

POLICY Q&A

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DEEPENING U.S.-INDIA ECONOMIC ENGAGEMENT

Trade between the United States and India reached \$48 billion last year and is poised to exceed that amount in the coming year. As economic woes intensify worldwide, how can the United States and India strengthen their trade and financial ties to the betterment of both nations and their bilateral relationship? NBR spoke with **Ambassador Susan Esserman**, a former deputy U.S. trade representative and expert on U.S.-India trade matters, about these issues and more.

There is often a perception in the United States that India is primarily where American businesses outsource. Is this characterization correct? How would you describe the nature of U.S.-India economic relations on a broad scale?

That characterization does not begin to capture the richness, breadth, and diversity of the U.S.-India economic relationship. Today our countries enjoy close relations and a strategic partnership at the highest level, which President Obama has called one of the defining relationships of the 21st century.

During the last two decades, the changes in the Indian economy have been staggering, and India's rise has captured the imagination of the world. Enormous export and investment opportunities have arisen in India's booming market as the size of its middle class multiplies and the need for infrastructure development intensifies. Although at times Indian and American firms may compete, the spirit of both countries is fundamentally cooperative, and the potential mutual gain in deepening commercial ties is profound.

U.S. trade with India quadrupled over the last decade, with exports ranging from mining equipment and fertilizers, to steam and gas turbines and C-17 military aircraft. The United States is India's top investor and, as a group, Indian firms are among the fastest-growing investors in the U.S. economy and have contributed jobs, innovation, and support to communities throughout the United States. It is exciting and encouraging to see the energy, creativity, and dynamism of Indian firms taking root in and enriching the U.S. economy.

There are many areas of mutual and complementary strengths—including in the technology, energy, health, medicine, and defense areas—where both countries can promote further exports, partnerships, collaboration, and joint innovation. In reality, outsourcing is a small part of this very positive commercial and strategic bilateral relationship.

“Both governments must draw on the private sector’s expertise.”

Although trade between the United States and India has grown considerably in recent years, what challenges does economic uncertainty in the U.S. and the global economy pose for economic ties?

Global economic uncertainty generally inhibits trade and investment, so sluggish economic growth inevitably presents challenges to the growth of the bilateral economic relationship. There are already indications that the Indian IT industry plans to cut back on hiring due to uncertainties in the U.S. and European economies.

In the aftermath of the 2008 financial crisis and recession, the United States witnessed a sharp contraction in global trade, which affected bilateral trade as well. In 2009, U.S.-India trade in goods fell by about 15%, and the services trade remained relatively constant, reversing a steady pattern of growth in bilateral trade.

The United States and India each have a stake in the other's economic well-being and ensuring a strong recovery. To offset the effects of global economic uncertainty, it is imperative to collaborate and promote policies that foster stability, build confidence, and create mutual opportunities. It is not a time to resurrect trade barriers or reverse the progress of past years.

To what extent do state-led initiatives like the U.S.-India Strategic Dialogue and the U.S.-India Economic Partnership foster economic ties between the two countries? What other mechanisms do you recommend?

These initiatives, as well as the Trade Policy Forum, contribute to broader economic engagement between the two countries. They bring high-level attention to important bilateral issues, and approaching meeting deadlines can serve as a focal point for resolution of an issue.

For example, Secretary Clinton, through the work of the U.S.-India Strategic Dialogue, has helped to secure important results and advance work on key economic issues. During last year's Strategic Dialogue meeting, the United States and India reached agreement on the End-Use Monitoring Agreement, a result long sought and critical to enabling U.S. defense and homeland security trade with India; this year the governments signed a Bilateral Aviation Safety Agreement. The governments also announced the resumption of technical talks on a bilateral investment treaty (BIT).



Ambassador Susan G. Esserman is a partner and Chair of the International Department at the law firm of Steptoe & Johnson LLP. A significant focus of her practice involves advising U.S. businesses on trade and investment matters in Asia. She served as Deputy United States Trade Representative and held three additional senior international trade positions in the Clinton Administration. Through her government experience, private sector work, and service on the Board of the U.S.-India Business Council, she has worked to expand bilateral trade and promote convergence of U.S.-India interests. As Deputy USTR, she negotiated a landmark trade agreement that lifted quantitative restrictions on nearly 1,500 products, which led to a fundamental opening of the Indian market.

Given their expertise and mandate, trade and commercial agencies should take the lead in providing strategic direction to the trade and investment relationship. The Trade Policy Forum, chaired by U.S. Trade Representative Ron Kirk and Indian Commerce Minister Anand Sharma, provides a vehicle for resolving trade and investment issues between the two countries. One of its successes was the elimination of discriminatory barriers against U.S. fertilizers. As a result, U.S. fertilizer exports to India increased by 40% in a year, with fertilizer now one of America's largest exports to India.

However, the objective should not be to create new dialogues, but for existing structures to coordinate effectively to help remove obstacles to bilateral trade and investment. A proliferation of dialogues can become a distraction from both countries developing a strategic path to bilateral economic growth and to addressing trade and investment barriers.

Additionally, both governments must draw on the experience of the private sector as they develop priorities and identify best approaches to resolve problems, particularly given the rapidity of change underway in India and the new and complex areas in which U.S. businesses are engaged. The U.S. and Indian business leaders of the CEO Forum can share their unique insights to inform and help prioritize the governments' agendas.

What policies is India pursuing to develop its IT sector, and how will these policies affect IT growth in India as well as bilateral trade relations?

India has achieved significant growth through liberalizing policies that have opened its market to competition. These include the historic reforms implemented by the 1994 and 1999 telecommunications regulations, as well as the decisions to join the WTO Information Technology Agreement and to increase the cap on telecommunications sector FDI. The cumulative effect has improved the lives of India's poorest citizens by enabling them to connect to the global communications network.

“India must... chose policies that create opportunities to collaborate and compete in the global marketplace.”

Unfortunately, the Indian government is currently considering policies that would harm this growth and negatively impact bilateral trade. With one of the world's largest and fastest growing telecommunication sectors, India is an important market for the U.S. ICT industry. Instead of building on successful, market-oriented policies with further reform, some in the Indian government are seeking to reverse course and recommend discriminatory domestic manufacturing preferences and restrictive local content requirements. These policies jeopardize India's ability to continue to grow in this very competitive sector, will hamper global collaboration, and would be inconsistent with India's international trade commitments.

At this critical stage, India must build on its reform and growth track record and choose policies that create opportunities for India to collaborate and compete in the global marketplace. I am confident there are opportunities for greater policy convergence in this area. With effective public-private collaboration, our countries can work together to develop policies that foster innovation and manufacturing and safeguard security without distorting trade.

Do trade and business ties between the United States and India complement diplomatic and security cooperation? If so, how?

Certainly. The historic U.S.-India Civil Nuclear Agreement and bilateral cooperation on defense, homeland security, and counterterrorism are excellent examples of these important linkages.

The civil nuclear agreement transformed the bilateral relationship, and the private sector was an important partner in that effort. Successful implementation of the deal, including India's ratification and adoption of the Convention on Supplementary Compensation (CSC) and domestic nuclear liability legislation consistent with these international norms, would allow U.S. companies to participate in the Indian nuclear market and provide India with much needed energy to help meet rapidly growing demand.

The U.S.-India commercial relationship also enhances homeland security and counterterrorism cooperation between the two countries. In response to the November 2008 Mumbai attacks, India's government embarked on an ambitious plan to modernize its homeland security infrastructure in close collaboration with the United States. Our governments

recently launched a Homeland Security Dialogue (HSD) to share information on equipment and technologies and facilitate bilateral technology collaboration and trade. Both U.S. and Indian companies can bring their experience and technology to support the goals of the HSD.

Similarly, defense ties have grown so that the U.S. military now conducts more joint exercises with India than with any other country. U.S. companies have the potential to play an important role in facilitating India's efforts to modernize its military, on which India is expected to spend more than \$35 billion over the next five years.

India's Prime Minister Manmohan Singh's government has been hit by one corruption scandal after another this year. How should American businesses perceive these scandals? Do they pose any barrier to growing trade between the U.S. and India?

American companies are acutely sensitive to the risks of foreign corruption, including in India. Their foreign trade activities are fully subject to the U.S. Foreign Corrupt Practices Act (FCPA), under which there has been record levels of enforcement.

India is not alone in its efforts to grapple with domestic corruption; other BRIC countries also face these challenges. Because India is a democracy with an active press, issues of corruption may receive more public attention than in other countries that are less open. Companies sensitive to FCPA compliance must take appropriate steps in light of India's risk profile to manage the risks in this area. This was true even prior to the recent scandals, but there is no question the scandals have highlighted the issue and risk of corruption, particularly regarding infrastructure and other sectors where central or state governments are involved.

It has been encouraging to see Indian citizens and prominent members of the Indian judiciary seeking to address corruption and hold people accountable for corrupt actions. Successfully rooting out corruption would promote transparency, fairness, and efficiency, benefiting Indian interests and affording greater U.S. participation in the Indian market. The jury is out, though, as to whether meaningful reform will result from these efforts.

There is a robust community of Indian-Americans and Indian citizens living in the United States. Are these groups a significant factor in bilateral economic ties? What roles do you envision them taking in the future?

Unquestionably, the highly successful, 3 million strong Indian-American community has played a vital role in strengthening bilateral economic ties and the relationship more broadly. Fundamentally, Indian-Americans have contributed to U.S. society and economy in many different ways, enriching culture, shaping American perceptions of India, and helping appreciate the potential relationship between the two countries. Indian American-owned firms employ more than 800,000 workers in the United States, and these companies, joint ventures, partnerships, and collaborations have helped to build the trust in the relationship.

The Indian-American community was a moving force behind the U.S.-India civil nuclear arrangement between the two countries, and I expect the community will continue to help drive the agenda and help to bridge differences and foster understanding.

What are some steps that U.S. and Indian policymakers could take to strengthen economic ties?

Although we have witnessed a period of extraordinary growth in business ties and bilateral trade and investment, the U.S.-India economic relationship has not achieved its full potential. India is only the United States' twelfth-largest trading partner, accounting for just 1.5% of America's total exports in 2010. Our entire trade with India is substantially less than our trade with the Netherlands—a country with a smaller population than the city of Mumbai—and a tenth of our trade with China. Both governments should work together to remove the impediments to achieving this untapped potential.


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The negotiation of a bilateral investment treaty (BIT) would be an important step to addressing barriers to investment and would promote the rule of law and stability at a time of great uncertainty in the global economic environment. I applaud the resumption of technical talks on the BIT and urge they move forward as expeditiously as possible.

Further, as India and the United States are reaching free trade agreements (FTA) with other countries, it is incumbent on both countries to be more ambitious, and agree to open their markets to each other as systemically and broadly as possible. At a minimum, they should ensure that U.S. and Indian exporters compete on a level playing field with companies from countries that benefit from tariff preferences arising from FTAs.

Where both share common interests and competitive strengths, such as in high technology, the United States and India should not only mutually eliminate barriers in their own markets, but also move together to open markets globally.

Especially at this time of economic uncertainty, both countries must resist backtracking on reform or imposing new barriers. This is especially important given the extraordinary opportunities for collaboration ahead as India faces massive infrastructure, homeland security, and defense needs, and as the U.S. economy begins to recover.

In the area of infrastructure, for example, India plans to spend an estimated \$1 trillion (nearly 10% of its GDP) and has indicated that at least 50% of funds must come from outside government sources. This offers a huge opportunity for U.S.-India collaboration, with the United States in a position to provide much needed capital, as well as cutting-edge technology and expertise. The Indian government has indicated that it is looking at policy approaches to attract greater foreign investment. Reforms in land acquisition and the approval process will be important to secure the participation of U.S. companies in developing India's infrastructure. 

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