

WRITTEN COMMENTS SUBMITTED FOR THE HEARING RECORD

U.S. House of Representatives Committee on Ways and Means

Hearing on: "U.S. – India Trade Relations: Opportunities and Challenges"
March 13, 2013

Submitted by:

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Submitted by Amb. Karl F. Inderfurth, Wadhvani Chair in U.S.- India Policy Studies, Center for Strategic and International Studies (CSIS), Washington, D.C.

Mr. Chairman, Members of the Committee

In the U.S. – India relationship, economic engagement remains at the top of the agenda for both sides. Economic cooperation has been the primary engine of closer relations, as Indian reforms have allowed a rapid expansion of U.S. – India trade and investment flows in both directions over the last 20 years. The progress made on economic ties has set the stage for successes in other phases of the relationship, such as defense cooperation. Both governments recognize the key role that trade and investment play in this partnership.

U.S. Economic Policy Engagement with India

Bipartisan support for enhanced economic engagement with India has been the engine of growth in the U.S.-India strategic partnership. Following President Bill Clinton’s landmark visit to India in 2000 and the establishment of a U.S.-India Economic Dialogue, the Bush administration accelerated the diplomatic momentum by taking the relationship to an even higher level. In July 2005, President George W. Bush and Prime Minister Manmohan Singh revitalized and realigned the Economic Dialogue to incorporate a number of existing and new bilateral dialogues, including ones on trade, finance, environment, energy, and high technology, as well as a Track-1.5 “CEO Forum.”

The Obama administration carried the agenda forward through a U.S.-India Strategic Dialogue chaired by Secretary of State Hillary Clinton and External Affairs Minister S.M. Krishna. The purpose of the annual Strategic Dialogue is to assess progress, provide policy guidance, and propose new areas of cooperation across the breadth of the U.S.-India relationship.

Along with these positive developments, however, there have also been a number of “speed bumps” in bilateral economic engagement. Both countries have been affected by a significant slowdown in economic growth. In India, the growth forecast has been lowered to a projected 6.0 percent in the current fiscal year from a high of 9.8 percent in 2007. Meanwhile, the private sectors in the United States and India have been unnerved by an erratic economic reform agenda in New Delhi, although recent signs of progress have emerged.

Prime Minister Singh’s Congress-led government in September 2012 unveiled a set of highly anticipated economic reforms, including liberalization of foreign direct investment (FDI) limits in various sectors, most prominently multi-brand retail. Fully implementing

and then going beyond the announced reforms, while necessary, will be politically difficult. State and national elections loom large—the latter to be held no later than 2014—as defections of political allies and a series of corruption scandals have shaken the Congress-led coalition government.

While taking the above into account, the second Obama administration should press ahead with its Indian counterparts to move the U.S. – India economic and trade agenda forward. It should be an ambitious agenda, but realistic in terms of timing. Some steps are possible in the near term; others are longer-term objectives. Taken together, they would go a long way toward unlocking the full potential of our bilateral economic and trade ties.

Recommendations

- *Establish a “New Framework for U.S.-India Economic Cooperation”*: The Obama administration should reignite U.S.-India economic and trade relations by establishing an ambitious, 10-year “New Framework for U.S.-India Economic Cooperation.” Such a framework would serve as the organizing principle for bilateral discussions and negotiations at the highest levels. This framework should be issued as a joint statement at the next Strategic Dialogue, scheduled for June of this year, and should set out a detailed agenda for the two countries to pursue, starting with a high-standard Bilateral Investment Treaty (more below); prioritizing the Infrastructure Debt Fund (IDF); moving ahead with individual sectorial agreements and regulatory reform; improving the movement of high-skill professionals; and potentially culminating—over a 10-year horizon or beyond—in a full-fledged free trade agreement. In addition, as the U.S.-India Business Council (USIBC) and the Confederation of Indian Industries (CII) have proposed, a goal of achieving \$500 billion in annual bilateral trade by 2020 should be established.
- *Complete a high-standard Bilateral Investment Treaty (BIT)*: At the 2012 U.S.-India Strategic Dialogue, Secretary of State Clinton and her Indian counterpart, External Affairs Minister Krishna, called for an “expeditious conclusion” to the negotiation of a high-standard BIT. A BIT would reframe bilateral trade and investment relations and serve as a stepping-stone to larger agreements. A high-standard BIT, negotiated on the basis of the 2012 U.S. model BIT, would include important protections for both U.S. and Indian investors, including strong investment protections, meaningful market-access (“pre-establishment”) commitments, and a robust investor-state dispute settlement mechanism.
- *Move ahead with individual sectorial agreements*: While achievement of a free trade agreement (FTA) will be difficult, pursuing liberalization on a sectorial basis can make more immediate progress. The United States and India should work together to identify specific sectors where lowering tariff and nontariff barriers are politically palatable and mutually beneficial. Priority should be given to successful implementation of announced liberalization in multi-brand retailing and the food

sector, civil aviation, broadcasting, and power trading exchanges. Sectors might include information technology (IT) services, chemicals, energy, and education.

- *Restart the Trade Policy Forum (TPF) and establish a Tax Forum:* The TPF has been the premier venue for discussing multilateral trade issues and expanding bilateral economic engagement. However, it has been postponed indefinitely. While the TPF may need restructuring, it is a critical platform for advancing the relationship and should not be permitted to languish. A focused tax dialogue should also be established between the Treasury Department and Finance Ministry—as was hinted during Secretary Timothy Geithner’s visit in the fall of 2012—to look at domestic, bilateral, and multilateral tax issues.
- *Reinvigorate the CEO Forum and initiate an SME Forum:* The CEO Forum gives business leaders from both countries a platform to provide input on trade and investment policy initiatives. However, the 2012 meeting was postponed and is yet to be rescheduled. In addition to setting a date for the next CEO Forum, a complementary Small and Medium-sized Enterprise (SME) Forum should be established.
- *Look to U.S. and Indian states as “laboratories” for progress and reform:* Several of India’s more progressive and prosperous states are emerging as power centers in their own right, pursuing dynamic economic and policy agendas. The State Department has recognized the importance of this development by focusing some of its efforts to promote greater state-to-state interaction and investment. U.S. officials and trade delegations should regularize visits to Indian states and state leaders to deepen these relationships and find incremental “wins” that benefit both countries.
- *Actively engage the U.S. Congress and Indian Parliament (including the opposition):* Bipartisan support for the U.S.-India relationship in the U.S. Congress has facilitated the growth of the partnership. Likewise, in India, both the Congress-led and Bharatiya Janata Party (BJP) governments have championed the bilateral relationship. Bold economic initiatives will benefit from the buy-in and support of legislators in both countries. Continued engagement with government and opposition parties at both the national and regional levels will only strengthen ties.

Conclusion

The U.S. and India both have thriving private sectors that are eager to seek out opportunities for trade, investment and partnership. The key to moving forward is working together with our common strategic interests in mind to rein in protectionist tendencies and let those businesses thrive. With some modest steps to regain a positive tone, a serious effort to complete a BIT, a clear direction for future engagement, the U.S. and India can continue building on the great successes of the last 20 years. The governments on both sides should establish the conditions that allow the economic side of our relationship to flourish.