

Special Report

By

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The US & India

The Growing Partnership

The U.S.-India strategic partnership is rooted in shared values and is broad in its nature and scope, with our two countries working together toward global action on global issues, including non-proliferation, energy and the environment, and expansion of economic and political freedom. The U.S. views India as a rising global power and partner, one whose interests converge in important respects with those of the United States. The U.S. also anticipates that India will play an increasingly important leadership role in Asia in the 21st century. The reason being the following —

- Within the first quarter of this century, India is likely to be numbered among the world's five largest economies.
- The country thrives as a multi-ethnic, multireligious, multi-lingual democracy characterized by freedom, rule of law, and constitutional government.
- India's large and increasingly sophisticated military forces remain committed to the principle of civilian control.

Prime Minister Manmohan Singh's July 2005 visit to Washington coincided with the completion of the Next Steps in Strategic Partnership (NSSP), an initiative to expand cooperation in space, civil nuclear energy, and high technology. During the visit, the U.S. and India launched a number of other forward looking global initiatives:

- A civil nuclear cooperation initiative, recasting a historically divisive issue, to bring India into the nonproliferation mainstream while giving it access to civilian nuclear technology to help meet its pressing energy needs.
- The U.S.-India Economic Dialogue, expanding our trade and investment links. Covering trade, finance, the environment, and commerce, the dialogue will harness private sector energy to further deepen the economic relationship between the U.S. and this rapidly growing economic power.
- Closer defense relations, growing from the June 2005 agreement on a New Framework for the U.S.-India Defense Relationship. Our two militaries are increasing engagement in a range of contacts, including major joint exercises and sets the stage for enhanced cooperation in areas such as maritime security.
- Joint initiatives on democracy promotion and development, HIV/AIDS, agriculture, science and technology, and disaster response.

With President Bush's March 2006 visit to India, we will continue to strengthen the relationship, bringing greater security and prosperity to both countries. According to President Bush, *"India and the United States share a commitment to freedom and a belief that democracy provides the best path to a more hopeful future for all people...Because of our shared values, the relationship between our two countries has never been stronger."*

US INDIA STRATEGIC ECONOMIC PARTNERSHIP

A new era of cooperation between the US and India was ushered in on July 18, 2005 in Washington DC when President George Bush and Prime Minister Manmohan Singh concluded a set of far reaching initiatives which will pave the way for a closer economic and strategic partnership between the two countries at Government and at industry levels.

One of the initiatives taken was to form a US-India CEO Forum, comprising selected CEOs from both countries, with a mandate to develop a road map for increased partnership and cooperation between the two countries at a business level. It was also envisaged that this joint Forum could identify issues which might be included in the Agenda for discussion between President Bush and Prime Minister Singh when they meet in New Delhi in March 2006.

The US and India share common values based on their democratic, multi-cultural, multi-ethnic and multi-religious societies, as well as a strong entrepreneurial spirit, all of which support the bilateral Strategic Partnership.

Both the US and India are committed to full exploitation of the mutual benefits of globalization, which is an irreversible process driven by technology and the development of human resources in an increasingly knowledge-based world. Through mutual harnessing of technology and human capital, the US and India can forge a unique partnership to achieve greater competitiveness and prosperity for the citizens of both nations.

The Forum believes the new Economic Partnership will present the US and India with substantial opportunities to increase trade and investment activity, enhance market access for goods and services and develop greater competitiveness in both countries by leveraging their respective strengths.

The Forum has identified 6 Major Areas for Cooperation with initiatives that should be undertaken by the two Governments and/or by industry partnerships. These Areas would have the greatest impact on Economic Cooperation, as they impact multiple sectors.

In addition, the Forum has recommended specific action in 15 business sectors with the potential for significantly enhancing trade and investment by policy initiatives by the two governments. And finally, also in the Appendix, are summarized the measures to create an “Enabling Environment”. And, finally, agreed upon the measures to create an Enabling Environment. The Forum is headed by Mr. Ratan Tata of Tata Sons Limited and Mr. William B. Harrison, Jr. of JP Morgan Chase as Co-Chairs with other 9 US and 9 Indian members comprising Mukesh Ambani, Dr. Reddy, Nandan Nilekani and Ashok Ganguly.

The specific action 15 business sectors are being discussed here with a stress on major issues as given under—

1. Trade and Investment

Bilateral trade is relatively small. It was less than \$ 40 billion (2004) including products and services (China/US: \$ 235 billion). And, yet, the US is India’s largest trading partner. The US is also a major source of FDI, about \$ 4 billion (over 10% of total FDI) in India with major sectors being energy, telecom and electrical equipment.

An annual growth rate in trade of over 20 per cent per annum is achievable given the right impetus from both sides, including greater market access, IP protection, and acceptance of WTO rulings, tariff cuts, and removal of non-tariff barriers (NTBs) and eased licensing by the US Government on export of high technology items.

Resolution of litigation and contractual disputes, sanctity of contracts, establishment of a speedy dispute settlement mechanism and judicial reforms would greatly enhance confidence in investing in India. The regulatory framework also needs to be clear, consistent and legally enforceable.

2. Food and Agriculture

The key recommendations include :

- Open the food-processing sector in India to participants of all sizes to encourage economies of scale and to allow for significant investment in an important sector with excellent growth potential.
- Provide for unlimited movement of domestic and imported agricultural products across district and state boundaries. Review the Agricultural Produce Market Committee Act.
- Indirect subsidies should be avoided as they distort and obfuscate sectoral investment and do not reach the intended beneficiaries.
- Liberalize import policies and tariffs around oilseeds, feed grains, and vegetable oils, which serve as inputs into further processed products.
- Focus on improving the regulatory approval process for agri-chemicals.
- Eliminate policies that discriminate against foreign investors in the food and agricultural sector.
- Reduction in Agricultural subsidies in the US so as to give India a chance to develop export markets for agricultural produce.
- Encourage collaborative research, leveraging the capability of U.S. agriculture universities. Set up an Indo-U.S. R&D center for Agricultural R&D and encourage collaborations in agricultural research as part of the “US-India Knowledge Initiative on Agricultural Education, Teaching, Research, Service and Commercial Linkages”
- Grant FDA accreditation approvals to exports of Indian processed foods to the United States
- Reduce tariff and non-tariff barriers to export of agricultural produce and seafood to the US. Review restrictions on exports of agricultural products from India, such as tobacco, to the United States.

3. Manufacturing

Manufacturing is the traditional area of US – India industrial cooperation and, in the current and future context of globalisation, global supply chains and competitive pressures, offers new potential for partnership. Some specific suggestions :

- The government could encourage states to set up “Investment Regions” with the primary focus of attracting FDI and local investment designed to serve both domestic and export markets (i.e. not just SEZs). The Investment Regions would also be a model for world-class infrastructure that could be emulated in other states. Among other attributes, the Regions would offer :- Flexible, internationally-competitive labor laws; coordinated infrastructure investments of related real estate, power, connectivity, ports and airports developed in conjunction with the site; Single-window clearance – one stop approval and administrative process; Dedicated courts located within the Region, to ensure rapid local access to legal recourse; Align vocational and educational training in sectors; Fewer sites, but of a size (> 2500 acres) sufficient to achieve critical mass; Transparency, clarity and e-governance; Benchmarks for competitive positioning.

In addition, nationwide implementation of VAT, a flexible labour policy, simpler termination process for joint ventures and resolution of the legacy issues, continuing review and reduction in the scope of the reservation policies for the small scale sector and the process of tariff reductions would enhance India’s attractiveness. Some concerns in regard to US policies and processes which need to be addressed : —

- Reduction of Import duties on certain products, such as Steel (where duties can be as high as 30% on some items) and Textiles (over 20% on some items)

- Remove Anti-dumping and safeguard legislation / anti-dumping duties on items such as steel
- Lower/ remove non-tariff barriers and technical barriers - Sanitary & phyto-sanitary standards legislation to be unbiased and equal on both sides
- FDA related issues – easier accreditation/ approvals for pharmaceutical items manufactured in India and exported to the US.

4. Information/ Knowledge Based Industry

This is a sector which reflects a unique partnership between US and India, which can be furthered given some additional steps :

- Foreign ownership caps in Information and Knowledge based sectors such as print media, broadcasting, cable/satellite systems, and e-commerce should be reviewed and relaxed, if not eliminated.
- Licensing requirements/regulations in Information/Knowledge based industry should be reviewed.
- Requirements to obtain licenses for certain information sector products and services that support business activities (for example, new periodical publications) should be reviewed in light of current conditions
- Restrictions on licensees' business practices (for example, bans on exclusive licensing of distribution of content) should also be relaxed to the extent possible, thus increasing the attractiveness of further investment in sectors subject to licensing regulation.
- National coordination of enforcement efforts must be stepped up. As a first step, a single centralized body should be designated to coordinate IPR enforcement efforts, identify and publicize best enforcement practices at the state level, and direct national resources to IPR enforcement. Specialized intellectual property courts should be established to handle both civil and criminal matters.
- A national initiative to crack down on piracy in the educational and research sectors should begin now.
- India and the US must reach agreement on Cyber Security to include data privacy, IPR, etc. and create universal standards in data privacy to build confidence in Indian IT providers.

Further cooperation between the US and India in R&D would be enhanced if the following were addressed :

- Removal of restrictions on R&D collaborations by the US and establishing product design and development centers would forge stronger and mutually beneficial ties between the two countries in this area. Set up an India-US R&D center for Industrial R&D.
- Relationships between leading US institutes and Indian institutions (with special emphasis on PhDs) in advanced research. Sponsored participation in establishing institutions of higher education for research and PhD programs with leading US institutes could become focal points of excellence in high technology.
- At the same time, India needs to encourage the setting up of new institutions of higher learning and give private educational institutions a free hand in terms of fees, course structure and affiliations.

The US and Indian economies continue to show strong growth despite facing complex challenges. The new Vision of Economic Partnership is one of promise and mutual benefits combined with challenges which can be met, squarely, and overcome.