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India's New Government and Implications for U.S. Interests

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Summary

The United States and India have been pursuing a "strategic partnership" since 2004, and a 5th Strategic Dialogue session was held in New Delhi in late July 2014. A May 2014 national election seated a new Indian government led by the Hindu nationalist Bharatiya Janata Party (BJP) and new Prime Minister Narendra Modi. Top U.S. officials express eagerness to engage India's new leadership and re-energize what some see as a relationship flagging in recent years. High hopes for the engagement have become moderated as expectations held in both capitals remain unmet, in part due to a global economic downturn that has dampened commercial activity. Yet the two countries, estranged through the Cold War period, have now routinized cooperative efforts through myriad working groups on an array of bilateral and global issues.

Prime Minister Modi is known as an able administrator, having overseen impressive economic development in 15 years as chief minister of India's Gujarat state. But he also is a controversial figure for his Hindu nationalist views and for communal rioting that killed up to 2,000 people, most of them Muslims, in Gujarat in 2002. His BJP made history by becoming the first party to win an outright parliamentary majority in 30 years, meaning India's federal government is no longer constrained by the vagaries of coalition politics. Domestic and international proponents of Modi's business-friendly policies are hopeful that these circumstances will make for more effective governance and streamlined economic reforms. Detractors, concerned about protecting India's inherently secular nature under a Hindu nationalist government, and worry about future respect for India's freedoms of religion and expression.

This report reviews the major current issues in U.S.-India relations, including areas of both cooperation and contention, the latter most visible in trade and economic engagement in recent years. For a brief review of the election, as well as key government officials and parties, see CRS In Focus IF00037, *India's Domestic Political Setting*, by K. Alan Kronstadt.

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Notable Recent Developments[1]

- On July 29, Secretary of State John Kerry and Secretary of Commerce Penny Pritzker traveled to New Delhi for the 5th U.S.-India Strategic Dialogue, where they met with newly-seated Indian Prime Minister Narendra Modi and External Affairs Minister Sushma Swaraj, among others. In a joint statement, the two sides reviewed bilateral dialogues and working groups on issues ranging from science and technology to regional security and counterterrorism. Post-dialogue press interactions suggested that the bulk of the dialogue focused on trade and investment, energy, and climate change. The two sides intend to re-convene the moribund U.S.-India Trade Policy Forum, and to expand the framework of dialogue on commercial ties and technology exchange. They established a new Joint Working Group on Climate Change with the stated goal of laying the foundation for an "ambitious climate change agreement for the post-2020 period."[2] Secretary of Defense Chuck Hagel will travel to India in August to attempt to reinvigorate the defense partnership.
- On July 10, new Indian Finance Minister Arun Jaitley presented a partial-year national budget, widely seen as an early measure of the new government's interest in pursuing substantive new economic reforms. Most independent observers were cautiously optimistic about the outlook for such reforms, although some expressed disappointment that the government did not lay out a clear path toward its stated goals of opening markets and attracting new investment, and did not address the issue of intellectual property rights protection.[3] The budget did not touch major subsidy and social welfare programs initiated by the preceding government, highlighting the constraints of India's historical tendency toward populist initiatives meant to safeguard the poor. The new budget does, however, pledge to raise foreign direct investment caps in the insurance and defense sectors up from 26% to 49%, but still falls short of the majority allowance that many Indian and international business interests had hoped for.
- On July 31, New Delhi blocked a World Trade Organization (WTO) trade facilitation agreement that was negotiated among 160 countries, including India, in Bali in December 2013. the Indian government insisted on extending the negotiating period, citing its displeasure with the pace of separate negotiations over a so-called peace clause for its food security programs, which would preclude a challenge to these programs on subsidy grounds. Some analysts suspect that Prime Minister Modi is giving a nod to the interests of his country's hundreds of millions of farmers, a demographic not typically supportive of his ruling party. Member governments saw the trade facilitation deal as a breakthrough in the drawn-out Doha Round of multilateral negotiations, and some worry that its obstruction could delegitimize the WTO. Following Secretary Kerry's meeting with Modi, a senior State Department official said that Indian decision "sends a confusing wrong signal and undermines the very message that

[1] This section written by Samir Kumar, Asia Section Research Associate.

[2] See the July 31, 2014, Joint Statement at http://www.state.gov/r/pa/prs/ps/2014/07/230046.htm.

[3] Rick Rossow, "For India: A 'Balanced' Budget," Center for Strategic and International Studies, July 10, 2014.

India is seeking to send."[4] New Delhi has expressed hope that differences can be resolved when the WTO reconvenes in September.

Table 1. Key Active Areas of Engagement for the United States and India[5]

Issue Area	Status
Intellectual Property Rights (IPR)	U.S. concerns about India's IPR standards led the USTR to place India on its "Special 301 Priority Watch List" and plan an "Out-of-Cycle Review" for September 2014.
Bilateral Investment Treaty (BIT)	Negotiations to establish a BIT are ongoing; the U.S. government views a finalized BIT as being a key step in facilitating greater trade and investment with India.
U.S. Immigration Policy	New Delhi views pending U.S. immigration legislation as unfairly constraining India's services trade sector by capping the number of nonimmigrant works (H1-B) visas available to its citizens.
U.S.-India Civil Nuclear Commerce	Obstacles to initiating bilateral nuclear energy cooperation, in particular India's stringent liability law, remain a source of frustration for U.S. officials and companies eager to enter the Indian market.
Climate Change	The United States and India seek to cooperate in efforts to combat climate change. In addition to joint exploration of alternative energy technologies, energy efficiency, and sustainable forestry, the two countries seek to cooperate on achieving a multilateral global agreement on climate change in Paris in 2015.
Afghan Stability	As U.S. troops depart Afghanistan this year, Washington and New Delhi continue to engage closely to foster a stable and democratic post-2014 Afghanistan.
Counterterrorism	Bilateral cooperation on combatting terrorism has been a critical element of the countries' security relationship. India continues to be targeted by multiple Islamist militant groups, some of which threaten U.S. interests.
India-Pakistan Relationship	The U.S. government continues to encourage India and Pakistan to work peacefully toward increasing their bilateral trade and enhancing security along their shared border.

Overview and Commentary

India—South Asia's dominant actor with more than 1.2 billion citizens and Asia's third-largest economy—often is characterized as a nascent great power and "indispensable partner" of the United States, one that many analysts view as a potential counterweight to China. For the past decade, Washington and New Delhi have been pursuing a "strategic partnership" based on shared values and apparently convergent geopolitical interests. Numerous economic, security, and global initiatives are underway. In 2005, the United States and India signed a 10-year defense framework agreement to expand bilateral security cooperation. The two countries since have engaged in

[4] See the August 1, 2014, remarks at http://www.state.gov/r/pa/prs/ps/2014/230084.htm.

[5] This section written with Samir Kumar, Asia Section Research Associate.

numerous and combined military exercises, and major U.S. arms sales to India are underway. The value of all bilateral trade has grown significantly, although the recent global economic downturn has stunted that growth. Bilateral trade in goods and services was worth more than $97 billion in 2013; a total that has been fairly static for two years. Two-way investment also flourishes. Indians receive about two-thirds of all H1-B (nonimmigrant work) U.S. visas, and some 100,000 Indian students are attending American universities. The influence of a relatively wealthy and outspoken Indian-American community of roughly three million is reflected in Congress's largest country-specific Senate and House caucuses.

President Barack Obama's Administration has sought to build upon the deepened U.S. engagement with India begun by President Bill Clinton in 2000 and expanded during much of the previous decade under President George W. Bush. A bilateral Strategic Dialogue forum, established in 2009, met for the fourth time in New Delhi in June 2013;[6] a fifth meeting, also in New Delhi concluded on July 31, 2014. Still, independent analysts in both countries worry that the partnership has lost momentum in recent years. Some saw a notable cooling of U.S.-India ties in 2013 with the serious diplomatic dispute triggered by the December arrest of Indian consular official Devyani Khobragade in New York.[7] And there are longer-running and more serious disagreements over intellectual property rights protection; market access; U.S. immigration law; and stalled efforts to initiate civil nuclear cooperation, among others.

In May 2014, India's national election resulted in a convincing and historic win for the Bharatiya Janata Party (BJP or "Indian Peoples Party") and its prime ministerial candidate, then-Gujarat state Chief Minister Narendra Modi.[8] The new Indian leader is known as a strong-willed and effective, if perhaps autocratic, administrator. His reputation has been burnished by Gujarat's impressive economic performance during his 15-year tenure—the state accounts for more than 20% of all Indian exports while being home to only 5% of the population. Garnering an outright majority in Parliament for the first time in 30 years, Modi's new government promises fresh U.S. engagement with an Indian leader reputed to be more pro-trade and pro-business than the socialist-oriented ones of the past, and who vows to implement a more assertive Indian foreign policy that could see the country shift away from its traditional "non-alignment" approach to global politics. President Obama and other top U.S. officials have expressed an interest in revitalizing bilateral fora so as to further boost trade and investment flows, deepen security cooperation, and otherwise solidify the geopolitical alignment with India.[9]

One area of potential friction relates to a guiding ideology of the new Indian government: the BJP was born in 1980 as the political wing of the Rashtriya Swayamsevak Sangh (RSS or "National Volunteer Organization") a militant Hindu and social service group (roughly 82% of Indians are Hindu and another 14% Muslim). Prime Minister Modi—himself a longtime RSS member—and his party maintain a firmly Hindu nationalist perspective. He also is a controversial and—among some—even reviled figure due to persistent suspicions about his possible role in horrific

[6] See the relevant documents at http://www.state.gov/p/sca/ci/in/strategicdialgue/c58464.htm.

[7] In December 2013, Khobragade, then Deputy Consul of India's New York Consulate, was arrested on charges of visa fraud and provision of false statements related to her treatment of an Indian national she had brought to perform domestic work. The circumstances of her relatively brief detention—an unceremonious street arrest, strip-search, and jailing—infuriated India's government and many of its citizens, who argued that diplomatic immunity should have obtained. Days later, the State Department approved New Delhi's request that Khobragade transfer to India's UN Mission, thus affording full, rather than consular, immunity. In January, Khobragade departed from the United States, but the indictment against her has not been dismissed.

[8] See CRS In Focus IF00037, *India's Domestic Political Setting*, by K. Alan Kronstadt.

[9] "Readout of the President's Call with Candidate Narendra Modi of India," White House release, May 16, 2014.

communal rioting in Gujarat in 2002 that left up to 2,000 people dead, most of them Muslims. Although multiple high-level investigations into Modi's alleged role have resulted in no formal charges, human rights groups and other analysts still widely accuse him of being complicit in the anti-Muslim violence, or at least showing gross dereliction of duty in his response. Such accusations led the Bush Administration to deny Modi a visa in 2005, and the U.S. government subsequently had no official contacts with Modi until he met with the U.S. ambassador to India in late 2013.[10] Some Members of Congress have continued to express deep concerns about Modi's past and his commitment to religious freedom.[11] Many observers warn that a BJP-majority government could have dire consequences for human and civil rights in India, especially if it chooses to implement openly Hindu majoritarian policies.

However, President Obama wasted no time in ending speculation on the visa issue by immediately inviting Prime Minister Modi to visit Washington, DC (Secretary of State John Kerry subsequently told an Indian audience that there is no doubt that the Indian leader will receive a U.S. visa). Modi is set to visit the U.S. capital in late September. Following the election, Secretary Kerry congratulated India for the successful democratic exercise and Modi for his victory while calling the bilateral friendship "absolutely vital."[12] On Capitol Hill, Members of both chambers took positive note of India's democratic exercise and its new government, and expressed recognition of the importance of the bilateral relationship.[13] To date, 88 House Members are signatories to a letter asking congressional leadership to convene a Joint Session for the Indian leader to address.[14] Committees in both the Senate and House held hearings on U.S.-India relations in July.[15]

In D.C. policy circles, there is no consensus view on India's new government beyond a general agreement that Prime Minister Modi must confront a multitude of difficult problems and choices, and that the domestic Indian expectations of their new leader are so broad and so high that they are very unlikely to be met. Most agree that it will be exceedingly difficult, if not virtually impossible, for Modi to fulfill voters' economic aspirations given the significant restraints presented by India's federal system, by still widespread resistance to fiscal stimulus in an

[10] The State Department took the 2005 action under the 1998 International Religious Freedom Act, which allows for barring entry to foreign government officials found to be complicit in severe violations of religious freedom. Some analysts contend that Washington risked lasting damage to the bilateral relationship by waiting too long before seeking to forge substantive ties with Modi (the March 2005 State Department notice is at http://2001-2009.state.gov/p/sca/rls/rm/2005/43701.htm; Anish Goel, "Can the United States and BJP Do Business?" *Foreign Policy* (online) February 13, 2014).

[11] H.Res. 417, introduced in November 2013 and currently with 51 co-sponsors, commends the State Department's 2005 visa denial. To date, the bill has not emerged from committee.

[12] See the May 20, 2014, State Department release at http://www.state.gov/secretary/remarks/2014/05/226344.htm.

[13] H.Res. 607, introduced on May 29, 2014, recognizes the importance of India's historic elections and calls for working with India's new government to strengthen the bilateral strategic partnership. To date, the resolution has 24 co-sponsors, but has not emerged from committee. S.Res. 523, introduced on July 24, 2014, with three co-sponsors, expresses the sense of the Senate on the importance of the U.S.-India strategic partnership.

[14] The July 21, 2014, letter notes that an Indian Prime Minister has addressed a Joint Session of Congress in each of the past three decades, and it seeks to "continue that tradition" (see http://sherman.house.gov/media-center/press-releases/sherman-leads-83-house-members-in-effort-to-invite-pm-modi-to-address).

[15] The Senate Foreign Relations Subcommittee on Near Eastern and South and Central Asia's July 24, 2014, hearing statements are at http://foreignaffairs.house.gov/hearing/subcommittee-hearing-us-india-relations-under-modi-government. The House Foreign Affairs Subcommittee on the Asia Pacific's July 29, 2014, statements are at http://foreignaffairs.house.gov/hearing/subcommittee-hearing-us-india-relations-under-modi-government.

environment of high deficits, and by an expectation of potentially decisive political opposition in Parliament's upper chamber.[16]

One U.S.-based commentator characterized Washington's reaction to India's election results as "a mix of curiosity, hope, and concern." In this view, the interest is evoked by the strong electoral win of a Delhi outsider, the optimism emanates mainly from the business community, which anticipates a stronger reform impulse, and the worries are about the potentially negative effects of past U.S. shunning of Modi, as well as his record of taking a hardline posture toward India's religious minorities. On this last point, another analyst contends that the trajectory of U.S.-India relations transcends any single leader and that there have been no signs that Modi will rock this boat as prime minister. Notably, Modi never appeared to discriminate against any U.S. firms in Gujarat during the post-2005 visa ban period.[17]

A minority view contends that conceiving of the United States and India as "natural partners" is misguided. In this account, New Delhi's implicit approval of Russia's early 2014 aggression in Ukraine—strongly opposing sanctions on Moscow and calling its interests in Crimea "legitimate"—is a recent demonstration that U.S. and Indian strategic interests can and do continue to diverge.[18] In the words of two prominent observers, "[T]he linkages between the United States and India remain more aspirational than accomplished, with many unfulfilled expectations."[19] Meanwhile, a senior Indian analyst conveys a perspective among some that recent changes in regional and global circumstances—especially those that have Washington focused on crises in regions where New Delhi plays a negligible role—have "tended to lower the salience of this 'indispensable partnership' in the eyes of both partners."[20]

While the chances for a "dramatic resuscitation" of bilateral ties may be poor in the short-run, many analysts continue to urge Washington to view a stronger India as being in America's interests. Undergirding this argument is the assumption that New Delhi's future economic and security policies are highly likely to take courses that benefit the United States, even if indirectly.[21] U.S. officials thus are encouraged to demonstrate full openness to working with the Modi government, in part as a means of ameliorating the raw sensitivities many Indians appear to have about national respect, sensitivities that were exposed by the Khobragade incident in a fierce reaction that surprised many observers in the United States. These analysts also offer that Washington can demonstrate for New Delhi that U.S. leaders are serious about the rebalance to Asia and that India can play a vital role in such policy, perhaps especially in the area of maritime security and codes of conduct.[22]

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[16] "Narendra Modi's Ambitious Agenda Will Face Difficult Obstacles," *New York Times*, May 16, 2014; Milan Vaishnav, "Indians Expect an Economic Superman" (op-ed), Bloomberg News, May 12, 2014.

[17] Tanvi Madan, "Hope, Concern, and Curiosity," India Today (Delhi), May 30, 2014; Sadanand Dhume, American Enterprise Institute Resident Fellow, private meeting, Washington, DC, February 27, 2014.

[18] New Delhi reportedly refused to include any language critical of Russia in the Joint Statement emerging from the July Strategic Dialogue ("Indian Media Say Delhi Walks 'Diplomatic Tightrope' Over Crimea," BBC News, March 20, 2014; "Ukraine Speed Bump in Delhi Ties With US," *Telegraph* (Kolkata), July 31, 2014).

[19] James Clad and Robert Manning, "New Beginning? What a Modi Victory Means for India and the U.S.," *Foreign Policy* (online), May 15, 2014.

[20] Siddharth Varadarajan, "Why John Kerry's Great Expectations Won't Be Met by India" (op-ed), NDTV.com (New Delhi), July 31, 2014.

[21] Ashley Tellis, "Productive But Joyless? Narendra Modi and US-India Relations," Carnegie Endowment for International Peace, May 12, 2014.

[22] Lisa Curtis, "US-India Relations in 2014: After the Election, Opportunity for Revitalizing," Heritage Foundation, June 2014.

A Historic Election and New Delhi's New Government[23]

In April and May of 2014, India once again broke its own record by conducting the largest democratic exercise in human history: Of its 815 million eligible voters in 29 states and 7 union territories, a record 66.4% turned out to seat a new Lok Sabha (House of the People)—the lower chamber of Parliament and the locus of national power—and, with it, a new prime minister. The outcome was historic in numerous ways. The victorious BJP won a majority of the body's 543 seats, becoming the first party to do so since 1984 and the first-ever non-Indian National Congress Party to rule India's federal government without coalition partners (the dynastic, Nehru/Gandhi Congress Party suffered what was by far its worst-ever national defeat, although it continues to lead 11 state governments). The BJP's 282 seats allowed the party to elevate Modi to the prime minister's seat, and he was sworn in to office on May 26. Modi is India's first-ever lower-caste prime minister, the first born after the country's 1947 independence, and the first not to have been steeped in Delhi's rarified political circles—an "outsider" in more ways than one.

India's smaller upper parliamentary chamber of a maximum 250 seats, the Rajya Sabha (Council of States), is on a different election schedule from that of the Lok Sabha. This body may review, but not veto, revenue legislation, and has no power over the prime minister or his/her cabinet. Still, the BJP's governance agenda can be impeded in the Rajya Sabha, where the former incumbent Congress Party holds a plurality of seats (68) and can align with other BJP opponents to block certain legislation.[24] Moreover, many key reforms that may be pursued by the new government—including in tax policy, labor laws, land acquisition, subsidy cuts, and infrastructure project clearance—will be dependent on the participation of state governments, only eight of which are currently controlled by the BJP or its allies.

Analysts identify convincing reasons to believe that the Indian electorate did not elect Narendra Modi for his bold Hindu nationalism. Instead, Modi's mandate most likely derived from the electorate's acute desire to see uncorrupt governance in New Delhi and a repaired economy with plentiful jobs, and not from support for any parochial agenda.[25] Moreover, with Muslim votes split between the numerous "secular" alternatives to the BJP, Modi's electoral outlook was much improved. Winning a majority of seats with less than one-third of votes cast (the BJP won 31% of the popular vote) was possible only through a significant splintering of the country's "anti-BJP vote." This leads some to argue against the "historic election" narrative: More than two-thirds of votes were cast for non-BJP candidates, the BJP continued to fare poorly in most of the country's south and east, and regional parties continued to account for roughly half of all votes cast.[26]

Prime Minister Modi has pared down the size of the cabinet considerably, from 71 ministers under the previous government to 44 today. Key officials include recent BJP President and current Home Minister Rajnath Singh; External Affairs Minister and Overseas Indian Affairs Minister Sushma Swaraj, a BJP parliamentary stalwart; and Arun Jaitley a corporate lawyer now serving as Finance Minister, Defense Minister, and Corporate Affairs Minister. Modi's longtime

[23] A fact sheet on the election, as well as key government officials and parties, is CRS In Focus IF00037, *India's Domestic Political Setting*, by K. Alan Kronstadt.

[24] Later in 2014, the BJP will contest state elections in Delhi, Haryana, and Maharashtra, the last being India's second most populous state and home to Mumbai, the country's premier business hub. Rajya Sabha representation is dictated by control of state legislatures (the BJP leads the government in only 5 of India's 29 states), meaning these elections are important to the BJP's governance agenda and will be closely watched outside of India.

[25] Ashley Tellis, "Productive But Joyless? Narendra Modi and US-India Relations," Carnegie Endowment for International Peace, May 12, 2014.

[26] Adam Ziegfeld, "Indian Election Isn't as Historic as People Think" (op-ed) *Washington Post* (online), May 16, 2014.

lieutenant and home minister in Gujarat, Amit Shah, is the new BJP chief. Skeptical observers found in Modi's cabinet picks signs of "business as usual" in India's often venal political culture: 13 cabinet ministers are said to be facing sometimes serious criminal charges and most are over 60-years-old, belying Modi's campaign claims to be a champion of the country's youth.[27]

Among the sea of commentaries on Modi are numerous negative portrayals of his personality. While his millions of supporters see in Modi a strong-willed, incorruptible, and effective leader who will defend and enrich the nation, critics take a darker view. Their arguments commonly portray Modi as having a ruthless and dictatorial style of governance. By some accounts, Modi has welcomed being the focus of a cult of personality and has consciously cultivated an autocratic image.[28] Detractors also identify a disregard for rule of law in Gujarat under Modi, including allegations that Gujarati authorities staged at least 20 extrajudicial killings from 2003-2006.[29]

Economic Policy Outlook

The impressive growth of Indian national wealth, especially that occurring in the middle years of the last decade, has been central to the country's newfound visibility and importance in global political calculations. Most observers foresee India becoming the world's third largest economy by 2030; in purchasing power parity terms, India already has supplanted Japan in share of global GDP. However, India's economic growth rate is at a ten-year low, and fiscal and current account deficits have widened significantly. The country today is in the midst of its worst economic slowdown since the 1980s, with two full years of sub-5% annual growth and persistently high inflation. Experts generally agree that, for India's international influence to continue to grow—and thus further boost its attractiveness as a U.S. partner—the country's negative economic trends need to be reversed.

Modi is widely viewed in Washington as being good for business, especially through efforts to create a more stable and tax-friendly investment climate. Foreign investors, anticipating Modi's win, were seen to be behind the roughly 25% surge in the value of India's top stock index in the 8 months leading up to the election. When the results were announced, another rally led to a new record high and propelled the Mumbai stock market into the world's top ten for the first time ever. During the election campaign, Arun Jaitley, now finance minister, said that luring both foreign and domestic investment into fast-tracked major projects in infrastructure and skills development would be the primary goal of the new government.[30] This tack has been central to the "Gujarat miracle" that Modi may seek to recreate at the national level.[31]

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[27] In 2010, Shah was arrested and charged with murder in orchestrating a faked police encounter as Gujarat home minister. The case is ongoing. Before this election, nearly one in three members of the Indian Parliament had criminal cases pending against them, an increase from a decade ago when about one-quarter had such status. State legislatures show similar rates of actual or alleged criminality among members (Milan Vaishnav, "Crime But No Punishment in Indian Elections," Carnegie Endowment for International Peace, January 24, 2014).

[28] In a leaked diplomatic cable, one "senior American diplomat" reportedly described Modi as an "insular, distrustful person" who "reigns by fear and intimidation" (cited in "Narendra Modi and the New Face of India," *Guardian* (London), May 16, 2014).

[29] Sunny Hundal, "Does Narendra Modi Threaten Secular and Liberal India?" (op-ed), CNN.com, May 16, 2014.

[30] "Reviving Investment is Key, Says Man Tipped to Be India's Finance Minister," Reuters, April 13, 2014.

[31] Certainly Gujarat became wealthier under Modi, and "the Gujarat miracle" and "Modinomics" became political buzzwords during the campaign. Yet the state's strides during Modi's tenure may have been over-hyped. Some argue that Modi inherited rather than created Gujarat's strong, export-based economy. Gujarat already was leading in several key economic indices in the decade before Modi took power, and during the 2000s several other large states outperformed Gujarat in terms of growth rates and foreign investment per capita. Analysts also note that Gujarat fares poorly on measures of health and education, suggesting its ineffectiveness in translating development into social

Although generally favored by the domestic and international business community, the BJP hardly is a party of "free traders," but rather is home to stiff debate over "pro-market" versus "protectionist" policies. India remains a mostly socialist country with an embedded tradition of state-led welfare initiatives. Thus, predicting future BJP economic policy can be difficult, and, while new space will be opened for private sector initiatives, and within an improved investment climate, a D.C.-based expert contends that this "will not automatically translate into a free rise for either 'India, Inc.' or corporate America."[32] Moreover, even if Modi does move energetically to lure investment and fast-track projects in the country, India's federal system provides state governments with considerable say over reforms in key sectors such as energy infrastructure; in some cases this extends to veto power. Indeed, experts agree that state bureaucracies can present major obstacles to reinvigorating India's investment climate; one recent study revealed that 40 of India's top 50 stalled projects were being held up by red tape at the state level.[33]

Foreign Policy Outlook

Along with an array of urgent domestic priorities, Modi faces a busy foreign policy schedule to include appearances at five multilateral summit meetings before year's end: the BRICS (Brazil, Russia, India, China, South Africa) summit in July;[34] the UN General Assembly meeting in September; the concurrent East Asian and India-Association of Southeast Nations (ASEAN) summits in November; followed by the G20 and South Asian Association for Regional Cooperation (SAARC) summits later that month.

As a campaigner, Prime Minister Modi said little about what kinds of foreign policies he would pursue, and the BJP Manifesto devoted only 1 of its 42 pages to foreign policy discussion, notably vowing a shift toward active alliance-seeking ("a web of alliances").[35] Modi has, however, lauded the pragmatic approach to foreign relations taken by the previous BJP-led government, which was in power from 1999-2004, and is widely seen as most likely to pursue economic growth through non-confrontational engagement with India's neighbors. This assumption holds even as aides reportedly have promised that an India under Modi's leadership will take a tougher line on territorial disputes with Beijing and rivalry with Islamabad. By inviting the six other SAARC leaders to attend his inauguration in person, Modi was seen to be emphasizing India's relations with its immediate neighbors, including Pakistan.[36]

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improvement (Aseema Sinha, "Understanding Economic Reform of Public Services in a High Growth State of India," in Vikram Chand, ed. *Public Service Delivery in India: Understanding the Reform Process* (New Delhi: Oxford University Press, 2010).

[32] Ashley Tellis, "Productive But Joyless? Narendra Modi and US-India Relations," Carnegie Endowment for International Peace, May 12, 2014. One Indian economist contends that, while in opposition from 2004 through 2013, the BJP supported welfare and subsidy programs just as often as did the ruling party, suggesting that a dramatic shift toward the generally pro-market policies the BJP followed while in power from 1999-2004 is unlikely (Ila Patnaik in "Will India's Economy Surge After the General Election?" (interview), Carnegie Endowment for International Peace, February 4, 2014).

[33] "Expectations Are Too High for a Modi Economy," *Wall Street Journal*, April 8, 2014. Study cited in Milan Vaishnav, "Indians Expect an Economic Superman" (op-ed), Bloomberg News, May 12, 2014.

[34] The BRICS summit notably established a new multilateral development bank and currency stabilization fund to be headquartered in Shanghai, with India holding the first presidential term. The bank has an initial authorized endowment of $100 billion.

[35] See the BJP election Manifesto at http://www.bjp.org/manifesto2014.

[36] The founding members of SAARC are India, Pakistan, Bangladesh, Sri Lanka, Nepal, Maldives, and Bhutan. The United States holds observer status, as do Australia, Burma, China, the EU, Iran, Japan, Mauritius, and South Korea.

SAARC accounts for all of India's contiguous neighbors but for China. South Asian regionalism is poorly developed, having long been hindered by India-Pakistan antagonisms. Yet New Delhi's recent signals that it will prioritize near relations are lauded by independent analysts and could lead to a more promising environment for economic growth. As a campaigner, Modi singled out Bangladesh as a source of migrant Muslim "infiltrators" while being welcoming of its Hindu "refugees." And Bangladesh's long border with India's West Bengal state gives the Kolkata-based government an outsized role in India-Bangladesh relations. Likewise, the presence of a large ethnic Tamil community in the southern Tamil Nadu state causes the Chennai-based government to monitor the status of the Tamil minority in Sinhala-dominated Sri Lanka.

China has been viewed warily by Indians ever since Beijing launched a brief, but bloody 1962 war that created what is still the world's longest disputed border.[37] China long has been a major supporter of Pakistan and is increasing its presence in the Indian Ocean Region in ways that could constrain India's regional influence. The Chinese also are irked by the presence of the Dalai Lama and the Central Tibetan Administration on Indian soil. As an unapologetic nationalist, many prognosticators see Prime Minister Modi as eager to demonstrate his bona fides vis-a-vis Beijing. Yet China has also emerged as India's largest trade partner in recent years. As chief minister, Modi made four business-oriented trips to China and eagerly developed commercial links between Gujarat and China. Greater Chinese investment capital (especially in the vital infrastructure sector), technology, and management skills are welcomed by many in India.

Pakistan for decades has confounded India by fueling a separatist insurgency in India's Jammu & Kashmir state, employing Islamist proxy groups that conduct terrorist attacks on Indian soil and overseas interests, and obstructing New Delhi's access to Afghanistan and Central Asia. Prime Minister Modi's leadership, and his status as a Hindu nationalist with a record of hardline rhetoric toward both Pakistan and Muslims, could increase the risk of greater tensions and even open conflict with Pakistan, especially if another major terrorist attack in India is traced to Pakistani soil such as that in 2008 when 163 people were killed in Mumbai, 7 Americans among them. Some such concerns dissipated when Modi invited the Pakistani prime minister to New Delhi to witness his swearing-in. And, here again, experts say Modi likely will seek to balance mutual antagonism with his need to expand the Indian economy, a goal that would only benefit from an increase in what is now relatively miniscule bilateral trade with Pakistan.

Japan, according to many analysts, may be the country most ripe for rapidly deepened relations with an India under Narendra Modi, who made two business trips to Japan as Gujarat chief minister. Modi is said to have a warm personal relationship with Japanese Prime Minister Shinzo Abe and Japanese companies have made major investments in Gujarat over the past decade. Abe's firm stance on Chinese expansionism and greater emphasis on the role of Japanese military power may make Japan an increasingly attractive partner for India. Modi describes the two countries as sharing fundamental identity of values, interests and priorities.

Afghanistan plays a key role in India's regional policy, and Indian leaders envisage a peaceful Afghanistan that can serve as a hub for regional trade and energy flows. 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. Prime Minister Modi likely will seek ways to remain deeply engaged with the next Kabul government while avoiding any additional conflict with Islamabad over the Indian presence there.

[37] To this day, India accuses China of illegitimately occupying nearly 15,000 square miles of Indian territory in Kashmir (the Aksai Chin region), while China lays claim to 35,000 square miles in the northeastern Indian state of Arunachal Pradesh.

Israel did not receive formal recognition from India until 1992. Yet bilateral relations have blossomed in the 21st century, with booming trade driven mainly by gemstones and defense wares. Israel now roughly equals Russia in the value of defense exports to India. Prime Minister Modi, with reportedly close ties to Israeli business leaders, visited Israel as chief minister. New Delhi has thus far maintained a studied neutral position on the current conflict in Gaza, and has joined the United States in calling upon both sides to exercise maximum restraint.

Iran has had long-standing positive relations with India, but frictions have arisen in the 21st century as New Delhi has grown closer to Washington. Most recently, India fully cooperated with U.S.-led sanctions by significantly reducing its importation of Iranian oil, at some cost to its relationship with Tehran. Yet Iran remains a key source of hydrocarbons to meet India's growing energy needs, and New Delhi has continued to develop Iran's Chabahar port, in large part to provide India with access to Central Asian markets bypassing Pakistan. Prime Minister Modi's emerging posture toward Iran could be telling, as he may find himself facing mutually exclusive choices between cooperating with Iran or cooperating with those countries seeking to isolate the Islamic theocracy due to its controversial nuclear program.

Hindu Nationalism and Related Policy

Because Hinduism does not have a specific sacred text to which conformity can be demanded, "Hindu fundamentalist" is not an apt term to describe a purveyor of "Hindutva" or "Hindu-ness." Moreover, 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."[38]

Hindu nationalists have a relatively short, but long-standing list of political goals. Leading Hindutva and widely-held RSS aspirations include scaling back laws and government programs designed to benefit the religious minorities, Muslims in particular; establishing a Uniform Civil Code (to replace current personal law based on religious customs and thus standardizing all national laws regarding such topics as marriage, divorce, and inheritance); repealing Article 370 of the Constitution, which grants limited autonomy to the Muslim-majority state of Jammu & Kashmir (a step that, if implemented, would allow citizens from other Indian states to buy property in J&K); redrafting public school textbooks to remove what are alleged to be insults to Hindu gods and excessive praise of the subcontinent's past Muslim rulers; constructing a Ram temple on the site of the Babri Mosque that was razed in 1992 (a policy endorsed in the BJP's 2014 Manifesto); and preventing cow slaughter (cows are deeply revered animals in Hinduism).

Issues in U.S.-India Relations

Along with the economic, security, and human rights issues discussed below, the United States and India engage closely on myriad other global and multilateral issues, including science and technology; space; healthcare; education; and sustainable growth, energy, and climate change, among others. India, a non-signatory to the Nuclear Nonproliferation Treaty, maintains a nuclear arsenal of an estimated 90-110 warheads, and apparently is working to develop that arsenal's size and sophistication. With the signing of the U.S.-India Civil Nuclear Agreement in 2005, and Congress's 2008 endorsement of that deal, the issue of Indian nuclear weapons has receded from

[38] See Christophe Jaffrelot, *The Hindu Nationalist Movement in India*, Columbia University Press (New York, 1998).

the top-tier position it previously occupied in the relationship. The Administration currently supports India's "phased entry" into several multilateral arms control organizations.[39]

Economic and Trade Issues

The U.S. government aspires to reach $500 billion in annual bilateral trade with India by 2024, a more than five-fold increase from the $97 billion total in 2013.[40] According to the lead U.S. diplomat for the region, the most immediate need in this regard is to complete Bilateral Investment Treaty (BIT) negotiations to finalize a pact that will "help us move past the choppiness that comes from not having an overarching investment framework" (American foreign direct investment into India topped $28 billion in 2013, and cumulative Indian investment into the United States grew from under $100 million in 2000 to more than $5 billion in 2012). The Obama Administration also continues to raise concerns about the lack of "investment diversity" and urges India to create a "transparent, straightforward way of attracting foreign investment, offering private capital a way to share in India's opportunity." This will entail a setting in which contracts are "upheld and honored across jurisdictions, and perhaps most importantly, intellectual property rights (IPR)—based on international norms—must be recognized."[41]

The U.S. Trade Representative's annual "Special 301 Report" on the Administration's IPR concerns has listed India every year since its 1989 inception. Currently appearing with nine other countries on the "Priority Watch List," India is singled for its "challenging environment for IPR protection and enforcement." The 2014 report reviews "issues of concern to U.S. and other stakeholders" that include exceptionally high rates of audiovisual piracy, counterfeit pharmaceuticals, high tariffs on medicines, and a weak IPR legal framework and enforcement system. It cites an industry study's finding that rights holders lost sales worth nearly $12 billion in 2012. An "Out-of-Cycle Review" for India, expected to be complete in September, is a tool to boost engagement with certain trading partners so as to address and remedy U.S. concerns.[42]

The Obama Administration continues to maintain that India—and its economic connectivity with neighbors to both its east and west—is vital to the prosperity and stability of the entire region. To facilitate connectivity, the Administration seeks to advance initiatives that better link India with Central Asia (via a "New Silk Road") and with Southeast Asia (via the "Indo-Pacific Economic Corridor").[43] Combined with Modi's more strident nationalism, the new Indian government could, in the view of some analysts, serve to assist the U.S. policy of rebalancing toward Asia.[44] Washington is widely urged to take a pragmatic stance with New Delhi and focus especially on finding ways to resolve outstanding trade-related disputes, perhaps through a reinvigoration of the

[39] These include the Nuclear Suppliers' Group, the Missile Technology Control Regime, the Waasenaar Arangement, the Australia Group. See the July 2014 Joint Statement on this. and an array of other issue-specific documents from 2013 at http://www.state.gov/p/sca/ci/in/strategicdialgue/c58464.htm and from 2014 at http://www.state.gov/secretary/travel/2014/t20/index.htm.

[40] This goal was first voiced by Vice President Joe Biden in Mumbai in July 2013 (see http://www.whitehouse.gov/the-press-office/2013/07/24/remarks-vice-president-joe-biden-us-india-partnership-bombay-stock-excha).

[41] Assistant Secretary for South and Central Asia Affairs Nisha Desai Biswal's April, 25, 2014, remarks on "The United States and India: Global Partners in a Global Economy" at http://m.state.gov/md225209.htm.

[42] See USTR's *2014 Special 301 Report* (released April 2014) at http://www.ustr.gov/about-us/press-office/press-releases/2014/April/USTR-Releases-Annual-Special-301-Report-on-Intellectual-Property-Rights

[43] Assistant Secretary for South and Central Asia Affairs Nisha Desai Biswal, April, 25, 2014, op cit.

[44] Neil Joeck, "Why Modi's Victory Means a New Chance for the U.S. to Make Good on the Asia Pivot," *Foreign Policy* (online), May 24, 2014.

bilateral Trade Policy Forum, which has not met since 2010. Longer-range goals could be bringing India into wider multilateral trade groupings in the Indo-Pacific region.[45]

New Delhi also is eager to import natural gas from the United States. Prime Minister Modi—who ran a campaign that promised rapid infrastructural improvements, including in the energy sector—has emphasized the role of renewable fuels, but India's soaring demand will require it to rely on carbon-based fuels for the foreseeable future. Proponents of exporting liquefied natural gas (LNG) to India argue that doing so would help cement the bilateral partnership while not subjecting U.S. consumers to significantly higher prices.[46]

Security and Defense Issues

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 maritime security and regional stability. Many analysts view increased U.S.-India security ties as providing an alleged hedge against or counterbalance to growing Chinese influence in Asia, although both Washington and New Delhi routinely downplay such motives. India is in the midst of transforming its military into one with global reach, particularly with a blue-water navy, and the issue of U.S. arms sales to India has taken a much higher profile in the new century, with India planning to spend up to $100 billion over the next decade to update its mostly Soviet-era arsenal. No less significant are bilateral military-to-military contacts. Since 2002, the United States and India have held a series of combined exercises involving all military services. Such relations have 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 appears to be the most robust in terms of exercises and personnel exchanges. The Pentagon is reported to be eager to expand maritime cooperation with New Delhi's new government.[47]

Another key facet of the emerging partnership between the United States and India is greatly increased intelligence and counterterrorism (CT) cooperation. Despite meaningful progress in this realm, there appears to be an asymmetry in the willingness of the two governments to move forward: Washington wants more cooperation from India and is willing to give more in return, but officials in New Delhi remain hesitant and their aspirations are more modest. Indian wariness is rooted in lingering distrust of U.S. intentions. New Delhi's rancor at reports of U.S. spying on the BJP is the most recent expression of this.[48] Serious structural impediments to future cooperation also exist in the view of observers in both countries. Chief among these is the fact that, in India, state governments are the primary domestic security actors and there is no effective national-level body with which the U.S. government can engage and coordinate.

While in Asia in May, Secretary of Defense Chuck Hagel emphasized the Administration's view that India is a key global partner and that the United States welcomes its increasingly active role in regional institutions. 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-

[45] Alyssa Ayres, "The U.S. Needs to Modi-fy Its India Policy," *Foreign Policy* (online), May 20, 2014.

[46] See, for example, "'LNG Exports by US Will Strengthen India's Energy Security,'" *Economic Times* (New Delhi). March 11, 2014.

[47] "U.S. Hopes Pacific for Cooperation With India Navy Under Modi," Reuters, May 19, 2014.

[48] "India Seeks Assurances From U.S. Over Spying Reports," Reuters, July 3, 2014.

level engagement on the Defense Trade and Technology Initiative (DTTI) a priority.[49] Independent proponents of robust U.S.-India defense links have expressed optimism that Modi may seek and be able to effect further changes in India's FDI caps and offsets policies that currently deter international defense firms from engaging in joint projects. Some also urge the drafting of a revamped formal framework for bilateral defense engagement (the current document, inked in 2005, expires next year), along with a greater diplomatic push to engage the Modi government on regional security matters, Afghanistan perhaps leading among them.[50]

Human Rights Concerns

Many of India's citizens suffer from human rights abuses. According to the State Department's *Country Reports on Human Rights Practices for 2013*, the most significant of these include

> police and security force abuses, including extrajudicial killings, torture, and rape; widespread corruption at all levels of government, leading to denial of justice; and separatist, insurgent, and societal violence. ... The law in some states restricts religious conversion, and there were reports of arrests but no reports of convictions under those laws. ... Rape, domestic violence, dowry-related deaths, honor killings, sexual harassment, and discrimination against women remained serious problems. Child abuse 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. Caste-based discrimination and violence continued, as did discrimination against persons with disabilities and indigenous persons. ... Religiously based societal violence remained a problem.[51]

Religious freedom may represent the single most fraught issue-area, one with the potential to produce serious differences in the bilateral relationship if Modi seeks to move forward with the emotive, Hindutva initiatives promised in the BJP Manifesto.[52] Domestically, the BJP victory could empower Hindu nationalists in ways that may lead to increased domestic communal frictions and violence. Human rights groups reportedly may find their activities constrained under a Modi government, and they express concerns about Modi's commitment to minority rights, his past willingness to tolerate suppression of free expression, and the vigor with which some of his supporters have quashed dissent. Experts agree that, when it comes to fears of new communal violence, Modi's actual performance in power is key, and to date he appears to understand that domestic divisiveness will only serve to hamper his economic and political ambitions. If India's economic woes substantively continue into next year and beyond, Modi might choose to revert to seeking political support through religious politics, as he did earlier in his career.

[49] While in Asia, Secretary Hagel also announced that his Undersecretary for Defense Acquisition, Technology, and Logistics, Frank Kendall, will lead the U.S. DTTI delegation as successor to Deputy Secretary of Defense Ashton Carter, who departed the Pentagon in December (see the May 31, 2014, remarks at http://www.defense.gov/Speeches/Speech.aspx?SpeechID=1857).

[50] Vikram Singh and Joshua White, "How U.S. Can Reinvigorate India Defense Ties" (op-ed), CNN.com (online), June 5, 2014.

[51] See http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm?year=2013&dlid=220392.

[52] See the State Department's *International Religious Freedom Report for 2013* at http://www.state.gov/j/drl/rls/irf/religiousfreedom/index.htm?year=2013&dlid=222329.

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