



The American Vision of U.S.-India Economic Cooperation

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Remarks to the delegates of the Indo-American Chamber of Commerce Economic Summit: Raising the Bar: U.S.-India Economic Relations
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Thank you, Dr. Rangaraj, for inviting me here today and for your warm welcome. It is a great pleasure to be back in Mumbai, and to see so many friends and colleagues from India.

The Transforming Relationship

Two years ago this month, President Bush approved a new National Security Strategy for the United States. This document is a blueprint for American diplomatic and military policy in this new era thrust upon us by the attacks of September 11, 2001. In that document, President Bush said that, "we start with a view of India as a growing world power with which we have common strategic interests. Through a strong partnership with India, we can best address any differences and shape a dynamic future."

India and the United States are moving forward together to shape that dynamic future. Today, our governments are engaged across the spectrum of issues. We are cooperating in the Global War on Terror and in preventing the spread of weapons of mass destruction.

- We are working to strengthen the global trading system.
- High-ranking officials on both sides regularly consult on regional and global diplomatic issues.
- Joint exercises between our military forces have become commonplace
- Both sides are working to eliminate infectious diseases and trafficking in persons.
- And we are in close consultation on environmental and climate-change issues.

At the same time, people-to-people contacts between India and the United States are strong and are growing stronger. Organizations formed by the Indian community in the United States, and groups like the Indo-American Chamber of Commerce, are extending and deepening our ties at the commercial and social level.

I salute the Chamber's important work in this field. Your activities, and those of other private organizations, create the climate for a flourishing relationship. Ultimately, the private sectors and the peoples of both countries will shape and drive the "transforming" relationship between India and the US.

Recent Developments

Let me highlight a few recent milestones in this relationship. In January of this year, the leaders of our countries announced an important new initiative, the "Next Steps in Strategic Partnership." The NSSP, as it is called, promises to expand cooperation in three critical areas: civilian nuclear activities, civilian space programs, and high-technology trade. In addition, we will expand our dialogue on missile defense.

Since Secretary of State Colin Powell and I were in India last March, our governments have embarked on technical-level meetings to further the strategic partnership. In June, the Indian Space Research Organization, NASA, and private sector partners in both countries celebrated 40 years of cooperation in space exploration at the Indo-U.S. Space Conference in Bangalore.

Finally, United States and India have established a High Technology Cooperation Group, a forum that allows our two governments to discuss ways to promote high-technology trade. Both sides have a common interest in preventing high-technology goods with a military application from falling into the hands of terrorist groups. The next meeting of the HTCG, as it is called, is expected to take place this autumn. In all these areas, we are "raising the bar" for the U.S.-India relationship.

U.S.-India Economic Relations

Today at this conference we are discussing how to raise the bar for our economic relationship. In order to set out a plan for the future, it may be useful first to sketch out where we stand today. Our two-way trade in goods now tops \$17 billion a year, compared to \$10 billion in 1997. That is good news, at least to a point. During this period, Indian products and services have done very well in the U.S. market. Indian producers have demonstrated that they can thrive in a very open and competitive marketplace. They have demonstrated their ability to be global players.

India's merchandise exports to the U.S. were over \$13 billion in 2003 and are on track to reach \$15 billion in 2004. At the same time, American exports to India have not fared as well. Between 1995 and 2002, U.S. merchandise sales to India languished in a band between \$3 billion and \$4 billion. Last year there was modest improvement as U.S. exports to India topped \$4 billion for the first time.

Nonetheless, the imbalance in our trading relationship continues to expand. India's trade surplus with the U.S. has more than tripled in the last decade and it will likely top \$10 billion this year. Because India has only slowly opened its market to the outside world, this growing imbalance raises concerns in the U.S. government and in American industry about India's commitment to ensure there is a level playing field. As with trade, the picture for U.S. investment is also lackluster. Annual U.S. investments reached a peak of \$737 million in 1997, and have since trended downwards. They were \$414 million in 2003.

There may be many reasons for this situation. Foremost among them, however, is the slow pace of economic reform in India. Perhaps, as several corporate leaders have observed, investors need confidence that India's infrastructure is sufficient to meet its needs, or that government is committed to making the necessary improvements in infrastructure to attract investment to India instead of other destinations in a highly competitive global marketplace.

The Prime Minister has said the government will give priority to streamlining the tax system, restructuring public sector enterprises, promoting competition, tripling direct foreign investment and reducing India's fiscal deficit to 3 percent within three years. In addition to infrastructure, the Government also seeks to give great attention to rural development and education. If implemented, these should not only have a very positive effect on investment, but also should quicken the pace of necessary economic reform. Nonetheless, trade and investment flows between the U.S. and India are far below where they should and can be for two countries of our size and resources. That gap between potential and reality needs to be redressed. So, today, let's talk about how we can transform our economic relationship.

The U.S.-India Economic Dialogue

What can be done to make the U.S.-India economic relationship realize its potential? First, we can re-energize the U.S.-India Economic Dialogue, which was inaugurated in New Delhi in March 2000. The Dialogue's Co-Chairmen are Dr. Stephen Friedman, President Bush's top economic advisor, and Director of the National Economic Council of the United States, and Dr. Montek Singh Ahluwalia, the Deputy Chairman of the Planning Commission for India.

The Dialogue Coordinators are Mr. Shyam Saran, Secretary of the Ministry of External Affairs for the Indian side, and myself for the U.S. side. I am visiting India to reaffirm my country's commitment to maintaining a robust and productive dialogue process, to hear the views of our new Indian partners and to offer the ideas of Dr. Friedman and our economic team.

Second, our two governments must make sure that our Dialogue is not merely about talk for the sake of talk. It needs to have the practical effect of facilitating two-way trade and investment. That is, the Dialogue should address the most immediate and high priority concerns of both Indian and American businesses. For this reason, there is an indispensable role for the private sectors in both countries.

The Dialogue should have a mechanism that allows the views of the private sector to be regularly incorporated in our government-to-government deliberations. Business should help us ensure that governments are focusing on the priority issues. We need to do more to make this concept operational. We would welcome and value the suggestions of the Indo-American Chamber of Commerce, and other top business and industry organizations in both countries, to strengthen the Dialogue. As I noted at the outset of these remarks, the shape and direction of the overall relationship between the U.S. and India depends very much on the private sector.

The private sector needs to be both the engine and the compass of the Dialogue if it is to be effective. As we identify impediments, we need to find ways to remove them. Resolving commercial disputes and alerting each other to an envisioned or impending policy difference should be a key function of a re-energized Dialogue. Dr. Ahluwalia recently alluded to that point in a speech in New Delhi. He said that the Dialogue should be a forum to resolving "locked issues," that is, issues on which the two sides have reached an impasse at the working-levels of their governments. The problem-solving nature of the Dialogue is important, but our bilateral contacts should also be focused on pursuing opportunities. Thus, the Dialogue should explore opportunities that have the promise of greater commercial exchange in the future, such as in the fields of biotechnology and pharmaceutical research.

I firmly believe that business cooperation and new agricultural technology can increase harvests in India, raise farm incomes, improve agricultural processing and make India a major player in international agricultural trade and in the process lift millions out of poverty. If India achieves a world-class legal and enforcement system on intellectual property rights that is fully compliant with its obligations, India will almost certainly become a research and development powerhouse in pharmaceuticals. Participants in the Dialogue should address the legal and regulatory changes that need to be made to open the way for future technologies and new markets on both sides.

If India adopts the right investment rules and regulatory framework, American and Indian firms can work together in helping India create a 21st century infrastructure, through investments in telecom, electric power and transportation facilities. If the regulatory system permits, American financial service firms can help India create a deep market that will provide capital for the industries of the future, help finance vitally needed infrastructure improvements, and provide families with a variety of savings and insurance products. If we can negotiate an air services agreement, American and Indian airline companies can work together to better tie Indian shippers and travelers into the global marketplace while lowering costs and dramatically increasing our travel between our countries.

If India extends an unambiguously warm welcome to American firms, they can be full partners in India's economic development, promoting growth, bringing new technologies, expanding India's exports and creating jobs that lift millions out of poverty.

Closing

The U.S. and India are forward-looking countries. While both peoples draw strengths from their pasts and their traditions, we seek new horizons and new challenges. We seek to extend scientific frontiers and to stretch the bounds of human knowledge, for the betterment of mankind. The process of transformation between our two countries is well underway. Our government-to-government ties are extensive. I'd like to see ties between our respective private sectors become equally robust.

South Asia is in the process of fundamental change, and the U.S.-India bilateral relationship is a dynamic component of that change. Successive administrations in the United States and India have ensured that our greatly enhanced relationship is in step with the wishes and aspirations of both our people. We must set the bar high. I can easily imagine a U.S.-India economic relationship that can rival our closest and most productive relationships anywhere in the world. Let's resolve to do so.

That would mean seeing our two-way merchandise trade rise from \$17 billion annually to over \$100 billion annually within a few years. That would mean seeing U.S. annual investment flows rise from less than half a billion dollars annually to \$5 to \$10 billion annually within a few years. That would mean an unprecedented effort to make the policy and regulatory changes that would offer new opportunities for the firms of both nations. The optimists say this is inevitable and the pessimists say it is impossible. I say it is achievable – but only if people like us in this room can imagine a different future and resolve to make it happen.

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