



Asia Pacific Bulletin

Prospects for US-India Economic Relations under Prime Minister Modi

BY PRAVAKAR SAHOO

India's newly elected Prime Minister Narendra Modi, when meeting with US Senator John McCain in the first week of July, "conveyed his desire to further deepen and expand the strategic partnership" between India and the United States. Subsequently, the recent visit by Secretary of State John Kerry to India to revitalize US-India relations, which have stagnated somewhat of late, is a much desired move. Apart from strategic issues, US policy makers believe that Modi's rightist Bharatiya Janata Party (BJP) is looking to accelerate commercial ties with the United States, and that policy will be dependent upon domestic Indian reforms, both economic and institutional.

Pravakar Sahoo, Associate Professor at the Institute of Economic Growth, New Delhi, explains that "The time is now ripe for US firms to do business in India, and Secretary Kerry's visit is good timing, but things will move only if outstanding issues are solved and trust at the highest level restored."

Acknowledging that in the past decade trade and investment ties have grown between the United States, the largest economy in the world, and India, the world's largest democracy, levels are still dismally low. To that end, there are high expectations from both sides that bilateral trade volumes will grow from the present \$100 billion to nearer \$500 billion over the next decade. However, that target is too ambitious. India ranked as the 11th goods trading partner for the United States in 2013, accounting for only 1.4 percent of US merchandise exports to the value of \$22 billion. In comparison, China was the second largest goods export market for the United States to the value of \$122 billion. As for cross-border investment, US foreign direct investment (FDI) to India was valued at \$28 billion in 2012 compared to \$51 billion to China. However, Indian outward FDI to the United States totaled \$5 billion in 2012, about the same as China's, and was centered on creating high value-added jobs within the IT and pharmaceutical industries. No wonder President Barack Obama has on more than one occasion acknowledged the important role of Indian owned enterprises in creating US jobs.

Major Reforms and Potential

The US-India Business Council (USIBC) has welcomed the Modi government's first budget, along with the economic reforms it included. The announced increases in FDI in the defense and insurance sectors present substantial commercial and investment opportunities for US firms and are considered to be a step in the right direction. As a Boeing representative said earlier this year, even with a 49 percent cap there would still be substantially more US investment in the Indian defense manufacturing sector. India's defense acquisitions from the United States continue to rise, and the scope for joint cooperation depends on the simplification of policies related to technology transfers.

Outstanding Issues

Despite the potential for increased bilateral trade and economic ties, a number of disagreements remain. Many in the United States are still upset at the failure of US companies to win an international bid to sell fighter jets to India in 2011. Recently, there have been concerns from US and other developed economies over punitive Indian retrospective tax measures, which Finance Minister Mr. Arun Jaitley has attempted to allay. Furthermore, there have been a number of retaliatory trade disputes at the World Trade Organization (WTO) concerning steel, work visas, and poultry products. Most recently, there is the public spat over the WTO Trade Facilitation Agreement, which India refused to sign unless concerns over post-



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2017 food subsidies and stock piling were met. This refusal has damaged the new government’s image somewhat and has isolated it, especially because—according to the US and many other countries—it has undermined the WTO’s credibility.

The United States has repeated concerns over tariff and non-tariff barriers, such as extensive investigations, valuation methodologies, excessive searches and seizures of US products destined for the Indian market. The Indian customs tariff structure is considered complex and opaque, and as for investment, the ongoing uncertainty over FDI in multi-brand retail is not helpful. India’s rigid stand on nuclear safety and domestic content requirements for its solar power program are other contentious issues.

Ongoing Negotiations

Despite these concerns, however, India and the United States continue to collaborate in the areas of civil nuclear energy, science and technology, defense, clean energy and education. This reflects the broad based nature of their bilateral relationship. Following Obama’s visit to India in 2010, Westinghouse and GE Hitachi signed a Memorandum of Understanding with the Nuclear Power Corporation of India Limited (NPCIL), followed by Westinghouse and NPCIL signing the first commercial pact in 2013, otherwise known as the early works agreement for six small nuclear reactors.

To foster clean energy cooperation, the US Department of Energy and the Indian Government have each committed \$25 million over five years to support work by the US-India Joint Clean Energy R&D Center. The potential to further cooperation and harness the technological capabilities to shift to non-thermal energy production in view of climate change is substantial, and has continued to develop since the US-India Energy Dialogue was launched in 2005. Education is also a crucial component for India-US cooperation. The ongoing Indo-US Higher Education Summits are working to research and development collaboration, nurturing partnerships in vocational education and embarking on junior faculty development. In addition, the Nehru-Fulbright Program continues to attract high ranking students to work and cooperate together. Today, Indians are the second largest cohort of international students in the United States.

Trade Policy Forum

The India-US Trade Policy Forum (TPF) was founded in 2005 with the goal of addressing issues affecting Indo-US trade and investment relations. Every year, the TPF meets to discuss the contentious issues of agriculture, innovation and creativity, investment, services, and tariff and non-tariff barriers. This dialogue has helped resolve controversial issues that have led to a substantial increase in two-way trade and to the doubling of US exports to India between 2005 and 2009. The TPF has not met since 2010, due to India’s policy paralysis and a series of public diplomatic spats, but it is set to meet this year to discuss outstanding trade and investment issues, including intellectual property rights. However, US-India commercial relations and Obama’s vision of a strategic partnership with India really depends on the Modi-Obama meeting scheduled for September.

Modi’s new government is determined to accelerate domestic economic growth. There are already initiatives for major reforms in FDI, finance, land acquisition, labor reforms, and hundreds of projects for infrastructure development and special economic zones. Many of these projects, which had been languishing for months, have now been cleared for implementation.

The time is now ripe for US firms to do business in India, and Secretary Kerry’s visit is good timing, but things will move only if outstanding issues are solved and trust at the highest level restored. A joint statement issued after Secretary Kerry met with Indian Foreign Minister Mrs. Sushma Swaraj stated that: “The two sides recognized that the decisive mandate provided by the Indian people to their new government provided a unique opportunity to re-energize this relationship. They expressed confidence that the summit meeting between PM Modi and President Obama in Washington DC in September would generate new dynamism in the relationship.” The time is now ripe for both sides to actively engage and move the US-India relationship closer to fuller fruition.

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