

U.S.-India Insight

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Preparing for a New Team in New Delhi

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India's national election commenced on April 7, running until May 12. On May 16, the results will be announced. While it certainly appears the opposition Bharatiya Janata Party (BJP) is likely to win the most seats and be in a good position to form the next government, nothing is certain in Indian politics.

Irrespective of who wins, there will be a dramatic leadership change. Clearly with a BJP-led coalition, we will deal with an entirely new set of leaders. Even if Congress manages to surprise pundits and pull out a win, Prime Minister Singh and Finance Minister Chidambaram will not figure in the Cabinet. Economic policymaking will be left to a new team, and new areas for bilateral economic cooperation will surely emerge. However, judging by the anti-India sentiments prevalent inside the Beltway, the United States is on the verge of making a distinctly bad first impression to the new Indian government.

U.S. COMPANIES RING THE ALARM

Because of questionable economic policy decisions in Delhi in recent years, U.S. companies have raised the alarm. Key trade concerns include forced local manufacturing rules, cross-border tax disputes, local testing/certification rules, and concerns over the treatment of patents. These policy changes triggered a powerful wave of anti-India advocacy in Washington, D.C., and the advocacy campaign has continued, even when the Indian government moved to roll back some of the more damaging policy changes.

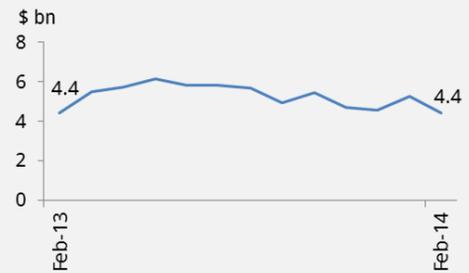
A list of the various types of formal trade disputes recently initiated by the United States is included below. Some of the trade actions, in particular the release of the Special 301 report and the two trade dumping reviews, are expected to conclude around the time the next government takes over in Delhi.

Special 301 Report: Review of India's IPR regime.	USTR
WTO Dispute Settlement: India's National Solar Mission Phase 1	USTR
WTO Dispute Settlement: India's National Solar Mission Phase 2	USTR
Dumping Investigation on Pipes for Oil Industry	Commerce/USITC
Dumping Investigation on Steel Threaded Rod	Commerce/USITC
Review of India's Trade, Investment, and Industrial Policies	USITC

Apart from these trade disputes, other non-trade moves by the United States are also lumped in with these actions by some Indian analysts, however unfairly. These "non-trade" actions include the Federal Aviation Administration's downgrade of India's airline regulator, and the Food and Drug Administration's bans on imports of generic pharmaceuticals from a few Indian producers. While these are linked to India's noncompliance with specific targets instead of reactions to trade policies in India, they have also eroded the United States' image in India to some extent.

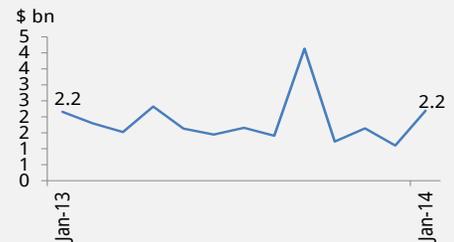
KEY DATA

+2.0%



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

-4.0%



Decrease in FDI, 12-month rolling average, per Dept. of Industrial Policy & Promotion

-71.0%



Decrease in FII, 12-month rolling average, per SEBI

A THOUGHTFUL APPROACH TO REENGAGING NEW DELHI

While there is ample reason for each of these trade enforcement actions to be seriously considered, we must also recognize that negative reports and potential sanctions against India just after the election will paint the next government's perceptions about the United States. Policymakers in some instances have less flexibility in initiating these reviews or guiding outcomes. But in instances where we have flexibility, it is not in the U.S. interest to continue looking to punish India for policymaking decisions at a time those policymakers are leaving office. At the very least, we must also be prepared to engage India on some forward-looking economic issues, so the agenda is not completely saturated with complaints.

India is now the United States' 11th-largest trading partner in goods and is also a valuable partner in services trade. Analysts continue to rank India as among the top five investment destinations in the world. And the next government in Delhi is likely to have a mandate—and hopefully the ability—to put a renewed focus on economic development. There may very well be some exciting new opportunities to deepen our economic partnership. But policymakers in the administration and on the Hill must be willing to set our existing trade concerns aside, at least initially, and engage the new government to explore new areas for partnership.

This is not to say we should ignore the policy issues underlying these potential trade measures. But trade and investment data show that U.S. firms, by and large, are still growing their business with India. It will be unproductive to adopt trade sanctions against a government that did not play a role in creating the troublesome policies—and may be in a position to reverse them.

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