

Economic Relations With India

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Chairman Salmon, Ranking Member Sherman, and Members of the Subcommittee,

Thank you very much for the invitation to appear before you on U.S. economic ties with India. I am honored to be part of this distinguished panel. I shared in advance with the committee a recent Council on Foreign Relations (CFR) Independent Task Force report, for which I served as project director, that addresses many of the issues you wish to explore in some detail. I respectfully request that the report be submitted for the record. My testimony here draws extensively from the Task Force report’s findings and recommendations.

U.S.-India ties have been transformed over the past fifteen years, from what was termed for many years a relationship of “estrangement,” to one of strategic partnership. From our vantage point today, it is hard to remember what things were like even fifteen years ago, but among the most important differences was a very limited economic relationship. In the intervening years, India has experienced significant economic growth, U.S. businesses have increasingly seen India as an important part of their global strategies, and Indian businesses have increasingly looked to the United States as an investment destination and a market for their services. The large and growing Indian American community, now numbering nearly three million,

in recent years has reached the peaks of leadership in American companies, in elected office, in academia, and in so many other fields. The result of these developments has been a stronger support base across both countries for deepening ties.

The bilateral economic relationship has changed substantially. Many will remember former U.S. ambassador to India Robert D. Blackwill’s comment in 2002 that U.S.-India trade was “flat as a chapati.” I am happy to report it is no longer so flat. After several years hovering below the \$100 billion level, in 2014 two-way trade in goods and services crossed that threshold, and last year reached \$107 billion. The table below illustrates how two-way goods and services trade grew five-fold in the years from 2002 to 2014.

<i>U.S.-India Two-Way Trade in Goods and Services, 2002–2014</i>			
<i><u>Year</u></i>	<i><u>Two-way trade in goods</u></i>	<i><u>Two-way trade in services</u></i>	<i><u>Overall two-way trade</u></i>
2002	\$15,967	\$5,035	\$21,002
2003	\$18,131	\$5,799	\$23,930
2004	\$21,795	\$7,125	\$28,920
2005	\$26,910	\$9,970	\$36,880
2006	\$31,744	\$13,600	\$45,344
2007	\$39,281	\$18,603	\$57,884
2008	\$43,732	\$22,697	\$66,429
2009	\$37,816	\$22,199	\$60,015
2010	\$49,016	\$25,033	\$74,049
2011	\$57,994	\$29,156	\$87,150
2012	\$62,948	\$31,081	\$94,029
2013	\$64,174	\$32,917	\$97,091
2014	\$67,935	\$35,992	\$103,927
2015	\$66,660	\$40,934	\$107,594

*Source: U.S. Department of Commerce, Census Bureau, www.census.gov,
and Bureau of Economic Analysis, www.bea.gov, March 4, 2016 update.*

These growing commercial ties have drawn New Delhi and Washington closer together. In a speech last September, Secretary of Commerce Penny Pritzker noted that U.S. exports to India now “support more than 180,000 American jobs, and India’s exports to our country support roughly 365,000 Indian jobs. U.S. firms employ about 840,000 people in India, while Indian-owned companies employ nearly 44,000 people in our communities.”¹ This level of economic embeddedness is new, and beneficial to both countries. The U.S.-India Business Council has seen a significant uptick in its membership, now around 450 companies.

¹ Secretary of Commerce Penny Pritzker, “U.S. Secretary of Commerce Penny Pritzker Addresses U.S.-India Commercial and Economic Relationship at Carnegie Endowment for International Peace,” September 21, 2015.

U.S.-India defense trade has increased from approximately zero to around \$13 billion in the past decade.² U.S. technology industries have strong links with India, and entrepreneurship is increasingly a bridge between both countries. It is no accident that Indian Prime Minister Narendra Modi spent time during his second visit to the United States last September in Silicon Valley, speaking to a group of tech entrepreneurs at the launch of a private-sector “India-U.S. Startup Konnect” initiative.

At the same time, U.S.-India trade remains well below its potential—only a little more than one-tenth of U.S.-China trade in goods, and more on the scale of Taiwan or the Netherlands. Given India’s population and the potential size of its economy, a more ambitious target for trade between both countries should be the goal. The Obama administration has held out a target of \$500 billion for two-way U.S.-India trade as a vision statement, but the anticipated timeframe as well as the path to get there remains unelaborated. India and the United States also have differences over market access concerns; the United States recently received favorable decisions in two different disputes with India filed in the World Trade Organization (WTO), and India requested consultations with the United States in the WTO over visa issues for highly skilled workers. I do not intend to minimize these concerns, for they certainly exist, but I will focus my remarks on the future potential for this economic relationship in the longer term, as that is the strategic horizon we should bear in mind.

India’s Future Potential

According to International Monetary Fund (IMF) data, the Indian economy crossed the \$2 trillion threshold in 2014, using market exchange rates to measure gross domestic product (GDP). India is now among the top ten global economies. At market exchange rates, India was the world’s ninth largest economy in 2014, surpassing Russia. When using purchasing power parity (PPP) terms, a means of adjusting for the costs within economies to better compare them, India is the world’s third largest economy, surpassing Japan. India’s economic growth has come back from a dip during the 2011 to 2014 period, and is now growing at around 7.3 percent, which in 2015 made India the fastest-growing major economy in the world given China’s slowdown. India’s finance ministry declared its ambition to see the country’s economy reach \$5 trillion (again, at market exchange rates) by 2025.

The IMF estimates that India should see economic growth rates of around 7.5 percent out through 2020. As growth slows in other economies, this lifts India up relative to others. Using IMF staff estimates for the size of global economies in 2015, even using market exchange rates India moves up from the 2014 ranking to surpass Italy and Brazil, becoming the seventh largest economy in the world. This trend matters.

² Indian Ambassador to the United States Arun K. Singh, “India and U.S.: Shaping a Partnership of the 21st Century,” Speech at the University of Michigan, October 14, 2015.

Ten Largest Global Economies, GDP (current prices), 2014 data in USD billions

Rank	Country	2014
1	United States	17,348.08
2	China	10,356.51
3	Japan	4,602.37
4	Germany	3,874.44
5	United Kingdom	2,950.04
6	France	2,833.69
7	Brazil	2,346.58
8	Italy	2,147.74
9	India	2,051.23
10	Russia	1,860.60

Source: International Monetary Fund World Economic Outlook Database, October 2015.

Ten Largest Global Economies, GDP (PPP), 2014 data in USD billions

Rank	Country	2014
1	China	18,088.05
2	United States	17,348.08
3	India	7,411.09
4	Japan	4,767.16
5	Germany	3,748.09
6	Russia	3,576.84
7	Brazil	3,275.80
8	Indonesia	2,685.89
9	France	2,591.17
10	United Kingdom	2,569.22

Source: International Monetary Fund World Economic Outlook Database, October 2015.

IMF Staff Estimates: Ten Largest Global Economies, GDP (current prices), 2015 data in USD billions

Rank	Country	2015 est.
1	United States	17,968.20
2	China	11,384.76
3	Japan	4,116.24
4	Germany	3,371.00
5	United Kingdom	2,864.90
6	France	2,422.65
7	India	2,182.58
8	Italy	1,819.05
9	Brazil	1,799.61
10	Canada	1,572.78

Source: International Monetary Fund World Economic Outlook Database, October 2015.

India does not fare as well when looking at per capita GDP, however, reflecting the fact that the country remains home to hundreds of millions of poor. When looking at per capita income at market exchange rates, India's \$1,688 level ranks it at number 140 in the world, in the bottom third. Still, economic growth has lifted an estimated 133 million people out of extreme poverty and into low-income status over the 2001 to 2011 period.³ While estimates vary on the size of India's middle class, from a high of more than half a billion by 2025 in one study, to a low of a little more than thirty million people in another, the prospect for India's middle class to grow substantially in the coming decades is not in doubt.⁴ Indian leaders ideally would like to see higher growth rates in the 8 to 10 percent range to generate sufficient jobs for the country's fast-growing workforce age population, to reduce poverty, and to establish India firmly as a global economic leader. A strong economic base will allow India to continue on its path of rising global power, including by enabling its military modernization, making the country a bulwark of democracy and stability in an extended region from the Middle East to East Asia where both are not always in ample supply.

During the latter half of 2015, CFR sponsored an Independent Task Force on U.S.-India relations. One of

³ Rakesh Kochhar, "A Global Middle Class Is More Promise Than Reality: From 2001 to 2011, Nearly 700 Million Step Out of Poverty, but Most Only Barely," Pew Research Center, July 2015.

⁴ See Jonathan Ablett et al., "The 'Bird of Gold': The Rise of India's Consumer Market," McKinsey Global Institute, May 2007; Asian Development Bank, "Special Chapter: The Rise of Asia's Middle Class" in *Key Indicators for Asia and the Pacific 2010*, (Mandaluyong City, Philippines: Asia Development Bank, 2010); Christian Meyer and Nancy Birdsall, "New Estimates of India's Middle Class: Technical Note," Center for Global Development, November 2012; Kochhar, "A Global Middle Class Is More Promise Than Reality."

the Task Force’s findings, based on India’s economic performance, its potential, and its ambitions, was that **“if India can maintain its current growth rate, let alone attain sustained double digits, it has the potential over the next twenty to thirty years to follow China on the path to becoming another \$10 trillion economy.”** Few countries have such potential. Our Task Force further noted that **“This places India at a unique moment in which the right choices could propel it to far greater relevance for global GDP growth in the decades to come. Consequently, nothing is more important to India’s future success—across all facets of national power—than achieving sustained high levels of annual economic growth.”**⁵

India has its own political work to do to realize these ambitions. It will need to continue economic reforms to meet the sustained high growth rates the country needs to achieve a true transformation of the economy. It will need to keep opening itself further to the world, increase its global trade, make it easier to do business, develop a more significant manufacturing sector, and build a twenty-first century infrastructure that will facilitate increased commerce. None of this will be easy. An effort to reform labor laws, for example, widely seen as so onerous as to have prevented the development of large-scale manufacturing, does not have sufficient political support to pass in parliament, so the government has devolved labor law reform down to individual states. An effort to forge a national goods and services tax has been stymied in at least three sessions of parliament due to opposition protests over unrelated issues. These two examples show how difficult it is even for a government committed in principle to economic reform to gain the political support to do so.

The domestic political challenges to economic reform in India are challenges that the United States can do little about. These are choices for Indian citizens and their elected representatives to make. But we have a clear stake in India achieving its ambitions. As our Task Force observed, **“As the Indian economy grows, it has the potential to become increasingly indispensable for global prosperity—becoming an engine of growth for its region and its trading partners, and rising as a source of global investment.”**⁶

Indeed, just looking at the comparative IMF data over the decades illustrates precisely what this means. In PPP terms, India accounted for a little more than 3 percent of the world total GDP in 1985. That grew to 3.8 percent by 1995, and 4.8 percent by 2005. For 2015, the IMF estimates that India accounted for more than 7 percent of the world total GDP. India’s rising share illustrates the global pattern of emerging markets becoming an increasingly larger part of the world economy as they grow. Over time, if the Indian economy continues to grow fast, it will be a vital global economic force.

⁵ Charles R. Kaye, Joseph S. Nye, Jr., and Alyssa Ayres, “Working With a Rising India: A Joint Venture for the New Century,” Independent Task Force Report No. 73 (New York: Council on Foreign Relations Press, November 2015), 11, http://i.cfr.org/content/publications/attachments/TFR73_India.pdf.

⁶ Ibid., 15.

<i>Ten Largest Global Economies, GDP (PPP) Share of World Total (%)</i>								
<u>2015 Rank</u>	<u>Country</u>	<u>1985</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2005</u>	<u>2010</u>	<u>2015*</u>
1	China	3.408	4.149	5.974	7.498	9.858	13.959	17.241
2	United States	22.629	22.247	20.400	20.928	19.578	16.905	15.878
3	India	3.335	3.712	3.838	4.275	4.895	6.067	7.093
4	Japan	8.252	8.779	7.601	6.586	5.769	4.880	4.279
5	Germany	6.166	6.088	5.413	4.946	4.194	3.705	3.395
6	Russia	n/a	n/a	3.462	3.115	3.460	3.424	3.070
7	Brazil	4.055	3.735	3.490	3.226	3.066	3.167	2.835
8	Indonesia	1.587	1.922	2.262	1.950	2.028	2.264	2.508
9	United Kingdom	3.678	3.646	3.195	3.098	2.955	2.523	2.350
10	France	4.204	4.139	3.560	3.415	3.060	2.644	2.339

* estimates

Source: International Monetary Fund World Economic Outlook Database, October 2015.

Given the above observations about India’s fast-growing importance to the world economy in the aggregate, and to the U.S. economy as our specific national interest, the Task Force recommended that the United States “**elevate support for India’s economic growth and its reform process to the highest bilateral priority, committing to ambitious targets for bilateral economic ties along with clear steps to get there.**”⁷ I provide specific steps toward this goal drawn from our Task Force report, with some additional recommendations, in the “Recommendations for U.S. Policy” section below.

Among the most important, and one immediately actionable, is for the United States to take action and champion Indian membership in the Asia-Pacific Economic Cooperation (APEC) forum. India seeks membership and has been waiting for nearly twenty years. APEC membership would be a helpful step toward the possibility of considering Indian participation in an expanded Trans-Pacific Partnership (TPP) down the line, and APEC membership would include India in a range of peer consultations committed toward the shared goals of free and open trade and investment. APEC is not a binding negotiating forum, but rather a norm-setting organization with a commitment to transparency and continued work to further open trade goals. India would benefit from inclusion in ongoing consultation with Asia-Pacific peers on how the economic region can further trade.⁸

In January 2015, during his visit to India for Republic Day, President Barack Obama issued a joint vision statement with Prime Minister Modi on cooperation in the Asia Pacific and Indian Ocean; the vision statement noted that the United States “welcomes India’s interest in joining the Asia Pacific Economic

⁷ Ibid., 34.

⁸ For a longer discussion of India and APEC, see Alyssa Ayres, “Bringing India Inside the Asian Trade Tent,” Policy Innovation Memorandum No. 46 (New York: Council on Foreign Relations Press, June 2014), <http://www.cfr.org/india/bringing-india-inside-asian-trade-tent/p33173>.

Cooperation forum, as the Indian economy is a dynamic part of the Asian economy.”⁹ In the more than one year since that statement, the United States has taken no action on India’s interest in APEC.

A commonly expressed concern is that given India’s domestic protections in a variety of sectors, and given India’s demonstrated tough negotiation postures in the WTO, India may not be “ready” for APEC and may make it more difficult for this consensus-based organization to make decisions. Here, the fact that this is not a binding forum matters; it is a community of shared norms focused on greater openness. India is now Asia’s fastest-growing economy and a colossus in its own right; the benefits of including India in this consultative process should outweigh in strategic gains any potential losses to efficiency.

Preparing the United States for a More Global India

Given India’s trajectory of increasing prominence in the world and as an important American partner, we ought to prepare our own rising generations for that future. This is an economic preparedness issue for our own country. For nearly fifteen years I have been concerned about the underinvestment and insufficient attention India receives in U.S. higher education. American students do not study abroad in India at the levels one might expect given its role as a rising global power. Americans do not study Indian languages—and admittedly there are many—at the levels they do for Chinese, or even American Sign Language.

The ranking of top study abroad destinations tells an obvious story about the special relationship between the United States and the United Kingdom, but Italy, Spain, and France are not far behind. China has overtaken Germany as a destination. Nearly twice as many American students head to Costa Rica for an experience abroad than to India. Costa Rica is wonderful, but it is not a rising power like India.

<u>Rank</u>	<u>Country</u>	<u>Enrollments</u>
1	United Kingdom	38,250
2	Italy	31,166
3	Spain	26,949
4	France	17,597
5	China	13,763
6	Germany	10,377
7	Ireland	8,823
8	Costa Rica	8,578
9	Australia	8,369
10	Japan	5,978
11	South Africa	4,968
12	India	4,583

Source: Open Doors data, International Institute of Education, 2015.

⁹ The White House Office of the Press Secretary, “U.S.-India Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region,” January 25, 2015.

Language enrollment data is yet more dispiriting. Students in U.S. colleges and universities do not sign up for Indian languages at the levels they do for languages like Arabic, Chinese, or Korean. Neither geopolitical attention nor India’s economic rise spurred interest in Indian languages like Japanese, Chinese, and Korean have seen. India’s many languages make it harder to compare with each of these, but even when including all the Indian language enrollments in the United States combined, the number still doesn’t cross four thousand. Worse, in 2013 Indian language enrollments *dropped* to 3,090 from the 3,924 of 2009.¹⁰

<u>Language</u>	<u>Enrollments</u>	<u>Language</u>	<u>Enrollments</u>
Spanish	790,756	Latin	27,192
French	197,757	Russian	21,962
American Sign Language	109,577	Ancient Greek	12,917
German	86,700	Biblical Hebrew	12,551
Italian	71,285	Portuguese	12,415
Japanese	66,740	Korean	12,229
Chinese	61,055	Modern Hebrew	6,698
Arabic	32,286	<i>All Indian languages combined</i>	3,090

Source: *Enrollments in Languages Other Than English in United States Institutions of Higher Education*, Modern Language Association, 2013.

Enrollments for Hindi—broken out from the aggregate of all Indian languages—were only 1,800. This means that the total enrollments in all Indian languages combined account for less than one-quarter those of Korean, and a mere fraction of more commonly taught languages (14 percent of Russian, 9.5 percent of Arabic, or 5 percent of Chinese).

There are numerous other metrics to illustrate this same general point: that within U.S. higher education, India is not getting the attention that it deserves nor that commensurate with a rising global power. U.S. funding mechanisms through the Higher Education Act routinely prioritize numerous other regions, providing greater resources for East Asia, Latin America, Russia and Eastern Europe, the Middle East, and Africa than for South Asia. The Fulbright mechanism has increased exchange between the United States and India for postgraduate and faculty fellowships, as the Indian government now shares the costs (and indeed, now the name: these are now called Fulbright-Nehru fellowships). But as Americans we ought to review more closely the incentive mechanisms to encourage students during their formative undergraduate years to study abroad in India, study a language, and learn more about this important rising power.

¹⁰ Data from the Modern Language Association’s enrollments survey database, https://apps.mla.org/flsurvey_search. For the most recent MLA survey report, see David Goldberg, Dennis Looney, and Natalia Lusin, “Enrollments in Languages Other Than English in United States Institutions of Higher Education, Fall 2013,” *MLA Quadrennial Language Enrollments Survey* (New York: Modern Language Association, February 2015).

Recommendations for U.S. policy

- 1. Elevate support for India's economic growth to the highest bilateral priority for the U.S. agenda with India. Steps recommended by the CFR-sponsored Independent Task Force on U.S.-India Relations include**
 - leadership of a global diplomatic effort to support India's entry into APEC;
 - completion of a bilateral investment treaty;
 - high-level discussion of bilateral sectoral agreements, such as in services;
 - identification of a longer-term pathway to a free trade agreement or Indian membership in an expanded TPP as an equivalent;
 - creation of initiatives that respond to Indian interest in domestic reform needs, such as technical advice on market-based approaches to infrastructure financing; shared work with international financial institutions to reprioritize infrastructure financing; continued joint work on science and technology; technical cooperation on regulatory reform, bank restructuring, best practices in manufacturing, labor, supply chain, transportation, and vocational skills training;
 - continued emphasis on defense trade and technology.¹¹

- 2. As India becomes an increasingly central global economy, the United States should work more comprehensively to integrate India in global economic institutions.** APEC should be the highest priority, discussed above. There are other economic institutions in which India should become a member. India currently holds "key partner" status in the Organization for Economic Cooperation and Development (OECD), but it should become a member. This is one of the world's primary information-sharing mechanisms on global development, a conversation India has been participating in, but not as a full member. OECD membership would also open up the opportunity for Indian membership in the International Energy Agency (IEA). Again, India is a "key partner" of the IEA, but as India ranks among the world's top energy importers, it no longer makes sense for it to be outside this organization.

- 3. Prepare our next generation: Review federal funding incentives to encourage study abroad in India and study of Indian languages.** There are many ways this could be done in addition to the ongoing Higher Education Act funding incentives, which I recognize fall outside of the purview of the House Foreign Affairs Committee.
 - A relatively new initiative, Passport to India, designed to encourage American students to study or participate in service-learning internships in India, has not received the levels of support compared with a similar initiative focused on China, 100,000 Strong. Passport to India is administered by Ohio State University and the State Department.
 - Explore different mechanisms to incentivize study of India and Indian languages. The Boren national security fellowships offer one model, as they incentivize study of less commonly taught

¹¹ Kaye, Nye, Jr., and Ayres, "Working With a Rising India," 35–36.

languages.

- In 1983, Congress created the Title VIII authority to encourage study of Russia and Eastern Europe, administered by the State Department, so therefore offers another model. It is a supplemental authority to the programs supported under the Higher Education Act.