



INDIA-US INSIGHT

*"Advancing the Strategic Potential of India-US
Relations, Accelerating India's Economic Development"*

Vol. 3, Issue 4

August 16, 2013

India and the US: Navigating Headwinds

by Amb. Hemant Krishan Singh



As prospects of meaningful economic reforms wane ahead of India's general election, India-US ties are navigating headwinds and in danger of losing the big picture. References to a "defining partnership" have given way to an unprecedented welter of complaints, culminating in an initiative in early August by four Congressional leaders asking the US International Trade Commission (USITC) to "investigate India's unfair trade practices that discriminate against US exports and investment." The strategic partnership is fast receding.

One would imagine that at a time of feeble economic recovery in the US and an increasingly gloomy economic outlook in India, the two countries should in fact be redoubling efforts to bolster economic ties. Instead, it has been a veritable summer of discontent. US corporations which had once championed India's cause now drive their lobbyists to paint India into a corner on a host of issues ranging from investment restrictions to taxation policy, preferential market access rules to infringement of intellectual property rights.

India and the US have held several high-level meetings in recent weeks, but seemingly remain at cross-purposes. US leaders have shared concerns of US industry regarding Indian policies affecting investment and innovation and have called for a "candid discussion" on what are described as "tough problems." Indian interlocutors have contended that "business rivalries should not be brought to the political table" to unjustly target India, but have balked at clearing the way for a Bilateral Investment Treaty which can bolster business confidence. Patience is running out on both sides.

Ironically, this scenario is unfolding at a time when bilateral trade has grown to nearly \$100 bn, and growing two-way

India-US Insight is produced by the Indian Council for Research on International Economic Relations (ICRIER), an autonomous, policy-oriented, not-for-profit economic policy think tank. ICRIER's main focus is to enhance the knowledge content of policy making through research targeted at improving India's interface with the global economy.

ICRIER does not take specific policy positions; accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author(s)

© 2013 by the Indian Council for Research on International Economic Relations (ICRIER)



**ICRIER - Wadhvani Chair in India – US
Policy Studies**

Amb. Hemant Krishan Singh
Chair Professor

Sanjay Pulipaka
Fellow

Aman Raj Khanna
Research Associate



**ICRIER - Wadhvani Chair in
India – US Policy Studies**

**Indian Council for Research
on International Economic
Relations**

Core 6A, 4th Floor

India Habitat Centre

Lodhi Road

New Delhi-110 003

Phone:

91 11 43112400 X 402 /435

Fax:

91 11 24620180

Website:

WWW.ICRIER.ORG/ICRIER_WADHWANI

E-Mail:

uschair@icrier.res.in

**INDIA-US INSIGHT
Vol.3, Issue 4
August 2013**



investment flows are bringing benefits to both economies in the form of jobs, technology partnerships and business innovation. India-US business interactions are hardly based on head-to-head competition, as was the case with US-Japan trade in the 1980s. There is little substance to the argument that India is willing to take advantage of its ties with the US to benefit its own economy at the expense of America's, other than to exert pressure on India to open its market in sectors of interest to US business. Surprisingly, while Congressional leaders have urged the USITC to "detail policies India has in place that restrict trade and violate intellectual property rights," China's trade surplus with the US or its business practices are hardly receiving such attention.

Indian policymakers certainly have much to do to provide businesses, both domestic and foreign, with the reassurance of a predictable investment climate, including by easing FDI restrictions, reforming taxation policy, revisiting recent initiatives to promote manufacturing in the technology sector and strengthening enforcement of IPRs. Similarly, the US is urging reforms by India but is directly targeting the outplacement model of Indian IT companies and increasing their costs for transacting business under the Immigration Reform Bill. And let us be clear, India is hardly likely to emulate the excessively high cost (\$2.7 trillion), evergreening patent driven, US healthcare model.

The vast potential of bilateral economic ties lies at the heart of the India-US strategic partnership. It is time to step back and resume a more reasoned discourse on trade and investment issues before any further damage is done. The hiatus over trade issues has steadily widened and requires to be bridged by a serious re-engagement under the US-India Trade Policy Forum, which hasn't met for three years. Even where there is disagreement, the fallout should be limited through a sustained dialogue. The two sides also need to open a conversation on regional trade initiatives, such as the US-led Trans-Pacific Partnership (TPP). The eventual participation of India will enhance the TPP's transformative potential. But for that to happen, India needs to significantly raise its ambitions on trade agreements, while the US will have to remove restraints to India's participation in Asia-Pacific economic frameworks.

Prime Minister Manmohan Singh's meeting with President Barack Obama in September can go a long way in putting India-US economic relations back on track. It can deliver some of the low hanging fruit on FDI reform, presuming the passage of pending legislation and clarifications on conditions for multi-brand retail. Concrete progress on civil nuclear cooperation can bring the 2005 bilateral accord to fruition. If India can use the occasion to announce the launch of Bilateral Investment Treaty negotiations, so much the better.

We can only hope that the Singh-Obama meeting overturns recent transactional bickering and revives the strategic mindset which has driven the transformation of India-US relations over the past decade.