Remarks by Ambassador Jon M. Huntsman Jr.
Deputy United States Trade Representative
First Manhattan India Dinner

February 5, 2003

Introduction

Good evening. It is a pleasure being with you tonight. And it is indeed an honor to be invited to deliver the keynote address at this important event inaugurating the Manhattan India Investment Roundtable. I applaud this joint initiative by the U.S. - India Business Council and the U.S. Council for International Business, and I wish the participants success in their deliberations. I believe that the Roundtable can contribute to America's efforts to encourage India's leadership in the international economy.

Several people have played roles in fostering stronger commercial relations between the United States and India, but I would like to single out Dean R. O'Hare, chair and former chair of both organizations sponsoring the Roundtable, for special thanks. Dean has tirelessly advocated greater recognition of India's opportunities and challenges. Let me also take this opportunity to recognize several of our colleagues whose abiding support for both the business community and strengthening U.S. -India relations are well known:

Our hosts this evening: Ambassador Tom Niles of the US-CIB; Mr. Rajat Gupta of the USIBC; and Ambassador Nick Platt of the Asia Society. Gary Benanav, Mr. A.K. Purwar, and Consul General Pramethesh Rath, Ned Cloonan, Brant Free, Sue Esserman, and George Ugeux.

As we talk about those things that unite us as countries, today, there is no better example to reflect on than that of Indian-American Astronaut Kalpana Chawla whose life was so tragically taken this last week while exploring the horizons of science. She was a role model for many both in India and here. Dr. Chawla's life was fueled by dreams and determination, which took her from the small Punjabi town of Karnal to the soaring heights of NASA's space program where she became the first person of Indian descent to fly in an American space shuttle.

I want to begin my talk with an observation that is neither novel nor particularly insightful but is important in understanding our economic relationship with India. It is simply this: India has been slow to accept globalization. Few, particularly in India, would deny this.

Keith Bradsher, in his December front-page article in the *New York Times* titled "India Slips Far Behind China, Once Its Close Economic Rival", may be overstating matters when he writes that "India's continued backwardness compared with its neighbor across the Himalayas has become a national obsession." Yet, whether perception or reality, I also think he is on to something. Despite developing internationally competitive software and business services industries, and despite notable high profile achievements in a few other sectors, many Indians sense that their country may not be keeping up with the competition.

As India's business and government leaders witness the economic advance of many of its neighbors, some now accept that India needs to make policy changes and, at long last, embrace globalization. They recognize that their country has limited choices: pursue deeper reform, or miss important economic opportunities that will bring additional growth and development.

India has never been indifferent to trade. A visitor to New Delhi fifteen years ago would have seen thousands of signs excoriating Arthur Dunkel. Most Americans at the time would have been unable to identify this "evil doer" nor the organization he led, but clearly Arthur Dunkel was infamous in New Delhi.

To many it was ironic to see the benign, chain smoking, Swiss bureaucrat who headed the General Agreement on Tariffs and Trade (GATT), the precursor to the World Trade Organization (WTO), cast in the role of villain. India's political leaders had done little to discourage the popular myth that Dunkel and the GATT were a threat to India's very survival.

Yet as in many other areas, India is clearly changing. A recent statement by India's acting Commerce Minister, Arun Shourie, expressed the kind of leadership that is helping Indians overcome old fears about India's vulnerability in the era of globalization. At the annual general meeting of the Federation of Indian Chambers of Commerce and Industry (FICCI), Minister Shourie reportedly asserted that India runs the risk of being isolated if the country maintains an attitude of negativism and suspicion about the benefits of effective engagement at the WTO.

Minister Shourie further remarked that "India has no alternative but to engage the world. We can disengage and become like Mynamar, raise duties, but that is not the solution." He continued by stating that India should cease looking at the WTO as some sort of a "hua," or frightening specter.

These sentiments, I believe, are indicative of a growing acceptance by India's leaders of the vital importance of full engagement in the world economy. And they are consistent with India's full engagement with the U.S. and with the world on the leading security issues of our day. The United States and India share a powerful common interest in the health of the global economy and of India's successful integration into it. We welcome the appointment of Arun Jaitley as Minister of Commerce. We expect Ambassador Zoellick and Minister Jaitley to meet for the first time next week in Tokyo to begin what I hope will be a fruitful and enduring dialogue on U.S. - India economic and trade relations.

I know that understanding the depth of America's commitment to expanding world trade and strengthening the role of the WTO are important concerns of Indian leaders, and so I want to say a few words about our perspective.

International trade relations for the Bush administration have been a high priority. As President Bush has tellingly observed, "The growth of the world economy depends on world trade. The growth of world trade depends on American leadership."

The last two years have been important from a trade standpoint for the U.S. where we have built on the good work accomplished by previous administrations. We won a hard fought battle for Trade Promotion Authority (the first time a U.S. President obtained this authority in eight years), completed two major Free Trade Agreements (Singapore and Chile), started several more, and launched a major new round of global trade talks at Doha. We are doing our best to provide the leadership that President Bush has spoken about.

But our efforts will be incomplete without the strength of a solid partnership with India.

From the beginning of his Administration, President Bush has sought a major transformation in our bilateral relations with India. In many areas his ambitions are being realized, and our overtures have been welcomed. Concrete results are being achieved, particularly in the fight against terrorism. Political, diplomatic, military, and intelligence ties all have been strengthened.

Today, the United States wants to treat India realistically for what it is -- a major country and an emerging power. We want to engage India in a strategic dialogue that encompasses the full range of global issues. The United States appreciates that India's influence clearly extends far beyond South Asia. We welcome a broader role for India and we want to work closely with India to develop imaginative responses in such areas as counter-terrorism, nuclear nonproliferation, human rights and environmental protection.

Yet despite gains in other key areas, progress in transforming our economic relationship with India has been slow. And for those of us who believe in a successful bilateral economic relationship, too slow. Ambassador Blackwill called languishing bilateral commercial ties "flat as a chapatti." The Ambassador also noted in a recent speech that our commerce is far below its potential and observed that our two-way trade with India, a country of over a billion people, is less than our trade with Ireland - an island of only four million. Clearly, our two countries can do better.

There are several other important reasons for the lack of bilateral economic progress with India. I'd like to mention a couple. Most fundamentally, trade negotiations are about access for goods, agriculture, services, and investors. And while India, as I noted earlier, has begun the slow shift towards creating a hospitable environment for foreign investment and imports, many in India – in government, the bureaucracy, industry and civil society – continue to reagrd openness with deepen suspicion, if not antipathy.

Yet at the same time, there has been a global movement towards freer markets. The extent of change has sometimes been exaggerated, but a historic shift has undeniably been achieved. India is already benefiting from globalization to a degree that may not be fully be appreciated.

To illustrate, let me talk briefly about one area of considerable importance – IT and business process services. Today, U.S. companies of all sizes and types, from the very largest financial center banks to Silicon Valley start-ups, and all kinds of companies in between, are finding great economic advantage through technology-enabled partnerships with Indian firms. To a degree that is already impressive, and expanding rapidly, India is becoming the host too much of the financial and business data of the American economy. GE already reports that more than 80 percent of its companies world wide run back-end operations through India. Today American citizens find that their personal medical records, financials history, business transactions, technical support, loan applications and much more are all being provided by Indians. This is an important change that, according to one credible estimate, may create many as 2.8 million new jobs in India. That's globalization at work.

But while this historic shift goes on, with the race for foreign investment more intense than ever, only modest amounts of investments are flowing into India. In large part, this is because of deliberate choices that India has made in the past, and has begun to change very slowly. India's tariffs are today, more than ten years after the beginning of economic reform, the highest in the world, except for those of Pakistan, according to the World Bank.

America has always been a trading nation – as has India. Our colonial forefathers sold fur, cotton, tobacco, and grains to Europe and imported tea, spices, and manufactured goods from around the world. Indeed, one of the seminal events in American history - the Boston Tea Party - was a rebellion against punitive import taxes! The inheritors of that Boston legacy were the famous "Yankee traders", well known around the world for their fierce competitive spirit. Some say that spirit lives on in the form of American Entrepreneurship.

To be sure, the United States can be faulted for occasional spasms of protectionism. But even these exceptions have not been severe enough to close segments of the American market. Over half of our domestic apparel spending, for example, is on imports, despite complaints of a closed U.S. textile market.

The fact is Americans like to purchase imports - or, rather, are willing to reward quality and low prices from whatever source. In many countries, by contrast, imports are looked upon with disdain, even when formal market barriers are low. Consumers who purchase imported products are even denounced as unpatriotic.

India likes to export, but has a grudging attitude at best towards imports. Indians understand the almost universally accepted truth that a vibrant export sector is necessary for poverty alleviation and sustainable development. Yet they remain skeptical of imports - even of products such as life-saving medical equipment not manufactured in India. So the country maintains tariffs among the highest in the world, imposes additional taxes when tariffs come down, and erects non-tariff barriers. These multiple, onion-like barriers discourage potential exporters.

The U.S. has a huge and growing trade imbalance with India. In 2002 we had a $6.8 billion deficit, an increase of 30% over 2001. Moreover, we have been India's fastest growing market, with the exception of China, and our imports from India have more than doubled since 1995.

The United States has advocated market-opening measures that would reduce this imbalance.

For example, India's tariff and taxation structure undermines its tariff commitments in the WTO. This structure has impeded trade in such items as medical equipment, chemicals, soybean oil, and distilled spirits. Differential treatment of imports and domestic production of phosphates, for instance, has caused a $400 million U.S. market to evaporate while India's agricultural sector suffers from lack of quality fertilizer.

Special taxes have increased the price of imports so that they no longer are competitive in the Indian market. The recent change in customs valuation methodology for imported films threatens to suffocate substantial opportunities in bilateral trade and creative collaboration.

India's high agricultural support prices have encouraged the overproduction of wheat and rice, contributing to volatility in world grain markets. We also believe that India's domestic support scheme for wheat and rice lead to export practices that undermine India's WTO export subsidy commitments.

At the same time, it is important to take note of important new developments in Indian policy. India may be on the verge of making significant unilateral tariff reductions that would lead to a single digit tariff structure by 2007. We applaud any effort to truly reduce the tariff burden. At the same time, we believe that the WTO's Doha Development Agenda offers the best opportunity to make sure that measures taken to liberalize the Indian market also help India to gain secure and new market access opportunities abroad.

A successful WTO round would be a "win-win" for India. By helping to knock down domestic barriers to trade, the round would provide India's consumers with more choices and lower prices. While boosting the country's long-term competitiveness around the world, a new trade round would promote jobs and create valuable new export opportunities for Indian companies.

For the United States, our objective for the current WTO round gets right to the heart and soul of trade...basic market access... market access for agriculture, goods and services. In getting us there, the United States has made a dramatic proposal on agriculture. Supporting this, India has called for significant reforms in export subsidies and trade-distorting domestic support. However, while it has joined us in advocating substantial tariff reductions by developed countries, it rejects the need for developing countries also to improve market access conditions. Making progress in this area, which is important to many developing countries, will be critical to the success of the Doha negotiations.

The U.S. also has tabled an equally bold proposal on market access for industrial products.

We have proposed a rapid reduction of high tariffs so that by 2010 no tariffs would be above 8 per cent. We also have called for the progressive elimination of duties by 2015. All tariffs below 5 per cent would be abolished by 2010. Finally, we have proposed a parallel initiative calling for speedier elimination of tariffs in many industrial sectors.

We may not be as far apart as some observers may think. For example, India has proposed that by 2010 all peak tariffs be reduced to three times a country's average duty. In the case of the United Sates, our average duty is 2.6 percent; three times that amount would be 7.8 percent – which is very close to the 8 percent we have proposed.

Services

At present we may have a better near-term opportunity to work closely with India in the WTO for mutual gain in the services trade area. India, like the United States, has an enormous stake in global liberalization of services trade and should make its voice heard as an active proponent of services liberalization.

In addition to working together in the WTO the United States and India should explore ways to liberalize services trade between us. U.S. services providers would certainly welcome a more open and secure legal framework for the services they seek to provide India.   We could see whether the Indian services providers have similar concerns about the U.S. market. Expanding our bilateral services trade would be a good area to have the staffs from USTR and the Indian Commerce Ministry explore in upcoming consultations.

Service industries account for a large and growing share of total economic output in India. In fact, service sector GDP is the fastest- growing component of total GDP in India. During 1995-2001, Indian services exports increased at an average annual rate of 20 percent, much faster than the average annual growth rate of total world services exports (3.4 percent).

Trade in services has created a substantial number of jobs in India. For example, General Electric employs more than 15,000 people in India who provide services such as accounting and customer service to its offices throughout the world. Approximately

3,300 software engineers are employed by Hewlett-Packard Co. in India. In addition, as I have already noted, developed-country firms are increasingly outsourcing back-office and technology services from Indian firms, creating high-paying jobs in engineering, medical services, research and development, and other services fields.

The tremendous success of India's high-technology sector offers a potent argument for India's interest in an open trading system. India exported over $6 billion worth of software last year -- accounting for 13 percent of the country's total exports. Over the past five years, the annual growth rate for India's software exports has been 45 percent. And there's every reason to believe it will keep growing. The Software Engineering Institute at Carnegie Mellon University gives its "top quality" ranking to only 48 software companies in the world; nearly two-thirds of them are based in India.

The WTO services negotiations now under way in Geneva offer our two governments a unique opportunity to team up and obtain better access in third markets. We want to work with India's leaders to develop specific, targeted initiatives that help our services exporters and show leadership by our two countries so that the WTO remains relevant as trade in services evolves, including all ways of delivering services.

Improving market access for motion picture exports is of joint interest to both India and the United States, the world's two largest producers of motion pictures. The technology of the motion picture industry is such that nearly all the cost of making a film goes into the production of the first print. It is thus in the producer's interest to seek the widest possible market – both domestic and foreign – in order to maximize the return on this investment.

We also support India's ambitions to expand software and other IT services exports. We too have an interest in further developing export markets for these services and have proposed that we develop a specific, targeted initiative to help both our software and computer services exporters to gain access to third markets. This would demonstrate that India and the U.S. are playing a joint leadership role in the WTO in an area in which we have complementary commercial interests.

Investment

Now just a few comments on investment. Like our trade relationship, the investment relationship between the United States and India falls well short of its potential, to our mutual disadvantage.

When I speak of the potential of our investment relationship I am thinking of attributes of our two countries that should, in principle, provide a foundation for substantial bilateral capital flows. We have a common language. Our educational systems are comparable both in their approach and their quality, and we both produce large numbers of high-quality, technologically advanced graduates. We both have vibrant information technology sectors. And we both have continent- sized economies that are generously endowed with natural resources.

In recent years, as India has liberalized its investment policies, these natural affinities between our economies have begun to yield new investment opportunities. Taking advantage of our common language, U.S. firms are turning to Indian firms for help with software development, back-office data-processing functions, and other business applications. Indian and Indian-American entrepreneurs are launching and taking equity stakes in a number of U.S. high-tech ventures.

Yet bilateral investment flows between India and the United States remain small – relative both to the size of our economies and to the flow of investment between the United States and other countries in Asia.

India's relatively small stock of foreign direct investment is at least partly a legacy of an investment regime that Indian officials now acknowledge was too hostile to foreign capital. Many of the policies that discouraged investment in the past have been eliminated or modified in recent years.

But if India is to attract more U.S. investments, it will find that more must be done to liberalize its investment policies. I am confident that India's leadership is looking hard at the investment regime. Yet India's stance on investment-related issues in the WTO suggests that the country's leadership is not yet ready to take the steps and make the commitments that will make it an even more attractive destination for foreign capital.

India leads a group of developing countries that is advocating major revisions of the 1994 Agreement on Trade Related Investment Measures, or TRIMs Agreement, which prohibits the imposition of local-content and other performance requirements on foreign investors. The Indian proposals would permit the reimposition of performance requirements by developing countries, despite the fact that there is convincing evidence from the years prior to the TRIMs Agreement that performance requirements discourage foreign investment. The United States also opposes reopening a WTO agreement that has not only had less than a decade to operate, but was part of a carefully crafted bargain that concluded the Uruguay Round of global trade negotiations.

As many of you know, WTO members are also discussing the possibility of launching multilateral negotiations on investment at the next Ministerial, which will be held in Cancun later this year. The principal proponents of a WTO investment agreement are the EU and Japan, but the United States supports at least achieving meaningful commitments on transparency and non-discrimination. We believe multilateral investment and transparency disciplines will generate a substantial increase in global investment flows. And developing countries will benefit most from the increased circulation of private capital.

But in these discussions, too, India is leading the opposition. The Indians have thus far refused to pledge support for the launch of WTO investment negotiations in Cancun, and they have opposed even the most modest proposals for the scope of such negotiations.

In our view, a country like India – with a large and dynamic economy and a capable government – should be confidently embracing foreign investment and working to persuade other developing countries to liberalize their investment regimes and endorse multilateral investment disciplines.

In its bilateral investment treaties, India has made a number of non-discrimination and other commitments to investors from certain countries. It should not be too difficult for India to support the multiliteralization of commitments like these. And, finally, India and the United States even might explore in the future the possibility of negotiating a bilateral investment treaty.

Conclusion

There is a new spirit in U.S.-India relations, and I am hopeful that that spirit will be reflected in our bilateral trading relationship and in our respective approached to the WTO. We have a special role to play in leading global negotiations. The United States and India should leverage their dynamism to open minds and to open markets. Our policies must promote these global trends. We must take practical steps to move the world toward greater freedom and promotion of human rights by linking ourselves to the agents of global change: the new networks for free trade, information, investment and ideas.

The U.S. is excited about the possibility of forging a common trade agenda that benefits both our nations and the rest of the world – developing and developed alike. Expanded trade and commerce is not a zero-sum mercantilist calculation, but instead a “win-win” opportunity for our peoples, our countries and the global economy.

We will have occasional disputes, but the root of our relationship should be strong and healthy ... based upon the shared values that honor an individual’s right to economic, political and human freedom. And if together we tend to it properly, that root will spawn a century of prosperity and freedom unequaled in human history.