

Remarks by Ambassador Nirupama Rao at the CSIS Statesmen's Forum

March 15, 2013

Ambassador Karl Inderfurth,

Friends,

Ladies and Gentlemen.

It is a privilege to be here this morning and to address the CSIS Statesmen's Forum on the "U.S- India Economic Agenda in 2013". Thank you very much for inviting me.

Over the past five decades, the eminent team of scholars and staff associated with the Center for Strategic and International Studies has provided strategic insights, policy analyses and possible solutions on a range of regional and global issues of contemporary relevance. The CSIS has indeed emerged as one of the world's foremost public policy institutions enhancing understanding and contributing to strategic discourse on a variety of issues.

Additionally, and importantly, under the able leadership of Ambassador Inderfurth in his capacity as Wadhvani Chair in India-U.S. Policy, CSIS has been in the forefront of undertaking analytical work relating to India and various facets of India-U.S. relations, and providing fresh approaches and policy recommendations for deepening our defining, Strategic Partnership.

I would like to compliment Ambassador Inderfurth in particular for having sponsored – in collaboration with the Indian Council for Research on International Economic Relations (ICRIER) - two extremely insightful and thought-provoking studies in the context of India-U.S economic relations.

The first of these studies, "BIT and Beyond", examines the significance of a Bilateral Investment Treaty (BIT) in the context of India US economic relations. The second and more recent study, by Ambassador HemantKrishan Singh and TincySoloman – highlights the changing nature of India U.S. trade and economic relations. The study suggests a possible framework for strengthening economic ties between the two

countries, which comprises negotiations on concluding a BIT; creating a stable and predictable environment for foreign investments in India; maintaining continuity of political level direction prioritising bilateral economic engagement, including convening meetings of the Trade Policy Forum (TPF); a serious effort on the U.S side to ameliorate the concerns of India's IT industry; enhancing India's commitment to advanced Free Trade Agreements (FTAs); and, commencement of negotiation on a India-U.S FTA. While recognizing the ambitious dimensions of this agenda, the study concludes with robust optimism that, **"...the politics of aspiration and progress will prevail, bringing the reward of mutual prosperity to these two great democracies..."**

In one sense, the two reports, taken together, present a comprehensive roadmap for the future of India-U.S economic relations. On my part, I would like to focus on the two pillars of our economic co-operation; namely, mutual investments and trade; and, outline the broad context in which we see the possibilities of greater engagement between our two countries in these areas.

The Indian economy has grown at an average of 8 per cent per annum over the last five years. We hope to achieve a growth rate of over 8 per cent per annum over the next five years. You have all watched, I am sure, the announcements made by our Finance Minister in his Budget Speech of a fortnight ago. You will have taken note of the fiscally prudent path we are following. The veteran commentator, Swaminathan Aiyar called it a "cool budget, with no sign of delirium"! In fact the Finance Minister's words were prescient: that this is a time for prudence, restraint and patience, and that of these three virtues, patience is the most important. Minister Chidambaram was confident that the wheel would turn once the investment cycle begins. Rapid growth requires huge investments. Investment is an imperative and there can be no two opinions about it.

Recent months have witnessed a flurry of measures designed to further open the economy, with FDI reforms having taken place in single and multi-brand retail, civil aviation and power exchanges. FDI flows to India have gone up from U.S \$ 35 billion in 2007-08 to U.S \$ 47 billion in 2011-12. Portfolio investment norms for Foreign Institutional Investors (FII) have been progressively relaxed, in categories of securities such as Government securities, and corporate bonds, both infrastructure and non-infrastructure. The total net portfolio investment into India has gone up progressively, and has touched US \$ 17 billion in 2011-12, after a significant level of net outflow during 2008-09, the peak post crisis year.

India's receptivity and openness to foreign investment is only expected to go up. The surest indicator of this trend was articulated by our Finance Minister when he observed during the presentation of the Union Budget that **"...foreign investment is imperative...what we can do is to encourage foreign investment that is consistent**

with our economic objectives...”; and, he further re-inforced this view by stating that, “...we will improve communication of our policies to remove any apprehensions or distrust in the minds of the investors, including fears about undue regulatory burden or application of tax laws... ‘doing business in India’ must be seen as easy, friendly and mutually beneficial...”.

A slew of proposals were outlined in the Budget Speech which are aimed at improving the investment climate, re-invigorating growth and promoting inclusive development. These include the proposal to further strengthen the Cabinet Committee on Investment (CCI), which has been constituted for the express purpose of improving the pace of implementation of infrastructure projects; introduction of an investment allowance for new, high value investments; expediting work on the Delhi-Mumbai Industrial Corridor (DMIC) and planning for the Chennai-Bengaluru and Bengaluru-Mumbai Industrial Corridors; “pooled pricing” of coal, with a view to improve coal availability to power projects; a policy of Public Private Partnership (PPP) in coal production to enhance the performance of Coal India Limited (CIL); and, continued support to the scheme for financial restructuring of distribution companies (Discoms) which is aimed at improving the viability of these companies, improving the performance of the power sector in various states and ensuring that adequate investments take place in upstream power generation and production.

With these measures, and the other concomitant steps launched over the past few months and further reinforced in the Budget, that are aimed at correcting the macro-economic imbalances of high fiscal and current account deficits and persistently high consumer inflation, we are confident that the investment climate will brighten, more funds will be committed by domestic and foreign investors alike to critical sectors such as infrastructure, agro-processing and manufacturing, and that the Indian economy will bounce back to its targeted trajectory of 8-9 percent per annum growth.

This is a scenario in which there is immense potential for increasing U.S investments into India, considering that the U.S is the world’s leading investor, holding 14.8% of total global FDI stock in 2010. Except for 2005, the U.S has remained the leading source of FDI across the globe for the past decade, with the total FDI outflow from U.S in 2011 being of the order of U.S \$ 400 billion. U.S investments in India between January 2000 and July 2012 have totaled U.S \$10.88 billion, and Ambassador HK Singh’s study estimates that nearly 355,600 jobs have been created between 2007 and 2011 on account of U.S investments in India. Sectors, which have attracted significant US FDI include professional, scientific and technical services and information technology, while manufacturing investments have remained modest. We now look forward to robust investments from the U.S investors in sectors such as infrastructure, manufacturing, financial services and cold chain & retail.

I would also like to take this opportunity to talk about Indian investments in the U.S and the jobs that these have created. Over the past few years, India's actual FDI outflows have been growing at a tremendous pace, mainly due to progressive liberalization in India's overseas investment policy during these years. In line with this broad trend, India's investments in the U.S have also accelerated. A study by the Federation of Indian Chambers of Commerce and Industry (FICCI) and Ernst and Young (E&Y) reveals that during July 2010–July 2012, Indian investments in the U.S maintained a strong momentum, despite global and domestic economic headwinds. The period witnessed 87 mergers and acquisitions (M&As) with a cumulative disclosed value of US \$4.3 billion.

According to Confederation of Indian Industries (CII) estimates, cumulative Indian investments in the US market between 2000 and 2010 stood at US \$ 6.6 billion, of which U.S \$ 4.2 billion was invested between 2007 and 2010, indicating an upward trend. Metals, information technology, media and entertainment, industrial machinery and equipment, and financial services were the principal investee sectors. As a result of these investments, tens of thousands of direct jobs, of predominantly U.S citizens, supporting many more indirect ones, have been created in this country.

As the Indian economy grows stronger, more investments will flow into the U.S from India, thus making our economic partnership more robust, vibrant and synergistic.

The construct of India-U.S trade and commercial ties is firmly positioned in and indeed underpins the bilateral Strategic Partnership. The key drivers of deeper bilateral business partnerships include:

- Sustained economic growth in India, and consequent demand for capital and technology to meet our huge developmental priorities which has opened up new trade opportunities for businesses in both countries. The economic re-emergence of India is truly in the interest of the United States and its industry. Indeed, U.S businesses tell us that they have a highly profitable presence in India.
- India's position as a key global hub of new world trade routes and trading arrangements; in the establishment of new supply chain networks; and as one of the fastest growing markets in the world.
- India's focus on innovation and its unique strengths in knowledge industries that have made India one of the largest R&D centres for many of the top notch US

companies including General Electric, Honeywell, IBM, etc. According to some private estimates, international companies run about 750 global research and development centres in India.

The narrative of strong commercial ties is reflected in figures with bilateral trade in goods and services touching U.S\$100 billion for 2011 which is likely to cross that figure in 2012, and which remains broadly balanced. At U.S \$62.3 billion, trade in goods for 2012 grew at about 9%. At US\$ 46 billion for 2010, with a slight surplus in favour of the U.S, our two-way diversified services trade has sustained good growth over the last several years. U.S. exports of around US\$3.3 billion in educational services in 2011, the bulk of which we understand is on account of tuition fee paid by over 100,000 Indian students in the United States, reflect a key strength of our overall education cooperation. Along with two-way capital flows that I have already touched upon, business partnerships, technology tie ups and people-to-people linkages are transforming the landscape of our relationship.

Looking ahead, bilateral private sector engagement in manufacturing, high technology, energy, innovation (both in products and services), pharma and manufacturing would create new corridors of vibrant growth in commercial cooperation.

Energy trade is of strategic interest on both sides, and should be prioritized accordingly. Its elements should include export of U.S natural gas and other fossil fuel to India. In this context, I wish to emphasize the high importance we attach, both at governmental and private sector levels, to opening up the export of shale gas from the United States to India. There are also fertile possibilities for developing commercial technology partnerships in the renewable energy sector including solar and wind energy. In fact, the availability of clean sources of energy is important for the future well being of both our nations. We are working to build mutually beneficial ties with the U.S. to develop a broad array of clean energy solutions. We have established a Joint Clean Energy Research and Development Centre, under which three consortia led by Indian and US institutions are taking up collaborative research in the fields of advanced bio-fuels, energy efficiency in buildings and solar energy.

Linked to energy security is also the issue of how we address the challenge of climate change. As we make strategic choice to a sustainable development model based on clean energy resources, we cannot disregard the development need of millions of Indian people. Our cooperation with the United States in search for such a model of sustainable development holds immense promise. As we implement in India an ambitious National Action Plan on Climate Change, the United States, with its technology and capital, is our most important partner.

The India-U.S. Civil Nuclear Initiative has been a symbol and the platform of a transformed India-U.S. relationship. It grew out of our conviction that nuclear energy could help us meet our energy requirements in an environmentally sustainable manner. We are committed to providing a level-playing field to all our international partners including U.S firms for development of nuclear energy. Our two governments and the private entities in this sector have been engaged in purposeful, result-oriented discussions and we hope to positively move forward in this vital area of cooperation.

Health is another area of great trade potential and is ripe for expanding private sector partnerships. Trade in pharmaceuticals and medical devices; trade in health services; joint research and development of vaccines for communicable diseases; cooperation on developing solutions for life style diseases; holistic health care (including through traditional medicine); strengthening protocols on drug discovery; clinical research and trials etc could be some of its elements. The Indian pharma market offers a great trade and investment opportunity to U.S companies. In fact, I am told that the U.S pharma companies hold some of the largest market shares in the Indian pharmaceutical market.

A key element of India's developmental plans is to provide food security, improve our agricultural productivity and boost rural incomes. This is imperative given that more than half of our population still derives its livelihood from agriculture. While we have been working together with the U.S. in the field of agriculture, I believe it is necessary to escalate the profile of the agriculture dialogue since a number of US companies, particularly in commodity trading, seeds, tractors, farm machines, logistics, retail and marketing are doing very well in India and contributing significantly to the enhanced volume of trade in the agriculture sector between India and United States. We are working with the U.S. Administration to make the dialogue process more robust and work on the fundamentals of transforming agriculture, through the application of technology and identifying ways of enabling a second (ever) Green Revolution in India.

Education and skill development have emerged as an important pillar of our strategic partnership, which has a direct bearing on the economic well being of our country. We have taken several steps to expand the links between faculties and institutions of the two countries. The Singh-Obama Initiative launched in 2009 – with visionary foresight by our political leadership – highlights a shared emphasis on education and knowledge in developing our strategic partnership. Programs such as Connect-India and Passport to India are further expanding the frontiers of that co-operation. The India-US Higher Education Summit that we held in October 2011 in Washington, followed by the Higher Education Dialogue in June in 2012, laid out the road map for promoting strategic institutional partnerships, deepening collaboration in research and development, fostering partnerships in vocational education and focusing on junior faculty development. Finally, we are looking at the U.S. model of Community Colleges as an important ingredient of our strategy to build capacity for vocational education and skills development.

Manufacturing, especially in the electronics hardware segment, is another area where U.S. trade and investment interest could produce mutually beneficial outcomes. By 2020, the electronics hardware and telecom market (demand and production) in India is expected to be around US\$400 billion. It is unsustainable to meet this kind of demand just through trade. We see the United States as our partner in building new linkages and harnessing potential in this field.

Increasing defence trade has been an important component of our expanding partnership. U.S. defence orders have reached more than US\$ 9 billion from a negligible base. Another area of immense commercial possibility is cooperation in the field of high technology. While we have made tangible progress in inter-governmental discussions, there is a shared perception that the fields of strategic trade, civil-aviation, bio-technology and nano-technology need to be infused with greater dynamism as regards commercial partnerships. The India-U.S. Homeland Security dialogue, which was launched in 2010, identifies technology as one of strategic priorities in India-U.S. cooperation. We feel that equipment, technology and systems for homeland security and counterterrorism are potentially important areas of trade and collaboration.

The innovation economy of products, technology solutions and service delivery platforms could be another growth area of bilateral commercial engagement. For us the transformative value of innovation does not lie in its ability to only create wealth. Rather, its primary importance is in the value it creates in addressing our developmental challenges. India's vast and price-sensitive market offers U.S. innovators an excellent platform to launch and commercialize new and competitive opportunities not only for India but also for the global market. As an example let us recall the portable ECG machine developed by GE for health care in rural India.

The platform of the India-U.S. CEO Forum enriches our dialogue by bringing together the leadership of the top Indian and US companies in shaping a vision of bilateral economic cooperation. Their expertise and recommendations provide valuable guidance in setting inter-governmental priorities in specific areas, and creating new avenues for productive engagement.

As we deepen our trade and commercial relationship, we are bound to have issues and concerns on both sides. U.S. industry has spoken to us about some of its concerns relating to Preferential Market Access (PMA) mandate. There are also specific points raised about India's IPR regime. I think we need to assess these issues from the long term perspective of bilateral cooperation. PMA is only applicable to the procurement of electronic products by Government and its agencies, and for those electronic goods having security implications. I am sure you will appreciate that India needs to secure its

critical infrastructure, including telecom networks. This is something, which you would particularly appreciate as it is also a strong priority of the US. In fact, we hope to build mutually beneficial partnerships with the U.S in this field.

On the question of IPR, our commitment to ensure protection of Intellectual Property is second to none. The IPR regime in India includes commitment to international obligations; safeguarding national interests; modernizing administration and creating awareness. The full complement of laws on patents, designs, trademarks and geographical indications is in place and is in compliance of Trade Related Intellectual Property Rights (TRIPS). The India Patents Act is one of the most comprehensive acts that is rigorously enforced. An interesting factoid is that out of total patents granted in India a substantial number of them (20-30%) are granted to the US National/Corporations.

Just as US businesses have some concerns; Indian industry has also highlighted its concerns. We are told that the Indian IT industry, which according to a report from NASSCOM, employs over 100,000 in the US, and supports another 200,000 jobs including indirect ones, faces regulatory challenges here. We are also unable to even begin a dialogue with the US on a bilateral Totalization Agreement.

In pursuit of broader and deeper India-U.S commercial cooperation, and to address bilateral policy and regulatory concerns, we have inter-governmental mechanisms, including the Ministerial Trade Policy Forum. We however need to ensure their regular meetings and work together to structure constructive outcomes. A meeting of the TPF we hope will not be delayed much longer because it is through regular dialogue that we can build common ground and address concerns in a well-reasoned, rational way. Going forward, and in order to negotiate the global economic terrain better, India and the U.S perhaps also need to explore new trade and economic cooperation arrangements. This is where we need to move consciously and with momentum on the Bilateral Investment Treaty, as also train our sights on the exploration of the advantages, or otherwise, of any future bilateral economic partnership arrangements.

The India-U.S partnership has been termed as "a defining partnership of the 21st century" by the President of the United States. We need to remain committed and engaged at all levels, continuously and without pause, overcoming any challenges, that may exist. I am very optimistic about the future, and of the firm view that the economic relationship between our two democracies can only become stronger with the passage of time.

With these remarks, I will be happy to take a few questions.