

INDIA



FOREIGN RELATIONS: India's size, population, and strategic location give it a prominent voice in international affairs, and its growing economic strength, military prowess, and scientific and technical capacity give it added weight. The end of the Cold War dramatically affected Indian foreign policy. India remains a leader of the developing world and the Non-Aligned Movement (NAM). India is now strengthening its political and commercial ties with the United States, Japan, the European Union, Iran, China, and the Association of Southeast Asian Nations. India is an active member of the South Asian Association for Regional Cooperation (SAARC).

Always an active member of the United Nations, India now seeks a permanent seat on the UN Security Council. India has a long tradition of participating in UN peacekeeping operations.

Bilateral and Regional Relations:

Pakistan. India and Pakistan have been locked in a tense rivalry since the partition of the subcontinent based on the "two-nations theory" upon achieving independence from Great Britain in 1947. The principal source of contention has been Kashmir, whose Hindu Maharaja at that time chose to join India, although a majority of his subjects were Muslim. India maintains that his decision and subsequent elections in Kashmir have made it an integral part of India. This dispute triggered wars between the two countries in 1947 and 1965 and provoked the Kargil conflict in 1999.

Pakistan and India fought a war in December 1971 following a political crisis in what was then East Pakistan and the flight of millions of Bengali refugees to India. The brief conflict left the situation largely unchanged in the west, where the two armies reached an impasse, but a decisive Indian victory in the east resulted in the creation of Bangladesh.

Since the 1971 war, Pakistan and India have made slow progress toward normalization of relations. In July 1972, Indian Prime Minister Indira Gandhi and Pakistani President Zulfikar Ali Bhutto met in the Indian hill station of Simla. They signed an agreement by which India would return all personnel and captured territory in the west and the two countries would "settle their differences by peaceful means through bilateral negotiations." Diplomatic and trade relations were re-established in 1976.

The 1979 Soviet invasion of Afghanistan caused new strains between India and Pakistan. Pakistan supported the Afghan resistance, while India implicitly supported the Soviet occupation. In the following eight years, India voiced increasing concern over Pakistani arms purchases, U.S. military aid to Pakistan, and Pakistan's nuclear weapons program. In an effort to curtail tensions, the two countries formed a joint commission. In December 1988, Prime Ministers Rajiv Gandhi and Benazir Bhutto concluded a pact not to attack each other's nuclear facilities and initiated agreements on cultural exchanges and civil aviation.

In 1997, high-level Indo-Pakistani talks resumed after a three-year pause. The Prime Ministers of India and Pakistan met twice, and the foreign secretaries conducted three rounds of talks. In June 1997 at

Lahore, the foreign secretaries identified eight "outstanding issues" around which continuing talks would be focused. The dispute over the status of Jammu and Kashmir, an issue since partition, remains the major stumbling block in their dialogue. India maintains that the entire former princely state is an integral part of the Indian union, while Pakistan insists upon the implementation of UN resolutions calling for self-determination for the people of the state.

In September 1997, the talks broke down over the structure of how to deal with the issues of Kashmir and peace and security. Pakistan advocated that separate working groups treat each issue. India responded that the two issues be taken up along with six others on a simultaneous basis. In May 1998 India, and then Pakistan, conducted nuclear tests. Attempts to restart dialogue between the two nations were given a major boost by the February 1999 meeting of both Prime Ministers in Lahore and their signing of three agreements. These efforts were stalled by the intrusion of Pakistani-backed forces into Indian-held territory near Kargil in May 1999 (that nearly turned into full scale war), and by the military coup in Pakistan that overturned the Nawaz Sharif government in October the same year. In July 2001, Mr. Vajpayee and General Pervez Musharraf, leader of Pakistan after the coup, met in Agra, but talks ended after two days without result.

After an attack on the Indian Parliament in December 2001, India-Pakistan relations cooled further as India accused Pakistan of involvement. Tensions increased, fueled by killings in Jammu and Kashmir, peaking in a troop buildup by both sides in early 2002.

Prime Minister Vajpayee's April 18, 2003 speech in Srinagar (Kashmir) revived bilateral efforts to normalize relations. In November 2003, Prime Minister Vajpayee and President Musharraf agreed to a ceasefire, which still holds, along the Line-of-Control in Jammu and Kashmir. After a series of confidence building measures, Prime Minister Vajpayee and President Musharraf met on the sidelines of the January 2004 SAARC summit in Islamabad and agreed to commence a Composite Dialogue addressing outstanding issues between India and Pakistan, including Kashmir.

In February 2004, India and Pakistan agreed to restart the "2+6" Composite Dialogue formula, which provides for talks on Peace and Security and Jammu and Kashmir, followed by technical and Secretary-level discussions on six other bilateral disputes: Siachen Glacier, Wuller Barrage/Tulbul Navigation Project, Sir Creek estuary, Terrorism and Drug Trafficking, Economic and Commercial cooperation, and the Promotion of Friendly Exchanges in various fields. The restart of the Composite Dialogue process was especially significant given the almost six years that had transpired since the two sides agreed to this formula in 1997-1998. The UPA government continued the Composite Dialogue with Pakistan. Following the October 2005 earthquake in Kashmir, the two governments coordinated relief efforts and opened access points along the Line-of-Control to allow relief supplies to flow from India to Pakistan and to allow Kashmiris from both sides to visit one another.

The Foreign Secretary talks resumed in November 2006, after a three-month delay following the July 11, 2006 terrorist bombings in Mumbai. The meeting generated modest progress, with the two sides agreeing to establish a joint mechanism on counterterrorism. Since 2006, India and Pakistan have continued to take part in the Composite Dialogue process in an effort to maintain the peace process and strengthen bilateral relations. Since Pakistani elections in February 2008 the Indian Minister of External Affairs and the

Indian Foreign Secretary have met with their new counterparts to advance the Composite Dialogue talks, reaffirming a commitment to maintain the ceasefire along the Line-of-Control as well as increasing people-to-people connections through improving cross-border bus services. The July 2008 bombing of the Indian Embassy in Kabul and the Mumbai terrorist attacks in November 2008 have increased tensions between India and Pakistan. India continues to insist that Pakistan must do its part to dismantle terror networks operating from its territory and prosecute those who had a hand in planning the Mumbai attacks.

SAARC. Certain aspects of India's relations within the subcontinent are conducted through the South Asian Association for Regional Cooperation (SAARC). Its members are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, with the People's Republic of China, Iran, Japan, European Union, Republic of Korea, and the U.S. as observers. Established in 1985, SAARC encourages cooperation in agriculture, rural development, science and technology, culture, health, population control, narcotics, and terrorism.

SAARC has intentionally stressed these "core issues" and avoided those which could prove divisive, although political dialogue is often conducted on the margins of SAARC meetings. In 1993, India and its SAARC partners signed an agreement gradually to lower tariffs within the region. Forward movement in SAARC had slowed because of tension between India and Pakistan, and the SAARC summit scheduled for 1999 was not held until January 2002. In addition, to boost the process of normalizing India's relationship with Pakistan, the January 2004 SAARC summit in Islamabad produced an agreement to establish a South Asia Free Trade Area (SAFTA). All the member governments have ratified SAFTA, which was slated to come into force on January 1, 2006, with a series of graduated tariff cuts through 2015. As of December 2006, however, the FTA partners were still negotiating sensitive product lists, rules of origin, and technical assistance. India hosted the 2007 SAARC summit, which called for greater regional cooperation on trade, environmental, social, and counterterrorism issues. At the 2008 SAARC summit in Sri Lanka, the SAFTA member countries signed a protocol for Afghanistan's accession and several countries (Including India, Pakistan, and Sri Lanka) agreed to drop some items from their sensitive product lists.

China. Despite suspicions remaining from a 1962 border conflict between India and China and continuing territorial/boundary disputes, Sino-Indian relations have improved gradually since 1988. Both countries have sought to reduce tensions along the frontier, expand trade and cultural ties, and normalize relations. Their bilateral trade reached \$24 billion in 2006. China is India's second-largest trading partner behind the U.S.

A series of high-level visits between the two nations has improved relations. In December 1996, Chinese President Jiang Zemin visited India on a tour of South Asia. While in New Delhi, he and the Indian Prime Minister signed a series of confidence-building measures along the disputed border, including troop reductions and weapons limitations.

Chinese Premier Wen Jiabao invited Prime Minister Vajpayee to visit China in June 2003. They recognized the common goals of both countries and made the commitment to build a "long-term constructive and cooperative partnership" to peacefully promote their mutual political and economic

goals without encroaching upon their good relations with other countries. In Beijing, Prime Minister Vajpayee proposed the designation of special representatives to discuss the border dispute at the political level, a process that is still under way.

In November 2006, President Hu Jintao made an official state visit to India, further cementing Sino-Indian relations. India and China are building on growing economic ties to improve other aspects of their relationship such as counterterrorism, energy, and trade. In another symbol of improved ties, the two countries opened the Nathu La Pass to bilateral trade in July 2006 for the first time in 40 years. Though it is the first direct land trade route in decades, trade is expected to be local and small since the pass is open only four months a year.

Prime Minister Manmohan Singh met Chinese President Hu Jintao in January 2008 in Beijing in an effort to reinforce their confidence to further develop ties, vowing to promote their relations to a higher level. The meetings cemented a shared vision for the 21st century, agreeing to raise the annual volume of bilateral trade to \$60 billion by 2010. Despite flare-ups over border issues, China-India relations remain stable at the strategic level.

Former Soviet Union. The collapse of the Soviet Union in 1991 and the emergence of the Commonwealth of Independent States (CIS) had major repercussions for Indian foreign policy. India's substantial trade with the region plummeted after the Soviet collapse and has yet to recover. Longstanding military supply relationships were similarly disrupted due to questions over financing. Russia nonetheless remains India's largest supplier of military systems and spare parts.

Russia and India have not renewed the 1971 Indo-Soviet Peace and Friendship Treaty and follow what both describe as a more pragmatic, less ideological relationship. The visit of Russian President Boris Yeltsin to India in January 1993 helped cement this new relationship. The pace of high-level visits has since increased, as has discussion of major defense purchases. UPA leader Sonia Gandhi and Prime Minister Singh visited Russia in July 2005. President Vladimir Putin traveled to India in January 2007 to attend an Indo-Russia Summit and was the guest of honor at India's Republic Day celebrations. President Medvedev visited India in December 2008 and signed a civil nuclear agreement.

U.S.-INDIA RELATIONS: Recognizing India as a key to strategic U.S. interests, the United States has sought to strengthen its relationship with India. The two countries are the world's largest democracies, both committed to political freedom protected by representative government. India is also moving gradually toward greater economic freedom. The U.S. and India have a common interest in the free flow of commerce and resources, including through the vital sea lanes of the Indian Ocean. They also share an interest in fighting terrorism and in creating a strategically stable Asia.

There were some differences, however, including over India's nuclear weapons programs and the pace of India's economic reforms. In the past, these concerns may have dominated U.S. thinking about India, but today the U.S. views India as a growing world power with which it shares common strategic interests. A strong partnership between the two countries will continue to address differences and shape a dynamic and collaborative future.

In late September 2001, President Bush lifted sanctions imposed under the terms of the 1994 Nuclear Proliferation Prevention Act following India's nuclear tests in May 1998. The nonproliferation dialogue initiated after the 1998 nuclear tests has bridged many of the gaps in understanding between the countries. In a meeting between President Bush and Prime Minister Vajpayee in November 2001, the two leaders expressed a strong interest in transforming the U.S.-India bilateral relationship. High-level meetings and concrete cooperation between the two countries increased during 2002 and 2003. In January 2004, the U.S. and India launched the Next Steps in Strategic Partnership (NSSP), which was both a milestone in the transformation of the bilateral relationship and a blueprint for its further progress.

In July 2005, President Bush hosted Prime Minister Singh in Washington, DC. The two leaders announced the successful completion of the NSSP, as well as other agreements which further enhance cooperation in the areas of civil nuclear, civil space, and high-technology commerce. Other initiatives announced at this meeting include: an U.S.-India Economic Dialogue, Fight Against HIV/AIDS, Disaster Relief, Technology Cooperation, Democracy Initiative, an Agriculture Knowledge Initiative, a Trade Policy Forum, Energy Dialogue and CEO Forum. President Bush made a reciprocal visit to India in March 2006, during which the progress of these initiatives were reviewed, and new initiatives were launched.

In December 2006, Congress passed the historic Henry J. Hyde United States-India Peaceful Atomic Cooperation Act, which allows direct civilian nuclear commerce with India for the first time in 30 years. U.S. policy had opposed nuclear cooperation with India because the country had developed nuclear weapons in contravention of international conventions and never signed the Nuclear Non-Proliferation Treaty. The legislation clears the way for India to buy U.S. nuclear reactors and fuel for civilian use.

In July 2007, the United States and India reached a historic milestone in their strategic partnership by completing negotiations on the bilateral agreement for peaceful nuclear cooperation, also known as the "123 agreement." This agreement, signed by Secretary of State Condoleezza Rice and External Affairs Minister Mukherjee on October 10, 2008, governs civil nuclear trade between the two countries and opens the door for American and Indian firms to participate in each other's civil nuclear energy sector.

In July 2009, Secretary of State Hillary Clinton traveled to India to launch the "Strategic Dialogue," which called for collaboration in a number of areas, including energy, climate change, trade, education, and counterterrorism. Prime Minister Manmohan Singh is visiting Washington, DC in late November 2009 for the first state visit of the Obama administration.

GOVERNING JUSTLY AND DEMOCARTICALLY: According to its constitution, India is a "sovereign, socialist, secular, democratic republic." Like the United States, India has a federal form of government. However, the central government in India has greater power in relation to its states, and has adopted a British-style parliamentary system.

The government exercises its broad administrative powers in the name of the president, whose duties are largely ceremonial. A special electoral college elects the president and vice president indirectly for 5-year terms. Their terms are staggered, and the vice president does not automatically become president following the death or removal from office of the president.

Real national executive power is centered in the Cabinet (senior members of the Council of Ministers), led by the prime minister. The president appoints the prime minister, who is designated by legislators of the political party or coalition commanding a parliamentary majority in the Lok Sabha (lower house). The president then appoints subordinate ministers on the advice of the prime minister.

India's bicameral Parliament consists of the Rajya Sabha (Council of States) and the Lok Sabha (House of the People). The Council of Ministers is responsible to the Lok Sabha.

The legislatures of the states and union territories elect 233 members to the Rajya Sabha, and the president appoints another 12. The members of the Rajya Sabha serve 6-year terms, with one-third up for election every 2 years. The Lok Sabha consists of 545 members, who serve 5-year terms; 543 are directly elected, and two are appointed.

India's independent judicial system began under the British, and its concepts and procedures resemble those of Anglo-Saxon countries. The Supreme Court consists of a chief justice and 25 other justices, all appointed by the president on the advice of the prime minister.

India has 28 states* and 7 union territories. At the state level, some legislatures are bicameral, patterned after the two houses of the national parliament. The states' chief ministers are responsible to the legislatures in the same way the prime minister is responsible to Parliament.

Each state also has a presidentially appointed governor, who may assume certain broad powers when directed by the central government. The central government exerts greater control over the union territories than over the states, although some territories have gained more power to administer their own affairs. Local governments in India have less autonomy than their counterparts in the United States. Some states are trying to revitalize the traditional village councils, or Panchayats, to promote popular democratic participation at the village level, where much of the population still lives. Over half a million Panchayats exist throughout India.

SECURITY AND PEACE: The supreme command of the Indian armed forces is vested in the president of India. Policies concerning India's defense, and the armed forces as a whole, are formulated and confirmed by the Cabinet.

The Indian Army numbers over 1.4 million strong and fields 34 divisions. Its primary task is to safeguard the territorial integrity of the country against external threats. The Army has been heavily committed in the recent past to counterterrorism operations in Jammu and Kashmir, as well as the in the Northeast. Its current modernization program focuses on obtaining equipment to be used in combating terror. The Army often provides aid to civil authorities and assists the government in organizing relief operations.

The Indian Navy is by far the most capable navy in the region. The Navy's primary missions are the defense of India and of India's vital sea lines of communication. India relies on the sea for 90% of its oil and natural gas and over 90% of its foreign trade. The Navy currently operates one aircraft carrier with two on order, 14 submarines, and 15 major surface combatants. It is capable of projecting power within

the Indian Ocean basin and occasionally operates in the South China Sea, the Mediterranean Sea, and the Arabian Gulf. Fleet introduction of the Brahmos cruise missile, the possible lease of nuclear submarines from Russia, and the introduction of a new aircraft carrier in 2012 will add significantly to the Indian Navy's flexibility and striking power.

Although small, the Indian Coast Guard has been expanding rapidly in recent years. Indian Navy officers typically fill top Coast Guard positions to ensure coordination between the two services. India's Coast Guard is responsible for control of India's huge exclusive economic zone.

Fielding nearly 900 combat aircraft, the Indian Air Force is the world's fourth largest. It is rapidly becoming a 21st century force through modernization, new tactics and the acquisition of modern aircraft, such as the SU-30MKI, a new advanced jet trainer (BAE Hawk) and the indigenously produced advanced light helicopter (Dhruv). In April 2008 six firms submitted proposals to the Indian Government to manufacture 126 multi-role combat aircraft for the Indian Air Force.

INVESTING IN PEOPLE: Although India occupies only 2.4% of the world's land area, it supports over 15% of the world's population. Only China has a larger population. India's median age is 25, one of the youngest among large economies. About 70% live in more than 550,000 villages, and the remainder in more than 200 towns and cities. Over the thousands of years of its history, India has been invaded from the Iranian plateau, Central Asia, Arabia, Afghanistan, and the West; Indian people and culture have absorbed and modified these influences to produce a remarkable racial and cultural synthesis.

Religion, caste, and language are major determinants of social and political organization in India today. However, with more job opportunities in the private sector and better chances of upward social mobility, India has begun a quiet social transformation in this area. The government has recognized 18 official languages; Hindi, the national language, is the most widely spoken, although English is a national lingua franca. Although 81% of its people are Hindu, India also is the home of more than 138 million Muslims--one of the world's largest Muslim populations. The population also includes Christians, Sikhs, Jains, Buddhists, and Parsis.

The Hindu caste system reflects Indian occupational and socially defined hierarchies. Ancient Sanskrit sources divide society into four major categories, priests (*Brahmin*), warriors (*Kshatriya*), traders/artisans (*Vaishya*) and farmers/laborers (*Shudra*). Although these categories are understood throughout India, they describe reality only in the most general terms. They omit, for example, the tribal people and those outside the caste system formerly known as "untouchables", or *dalits*. In reality, Indian society is divided into thousands of *jatis*--local, endogamous groups based on occupation--and organized hierarchically according to complex ideas of purity and pollution. Discrimination based on caste is officially illegal, but remains prevalent, especially in rural areas. Nevertheless, the government has made strong efforts to minimize the importance of caste through active affirmative action and social policies. Moreover, caste is often diluted if not subsumed in the economically prosperous and heterogeneous cities, where an increasing percentage of India's population lives. In the countryside, expanding education, land reform and economic opportunity through access to information, communication, transport, and credit are helping to lessen the harshest elements of the caste system.

ECONOMIC GROWTH: India's population is estimated at more than 1.1 billion and is growing at 1.55% a year. It has the world's 12th largest economy--and the third largest in Asia behind Japan and China--with total GDP in 2008 of around \$1.21 trillion (\$1,210 billion). Services, industry, and agriculture account for 54%, 29%, and 18% of GDP respectively. India is capitalizing on its large numbers of well-educated people skilled in the English language to become a major exporter of software services and software workers, but more than half of the population depends on agriculture for its livelihood. 700 million Indians live on \$2 per day or less, but there is a large and growing middle class of more than 50 million Indians with disposable income ranging from 200,000 to 1,000,000 rupees per year (\$4,166-\$20,833). Estimates are that the middle class will grow ten-fold by 2025.

India continues to move forward, albeit haltingly, with market-oriented economic reforms that began in 1991. Reforms include increasingly liberal foreign investment and exchange regimes, industrial decontrol, reductions in tariffs and other trade barriers, opening and modernization of the financial sector, significant adjustments in government monetary and fiscal policies, and more safeguards for intellectual property rights.

The economy has posted an average growth rate of more than 7% in the decade since 1997, reducing poverty by about 10 percentage points. India achieved 9.6% GDP growth in 2006, 9.0% in 2007, and 6.6% in 2008, significantly expanding manufactures through late 2008. Growth for the fiscal year ending March 31, 2009 was initially expected to be between 8.5-9.0%, but has been revised downward by a number of economists to 7.0% or less because of the financial crisis and resulting global economic slowdown. Foreign portfolio and direct investment inflows have risen significantly in recent years. They contributed to \$255 billion in foreign exchange reserves by June 2007. Government receipts from privatization were about \$3 billion in fiscal year 2003-2004, but the privatization program has stalled since then.

Economic growth is constrained by inadequate infrastructure, a cumbersome bureaucracy, corruption, labor market rigidities, regulatory and foreign investment controls, the "reservation" of key products for small-scale industries, and high fiscal deficits. The outlook for further trade liberalization is mixed, and a key World Trade Organization (WTO) Doha Ministerial in July 2008 was unsuccessful due to differences between the U.S. and India (as well as China) over market access. India eliminated quotas on 1,420 consumer imports in 2002 and has incrementally lowered non-agricultural customs duties in recent successive budgets. However, the tax structure is complex, with compounding effects of various taxes.

The United States is India's largest trading partner. Bilateral merchandise trade in 2008 topped nearly \$50 billion. Principal U.S. exports are diagnostic or lab reagents, aircraft and parts, advanced machinery, cotton, fertilizers, ferrous waste/scrap metal, and computer hardware. Major U.S. imports from India include textiles and ready-made garments, Internet-enabled services, agricultural and related products, gems and jewelry, leather products, and chemicals.

The rapidly growing software sector is boosting service exports and modernizing India's economy. Software exports crossed \$28 billion in FY 2006-2007, while business process outsourcing (BPO) revenues hit \$8.3 billion in 2006-2007. Personal computer penetration is 14 per 1,000 persons. The number of cell phone users is expected to rise to nearly 300 million by 2010.

The United States is India's largest investment partner, with a 13% share. India's total inflow of U.S. direct investment was estimated at more than \$16 billion through 2008. Proposals for direct foreign investment are considered by the Foreign Investment Promotion Board and generally receive government approval. Automatic approvals are available for investments involving up to 100% foreign equity, depending on the kind of industry. Foreign investment is particularly sought after in power generation, telecommunications, ports, roads, petroleum exploration/processing, and mining.

India's external debt was nearly \$230 billion by the end of 2008, up from \$126 billion in 2005-2006. Foreign assistance was approximately \$3 billion in 2006-2007, with the United States providing about \$126 million in development assistance. The World Bank plans to double aid to India to almost \$3 billion a year, with focus on infrastructure, education, health, and rural livelihoods.