more recently called “facilitating” agreements by U.S. officials): the Communications Interoperability and Security Memorandum of Agreement (CISMoa), the Basic Exchange and Cooperation Agreement for Geospatial Cooperation (BECA), and the Logistics Exchange Memorandum of Agreement (LEMoA).⁷⁹ In what could represent a meaningful step forward in confidence-building between the two defense establishments, New Delhi in August 2016 signed a LEMoA. The accord has yet to be operationalized, however, and reports suggest that New Delhi is showing little interest in finalizing a CISMoa or BECA.⁸⁰

⁷⁸ Ajai Shukla quoted in “Get Real in US-India Defense Ties” (op-ed), *Business Standard* (New Delhi), April 11, 2016.

⁷⁹ The CISMoa requires purchasers of U.S. defense equipment to ensure that equipment supplied to India is compatible with other American systems. The BECA provides for mutual logistical support and enables exchanges of communications and related equipment. The LEMoA permits armed forces of both countries to enjoy reciprocal use of facilities for maintenance, servicing, communications, refueling, and medical care. New Delhi has been wary of LEMoA provisions, which some there believe could lead to India’s being caught up in U.S. regional military operations.

⁸⁰ One recent analysis makes a case that Indian concerns about losing strategic autonomy under the pacts are based on unsound assumptions, arguing that U.S. officials should redouble their efforts to educate their Indian counterparts in the interest of both countries (Mark Rosen and Douglas Jackson, “The U.S.-India Defense Relationship: Putting the Foundational Agreements in Perspective,” Center for Naval Analysis, February 2017).

Figure 3. Map of the Indian Ocean Region



Source: Adapted by CRS.

Combined Military Exercises

Since 2002, the United States and India have held a series of increasingly complex combined bilateral exercises involving all military services. Such engagement has been a key aspect of U.S.-India relations in recent years—India now conducts more exercises and personnel exchanges with the United States than with any other country. Navy-to-navy collaboration—with annual, large-scale, and now multilateral “Malabar” joint exercises—appears to be the most robust in terms of exercises and personnel exchanges. Operational readiness focuses on humanitarian relief and disaster assistance in the IOR. The 2015 iteration saw Japanese naval units rejoin the exercise after an eight-year hiatus, establishing a more formal trilateral effort; 2016 Malabar exercises saw phases in both the East China and Philippine Seas, near contested South China Sea waters. With renewed talk of a “maritime quadrilateral” that would incorporate Australian naval forces, Chinese analysts have taken an even more acute interest in the development, and the Beijing government has made its displeasure known.⁸¹

⁸¹ Abjit Singh, “Malabar 2015: Strategic Power Play in the Indian Ocean,” *Diplomat* (Tokyo), October 28, 2016; Prashanath Parameswaram, “India May Have Quad Military Exercises with US, Japan, Australia: Ex-Top Diplomat,” *Diplomat* (Tokyo), November 9, 2016.

Along with major annual naval exercises, regular “Red Flag” air-to-air combat exercises allow U.S. air forces to engage late-model Russian-built Indian platforms, and “Yudh Abhyas” Special Forces simulations, held annually in jungle or mountain settings to mutually develop counterinsurgency and counterterrorism combat skills, have grown from platoon- to battalion-level exercises since their 2004 inception. Pentagon officials typically praise Indian performance in such engagements.⁸²

Defense Trade

Defense trade is another key new aspect of the bilateral relationship, with India now a major purchaser in the global arms market and a lucrative potential customer for U.S. companies. Under the Obama Administration, the United States sought to help India modernize its defense capabilities and technologies so that New Delhi could “carry out its expanding global role.” India’s military is the world’s third-largest, and New Delhi seeks to transform it into one with advanced technology and global reach, reportedly planning up to \$100 billion on new procurements over the next decade to update its mostly Soviet-era arsenal.⁸³ The two nations have signed defense contracts worth about \$11 billion since 2008, up from \$500 million in all previous years combined. U.S.-based firms Lockheed Martin and Boeing have made proposals to the Indian government on the potential co-production on Indian soil of advanced F-16 or F/A-18 combat aircraft (see **text box** below). In November, India signed a long-awaited \$737 million contract to purchase 145 M777A2 ultralight howitzers built primarily by a Mississippi-based subsidiary of Britain’s BAE systems.

⁸² See, for example, the August 29, 2016, Defense Department release at <https://go.usa.gov/xNvRr>.

⁸³ India’s \$38.1 billion worth of defense purchase agreements for the period 2007-2014 ranked it second only to Saudi Arabia worldwide. In 2014, India received \$5.5 billion worth of arms deliveries, more than any other country (see CRS Report R44320, *Conventional Arms Transfers to Developing Nations, 2007-2014*, by (name redacted)). In addition to the major sales of howitzers and long-range maritime patrol/anti-submarine warfare planes from the United States, India has received an amphibious transport dock ship (as an excess defense article), the former USS *Trenton*, now commissioned INS *Jalashwa*; 10 C-17 *Globemaster* and 12 C-130J *Hercules* military transport aircraft, 20 *Harpoon* missiles for air launch, fire-finder radars, and special forces equipment, among others.

F-16 Fighting Falcon Combat Aircraft for India?

The New Delhi government has for a decade been in the market for a fleet of new fighter aircraft to replace the country's aging fleet of Soviet-era MiGs. In 2007, it launched a Medium Multi-Role Combat Aircraft (MMRCA) program to purchase 126 aircraft from a foreign supplier for about \$12 billion. After reviewing bids from several suppliers, in 2011 the government settled on the French-made Dassault Rafale, but the deal fell through due to pricing disputes. In 2016, the program was officially re-launched, with Maryland-based Lockheed Martin's F-16 and Sweden's Saab Gripen as leading candidates. In this iteration, New Delhi is insisting that the winning bidder must build the aircraft in India.

This condition may not be welcomed by Trump Administration officials guided by efforts to preserve American jobs, but numerous boosters of closer U.S.-India defense relations argue in favor of establishing an F-16 production line in India, contending that it would bolster bilateral interoperability and provide the two countries with an opportunity to work together on a strategically and technically significant project, thus building trust. Senator John Cornyn and Senator Mark Warner, co-chairs of the Senate India Caucus, penned a March 2017 letter to Secretary of Defense Mattis urging him to approve an F-16 production line in India, as well as approve the export of nonlethal maritime reconnaissance drones. In June, Lockheed and India-based Tata Advanced Systems announced having signed an agreement to co-produce the most advanced (Block 70) F-16s at an Indian site.⁸⁴

Washington has in recent years sought to identify sales that can proceed under the technology-sharing and co-production model sought by New Delhi while also urging reform in India's defense offsets policy.⁸⁵ In 2016, New Delhi announced a new policy—"Defense Procurement Procedure 2016"—that is geared toward creating new partnerships for indigenous defense firms, rather than mere weapons purchase agreements. Under the rubric of "Make in India," priority will be given to indigenously designed, developed, and manufactured hardware.⁸⁶

For many observers, reform of India's defense procurement and management systems—including an opening of Indian firms to more effective co-production and technology sharing initiatives—is key to continued bilateral security cooperation, making high-level engagement on the DTTI a priority. Former Secretary Carter—who led the U.S. DTTI delegation in his previous role as Deputy Secretary—called the initiative complementary with India's Make in India effort.⁸⁷ Progress has been identified in the areas of jet engine manufacturing, and aircraft carrier design and construction, among others.⁸⁸

Intelligence and Counterterrorism Cooperation

Both Washington and New Delhi have reported effective cooperation in the areas of counterterrorism and intelligence sharing, and the January 2015 Joint Statement included a

⁸⁴ "Senators Push Trump on Defense Deals with India," *The Hill*, March 24, 2017; "Lockheed Martin, Tata Announce F-16 India Partnership," Lockheed Martin release, June 19, 2017. See also C. Christine Fair and Dan Shalmon, "The Upside of the Lockheed Martin Deal to Produce F-16s in India," *Foreign Affairs*, November 1, 2016; S. Paul Kapur and Sumit Ganguly, "F-16s, Made in India," *Foreign Affairs*, March 14, 2017; John Venable, "Sell India F-16s—and Build Them Abroad," *Defense One* (online), February 28, 2017; "Could 'America First' Policy Upend Lockheed's F-16 Plans in India?," *Defense News*, March 23, 2017; Benjamin Schwartz, "The Art of U.S.-India Defense Deals" (op-ed), *Wall Street Journal*, March 1, 2017.

⁸⁵ Since 2005, India has required that 30% of any defense deal valued at more than Rs3 billion (about \$50 million) must be reinvested in the Indian economy, a requirement that many firms find difficult to meet.

⁸⁶ Domestic defense programs under the Make in India initiative have been slow to progress due to reported Defense Ministry wrangling over establishing policies to address transparency and corruption ("Make in India Defense Programs Worth \$30B at an Impasse over Strategic Partners Policy," *Defense News*, May 17, 2017).

⁸⁷ The Make in India campaign seeks to draw more than \$3.7 billion in domestic defense manufacturing investment by 2024. See <http://www.makeinindia.com/sector/defence-manufacturing>.

⁸⁸ See the April 12, 2016, Joint Statement at <http://go.usa.gov/cJc6>.

bilateral commitment to make the partnership “a defining counterterrorism relationship for the 21st century” that will combat the full spectrum of terrorist threats. Homeland security cooperation has included growing engagement between respective law enforcement agencies, especially in the areas of mutual legal assistance and extradition, and on cyberterrorism. Terrorist groups operating from Pakistani territory are of special interest, with Washington and New Delhi pursuing “joint and concerted efforts to disrupt” those entities.⁸⁹

The inaugural U.S.-India S&CD of 2015 had seen then-Secretary of State Kerry and Indian Minister of External Affairs Swaraj issue a stand-alone “U.S.-India Joint Declaration on Combatting Terrorism” meant to pave the way for greater intelligence sharing and capacity-building.⁹⁰ With the August 2016 S&CD summit, the Joint Statement even more directly than before emphasized bilateral attention to Pakistan-based threats, as the two sides

reiterated their condemnation of terrorism in all its forms and reaffirmed their commitment to dismantle safe havens for terrorist and criminal networks such as Da’esh/ISIL, Al-Qa’ida, Lashkar-e-Taiba, Jaish-e-Mohammad, D Company and its affiliates and the Haqqani Network. [They] called on Pakistan to bring the perpetrators of the 2008 Mumbai and 2016 Pathankot terrorist attacks to justice.⁹¹

In mid-2016, both governments welcomed cooperative initiatives to combat the threat of terrorists accessing and using nuclear and other radiological materials, exchange terrorist screening information, expedite mutual legal assistance requests, and develop further counterterrorism exchanges and programs. Bilateral law enforcement cooperation has come through the India-U.S. Homeland Security Dialogue, an engagement deferred several times in 2016.⁹² The U.S.-India Cyber Dialogue’s fifth meeting, in September 2016, was a whole-of-government session to “exchange and discuss international cyber policies, compare national cyber strategies, enhance efforts to combat cybercrime, and foster capacity building and R&D, thus promoting cybersecurity and the digital economy.”⁹³

The U.S. and Indian governments have seen a shared threat emanating from at least one indigenous Indian terrorist organization: the Indian Mujahideen (IM), described as having close links to other U.S.-designated Foreign Terrorist Organizations (FTOs) based in Pakistan.⁹⁴ Myriad Islamist militant and terrorist groups—most of them operating from Pakistan or Afghanistan—also are identified as mutual threats. These include Al Qaeda (with an Indian-oriented affiliate, Al

⁸⁹ See the January 25, 2015, Joint Statement at <http://go.usa.gov/3cFWe>. In July 2016, the 14th meeting of the U.S.-India Joint Working Group on Terrorism was held in Washington, DC. The U.S. delegation was led by the State Department’s Bureau of Counterterrorism, with officials from other State Department bureaus, as well as from the Departments of Defense and Homeland Security (see the July 27, 2016, State Department release at <https://go.usa.gov/xNvjV>).

⁹⁰ This statement reaffirms past commitments, emphasizes the threat posed by several Pakistan-based terrorist groups—including Lashkar-e-Taiba, Jaish-e-Mohammed, and the Haqqani Network—calls on Pakistan to bring to justice perpetrators of the 2008 Mumbai attacks, and strongly condemns 2015 terrorist attacks in the Indian states of Punjab and Jammu and Kashmir. It goes on to list numerous cooperative initiatives meant to combat terrorism in all its forms (see the September 23, 2015, Declaration at <https://go.usa.gov/xNvjf>).

⁹¹ See the August 31, 2016, Joint Statement at <https://go.usa.gov/xNvjZ>.

⁹² Among possible obstacles, Washington reportedly has offered New Delhi the 2003 Homeland Security Presidential Directive (HSPD-6) as model text for bilateral exchanges of information between the FBI’s Terrorist Screening Center and an Indian federal agency, but some Indian officials reportedly view the model as too serving of U.S. interests (“Key Proposal Dropped from India-US Homeland Security Dialogue,” Press Trust India, March 31, 2016; HSPD-6 text at <http://go.usa.gov/x8EeG>).

⁹³ See the September 29, 2016, Joint Statement at <http://go.usa.gov/x8Ee7>.

⁹⁴ See the most recent (2015) U.S. government narratives on FTOs at <https://go.usa.gov/xNvnh>.

Qaeda in the Indian Subcontinent (AQIS)), and the Islamic State (IS, also known as ISIL, ISIS, or the Arabic acronym *Da'esh*), with a foothold in eastern Afghanistan and active across the Afghanistan-Pakistan border as ISIL-Khorasan, but appearing to have a nominal presence in India to date.⁹⁵ Numerous anti-India FTOs originate and continue to be active in Pakistan.⁹⁶

Despite some reports of progress in the areas of intelligence and counterterrorism cooperation—in 2016, Secretary Kerry told an Indian audience that American and Indian intelligence agencies “now exchange information constantly”⁹⁷—there has been asymmetry in the willingness of the two governments to move forward: Washington has tended to want more cooperation from India and is willing to give more in return, while it appears that officials in New Delhi remain hesitant and their aspirations are more modest. Indian wariness is likely to some degree rooted in lingering distrust of U.S. intentions, not least in Washington’s ongoing security cooperation with Pakistan. Structural impediments to future cooperation also exist, according to observers in both countries. Perhaps leading among these is that India’s state governments are the primary domestic security actors, and there is no significantly resourced and capable national-level body with which the U.S. federal government can coordinate.

Nuclear Weapons Proliferation and Multilateral Export Controls⁹⁸

India conducted what it termed a “peaceful” nuclear explosive device in 1974; New Delhi tested such devices again in 1998. According to public estimates, the country appears to have been increasing its nuclear arsenal, which currently consists of approximately 110-120 warheads, and continues to produce weapons-grade plutonium.⁹⁹ Its ballistic missile arsenal can deliver warheads on targets more than 5,000-km away—a range that encompasses China’s eastern population centers. It includes air, sea, and land-based platforms, with India having completed this triad with successful submarine launches in late 2016. New Delhi has stated that it will not engage in a nuclear arms race and needs only a “credible minimum deterrent,” but India has never defined precisely what this language means.

New Delhi has neither acceded to the nuclear Nonproliferation Treaty (NPT) nor accepted International Atomic Energy Agency (IAEA) safeguards on all of its nuclear material and facilities. U.N. Security Council Resolution 1172, adopted after New Delhi’s 1998 nuclear tests, called on India to accede to the NPT and take other actions which New Delhi has refused, such as

⁹⁵ Estimates have only about 100-150 Indians joining the Islamic State in recent years to fight in Syria and Iraq, many of them transiting through Afghanistan, where 13 Indian nationals reportedly were among the 94 persons killed when the U.S. military dropped a Massive Ordnance Air Blast in Nangarhar in April (“Five Families Slipped Away from Southern India, Moving to ISIS Territory in Afghanistan,” *Washington Post*, April 22, 2017; see also Dhruva Jaishankar, “Assessing the Islamic State Threat to India,” Brookings Institution, May 8, 2017).

⁹⁶ Pakistan-based terrorist organizations of shared interest are the Lashkar-e-Taiba/Jamaat ul-Dawa (Let/JuD); Jaish-e-Mohammed (JeM); Haqqani Network (HN); Tehreek-e-Taliban Pakistan (TTP); Islamic State of Iraq and the Levant-Khorasan Province (ISIL-Khorasan or ISIL-K); and Islamic Jihad Union (IJU), among others (see the most recent U.S. government narratives on FTOs at <https://go.usa.gov/xNvnh>).

⁹⁷ See the August 31, 2016 remarks at <https://go.usa.gov/xNvjje>.

⁹⁸ This section written by Paul Kerr, Specialist in Nonproliferation.

⁹⁹ Robert Norris and Hans Kristensen, “Nuclear Notebook: Indian Nuclear Forces, 2015,” *Bulletin of the Atomic Scientists*, September/October 2015; Norris and Kristensen, “Nuclear Notebook: Indian Nuclear Forces, 2012,” *Bulletin of the Atomic Scientists*, July 1, 2012; *Global Fissile Material Report 2015: Nuclear Weapon and Fissile Material Stockpiles and Production*, International Panel on Fissile Materials, 2015, pp. 9, 26; David Albright and Serena Kelleher-Vergantini, *India’s Stocks of Civil and Military Plutonium and Highly Enriched Uranium, End 2014*, Institute for Science and International Security, November 2, 2015.

ratifying the Comprehensive Test Ban Treaty (CTBT) and refraining from developing nuclear-capable ballistic missiles.

According to an Indian official, “India attaches the highest priority to global, non-discriminatory, verifiable nuclear disarmament and the complete elimination of nuclear weapons in a time-bound manner.”¹⁰⁰ Indeed, New Delhi has issued proposals for achieving global nuclear disarmament. For example, a 2007 working paper to the Conference on Disarmament (CD) called for the “[n]egotiation of a Nuclear Weapons Convention prohibiting the development, production, stockpiling and use of nuclear weapons and on their destruction, leading to the global, non-discriminatory and verifiable elimination of nuclear weapons with a specified timeframe.” India’s Permanent Representative to the CD reiterated this proposal in March 2017.¹⁰¹ Additionally, India has, despite its refusal to sign the CTBT, committed itself to a voluntary unilateral moratorium on nuclear testing.

Some observers see a “slow-moving” nuclear arms race between India and Pakistan. Islamabad is expanding its nuclear arsenal, which probably consists of approximately 130-140 nuclear warheads, according to one estimate.¹⁰² U.S. officials have expressed concern that a conventional conflict between India and Pakistan could result in those countries’ use of nuclear weapons.¹⁰³ India and Pakistan do have some measures in place designed to help prevent nuclear conflict. For example, the two governments agreed in 2004 to establish a “dedicated and secure hotline” between the two Foreign Secretaries “to prevent misunderstandings and reduce risks relevant to nuclear issues.” The two countries also notify each other of imminent missile test in advance in accordance with an October 2005 bilateral missile pre-notification agreement.¹⁰⁴

Following Washington’s urging, the Nuclear Suppliers Group (NSG) decided in 2008 to exempt India from the portions of its export guidelines that required India to have comprehensive IAEA safeguards.¹⁰⁵ The United States subsequently agreed to support India’s membership in the group. According to a November 8, 2010, White House fact sheet, the United States “intends to support India’s full membership” in the NSG, as well as the Missile Technology Control regime (MTCR), the Australia Group, and the Wassenaar Arrangement¹⁰⁶ “in a phased manner and to consult with regime members to encourage the evolution of regime membership criteria, consistent with

¹⁰⁰ “Statement by Ms Devika Lal, Ministry of External Affairs Under Secretary, D&ISA, at the 2017 Substantive Session of the United Nations Disarmament Commission,” External Affairs Ministry release, April 3, 2017.

¹⁰¹ “Statement by Ambassador Amandeep Singh Gill Permanent Representative of India to the Conference on Disarmament at the CD Plenary,” External Affairs Ministry release, March 28, 2017.

¹⁰² Hans M. Kristensen and Robert S. Norris, “Nuclear Notebook: Pakistani Nuclear Forces, 2016,” *Bulletin of the Atomic Scientists*, November 2016.

¹⁰³ For example, in December 2015 then-Special Representative for Afghanistan and Pakistan Richard Olson told the House Committee on Foreign Affairs that “a conventional conflict in Southwest Asia could escalate to include nuclear use as well as the increased security challenges that accompany growing stockpiles.” Similarly, Centcom Commander General Joseph Votel argued during a March 2017 House Armed Services Committee hearing that “a significant conventional conflict between Pakistan and India could escalate into a nuclear exchange” (“Rep. Ed Royce Holds a Hearing on U.S.-Pakistan Relations,” CQ Congressional Transcripts, December 15, 2015; “House Armed Services Committee Holds Hearing on Greater Middle East Security Challenges,” CQ Congressional Transcripts, March 28, 2017).

¹⁰⁴ “Joint Statement, India-Pakistan Expert-Level Talks on Nuclear CBMs,” June 20, 2004; “Agreement Between the Republic of India and the Islamic Republic of Pakistan on Pre-Notification of Flight Testing of Ballistic Missiles,” October 3, 2005.

¹⁰⁵ See also CRS Report RL33016, *U.S. Nuclear Cooperation with India: Issues for Congress*, by (name redacted)

¹⁰⁶ For detailed descriptions of these regimes, see CRS Report RL33865, *Arms Control and Nonproliferation: A Catalog of Treaties and Agreements*, by (name redacted), (name redacted), and (name redacted).

maintaining the core principles of these regimes.”¹⁰⁷ India became a member of the MTCR in June 2016. The United States has continued to express support for India’s membership in the other three export control regimes.¹⁰⁸ The Trump Administration is reviewing this policy.¹⁰⁹

The NSG has discussed India’s membership on several occasions, but has not yet decided on the matter. New Delhi appears not to meet the group’s membership criteria. “Factors taken into account for participation” in the NSG include adherence to and compliance with the NPT, one of the treaties establishing Nuclear-Weapon-Free Zones, or “an equivalent international nuclear non-proliferation agreement,” according to the NSG.¹¹⁰ Similarly, the Wassenaar Arrangement’s Guidelines and Procedures specify a number of factors for consideration “[w]hen deciding on the eligibility of a state for participation,” one of which is “adherence” to the NPT.¹¹¹ Participation in the Australia Group does not appear to include this requirement.¹¹²

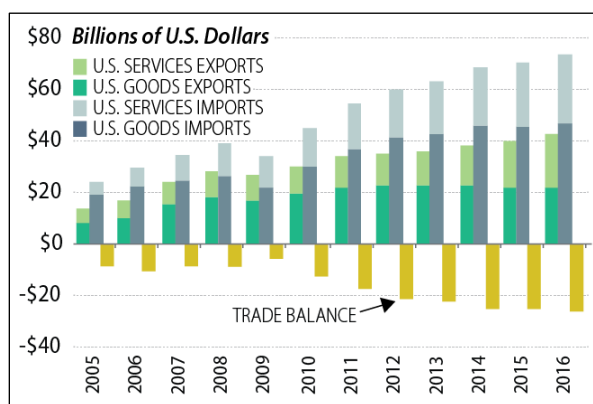
U.S.-India Bilateral Trade and Investment Relations

The United States has viewed India—one of the world’s fastest-growing economies and its third-largest on a purchasing power parity (PPP) basis—as an important strategic partner in advancing common interests regionally and globally.¹¹³ In a January 2017 call between President Trump and Prime Minister Modi, the two sides discussed “opportunities to strengthen the partnership between the United States and India, including the economy....”¹¹⁴

Despite its large economy and population, India is a relatively small U.S. trading partner. Two-way goods and services trade between the United States and India stood at about \$115 billion in 2016 (**Figure 1**)—about one-fifth of U.S.-

China goods and services trade that year. India ranked as the 9th largest source of U.S. goods imports and 18th largest goods export market. It is also a top U.S. partner for trade in services.¹¹⁵

Figure 4. U.S. Trade with India, 2005-2016



Source: CRS, based on data from the U.S. Bureau of Economic Analysis (BEA).

Notes: Trade balance is for U.S. goods and services trade with India.

¹⁰⁷ The White House, “Fact Sheet: U.S.-India Partnership on Export Controls and Non-Proliferation,” November 8, 2010.

¹⁰⁸ Elizabeth Trudeau, State Department News Briefing, September 9, 2016.

¹⁰⁹ CRS interview with State Department official, April 11, 2017.

¹¹⁰ *The Nuclear Suppliers Group: Its Origins, Role and Activities*, INFCIRC/539/Revision 6.

¹¹¹ *Guidelines and Procedures, Including the Initial Elements*, Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies.

¹¹² <http://www.australiagroup.net/en/membership.html>.

¹¹³ PPP basis reflects the rate at which the currency of one country would have to be converted into that of another country to purchase the same amount of goods and services in each country.

¹¹⁴ The White House, “Readout of the President’s Call with Prime Minister Narendra Modi of India,” press release, January 24, 2017.

¹¹⁵ U.S. Census Bureau Foreign Trade Data at <https://www.census.gov/foreign-trade/index.html>.

Meanwhile, the United States is India's largest country destination for goods exports (the EU as a whole is India's largest destination) and second largest source of goods imports after China. Many observers contend there would be potential for greater bilateral trade between the United States and India if India's extensive trade and investment barriers were lessened. In 2013, the two countries expressed interest increasing their annual bilateral trade five-fold to \$500 billion, including through increased engagement and initiatives.¹¹⁶ However, India's uneven economic reform and the limited effectiveness of bilateral engagement present potential obstacles to further expanding U.S.-India commercial ties.

India has made strides in trade liberalization since it began adopting market-oriented reforms in the 1990s. Under the Modi government, India's *Foreign Trade Policy* for 2015-2020 aims to increase India's exports of goods and services globally from \$466 billion in 2013-2014 to about \$900 billion by 2019-2020 and to raise India's share in world exports from 2% to 3.5%.¹¹⁷ The Modi government has announced a number of domestic initiatives, such as Make in India, Digital India, and Smart Cities, to support India's manufacturing sector and promote jobs. These initiatives may support new foreign investment opportunities. Nevertheless, protectionist policies persist in India. Some observers have attributed this to India's poverty challenges, concerns about the international competitiveness of its manufacturing and agriculture sectors, and regional economic competition with China, with which India has a large merchandise trade deficit.¹¹⁸

President Trump's call for a shift in the direction of certain aspects of U.S. trade policy raises further questions about the prospects for enhancing bilateral trade and investment.¹¹⁹ Enforcement of U.S. trade laws is a key trade priority for the Administration, with a focus on addressing "unfair" trade practices.¹²⁰ In one development, on March 31, 2017, President Trump directed key agencies to prepare a report within 90 days on significant trade deficits with U.S. trading partners, including a focus on unfair trade practices and the impact of the trade deficit on U.S. production, employment, wages, and national security. The U.S. merchandise trade deficit with India was \$24.4 billion in 2016—the 10th largest.¹²¹

Potential Avenues for Engagement

The United States and India have engaged on trade and investment issues internationally in a number of ways. The Trump Administration may continue past forms of engagement and/or pursue new ones.¹²² Potential avenues for moving forward include the following.

¹¹⁶ The White House, "U.S.-India Joint Statement," press release, September 27, 2013.

¹¹⁷ Trade data reported by the Indian government, Indian Directorate General of Foreign Trade, *Foreign Trade Policy Statement*, for 2015-2020, at <http://dgt.gov.in/exim/2000/FTPstatement2015.pdf>.

¹¹⁸ See, for example, Richard Rossow, "Nearing a Dead End on the Path to U.S.-India Trade Cooperation," Center for Strategic and International Studies (CSIS), newsletter, volume 6, issue 7, August 5, 2016.

¹¹⁹ U.S. Trade Representative (USTR), *2017 Trade Policy Agenda and 2016 Annual Report*, March 2017, p. 1.

¹²⁰ *Ibid.*; and U.S. Congress, Senate Committee on Finance, *Written Testimony of Ambassador Robert E. Lighthizer*, on the President's Trade Policy Agenda and FY2018 Budget, 115th Cong., 1st sess., June 21, 2017.

¹²¹ Executive Order 13786 of March 31, 2017, "Omnibus Report on Significant Trade Deficits," 82 *Federal Register* 16721, April 5, 2017; and USTR and International Trade Administration (ITA), Department of Commerce, "Public Comments and Hearing Regarding Administration Report on Significant Trade Deficits," 82 *Federal Register* 18110, April 17, 2017. See also CRS In Focus IF10619, *The U.S. Trade Deficit: An Overview*, by (name redacted).

¹²² For example, see Letter from Mukesh Aghi, President of U.S.-India Business Council, to President-elect Donald Trump, November 9, 2016, calling on the new Administration to reinforce bilateral trade ties, including through continuing bilateral dialogues and investment negotiations, and pursuing new areas, such as concluding a social security totalization agreement.

Bilateral Dialogues

The Trade Policy Forum (TPF), chaired by the U.S. Trade Representative (USTR) and the Indian Minister of Commerce and Industry, has been a prominent bilateral dialogue in the relationship. The USTR's *2017 Trade Policy Agenda* states that the United States plans to partner with India on issues of mutual interest ahead of the 2017 TPF.¹²³ The TPF could provide a key forum to engage on bilateral trade issues. Some stakeholders see dialogues themselves as progress in a trade relationship that can sometimes be fractious, while others are keen to see dialogues yield more tangible outcomes. Other bilateral dialogues include the CEO Forum, which allows U.S. and Indian business leaders to discuss issues of joint interest and develop recommendations to both governments on commercial issues.

Bilateral Investment Treaty (BIT) Negotiations

Since 2009, the United States and India have engaged in negotiations on a BIT, though momentum has been uneven and negotiations presently appear to be stalled. The United States pursues BITs to obtain commitments on market access and rules to promote investment and protect investors, enforced by investor-state dispute settlement (ISDS), which enables investors to take host states to arbitration for alleged violations of obligations. In recent years, each side has reviewed and revised its model BIT, the template it uses for investment negotiations. India's Model BIT, for instance, requires investors to exhaust domestic judicial remedies before seeking ISDS arbitration, which the U.S. approach has not required, in part due to the potential bias foreign investors may face when seeking redress in the host state's domestic court. If negotiations resume under the Trump Administration, questions persist about whether the two countries can bridge key differences in their model BIT templates.¹²⁴

Separately, India announced its intention to replace its existing BITs with new treaties based on its new Model BIT.¹²⁵ India's posture may reflect, in part, ISDS claims it has faced in recent years under current investment treaties.

Multilateral and Plurilateral Engagement

As World Trade Organization (WTO) members, the United States and India negotiate multilaterally to liberalize trade, but their differing views on key issues have impeded the Doha Round. Many issues remain outstanding. One breakthrough was the 2013 WTO "Bali package" which included a new Trade Facilitation Agreement (TFA) to remove customs barriers. The TFA entered into force in February 2017 with ratification by two-thirds of WTO members, including the United States (January 2015) and India (April 2016).

In other developments, India proposed negotiating a new WTO "services TFA" to address temporary entry and stay of natural persons, cross-cutting issues of transparency, and other services trade issues.¹²⁶ Such issues could touch on especially politically sensitive aspects of U.S.-India trade relations. Yet, India is not participating in the plurilateral Trade in Services Agreement (TiSA) negotiations outside the WTO among the United States and 22 other WTO members, as India favors engaging under the WTO framework and the Doha Round.

¹²³ USTR, *2017 Trade Policy Agenda and 2016 Annual Report*, March 2017, p. 145.

¹²⁴ The White House, "Remarks by President Obama and Prime Minister Modi of India After Bilateral Meeting," press release, September 2015.

¹²⁵ Kavaljit Singh and Burghard Ilge, "India Overhauls Its Investment Treaty Regime," *Financial Times*, July 15, 2016.

¹²⁶ WTO, "Services Negotiations Gain Momentum as Members Show Renewed Interest," press release, July 4, 2016.

Outcomes for the 11th WTO Ministerial in December 2017 are uncertain. The Trump Administration's position on potential WTO issues is unclear. India's priorities include reaching a permanent solution on public stockholding for food security purposes.

The United States and India also are active users of the WTO dispute settlement process to address trade-related complaints with each other based on their WTO obligations. (See examples below.)

Bilateral Free Trade Agreement (FTA) Negotiations

The United States has 14 FTAs in force with 20 countries, but not with India, which has its own network of trade agreements. The two sides have been involved in separate regional integration efforts. The United States and 11 other Asia-Pacific countries (not including India) signed the Trans-Pacific Partnership (TPP) in February 2016, but the Trump Administration, which has stated a preference for negotiating bilateral rather than multi-party FTAs, withdrew the United States as a signatory in January 2017. India reportedly viewed TPP with caution, wary of potential trade diversion such as for the apparel and textiles sector and labor-intensive sectors.

India, for its part, has been involved in ongoing negotiations for a Regional Comprehensive Economic Partnership (RCEP) with China, the ASEAN countries, Japan, South Korea, Australia, and New Zealand.¹²⁷ RCEP is not expected to be as extensive commitments as TPP on tariff liberalization and other areas. Some observers hold that India's cautious approach to RCEP, motivated in part by concerns about expanding market access to China, may dilute any final agreement. While TPP partners may move forward with an agreement similar to TPP, some analysts contend that a lack of U.S. participation may mean that RCEP (if completed) could take a more prominent role in establishing regional trade norms.¹²⁸

Key Issues in Trade and Investment Relations

Through these various avenues, the United States and India have sought to address a range of issues present in their bilateral trade and investment relationship. Key issues include the following.¹²⁹

Tariffs

India has comparatively high average tariff rates. Under WTO commitments, India's simple average bound tariff rate is significantly higher than its simple average most-favored-nation (MFN) applied rate (**Figure 5**), which fuels uncertainty for U.S. businesses because India can make adjustments to its tariff regime.¹³⁰ For example, India has adjusted upwards the tariffs it applies on telecommunications equipment imports in recent years (from 0% to 7.5% or 10%). India also maintains high duties on medicines (over 20% in some cases).¹³¹ India's agricultural

¹²⁷ CRS In Focus IF10000, *TPP: Overview and Current Status*, by (name redacted) and (name redacted) ; and CRS In Focus IF10342, *What Is the Regional Comprehensive Economic Partnership?*, by (name redacted) et al.

¹²⁸ CRS Insight IN10646, *The United States Withdraws from the TPP*, by (name redacted) and (name redacted) ; and CRS Insight IN10669, *Moving On: TPP Signatories Meet in Chile*, by (name redacted) and (name redacted) .

¹²⁹ USTR, *National Trade Estimate Report on Foreign Trade Barriers*, March 2016.

¹³⁰ WTO, "Tariff Profiles: India," statistics database, access April 3, 2017. The MFN tariff is the normal non-discriminatory tariff that a WTO member charges on imports from another WTO member, excluding preferential tariffs under FTAs and other schemes or tariffs charged inside quotas.

¹³¹ USTR, *National Trade Estimate Report on Foreign Trade Barriers*, March 2017, p. 206.

tariffs are much higher than its non-agricultural tariffs.¹³² For example, by product group, India's average MFN rate is 68.6% for beverages and tobacco and in the 30% range for animal products, dairy products, and cereals and preparations.¹³³ India's central government has been working with state governments to adopt a national goods and services tax (GST) to replace various central and state-level indirect taxes, including charges on imports, which could streamline India's complex tax structure. India plans to implement the GST in mid-2017.

Services

U.S. firms face various barriers to accessing India's services market. These include India's limits on foreign ownership, such as in financial services and retail; local presence requirements, such as in banking and insurance; restrictions on foreign participation, including in education and legal services; and other regulatory issues. India also remains critical of the effect of U.S. temporary visa and social security policies on Indian nationals working in the United States. In March 2016, India filed a WTO dispute settlement case

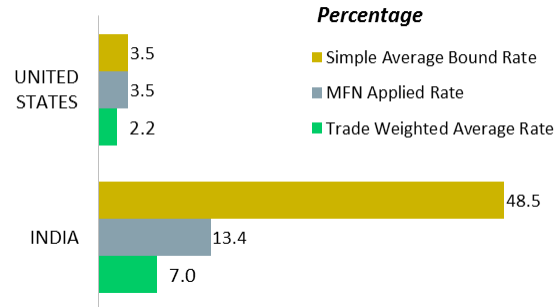
against the United States, alleging that certain U.S. fees for worker visas violate WTO General Agreement on Services (GATS) obligations. The United States has asserted that its visa program is WTO-consistent. As noted above, Indian officials have expressed concerns about legislation pending in the 115th Congress to revise H-1B visa categories for professional specialty workers.¹³⁴

India continues to seek a "totalization agreement" with the United States to avoid dual taxation of income of Indian workers in the United States. A Social Security ("totalization") agreement would allow the United States and India to coordinate the collection of payroll taxes and payment of benefits under each country's Social Security system for workers who split their careers between the two countries.¹³⁵ The two sides, under the Obama Administration, resolved to continue discussing the elements required for such an agreement.¹³⁶

Agriculture

In addition to tariff and non-tariff barriers, including sanitary and phytosanitary (SPS) standards in India, limit market access for U.S. agricultural exports. The United States challenges SPS barriers when they are not based on a scientific, risk-based perspective. The WTO Dispute

Figure 5. U.S. and India Overall Tariff Rates



Source: CRS, data from WTO, Tariff Profiles.

Notes: Bound rate and MFN applied rate data are for 2015. Trade weighted average tariff rate data are for 2014.

¹³² According to the WTO, in 2015, India's simple average MFN applied tariff was 32.7% for agricultural products and 10.1% for non-agricultural products.

¹³³ WTO, "Tariff Profiles: India," statistics database, access June 19, 2017.

¹³⁴ H.R. 170, H.R. 670, S. 180. While the WTO views the employment of temporary foreign workers as the importation of services and therefore a trade issue, some congressional committees see it as an immigration issue. For more information, see CRS Report R43735, *Temporary Professional, Managerial, and Skilled Foreign Workers: Policy and Trends*, by (name redacted) .

¹³⁵ CRS Report RL32004, *Social Security Benefits for Noncitizens*, by (name redacted) and (name redacted)

¹³⁶ Department of State, "Joint Statement on the Second India-U.S. Strategic and Commercial Dialogue," press release, August 31, 2016.

Settlement Body (DSB) decided in 2015 that India's ban on importing U.S. poultry and live swine due to avian influenza concerns violated the WTO SPS Agreement.¹³⁷ India's purported compliance with the decision remains a point of debate in WTO proceedings, as the United States has argued that India's revised import measures are not based on a scientific risk assessment or international standards. Other issues include each side's views of the other's agricultural support programs as market-distorting. India's view of its subsidies as a food security issue complicates matters.

Intellectual Property Rights (IPR)

The treatment of IPR is a major bilateral trade issue. Many U.S. business groups and some Members of Congress remain concerned about what they see as the inadequacy of India's IPR protection and enforcement. U.S. Trade Representative Robert Lighthizer said he was committed to addressing India IPR issues during his nomination hearing for the USTR position.¹³⁸

Both countries adhere to the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), but their views differ on the approach to IPR protection. India remained in 2017 on the *Priority Watch List* of the "Special 301" annual report by USTR tracking U.S. trading partners' IP protection and enforcement practices.¹³⁹ The *2017 Special 301 Report* acknowledged some developments in India welcomed by the United States, such as India's efforts to improve its trade secrets regime and state-level IP enforcement actions. At the same time, the report emphasized ongoing concerns with India's IP regime. In the case of patents, the report highlighted U.S. concerns with India's standards limiting the patentability of potentially beneficial pharmaceutical innovations, burdensome patent administration and dispute resolution system, and insufficient protection against unfair commercial use and unauthorized disclosure of test or other data used to obtain marketing approval for patents. The risk of compulsory licensing¹⁴⁰ or revocation of patents by the Indian government remains a concern. Compulsory licensing concerns have intensified since 2012, when India allowed a local pharmaceutical company to produce a generic version of a kidney cancer drug by German pharmaceutical Bayer. The Indian government notes its right to use flexibilities provided under the WTO TRIPS Agreement to issue compulsory licenses subject to certain conditions.¹⁴¹ One reason for India's views on IPR with respect to pharmaceutical products is that it has sought to balance IPR protections with the need to provide access to medicines for its 1.3 billion people. This can be in tension with the U.S. approach, which has tended to view protection of IP as advancing access to medicines through stimulating pharmaceutical innovations.

The prevalence of counterfeit and pirated goods in India, both in physical markets and over the Internet, raises concerns about protection of copyrights and trademarks. India has not yet completed enactment of anti-camcording legislation addressing illicit videotaping of movies in theaters. India also has not joined the World Intellectual Property Organization (WIPO) "Internet

¹³⁷ WTO, *Appellate Body Report, India—Measures Concerning the Importation of Certain Agricultural Products*, WT/DS430/AB/R, adopted 19 June 2015.

¹³⁸ U.S. Congress, Senate Committee on Finance, *Hearing to Consider the Nomination of Robert Lighthizer, of Florida, to be United States Trade Representative, with the rank of Ambassador Extraordinary and Plenipotentiary*, 115th Cong., March 14, 2017.

¹³⁹ USTR, *2017 Special 301 Report*, April 2017.

¹⁴⁰ Compulsory licenses are issued by government to authorize the use of or production of a patented item by a domestic party other than a patent holder without the consent of the patent holder.

¹⁴¹ Zeba Siddiqui, "India Defends Right to Issue Drug 'Compulsory Licenses,'" Reuters, March 23, 2016.

Treaties,” which has provisions on IP protection in the digital environment not addressed in the TRIPS Agreement.

In May 2016, India published a new National IPR Policy to promote IP for growth and development while protecting the public interest. Some U.S. industry groups, while welcoming of the policy, say it fails to address India’s biggest IP issues.¹⁴² USTR characterized the National IPR Policy as “largely avoiding discussing specific legal and policy issues” raised by U.S. and other stakeholders while devoting resources to improving IP administration and promotion commercialization and public awareness. USTR also noted that the current policy does not preclude India from adopting “more concrete reforms.”¹⁴³

Localization Barriers to Trade

A mounting issue is “forced” localization barriers to trade and indigenous innovation trends in India (e.g., requirements for in-country testing and data or server localization). These are measures designed to protect, favor, or stimulate domestic industries, service providers, or IP at the expense of imported goods, services, or foreign-owned or developed IP. While some localization measures may serve privacy or national security objectives, they also can be discriminatory barriers to trade.¹⁴⁴

In November 2011, India issued a “National Manufacturing Policy” to develop its manufacturing base and boost its employment. The policy calls for greater use of local content requirements in government procurement in certain sectors, such as information communications technology and clean energy. India’s Preferential Market Access mandate, which is based on this policy, imposes local content requirements for electronic products. These and other developments continue to raise concerns for the U.S. regarding localization barriers to trade in India.

In September 2016, the WTO Appellate Body upheld a decision in favor of the United States that India’s local content requirements on solar technology violated WTO non-discrimination rules.¹⁴⁵ Separately, a WTO panel formed in March 2017 to examine India’s complaint that U.S. state-level renewable energy measures are contingent on domestic content requirements and inconsistent with WTO rules.

¹⁴² For example, see Ryan Ong, “India’s IP Policy Shows Missed Opportunity with Backsliding on Patents, Trade Secrets,” National Association of Manufacturers, May 16, 2016; and U.S. Chamber of Commerce, “U.S. Chamber Welcomes USTR Special 301 Report,” press release, April 28, 2017.

¹⁴³ USTR, *2017 Special 301 Report*, April 2017.

¹⁴⁴ USTR, *2017 National Trade Estimate Report on Foreign Trade Barriers*, March 2017, p. 3.

¹⁴⁵ WTO, *Appellate Body Report, India—Certain Measures Relating to Solar Cells and Solar Modules*, WT/DS456/AB/R and Add.1, adopted October 14, 2016.

Investment

The bilateral investment relationship is small but growing (Figure 6), with India representing a fraction of U.S. outward and inward foreign direct investment (FDI). India has pursued reforms to attract FDI, such as steps to increase foreign investment limits in the insurance and defense sectors, but barriers remain. Key services industries in India, such as banking and insurance, are heavily dominated by the Indian government. Although India increased the cap on foreign investment in Indian insurance companies from 26% to 49%, it also imposed a new requirement for “Indian control” of such companies (e.g., conditions on Board of Directors

members). There continue to be limits on foreign ownership in other sectors as well, such as financial services, retail, and audiovisual services. India’s business environment presents barriers to FDI in sectors such as education and architecture. Foreign participation is prohibited in some sectors, such as legal services.¹⁴⁶ India’s limited regulatory transparency and judicial infrastructure for resolving investment disputes further challenges U.S. investors. U.S. FDI in India and Indian FDI in the United States are associated with U.S. jobs and exports in a range of economic sectors, but the former have prompted concerns among some analysts about offshoring of U.S. jobs to India. U.S.-India BIT negotiations (see above), if continued, may address these issues.

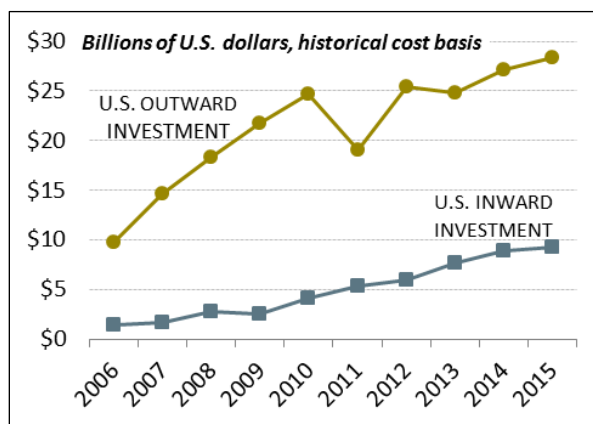
APEC Membership

India has long sought membership in the Asia-Pacific Economic Cooperation (APEC), a grouping of 21 economies, including the United States and China. Under the Obama Administration, the United States stated that it welcomed India in APEC.¹⁴⁷ Some bills introduced in the 114th Congress aimed to facilitate India’s membership (H.R. 4830, S. 2857), yet questions have arisen about whether India demonstrates sufficient commitment to economic liberalization to warrant APEC membership.

Generalized System of Preferences (GSP)

The U.S. GSP program provides non-reciprocal, duty-free access to the U.S. market for certain products from eligible developing countries. The program was most recently extended until December 31, 2017 (P.L. 114-27). India was GSP’s largest beneficiary in 2016, with about 10% of U.S. goods imports from India under GSP. Debate exists over removing India from GSP due to U.S. concerns about shortfalls in India’s IPR regime and other issues.¹⁴⁸ The extent to which a

Figure 6. U.S.-India FDI



Source: CRS, Bureau of Economic Analysis (BEA) data.

¹⁴⁶ USTR, *2017 National Trade Estimate Report on Foreign Trade Barriers*, March 2017, pp. 201-218.

¹⁴⁷ U.S. Embassy and Consulates in India, “Remarks by Ambassador Richard R. Verma at the Atlantic Council U.S.-India Trade Initiative Workshop: Taking US/India Trade to the Next Level,” June 27, 2016.

¹⁴⁸ See Senator Maria Cantwell/ Robert Lighthizer exchange in “Responses to Questions for the Record,” March 17, (continued...)

country is providing adequate and effective IPR protection is a discretionary requirement for designating a country as a GSP beneficiary.¹⁴⁹

Trade Financing and Promotion

Some U.S. commercial exports to and direct investment in India have benefited from U.S. government trade financing and promotion assistance, including through the agencies below, which provide support on a demand-driven basis (see **Table 1**).

- **Export-Import Bank (Ex-Im Bank)** activities in India have included support for solar technologies and power turbine exports. In more recent years limited Ex-Im Bank activity in India may reflect, in part, that the agency has not been fully operational since 2014.¹⁵⁰
- **Overseas Private Investment Corporation (OPIC)** activities in India include support for microfinance lending, lending for small- and medium-sized enterprises (SMEs), and solar power projects.¹⁵¹
- **U.S. Trade and Development Agency (TDA)** funding in India has spanned sectors such as aviation, energy, and infrastructure (e.g., India’s Smart Cities project).¹⁵²

The institutional structures of all three agencies could be subject to congressional consideration, the outcomes of which could have implications for federal support for U.S.-India trade and investment.

Table 1. Selected U.S. Trade Promotion Agencies, FY2013-2016 Activity

Millions of U.S. Dollars and India’s Share of U.S. Program

Year	Export-Import Bank (Ex-Im Bank)			Overseas Private Investment Corporation (OPIC)			U.S. Trade and Development Agency (TDA)		
	India	Global	India Share	India	Global	India Share	India	Global	India Share
2013	2,102.2	27,347.6	7.7%	7.3	3,722.0	0.2%	5.2	41.4	12.6%
2014	0.5	20,467.9	< 0.01%	84.4	2,643.5	3.2%	4.6	48.8	9.5%
2015	0.5	12,383.0	< 0.01%	285.6	4,013.0	7.1%	4.3	51.1	8.4%
2016	1.2	5,037.1	0.02%	494.6	3,126.0	15.8%	6.9	58.5	11.8%

Source: CRS, data from FY2016 annual reports of the agencies.

(...continued)

2017, for U.S. Congress, Senate Committee on Finance, *Hearing to Consider the Nomination of Robert Lighthizer, of Florida, to be United States Trade Representative, with the rank of Ambassador Extraordinary and Plenipotentiary*, 115th Cong., March 14, 2017; and Stephen Ezell, “Withdraw India’s GSP Preference If It Continues to Impose Localization Barriers to Trade to Foreign Enterprises,” January 23, 2013.

¹⁴⁹ 19 U.S.C. §2462(c)(5).

¹⁵⁰ See CRS In Focus IF10017, *Export-Import Bank of the United States (Ex-Im Bank)*, by (name redacted), and CRS Report R43581, *Export-Import Bank: Overview and Reauthorization Issues*, by (name redacted).

¹⁵¹ CRS Report 98-567, *The Overseas Private Investment Corporation: Background and Legislative Issues*, by (name redacted), and CRS In Focus IF10659, *Overseas Private Investment Corporation (OPIC)*, by (name redacted).

¹⁵² See CRS In Focus IF10673, *U.S. Trade and Development Agency (TDA)*, by (name redacted).

Notes: “India Share” refers to the share of the agency’s total activity for which India accounts. OPIC activity consists of its financing (other than investment funds support) and insurance commitment. OPIC’s annual report does not provide individual commitment amounts for its investment funds support.

U.S.-India Civil Nuclear Cooperation

Obstacles to initiating bilateral nuclear energy commerce have been a years-long challenge for both U.S. officials and for U.S. companies eager to enter the Indian market, but wary of exposure to regulation by strict liability laws.¹⁵³ During meetings in New Delhi in 2015, President Obama and Prime Minister Modi announced a “breakthrough” compromise in the form of an Indian Memorandum of Law, which required no new legislation. Yet the announcement came with few details, and many analysts predicted that India’s legal labyrinth would continue to deter American suppliers from entering the market. However, late in 2015, Pennsylvania-based Westinghouse Electric (a unit of Japan’s Toshiba Corporation) moved to sign a contract for construction of six new nuclear reactors in India’s southern Andhra Pradesh state. The 2016 U.S.-India Joint Statement indicated that contractual arrangements would be finalized by mid-2017, with work underway to establish “a competitive financing package based on the joint work by India and the U.S. Export-Import Bank.”¹⁵⁴ However, Westinghouse’s March 2017 bankruptcy declaration has dealt a major blow to these plans.

Temporary Workers in the United States¹⁵⁵

As noted above, an issue of keen interest to some potential workers from India is access to visas for temporary work in the United States, also referred to as nonimmigrant visas.¹⁵⁶ Reforming the H-1B visa has been of interest to Congress for a number of reasons. Some are concerned that employers hiring H-1B nonimmigrants are displacing U.S. workers and that there are not sufficient mechanisms in place to protect U.S. workers. However, others argue that the need for more H-1B nonimmigrant workers is justified because there may not be enough qualified U.S. workers to fill open positions. Another criticism of the H-1B visa stems from an apparent lack of accountability and oversight of employers. This concern has been exacerbated by companies that contract H-1B workers through staffing companies.¹⁵⁷

¹⁵³ In 2010, India signed the Convention on Supplementary Compensation for Nuclear Damage (CSC) and ratified in 2016. However, India’s Civil Liability for Nuclear Damage Bill, adopted by its Parliament the same year, may not be fully consistent with the CSC, due to provisions which make reactor suppliers, in addition to operators, liable for damages caused by a reactor accident. The 1984 Bhopal tragedy, in which thousands of people died when a Union Carbide plant in the Madhya Pradesh state unintentionally released toxic gas, is a memory that drives Indian caution.

¹⁵⁴ See <https://go.usa.gov/xNvjZ>.

¹⁵⁵ This section was written by Jill Wilson, Analyst in Immigration Policy.

¹⁵⁶ Nonimmigrants are foreign nationals who have been admitted to the United States temporarily and for a specific purpose. Immigrants (also known as lawful permanent residents) are foreign nationals who have been admitted to the United States to reside legally and permanently.

¹⁵⁷ In these situations, a staffing company petitions for the H-1B nonimmigrant and is therefore accountable for all the H-1B visa requirements. The staffing company can then place the H-1B nonimmigrant with another employer who did not petition for the worker. Therefore, this secondary employer is not necessarily accountable in the same manner as the staffing company. For more information on staffing companies, see U.S. Government Accountability Office, *H-1B Visa Program: Reforms Are Needed to Minimize the Risks and Costs of Current Program*, GAO-11-26, January 14, 2011, <http://www.gao.gov/products/GAO-11-26>. For more information on the process for obtaining an H-1B visa, see U.S. Citizenship and Immigration Services, *H-1B Specialty Occupations, DOD Cooperative Research and Development Workers, and Fashion Models*, <https://go.usa.gov/xNvjZ>.

Those concerned about fraud and abuse within the H-1B visa category have cited a need for more stringent requirements for employers, the closing of perceived legislative “loopholes” that may disadvantage American workers, and increased oversight and investigative authority for relevant agencies, such as the Department of Labor.¹⁵⁸ In April, U.S. Citizenship and Immigration Services (USCIS) announced that the agency will be taking “multiple measures to further deter and detect H-1B visa fraud and abuse.”¹⁵⁹ USCIS stated that it will continue its site visits to H-1B petitioners and the worksite of H-1B employees. More specifically, apart from random site visits, USCIS will be targeting employers with larger proportions of H-1B employees in their workforce, employers that place H-1B workers off-site (i.e., at another location or with another company), and cases where the employer’s information cannot be validated through commercially available information. In addition, USCIS has created an email address that allows individuals to submit reports of suspected H-1B fraud or abuse.¹⁶⁰ Most recently, the Department of Labor published a brief highlighting recent cases of H-1B fraud that have been successfully investigated; the cases involved several Indian nationals.¹⁶¹

Energy and Climate Issues¹⁶²

India’s large economy and its leader’s aspirations to lift millions out of poverty make for growing energy demands, and India remains highly dependent on imported energy sources. Coal-fired capacity continues to account for the bulk (more than two-thirds) of India’s total power installation.¹⁶³ While India has embarked on a plan to dramatically increase renewable energy sourcing, it is also seeking to extend access to electricity to the roughly 20% of citizens who lack it. This effort, along with rapidly expanding Indian demand for space cooling capabilities, indicates that the country’s power usage rates will continue to grow into the foreseeable future. It remains unclear whether significant U.S.-India cooperation on clean energy development and other related projects pursued under the Obama Administration will continue under the Trump Administration. The U.S.-India Energy Dialogue, through which such projects as the eight-year-old Partnership to Advance Clean Energy (PACE) were coordinated, was considered by Indian officials to be a vital forum for bilateral engagement.¹⁶⁴

Many experts have argued that India’s status among the world’s emitters of greenhouse gases—by one accounting it contributed 6.8% of global CO₂ emissions in 2015¹⁶⁵—makes it a necessary participant in any comprehensive solution to the problems posed by climate change. India’s CO₂ emissions increased 67% from 1990 to 2012 and today are roughly the same as Russia’s, meaning the country can variously be ranked third, fourth, or fifth in the world depending on the

¹⁵⁸ For example, see Editorial Board, “Workers Betrayed by Visa Loopholes,” *The New York Times*, June 15, 2015.

¹⁵⁹ USCIS is the agency within the Department of Homeland Security that administers the H-1B visa. See U.S. Citizenship and Immigration Services, *Agency Creates Avenue for American Workers to Report Abuse*, April 3, 2017.

¹⁶⁰ U.S. Citizenship and Immigration Services, *Combating Fraud and Abuse in the H-1B Visa Program*, at <https://go.usa.gov/xNvDq>.

¹⁶¹ See the May 24, 2017, brief at <https://www.oig.dol.gov/OIGBrief-H1B.pdf>.

¹⁶² This section was co-written by (name redacted) and (name redacted), Specialist in Asian Affairs.

¹⁶³ See the International Energy Agency’s India page at <https://www.iea.org/countries/non-membercountries/india>.

¹⁶⁴ Author meeting with India’s Joint Secretary for International Cooperation, Ministry of Petroleum and Natural Gas, New Delhi, April 2017. See also the Energy Department’s September 22, 2015, release at <https://go.usa.gov/xNvQu>.

¹⁶⁵ See European Commission’s Joint Research Center data at <http://edgar.jrc.ec.europa.eu/overview.php?v=CO2ts1990-2015>.

aggregation or disaggregation of European Union member-state data. However, India's large population makes it the world's tenth-largest emitter on a per capita basis.

India signed the Paris Agreement on climate change in April 2016 and ratified the Agreement in October. By some metrics, India and China are outpacing the United States on efforts to address climate change.¹⁶⁶ During a visit to Paris shortly after the June announcement of U.S. withdrawal from the Agreement, Prime Minister Modi reportedly told the French president that India intended to “go above and beyond” the agreement's targets.¹⁶⁷ New Delhi has pledged to boost India's use of non-fossil fuel energy to 40% by 2030.¹⁶⁸

Within this renewables mix will be greatly expanded power generation from solar, wind, and nuclear sources. India may be in the midst of one of history's largest energy transformation project, with a rapidly growing renewables sector.¹⁶⁹ Indians are also working to address the huge power losses that come through wastage.¹⁷⁰ The country has seen a drastic decline in the cost of generation from solar and wind sources; a kilowatt hour of solar power that recently cost 12 cents now costs less than 4, about one-quarter cheaper than the same amount of energy from coal. This has led the Indian government to cancel some planned new coal plant projects and cut its coal production target by nearly 10%.¹⁷¹

Human Rights Concerns in India

According to successive U.S. State Department *Country Reports on Human Rights Practices*, many of India's citizens suffer human rights abuses:

The most significant human rights problems involved instances of police and security force abuses, including extrajudicial killings, torture, and rape; corruption, which remained widespread and contributed to ineffective responses to crimes, including those against women, children, and members of Scheduled Castes (SCs) or Scheduled Tribes (STs); and societal violence based on gender, religious affiliation, and caste or tribe.

¹⁶⁶ “India and China are Emerging Climate Icons,” *MIT Technology Review*, May 16, 2017; “India, China Will Offset Donald Trump's Climate Backslide,” India Climate Dialogue (online), May 19, 2017.

¹⁶⁷ Quoted in “PM Narendra Modi Tells French President Emmanuel Macron India Will ‘Go Beyond’ Paris Climate Accord,” Agence France Presse, June 3, 2017. In his June 1 speech, President Trump claimed that, under the Agreement, India is “allowed” to double its coal production by 2020: “Think of it: India can double their [sic] coal production; we're supposed to get rid of ours.” The President's claim was false. In fact, the accord contains only nonbinding provisions on energy production (see the speech transcript at <https://go.usa.gov/xNv9k>).

¹⁶⁸ A draft electricity plan for 2017-2022 issued by India's Power Ministry in December 2016 projects that that nearly 57% of India's electricity capacity will come from non-fossil fuel sources by 2027, suggesting that the country's targets are indeed beyond those of the accord (see the draft plan at http://www.cea.nic.in/reports/committee/nep/nep_dec.pdf).

¹⁶⁹ New Delhi's plan to boost solar power production to 100 GW by 2022 is the world's most ambitious. The World Bank is set to loan India more than \$1 billion in 2017, its largest-ever support for solar power in any country. In May, India's Power Ministry announced plans to construct 10 new heavy water reactors and so double the country's installed nuclear power capacity, currently about 6,800 megawatts through 22 operating reactors (“Solar Energy to Power India for the Future,” World Bank release, June 30, 2016; “India Will Build 10 New Reactors in Huge Boost to Nuclear Power,” BBC News, May 18, 2017).

¹⁷⁰ For example, a project underway to replace the country's household and street lights with LED bulbs was launched in 2015 and may be completed by 2019, potentially cutting India's peak demand by 20,000 megawatts and CO₂ emissions by 80 million tons annually (“India Launches Massive Push for Clean Power, Lighting, and Cars,” *National Geographic*, May 2017).

¹⁷¹ Ibid; “China and India Make Big Strides on Climate Change” (editorial), *New York Times*, May 22, 2017; “India, Once a Coal Goliath, Is Fast Turning Green,” *New York Times*, June 2, 2017.

Other human rights problems included disappearances, hazardous prison conditions, arbitrary arrest and detention, and lengthy pretrial detention. Court backlogs delayed or denied justice, including through lengthy pretrial detention and denial of due process. The government placed restrictions on foreign funding of nongovernmental organizations (NGOs), including some whose views the government believed were not in the “national or public interest,” curtailing the work of civil society. There were instances of infringement of privacy rights. The law in six states restricted religious conversion, and there were reports of arrests but no reports of convictions under those laws. Some limits on the freedom of movement continued. Rape, domestic violence, dowry-related deaths, honor killings, sexual harassment, and discrimination against women and girls remained serious societal problems. Child abuse, female genital mutilation and cutting, and forced and early marriage were problems. Trafficking in persons, including widespread bonded and forced labor of children and adults, and sex trafficking of children and adults for prostitution, were serious problems. Societal discrimination against persons with disabilities and indigenous persons continued, as did discrimination and violence based on gender identity, sexual orientation, and persons with HIV.

A lack of accountability for misconduct at all levels of government persisted, contributing to widespread impunity. Investigations and prosecutions of individual cases took place, but lax enforcement, a shortage of trained police officers, and an overburdened and under resourced court system contributed to infrequent convictions.¹⁷²

International human rights watchdogs also identify widespread abuses.¹⁷³ Press freedoms in India also appear to be under threat.¹⁷⁴

Although religious discrimination and intolerance of social dissent are hardly new to India, the 2014 elevation of the Hindu nationalist BJP to majority status at the federal level—the party won 52% of Parliament’s lower-house seats in 2014 elections—triggered concerns among human rights advocates that agents of Hindu nationalist majoritarianism would be empowered.¹⁷⁵ Born as the political wing of the Rashtriya Swayamsevak Sangh (RSS or “National Volunteer Organization”), a militant Hindu and social service group—the BJP is a primary political purveyor of *Hindutva* or “Hindu-ness” in Indian society.¹⁷⁶ Prime Minister Modi is a life-long

¹⁷² See the State Department’s *Country Reports on Human Rights Practices for 2016* at <https://go.usa.gov/xXnCH>.

¹⁷³ For example, London-based Amnesty International’s 2016/2017 annual world report contends that,

The authorities used repressive laws to curb freedom of expression and silence critics. Human rights defenders and organizations continued to face harassment and intimidation, and vigilante cow protection groups carried out several attacks. Thousands protested against discrimination and violence faced by Dalit communities. Millions of people opposed changes to labor laws. Marginalized communities continued to be frequently ignored in the government’s push for faster economic growth (see <https://www.amnesty.org/en/countries/asia-and-the-pacific/india/report-india>).

¹⁷⁴ Paris-based watchdog Reporters Without Borders ranked India 136th in the world in 2017, down from 133rd in 2016 (see <https://rsf.org/en/india>).

¹⁷⁵ A May 2016 Human Rights Watch report, “Stifling Dissent: The Criminalization of Peaceful Expression in India,” contends that, “Indian authorities routinely use vaguely worded, overly broad laws”—a colonial-era sedition law perhaps the most abused among them—“as political tools to silence and harass critics.” Hundreds of notable Indian figures from the fields of science, art, filmmaking, history, and elsewhere have gone public with their alarm at what they see as efforts by the Modi government and its supporters to “rewrite history by distorting facts about a glorious Hindu past,” and many have signed open letters calling on Modi to protect India’s tradition of secularism and diversity (see <https://www.hrw.org/report/2016/05/24/stifling-dissent/criminalization-peaceful-expression-india>).

¹⁷⁶ For parties such as the BJP and its antecedents, Hinduism as a concept almost always is concurrent with nationalism, the core belief being that India is an inherently Hindu nation, even if establishment of a strictly Hindu state is not a goal. In this regard, proselytizing religions—Islam and Christianity, in particular—can be characterized as a threat to the “Hindu nation” (see Christophe Jaffrelot, *The Hindu Nationalist Movement in India*, Columbia University (continued...))

RSS member, and his 2014 election victory evoked fears that a victorious BJP would pursue Hindu majoritarian policies.¹⁷⁷

Three years later, expressions of repression and bigotry persist, and may be recently compounded by the BJP's sweeping win in March 2017 state elections in Uttar Pradesh. This win led the party to seat a controversial Hindu nationalist, Yogi Adityanath, as state chief minister. Adityanath, a cleric described as "a deeply divisive figure for his militant, misogynistic, and anti-Muslim rhetoric," has moved to crack down on butchers who sell beef (cows are sacred in Hinduism) and men loitering in public, a moral campaign that critics say targets Muslims. Some observers are concerned that the BJP may now intend to pursue a Hindu majoritarian approach to governance that could significantly erode India's secular, pluralist traditions.¹⁷⁸

Most recent U.S. congressional attention to human rights issues in India has fallen into one of four general categories: religious freedom (communal repression or violence targeting India's religious minorities, anti-conversion laws, cow protection); human trafficking/slavery; female infanticide and feticide; and legal constraints on the operations of health and human rights NGOs in India. Some Members have noted the abuses listed by the U.S. Committee on International Relations Freedom's annual reports, and attacks on India's Christian minority have generated some constituent interest.¹⁷⁹ Distress over the scope of India's human slavery problem has repeatedly been voiced by the current Chairman and Ranking Member of the Senate Foreign Relations Committee, among others.¹⁸⁰ Given traditional societal discrimination against females, uneven female-to-male ratios persist in India, and the incidence of female infanticide and gender-selective abortions remains a serious human rights issue. Finally, senior Members of the House have taken direct interest as the New Delhi government enforces restrictive laws on NGO operations in India that have served to constrain and even curtail the provision of charitable health and other human services there.¹⁸¹

(...continued)

Press (New York, 1998)).

¹⁷⁷ The RSS is among the "Sangh Parivar" ("Family of Organizations"), an umbrella organization for Hindu nationalist groups. The Mumbai-based, service-oriented, international Vishva Hindu Parishad (VHP) is the largest of some 40 affiliated groups, claiming more than 7 million members worldwide. Another notable affiliate is the Bajrang Dal ("Army of Hanuman"), the militant youth wing of the VHP created in Uttar Pradesh in 1984. Most Sangh Parivar groups share a core motive to protect India's assumed Hindu identity from the perceived threats of Islam and Christianity. The VHP is a leading organizer of "ghar wapsi" ("coming home") or "reconversion" ceremonies, which ostensibly allow Indian Muslims and Christians to return to their "original religion." The VHP also is a leading force calling for a nationwide ban on religious conversions ("Inside the New RSS," *India Today* (Delhi), May 5, 2014; "VHP Seeks Anti-Conversion Bill in Budget Session," *New Indian Express* (Delhi), February 1, 2015).

¹⁷⁸ Quote from "Meet the Militant Monk Spreading Islamophobia in India," *Washington Post*, March 24, 2017; "Radical Hindu Cleric Launches Moral Crackdown in Indian State," *Financial Times* (London), March 23, 2017.

¹⁷⁹ See the USCIRF annual reports at <http://www.uscirf.gov/reports-briefs/annual-report>.

¹⁸⁰ "U.S. Senators Attack India's Human Rights Record Before Modi's Capitol Hill Address," *Washington Post*, June 1, 2016. See also materials from the Committee's March 24, 2016, hearing on U.S.-India relations at <https://go.usa.gov/xNvUr>.

¹⁸¹ India's Foreign Contribution (Regulation) Act (FCRA) of 2010 provides for government oversight and regulation of foreign donations to NGOs that operate in India. In July 2016, the New Delhi government announced having barred up to 14,222 NGOs from receiving foreign funds during the period 2012-2015. In November, nearly 13,000 more NGOs lost their registration status, marking a reported halving in the number of registered NGOs permitted to receive foreign funds in only two years. When efforts by Colorado-based Compassion International to feed Indian orphans came under threat due to India licensing provisions, the full House Foreign Relations Committee held a dedicated hearing on the issue, and 107 House Members subsequently signed a letter to India's Home Minister seeking a reprieve. Nevertheless, the organization's India operations ceased in March of this year (see the December 6, 2016, hearing documents at <https://go.usa.gov/xNvDY>, and the March 21, 2017, letter at <https://go.usa.gov/xNvQ5>).

U.S. Foreign Assistance to India

A total of about \$16.6 billion in direct U.S. aid went to India from the country's 1947 independence through 2016, nearly all of it in the form of economic grants and more than half as food aid. In 2007, in response to several years of rapid Indian economic expansion and New Delhi's new status as a donor government, the State Department announced a 35% reduction in assistance for India. The bulk of the cuts came from Development Assistance and food aid programs. Another smaller decrease came in 2008 in recognition of the continuing growth of the Indian economy and the ability of the New Delhi government to fund more development programs. Under the Obama Administration, however, increases in GHCS funds, along with some added Development Assistance, reverted aid close to its levels of the early 2000s. In 2011, the most recent year that India received U.S. food aid, the U.S. Agency for International Development identified India as one of two emerging market countries to join the ranks of donors of humanitarian and development assistance (the other being Brazil), and noted that much of this has been delivered in the form of in-kind food aid.¹⁸²

Table 2. Direct U.S. Foreign Assistance to India, FY2001-FY2018
(in millions of dollars)

Program or Account	FY2001-FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (req.)
CSH/GHCS/GHP ^a	637.5	83.0		61.8	54.5	54.1	n/a	29.6
DA	260.7	18.5	15.3	19.0	6.0	19.0	n/a	—
ESF	62.2	—	—	—	22.1 ^b	8.2	n/a	—
IMET	13.8	1.5	1.3	1.4	1.3	1.3	n/a	1.3
NADR	22.3	5.2	4.8	5.0	4.0	2.4	n/a	2.4
Subtotal	996.5	108.2	79.7	87.2	87.8	85.0	n/a	33.3
Food Aid ^c	200.7	—	—	—	—	—	—	—
Total	1,197.2	108.2	79.7	87.2	87.8	85.0	n/a	33.3

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

Notes: Estimates for FY2017 are not available; FY2018 amounts are requested.

Abbreviations:

CSH: Child Survival and Health (Global Health and Child Survival, or GHCS, from FY2010; Global Health Programs, or GHP, from FY2013)

DA: Development Assistance

ESF: Economic Support Fund

IMET: International Military Education and Training

NADR: Nonproliferation, Anti-Terrorism, Demining, and Related (for India, mainly export control and antiterrorism assistance)

- a. Within the CSH/GHCS/GHP accounts has been significant funding for programs under the President's Emergency Plan for AIDS Relief (PEPFAR). From the initiative's FY2004 launch through FY2016, India has received about \$359 million in PEPFAR funds, or an average of nearly \$28 million annually.

¹⁸² See U.S. International Food Assistance Report 2011, <http://go.usa.gov/cQXy9>.

- b. P.L. 480 Title II (grants), Section 416(b) of the Agricultural Act of 1949, as amended (surplus donations), Food for Peace, and Food for Progress. Food aid totals do not include freight costs.
- c. Beginning in FY2014, the Obama Administration requested \$3 million in annual ESF to support global food security by funding “Feed the Future” alliances to enable sharing proven Indian agriculture development innovations with other countries. In 2015, the State Department used FY2015 new obligation authority to make substantive changes to the FY2015 Congressional Justification (CBJ), notifying Congress of \$16.1 million in additional ESF allocations. More than three-quarters of this amount (\$12.4 million) was for programs addressing global climate change, including clean energy and sustainable landscapes. See the India narrative from p. 289 of Appendix 3 of the FY2017 CBJ at <http://www.state.gov/documents/organization/252734.pdf>.

Outlook and Issues for Congress

The Trump Administration’s approach to the U.S.-India relationship remains uncertain, and New Delhi is closely monitoring potential shifts in U.S. policy. As described in this report, key legislative and oversight considerations for Congress in U.S.-India relations include the following:

- what levels of U.S. foreign assistance to provide India;
- whether to continue bilateral clean and renewable energy cooperation programs even in the absence of the Administration’s support for the Paris Agreement;
- whether to enact legislation tightening U.S. immigration policy, especially with respect to H-1B visas;
- how vigorously to support bilateral defense trade with India, including whether to allow or otherwise seek to influence potential future major arms sales and/or co-production agreements, such as the one recently proposed for F-16 combat aircraft;
- what avenues of engagement on U.S.-India trade and investment issues to support, including whether to advocate for continuing U.S.-India BIT negotiations;
- whether to renew U.S. support for APEC membership for India;
- whether to support U.S. trade promotion and financing programs, such as Ex-Im Bank, OPIC, and TDA, that have been active in India;
- whether to reconsider India’s GSP status in light of concerns with the country’s IPR protection and enforcement;
- whether to continue efforts supporting India’s membership in the Nuclear Suppliers Group and other export control regimes; and
- how to respond to human rights abuses in India, among others.

With these and other issues confronting Congress, U.S.-India relations are likely to remain a prominent area of legislative interest for the 115th Congress.

Author Contact Information

(name redacted), Coordinator
Specialist in South Asian Affairs
[redacted]@crs.loc.gov, 7-....

(name redacted)
Specialist in International Trade and Finance
[redacted]@crs.loc.gov, 7-....

EveryCRSReport.com

The Congressional Research Service (CRS) is a federal legislative branch agency, housed inside the Library of Congress, charged with providing the United States Congress non-partisan advice on issues that may come before Congress.

EveryCRSReport.com republishes CRS reports that are available to all Congressional staff. The reports are not classified, and Members of Congress routinely make individual reports available to the public.

Prior to our republication, we redacted names, phone numbers and email addresses of analysts who produced the reports. We also added this page to the report. We have not intentionally made any other changes to any report published on EveryCRSReport.com.

CRS reports, as a work of the United States government, are not subject to copyright protection in the United States. Any CRS report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS report may include copyrighted images or material from a third party, you may need to obtain permission of the copyright holder if you wish to copy or otherwise use copyrighted material.

Information in a CRS report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to members of Congress in connection with CRS' institutional role.

EveryCRSReport.com is not a government website and is not affiliated with CRS. We do not claim copyright on any CRS report we have republished.