

## U.S.-India Insight

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## Economic Engagement: Changing Dynamics

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Among the ways Prime Minister Narendra Modi broke from precedent during his U.S. visit was in engaging the business community directly. This did not come entirely as a surprise, since courting foreign investors and striking deals has always been a big part of his agenda since he served as chief minister of Gujarat. But this most recent visit marks a departure from past visits by senior Indian officials, when the Indian government showed varying levels of disdain for meeting directly with business leaders, which in turn led to the creation of various “proxy instruments”—such as the Trade Policy Forum or U.S.-India CEO Forum—which the United States used as its primary vehicles to relay industry concerns. This direct engagement with business is a very welcome development and points to an evolving role for the U.S. government on business issues.

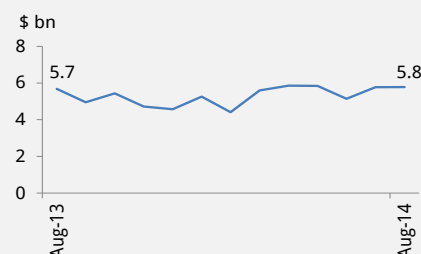
India is not always an easy place to do business. Reforms happen slowly, and regulators and government agencies have intervened frequently—and deeply—into market operations. The need for business to engage with the Indian government is crucial. However, the Indian government has historically maintained some distance from business leaders. Past prime ministers would sometimes meet a group of investors when visiting the United States, but the sense was that these meetings were accorded less priority than other scheduled government-to-government engagements. In addition, relatively few foreign executives were given appointments with senior Indian officials when visiting India. So U.S. investors have often had to rely on the creation and engagement of government-led forums to raise their concerns about India’s business environment in order to get senior-level attention on critical issues.

Prime Minister Modi has taken it upon himself to engage personally with business leaders and press for commitments to invest in exchange for making necessary policy changes or securing clearances. During his September visit, he met with a group of senior Indian-American executives, a group of multinational CEOs, held one-on-one meetings with a half-dozen CEOs, and addressed a large U.S.-India Business Council gathering in Washington, D.C.

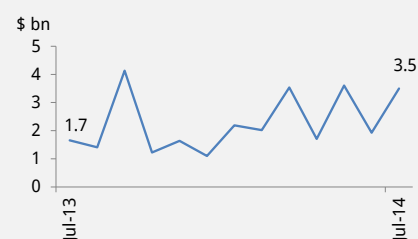
Through this direct engagement, business executives have the opportunity to become their own best advocates for their issues and are in a better position to effect change in India. As a result, the U.S. government role on economic issues may begin to evolve—and we have seen some evidence of this new role in the recent Joint Statement.

There are a few ways in which government-to-government engagement is not easily supplanted by direct private-sector engagement with the Indian government:

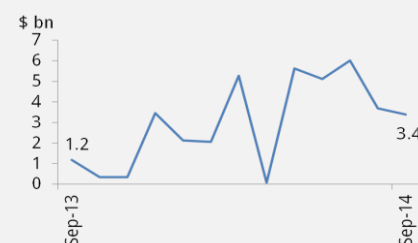
## KEY DATA

**-2.4%**

Decrease in U.S.-India goods trade, 12-month rolling average, per U.S. Census

**+18.7%**

Increase in FDI, 12-month rolling average, per DIPP

**+105.3%**

Increase in FII, 12-month rolling average, per NSDL

1. **Convening Experts:** Some issues, such as developing a payment security mechanism for infrastructure investment, may be most productive when they involve collaboration among a group of experts. The U.S. government can play an important role in convening such experts.
2. **Trade Missions:** As the Modi government continues to reshape the business environment, U.S. trade missions will be warmly received and help cement our relationship. The September 30, 2014, U.S.-India Joint Statement references a pair of such missions to take place in 2015.
3. **Technology Transfer:** Government engagement is critical to facilitate technology transfer in sensitive sectors such as defense and nuclear power, which can lead to commercially significant deals.
4. **Standards and Technical Issues:** Some economic issues are too detailed to be captured in short meetings between senior business leaders and Indian officials. These could include cross-border taxation, sanitary and phytosanitary measures, testing rules, and more.
5. **Multilateral Economic Issues:** Multilateral economic issues often serve as a wedge between the United States and India, such as the World Trade Organization (WTO). Holding regular economic talks can allow for the sharing of views on key multilateral issues at an early stage and help avoid problems later.

The list above is certainly not exhaustive, and business will still look to the U.S. government to raise typical commercial issues such as foreign direct investment caps and customs duties. However, the Modi government will take these and other business issues far more seriously when raised by an executive who directly describes their effect on his/her company's investment plans.

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