

Remarks of Ambassador Karan K. Bhatia

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As Prepared for Delivery

Introduction

- Thank you Mr. Budhia and Mr. Adige. Thank you ladies and gentlemen. It is a great pleasure to be back in Delhi and to be able to address CII on the subject of US-India Trade Relations.
- 2006 will be remembered, on many fronts, as a banner year in U.S.-India relations – the year when the governments of our two great democracies came together to emphatically demonstrate tangible evidence of the new strategic course in bilateral relations.
- You will recall the March visit to India of President Bush and the major announcements of progress on the Civil Nuclear deal, as well as in sectors ranging from Agriculture to Defense. As an American of Indian origin, I can tell you I was proud to be a small part of that moment in history.
- Now, shortly before I embarked on this visit to India, the U.S. Senate passed the Civil Nuclear bill by an overwhelming, bipartisan margin. By the end of this year, we will hopefully see that bill passed into law, opening up an exciting new era of cooperation and a new area for U.S.-India commercial relations.
- Another bit of history in the making: bilateral trade in goods is forecast this year to exceed \$30 billion for the first time, putting us well on the way to achieving the goal – endorsed earlier this year by President Bush and PM Singh – of doubling bilateral trade in three years.

- We've seen important commercial milestones this year fueling that burgeoning trade relationship: ranging from Air India's \$10B purchase of 68 Boeing Aircraft ... to IBM's announcement of a major investment in India ... to the currently ongoing U.S. trade mission to India consisting of over 180 companies, the largest ever.
- And, the US-India economic dialogue has surged, with numerous high-level sessions between our governments, geared towards the continued acceleration of our trade relationship. Let me highlight two in particular:
 1. The first is the Trade Policy Forum led by the USTR Ambassador Susan Schwab and Commerce Minister Kamal Nath. Launched just over a year ago, the TPF has become the principal U.S.-India government-to-government forum for addressing issues of bilateral trade and investment policy. It has met regularly (in fact, I'm scheduled to have a TPF meeting with my counterpart Commerce Secretary Pillai later today), its constituent working groups are in regular contact, and it is producing results.
 2. The second is the CEO Forum in which senior officials from the U.S. and India Governments have gathered twice this year with CEOs from each country to identify goals and identify progress on our bilateral trade and economic agenda.
- Whether one looks at civil nuclear cooperation, or our trade numbers, or the creation of new trade-enhancing institutions, I think it's fair to say that there is no sign of a slowdown in the bilateral trade relationship.
- Unfortunately, our track record on multilateral cooperation in the trade area still doesn't match this bilateral cooperation. This is a sad reality that I hope next year we will be able to address.
- That said, as we move into 2007, we must recognize what has given rise to the dramatic growth in bilateral economic ties and what it will take to ensure that those ties remain strong.
- The US-India economic and commercial relationship draws its strength from India's overall economic growth. As India grows, so does the reality and potential of our two economies, our two business communities, and our overall bilateral economic relationship.

- We believe that the resurgence of Indian economic strength in turn stems from the visionary reform policies set in motion several years ago, and the efforts of many to sustain that reform effort ever since.
- I would like to submit to you today that continued economic reform by Indians for Indians will continue to be a driver of not only India's economic growth, but also a key driver of its bilateral economic relationship with the United States. As a friend of India, I wish to offer my thoughts on sectors that I think will be critically important in the years ahead that, with reform, will continue to propel India forward, and, I hope, further strengthen our economic relations.

Reforms to date

- India has made great strides since the 1980s. In the last 25 years, the Indian economy has shifted from a predominantly agricultural base to services. Agriculture's share of India's GDP has dropped from 40 to 20% while Services has grown from 40 to 60% of GDP.
- Significant autonomous reforms have played a crucial role in India's economic transformation to date. Reductions in applied tariffs, privatization of state industries, and a range of other reforms that have allowed the private sector to compete and grow, and have produced an India whose economic heft is felt increasingly on a global scale.
- In just the three years from 2002 to 2005, we have seen a decline in average applied tariffs which has helped to increase competition. And while I believe the effect would have been even more pronounced if those tariff reductions had been bound in the WTO – giving companies here and abroad the certainty of knowing that the tariff reductions would not be reversed – the reduction in applied rates did help generate GDP growth of approximately 8% in the past few years, and India is on a path to accomplish a similar feat in 2006.
- For India to sustain or increase economic growth, it must continue to liberalize services, manufacturing and agriculture sectors by eliminating non-tariff barriers and lowering tariffs – both bound and applied rates.
- Many of you here today are a manifestation of India's transformation. Companies such as Tata, Infosys, Wipro, Reliance, Godrej, and Bharat Forge are, or are rapidly becoming, world leaders in their own right.

- While Indian companies make their mark globally, India has also become a more attractive destination for international corporations.
- India plays a critical role across the spectrum of General Electric's long term plans. IBM is India's largest foreign employer – with over 40 thousand employees – and recently announced \$6 billion in new investment. Later this week, I will be visiting Ford's growing production facility in Tamil Nadu. And, of course, many software and IT companies, such as Microsoft, Texas Instruments and Dell, have located facilities in India for R&D, manufacturing and customer support.
- These economic and political developments demonstrate that there is a symbiotic relationship between the pursuit of the 'American Dream' and the pursuit of India's own version of its 'Indian Dream.' One strengthens the other.

Keeping up the momentum

- For all of the good news, however, it is our view that India remains somewhere in the middle of a long process of transformation. And, with the rest of the world closely following India's every action, it is at a sensitive stage of that process of transformation.
- It is vital for the reforms to continue in order to fully accomplish the task of building an economy to benefit the majority of Indians, with a global role commensurate with India's potential.
- It is worth noting that India faces this challenge against the backdrop of a intensely competitive Asian economy – where you see country after country reforming, moving them away from state control and protection, exposing domestic producers to competition, knowing that it is only through such competition that their economies will truly become globally competitive.
- And so India simply cannot afford to rest on its laurels. To attract ever greater rates of investment and to accelerate the creation of opportunities for India's companies and populace, India must maintain the pace of reform.

Doha

- In this context, let me touch briefly on the Doha Round. We strongly believe that United States, the EU, as well as other developed countries and developing

countries – even the least developed countries of the world – would all reap significant benefits from a successful, ambitious Doha Round.

- But I would submit to you, few countries would stand to gain more than India – from new market access opportunities for India’s globally competitive companies, from the tremendous benefits that would derive from greater flows of goods and services to India, particularly in terms of attracting new investment, and from the support it could provide to a continued process of economic reform here.
- And so it has been puzzling to us that India has not been more aggressive and more creative in seeking an outcome from Doha that works for India.
- To date, India has largely viewed the Doha Round through the prism of agriculture, and has allowed its concerns for subsistence farmers to limit its ambition in the negotiations as a whole. This need not be the case. There are ways to deal with the agricultural sensitivities while India prepares to play a bigger role in agriculture, and to seek the ambitious outcome in industrial products and services sectors that would benefit India immensely. That choice is one that India, for whatever reason, has to date decided not to make.
- And yet there are positive signs. The President and PM Singh recently reaffirmed their mutual commitment to Doha. At every step, we have reiterated that we see the Doha Round as a genuine opportunity for the United States and India to work together. If our two countries can shed six decades of estrangement in other arenas, surely we can surely do so in the trade arena.
- The United States continues to seek a big Doha outcome, one that creates new economic opportunities through market-openings for all countries, and stands ready to work with all its trading partners to that end. The results of our recent Congressional election do not change that position. And it is precisely that kind of outcome that India should also seek – one that brings significant new trade flows – in agriculture, industrial goods, or services.
- Getting Doha back on track cannot be solely dependent on the U.S. or any one country making a move in the negotiations. We need leadership and strong market access offers from all the key players – not only the US and the EU, but also large emerging markets like India, as well as Brazil and China.

- Ultimately, we must remember, these negotiations are about where we want our economies to be in the next 10 years, not the next few months. And for India, what better vision than continuing the process of reform that has allowed the globally competitive companies represented here in this room to thrive?

Sectors to emphasize

- Whether Doha is successful in the near term or not, India's path to success clearly lies with continued liberalization.
- India is a far better place to do business than it was 20 years ago, for both Indian and foreign companies. Its tariffs are lower. It has opened itself to Foreign Direct Investment in many sectors. And, India's investment environment has also benefited from new protections for intellectual property, although more work remains to be done in this area.
- But sectors remain restricted whose further liberalization could bring benefits more quickly to more people in India, and that would maintain the momentum of India's reform efforts.
- Whether through low caps on FDI, outright prohibitions on foreign participation or other regulatory burdens, India maintains restrictions in a number of sectors that are, in today's world, anachronisms. Some of these restrictions may simply be vestiges – bits of regulation missed in the reform process. Others, however, would appear to be efforts to give Indian companies or entities a leg up, making a virtue out of protecting them from competition.
- But, the reality is that continued restrictions in many of these areas are no virtue. Ultimately, they restrict growth and innovation which could bring more opportunities to more of the Indian populace.
- Let me touch on three areas where reform could have a sizeable impact: Commercial Satellite Services, the Financial sector, and Agriculture.

Commercial Satellite Services

- One area that is emblematic of the continued need for reform is Commercial Satellite Services.

- India should be rightly proud of the domestic satellite system it has built over the past several decades. India's current needs, however, outstrip this capacity. As a now relatively mature sector, both the Indian space industry, and – more importantly – users of commercial satellite services, would benefit from competition.
- The current regulations, which essentially provide a monopoly on the sale of satellite capacity for domestic use to one company, deny key Indian industries the access to competitive services that are critical to India's transformation as an information-based economy.
- These restrictions are out of step with practices in almost every major economy of the world. Most countries with domestic satellites systems (such as the U.S., EU, Australia, Brazil, Canada, Mexico, Indonesia, to name a few) either have Open Skies policies or have regulations which permit the sale of foreign satellite services without the need to sell through the domestic satellite operator. Indeed, India is almost alone in restricting entry in this market.
- Allowing direct access to foreign satellite capacity would enable Indian service suppliers to obtain the satellite capacity they need provide solutions to meet the growing domestic communications needs of Indian industry. Increased bandwidth capabilities will enable the telecom operators to expand their current offerings of key services such as broadband Internet access, virtual private networks, file transfer and distance learning capabilities, to name a few.
- A leading industry report published this year (Loft Communications) concluded that India satellites can barely meet most video transmission needs (a burgeoning sector in India), let alone adequately serve other needs such as satellite-based Internet access or corporate data needs (VSAT services). Direct access to foreign satellite capacity will help satisfy local demands for services with increased bandwidth.
- India would be greatly benefited by creating the regulatory certainty necessary for foreign operators to participate in and design satellites that can serve the Indian market. If operators are required to sell satellite capacity through a commercial competitor, and are prevented from negotiating contractual terms directly with service providers, they may prefer to sell their capacity in other markets, where they are free to compete directly with domestic and foreign operators.

- In addition to creating regulatory uncertainty, the lack of competition in domestic satellite services has several other effects:
 - First, it imposes real costs by introducing a middleman.

Second, the policy has the pernicious effect of delaying broadband access to millions of Indians. As many of you are aware, increased access to Broadband is essential for the development of advanced telecommunications systems which are fundamental to advancing the competitiveness of all CII member companies.

- In 2004 the TRAI issued a report *Broadband India* in which it lamented the low level of internet and broadband connectivity and pointed to commercial satellite services as a potential contributor to an internet and broadband revolution in the country. TRAI noted that satellites are capable of reaching many communities faster and more reliably in India than ground transmission methods, and advocated an “Open Sky Policy” with respect to access to foreign satellites.
- Third, lack of access to essential satellite infrastructure raises costs of distribution, and in so doing, deters competition in downstream telecommunications and video distribution markets. Again, both of these markets are of enormous importance to the Indian economy.
- In short, the increased level of telecommunications services that would result from liberalization of the access to foreign satellite capacity for domestic applications would provide India's key industries with the communications capabilities essential to operating and expanding operations, both domestically and abroad.

Financial System Reforms

- Another area ripe for further reform is India’s financial sector.
- As this group knows well, long-term economic growth hinges on sound financial institutions and deep financial markets to mobilize savings and allocate resources, including through liberalization of financial institutions, markets, and cross-border capital flows.
- In India, current financial sector restrictions limit competition and lower performance. Those restrictions include limitations on bank branches and the

opening of private banks, FDI caps on participation in the banking, pension and insurance sectors, and government regulations directing where bank loans must go. Addressing these restrictions would boost economic growth and in the process raise tax revenues that could be used to spend directly on government priorities.

- A recent study by McKinsey and Company found that financial sector reforms could increase GDP by 9.8% per year. This could raise household incomes by 30% above current projections by 2014, raising millions out of poverty.
 - Part of this would entail wider participation by foreign banks and financial institutions. The evidence is clear that wider participation by foreign banks in emerging markets can have powerfully beneficial effects, ranging from improved risk management, product development and efficiency ... to higher levels of lending to both consumers and corporations (Indian corporations pay significantly higher interest rates than their emerging market counterparts)... to increased access to financial services for the “unbanked,” who constitute a disproportionately large percentage of the Indian population compared to, say, China or Korea ... to greater insurance coverage to the 80% of Indians who currently lack it, helping to contribute to India’s social safety net and to create long-term and stable investment funds to support India’s capital markets.

Agriculture

- India’s future in many respects depends on the re-invention of its agriculture sector. Though Services and Manufacturing may be the wave of the future for job growth and contributions to GDP, reform of the Agriculture sector will be critical to ensuring the secure passage to the future for the majority of India’s labor force,.
- America is conscious of the significant challenges India faces in this regard. Notwithstanding the fact that the Services sector today accounts for 60% of India’s GDP as compared to 20% for Agriculture, we recognize that over 60% of India’s labor pool remains in the Agricultural sector – the same percent as 25 years ago. Many employed in the Agricultural sector are subsistence farmers, and those employed in the rural sector have effectively seen their share of national income decline by 50% in the past quarter century.

- Conscious of the importance of the agriculture sector in India, the U.S. is working with India to cooperate in exploiting new knowledge and technologies to strengthen agricultural production. One of the major initiatives announced by President Bush and Prime Minister Singh, the Agriculture Knowledge Initiative (or AKI) is devoted to this task. As you know, Agriculture Secretary Johanns was in India just last week to promote further agriculture cooperation between the US and India.
- One key to the transformation of the agriculture sector in India is for it to become more effectively connected to the domestic Indian market, and then beyond that, for it to be integrated into the global market. Rather than seeing reform as a threat, reforms should be seen as a means to help the Indian agriculture sector to become more competitive.
- This is far from impossible. Look at the example of Mexico which has actually increased production and competitiveness of key crops after the dramatic liberalization associated with NAFTA. Indeed, Mexico's agricultural exports have grown twice as rapidly since NAFTA.
- I would respectfully suggest that what is hurting India's agricultural sector now is not liberalization, but its absence, including a lack of effective domestic reforms in areas of agricultural marketing, price policy, infrastructure, food processing, subsidies, and agricultural research, education, and extension.
- Future gains in farm productivity are likely to be dependent on success in shifting public resources from subsidies to productive investments and, particularly, reforms that strengthen currently low levels of private domestic and foreign investment in all aspects of Indian agribusiness.
- These reforms would include removal of regulatory impediments to private marketing, movement, storage, and processing of many farm products, as well as improved institutions to support the development of more efficient markets.
- The successful transformation of agriculture in India is also tied to other needs in the Indian economy, including in infrastructure, such as roads, water, and power.
- As India's economy expands and the middle class grows, reforms are the ticket to enable Indian agriculture to keep pace with India's own burgeoning demand for food and ultimately the world's as well.

Conclusion

- In conclusion, I'd like to harken back to a speech that I gave in Delhi two and a half years ago, about US-India trade relations in a different sector – air services.
- I spoke at the time about the need for the U.S. and India to enter into an “open skies” relationship – effectively, a free market in air services, liberated from government control over entry, pricing, routing and all the various regulatory restrictions that had affected the sector to date.
- And I suggested that, if achieved, such an agreement would increase service options and lower prices for consumers.
- Less than a year later, the Indian Government – thanks to the determination and foresight of India's policymakers – agreed to conclude such an agreement.
- Today, the air services market is brimming with new offerings by both U.S. and Indian airlines. New nonstop air services – new carriers – and more competitive prices. And, of course, India has witnessed the same phenomenon in its domestic market, as it has liberalized.
- The fact is that economic reform and liberalization works. It works for India and it works to strengthen the bilateral economic ties that tie our two great countries together.
- And I look forward to revisiting you to take stock on how the next generation of Indian reforms is progressing, and witnessing the continued growth in our dynamic trade relationship.