India-U.S. Relations

India's Economy and U.S. Concerns-

India is in the midst of a major and rapid economic expansion. Although there is widespread and serious poverty in India, observers believe the country's long-term economic potential is tremendous, and recent strides in the technology sector have brought international attention to such high-tech centers as Bangalore and Hyderabad. Per capita GDP is about $3,740 when accounting for purchasing power parity. Many analysts and business leaders — along with some U.S. government officials — point to excessive regulatory and bureaucratic structures as a hindrance to the realization of India's full economic potential. The high cost of capital (rooted in large government budget deficits) and an "abysmal" infrastructure also draw negative appraisals as obstacles to growth. Constant comparisons with the progress of the Chinese economy show India lagging in rates of growth and foreign investment, and in the removal of trade barriers. Still, despite problems, the current growth rate of the Indian economy is among the highest in the world.

After an average growth rate above 6% for the 1990s, India's economy cooled somewhat with the global economic downturn after 2000. Yet sluggish Cold War-era "Hindu rates of growth" became a thing of the past. For the fiscal year ending March 2004, real change in GDP was 8.2%, with continued robust growth in services and industry, and monsoon rains driving recovery in the agricultural sector. The economy grew by 6.9% in FY2004/05, led by a booming manufacturing sector. Estimated growth for the most recent fiscal year runs near 8%, and short-term estimates are encouraging, predicting expansion near 7% for the next two years. A major upswing in services is expected to lead; this sector now accounts for more than half of India's GDP. Consumer price inflation has been fairly low (4.2% in 2005), but may rise due to higher energy costs. As of November 2005, India's foreign exchange reserves were at more than $142 billion.

The benchmark Sensex index of the Bombay Stock Exchange has continuously been reaching new highs since 2004. A major U.S. concern with regard to India is the scope and pace of reforms in what has been that country's quasi-socialist economy. Economic reforms begun in 1991, under the Congress-led government of Prime Minister Rao, boosted growth and led to new foreign investment to India in the mid-1990s. Reform efforts stagnated, however, under weak coalition governments later in the decade. The 1997

Asian financial crisis and sanctions on India (as a result of its May 1998 nuclear tests) further dampened the economic outlook. Following the 1999 parliamentary election, the BJP-led government launched second generation economic reforms, including major deregulation, privatization, and tariff-reducing measures. Once seen as favoring domestic business and diffident about foreign involvement, New Delhi appears to gradually be embracing globalization and has sought to reassure foreign investors with promises of transparent and nondiscriminatory policies.

In February 2006, a top International Monetary Fund official said that India's continued rapid economic growth will be facilitated only by enhanced Indian integration with the global economy through continued reforms and infrastructure improvements.

Trade and Investment-

As India's largest trade and investment partner, the United States strongly supports New Delhi's continuing economic reform policies. Levels of U.S. India trade, while relatively low, are blossoming; the total value of bilateral trade has doubled since 2001. U.S. exports to India in 2005 had a value of $8 billion (up 30% over 2004), with business and telecommunications equipment, civilian aircraft, gemstones, fertilizer, and chemicals as leading categories. Imports from India in 2005 totaled $18.8 billion (up 21% over 2004). Leading imports included gemstones, jewelry, cotton apparel, and textiles. Annual foreign direct investment to India from all countries rose from about $100 million in 1990 to an estimated at $7.4 billion for 2005; about one-third of these investments was made by U.S. companies (in late 2005, the major U.S.-based companies Microsoft, Dell, and Oracle announced plans for multi-billion-dollar investments in India). India has moved to raise limits on foreign investment in several key sectors, however, despite significant tariff reductions and other measures taken by India to improve market access, according to the 2005 report of the United States Trade Representative (USTR), a number of foreign trade barriers remain, including "remarkably high" tariffs, especially in the agricultural sector. The USTR asserts that "substantial expansion of U.S.-India trade will be unlikely without significant Indian liberalization." In March 2006, the U.S.-India CEO Forum, composed of ten chief executives from each country representing a cross-section of key industrial sectors, issued a report identifying India's poor infrastructure and dense bureaucracy as key impediments to increased bilateral trade and investment relations. India's extensive trade and investment barriers have been criticized by U.S. government officials and business leaders as an impediment to its own economic development, as well as to stronger U.S.-India ties. For example, in 2004, the U.S. Ambassador to India told a Delhi audience that "the U.S. is one of the world's most open economies and India is one of the most closed." Later that year, U.S. Under Secretary of State Larson opined that "trade and investment flows between the U.S. and India are far below where they should and can be," adding that "the picture for U.S. investment is also lackluster." He identified the primary reason for the suboptimal situation as "the slow pace of economic reform in India." In March 2006, President Bush noted India's "dramatic progress" in economic reform while insisting "there's more work to be done," especially in lifting caps on foreign investment, making regulations more transparent, and continuing to lower tariffs. The Heritage Foundation's 2006 Index of Economic Freedom — which may overemphasize the value of absolute growth and downplay broader quality-of-life measurements — again rated India as being "mostly unfree," highlighting especially restrictive trade policies, heavy government involvement in the banking and finance sector, demanding regulatory structures, and a high level of "black market activity."

Corruption plays a role: in 2005, Berlin-based Transparency International placed India 88th out of 158 countries in its annual ranking of world corruption levels. Moreover, inadequate intellectual property rights protection is a long-standing issue between the United States and India. The USTR places India on its Special 301 Priority Watch List for "weak" protection of such rights. The International Intellectual Property Alliance, a coalition of U.S. copyright-based industries, estimated U.S. losses of $443 million due to trade piracy in India in 2005, three-quarters of this in the categories of business and entertainment software (estimated loss amounts for 2005 do not include motion CRS-15 IB93097 04-06-06 picture piracy, which in 2004 was estimated to have cost some $80 million). (See CRS Report RS21502, India-U.S. Economic Relations.)

U.S. Assistance- Economic-

According to the U.S. Agency for International Development (USAID), India has more people living in abject poverty (some 350 million) than do Latin America and Africa combined. From 1947 through 2004, the United States provided nearly $15 billion in economic loans and grants to India. USAID programs in India, budgeted at about $68 million in FY2006, concentrate on five areas: (1) economic growth (increased transparency and efficiency in the mobilization and allocation of resources); (2) health (improved overall health with a greater integration of food assistance, reproductive services, and the prevention of HIV/AIDS and other infectious diseases); (3) disaster management; (4) energy and environment (improved access to clean energy and water; the reduction of public subsidies through improved cost recovery); and (5) opportunity and equity (improved access to elementary education, and justice and other social and economic services for vulnerable groups, especially women and children).

Security-

The United States has provided about $161 million in military assistance to India since 1947, more than 90% of it distributed from 1962-1966. In recent years, modest security-related assistance has emphasized export control enhancements and military training. Earlier Bush Administration requests for Foreign Military Financing were later withdrawn, with the two countries agreeing to pursue commercial sales programs. The Pentagon reports Indian military sales agreements worth $202 million in FY2002-FY2004.

Security cooperation between the United States and India is in the early stages of development (unlike U.S.-Pakistan military ties, which date back to the 1950s). Since September 2001, and despite a concurrent U.S. rapprochement with Pakistan, U.S.-India security cooperation has flourished. The India-U.S. Defense Policy Group (DPG) — moribund since India's 1998 nuclear tests and ensuing U.S. sanctions — was revived in late 2001 and meets annually; U.S. diplomats call military cooperation among the most important aspects of transformed bilateral relations. In June 2005, the United States and India signed a ten-year defense pact outlining planned collaboration in multilateral operations, expanded two-way defense trade, increasing opportunities for technology transfers and co-production, expanded collaboration related to missile defense, and establishment of a bilateral Defense Procurement and Production Group. The United States views defense cooperation with India in the context of "common principles and shared national interests" such as defeating terrorism, preventing weapons proliferation, and maintaining regional stability. Many analysts laud increased U.S.-India security ties as providing an alleged "counterbalance" to growing Chinese influence in Asia.

….to be continued.