THE PRESIDENT'S EXPORT COUNCIL
WASHINGTON, D.C. 20230

June 7, 2007

The President of the United States
The White House
Washington, DC 20500

Dear Mr. President:

With a GDP of $786 billion in 2005 and a growth rate of over 8 percent, India presents a tremendous opportunity for U.S. exporters and investors. The U.S. economic relationship with India is growing steadily. In 2006, U.S. exports to India increased to $10 billion, a 26 percent increase from 2005. The total volume of trade between India and the United States exceeded $30 billion in 2006. U.S. foreign direct investment (FDI) in India totaled $8.5 billion in 2005 (making the United States the second largest foreign investor in India), while direct investment from India into the United States was $1.4 billion.

As U.S. Ambassador to India David Mulford has noted, "the United States and India are building the foundations of a historic partnership, and I am convinced that no other relationship will be more important in shaping the world in the 21st century. Our relationship with India is based on shared interests and shared values and touches a wide variety of areas. India is rising even faster than many expected. Economic growth remains consistently strong, new U.S. investment is coursing in, and our growing trade partnership is expanding at a rate that should double our overall bilateral trade in the next three years."

Concern over India's Pace of Reform

Despite overall growth in trade and investment in recent years, significant barriers-to-entry remain that discourage closer economic ties. High tariffs, restrictions on foreign direct investment, regulatory hurdles, weak intellectual property protection, and inadequate infrastructure development in India stand in the way of economic growth. India's integration with the world economy will require the dismantling of state controls, elimination of barriers to foreign investment, and the establishment of institutions to foster competitive markets. India's delay in implementing economic reforms threatens to slow foreign investment flows and the growth of U.S.-India trade.

In bilateral discussions, such as the U.S.-India Trade Policy Forum and the U.S.-India Commercial Dialogue, the Administration has an opportunity to advance various policy reforms to improve the trade and investment climate. India should also be encouraged to take a productive and responsible role in the WTO Doha Round. The PEC highlights the following issues as priorities:

Tariffs

Through high tariffs, the Government of India (GOI) prohibits the import of many goods and protects inefficient domestic companies from foreign competition. The World Bank's report on Trade Policies in South Asia: An Overview notes that India's simple average applied tariff rate was 22 percent in 2005 (40% average in agriculture), with some tariffs exceeding 100%, especially in agriculture. To build on the country's growth in areas such as information technology, India should lower its tariff barriers further in other sectors. The PEC recognizes that some tariff barriers will need to be addressed in the Doha Round multilateral negotiations, and notes that India has cut most non-agricultural tariffs unilaterally to 10 percent. However, more can be done in this area, especially with agricultural tariffs and a number of other "outliers."

Understanding that tariff reductions can face high political hurdles, the PEC recommends that the Administration encourage the GOI to take a two-step approach: 1) identify those tariffs that are causing the most harm to consumers and are least politically-sensitive domestically and place them on an immediate and aggressive tariff reduction path; and 2) design a transition process to enact tariff liberalization for politically-sensitive items over a reasonable period of time (e.g., 5-, 6- and 10-year phase-in periods).

Investment Restrictions

At present, foreign ownership is restricted in India in certain sectors such as agriculture, real estate, and retail trading. FDI is limited to minority stakes in banking, multi-branded retail, and insurance. These restrictions on FDI close off important sources of technological innovations and organizational efficiencies that are critical to a dynamic, growing economy. The removal of protectionist controls on investment would serve to improve the competitiveness of India's economy. It is also important for India to provide foreign investors with access to effective and expeditious dispute settlement, including access to international arbitration and enforcement of awards.

Regulatory Barriers

Non-tariff barriers to trade can be especially difficult to overcome for U.S. companies seeking to export goods and services to India. PEC members identify, in particular, the application of an additional customs duty (equivalent to an excise duty) on certain imported items based upon a Maximum Retail Price (MRP). A labeling requirement for the MRP results in imported products being less competitive with domestically-produced goods owing to the cost increase associated with the customs duty. A lack of transparency and fairness regarding regulatory licensing and permitting is also a challenge to businesses seeking a level of predictability and certainty under the law. For example, privately-owned companies must pay large fees for licenses to operate in certain telecommunications fields, whereas government-owned enterprises do not. The GOI should be encouraged to promote good governance practices and strengthen anti-corruption initiatives.

Intellectual Property Protection

India's weak enforcement of intellectual property rights is most clearly evident in large-scale copyright piracy. India is on the U.S. Government's Priority Watch List in the 2007 "Special 301" review of IPR protection, as piracy of copyrighted works, particularly for software, films, popular fiction works, textbooks, and cable signals, "remains rampant."

India needs to build a sound IP protection regime, especially to safeguard growth in its emerging medical, pharmaceutical, information technology and banking sectors.

Infrastructure Development

India's poor infrastructure is another major hurdle to increasing bilateral trade. For example, electrical generating capacity and distribution is woefully inadequate, with shortages, brownouts and unreliable supply affecting commercial enterprise. The highway grid is also inefficient and a literal roadblock to the movement of goods and services across the country. Moreover, in the food and agriculture industry, the cold storage chain is essentially non-existent and is constraining the advancement of the rural economy, which accounts for the majority of the Indian population.

At the third ministerial-level meeting of the U.S.-India Trade Policy Forum in June 2006, the United States and India agreed to initiate a Bilateral Infrastructure Investment Program. This program is to focus on identifying "investment opportunities ... in key infrastructure sectors, such as power, roads, airports and ports." The PEC encourages the continued development of this program, with engagement of the private sector on specific priorities.

The PEC applauds the Administration's leadership in advancing the U.S.-India civil nuclear cooperation agreement. Building on this agreement, there is a once-in-a-generation opportunity to shape a strong relationship with India that extends to the trade arena. Opening up protected markets in India, such as in the financial services and retail sectors, is critical to ensuring the continued growth of the Indian economy. Such reforms will help to hasten India's integration into the global economy and provide benefits to both Indian and U.S. exporters and investors.

As the U.S.-India economic relationship continues to develop, the PEC urges that continued attention be given to bilateral trade issues. India, the 10th largest economy in the world in terms of GDP, is a quickly growing market that poses many challenges and opportunities. Barring progress in the Doha Round multilateral trade negotiations, bilateral initiatives such as the U.S.-India Trade Policy Forum may provide the best opportunity to address trade and investment barriers that block economic growth. In particular, the PEC requests that Administration officials focus on issues such as India's infrastructure development, intellectual property protection, and the removal of tariff, regulatory and investment barriers in upcoming bilateral dialogues.

Sincerely,

J.W. Marriott, Jr.
Chairman