

**Prepared Remarks of Daniel Twining
Senior Fellow for Asia
The German Marshall Fund of the United States
Before the House Ways and Means Committee's Trade Subcommittee
March 13, 2013**

Mr. Chairman and Members of the Subcommittee, I am honored to appear before you today to discuss the trade and investment relationship between the United States and India.

Within the next few decades, India will become one of America's most vital partners in world affairs. It will bring more capabilities to the table than any existing U.S. ally in pursuit of our convergent interests: defeating terrorism and extremism, managing China's rise, keeping open the Indian Ocean sea lanes, and sustaining a liberal international order. India is still casting off its legacies of state socialism and non-alignment. But the ongoing urbanization and generational transformation of India is likely to produce a politics driven by middle-class support for market liberalization and close cooperation with the United States in world affairs.

India is a vibrant democracy that will soon be the world's most populous country. Despite disappointing economic growth recently, India's economy has doubled in size in less than seven years. It is likely to have the world's third largest economy within a decade. The U.S. National Intelligence Council forecasts that, by 2030, India will become the biggest driver of middle-class growth on Earth and will surpass China in economic dynamism. The NIC also forecasts that India could be the world's largest economy by the end of this century. This is a country that America will want to work with closely to sustain an open global economy and a liberal international order that promotes the prosperity and security of all free societies – starting with our own.

Given our convergent interests, the United States has a compelling national interest in India's economic and geopolitical rise. It will increasingly be an important market for American exporters of goods and services as companies pursue a "China-plus-one" strategy that hedges against the high risk of investing in an authoritarian state governed by a small clique of unaccountable men and riddled with corruption. A growing number of Indian firms are investing in the United States, bringing capital and creating jobs in this country – a phenomenon that should accelerate as India becomes richer and more of its companies become world-beaters. Joint collaborations between the Indian and American private sectors combine India's rich human capital with U.S. strengths in high technology. Both our countries are "knowledge

powers” whose complementary comparative advantages bode well for collaboration along the innovation frontier in IT, medical research, energy technologies, and other areas.

From a strategic perspective, a prosperous, rising, democratic India will provide ballast to an international system that otherwise risks tilting dangerously in the direction of Chinese-style state capitalism. India’s success should make it a more confident and engaged partner to the United States in helping to build free societies in the wider Middle East, shape an Asian balance of power and values that remains hospitable to American leadership, and sustain a liberal bias in international organizations. India has many more reforms to implement to generate the pace and scale of growth that will make it a world power, but it has already taken enormous strides since it first opened up its economy in the early 1990s. America’s interest lies in continuing to encourage India to realize its extraordinary economic potential.

This is where a more robust trade and investment relationship factors in. The U.S.-India economic relationship is strangely underdeveloped. When Bob Blackwill assumed the role of U.S. Ambassador to India in 2001, he famously said that U.S.-India economic ties were “flat as a *chappati*.” Over the past decade, defense and energy cooperation have been the drivers of U.S.-India cooperation. We signed a far-reaching defense agreement in 2005; forged a civilian-nuclear deal that brought India into the global regime for civilian nuclear energy trade in 2008; sold India as much as \$10 billion in military hardware; and ramped up military exchanges to the point that, by 2012, the Indian military exercised more with American forces than those of any other country. These are significant accomplishments that have transformed U.S.-India relations from the days when we were on opposite sides of the Cold War divide – and even from the 1990s, when we feuded over India’s nuclear activities and heavily sanctioned it in ways that set back its economic development. We now need our economic relationship to catch up to the historic progress of our diplomatic and security cooperation.

There is some good news: the United States is India’s top economic partner measured in trade in goods and services (China is India’s top trading partner in goods alone). Since 2001, U.S.-India trade has doubled every five years and is approaching the \$100 billion mark. This represents progress. But it remains a relatively low number: U.S. GDP is \$16 trillion, and India’s is \$2 trillion and growing fast. Our economic relationship is far below scale given the size of our markets, their natural complementarities, and India’s desperate need for the kinds of capital, technology, advanced manufactured goods, and services the United States is in a singular position to offer. U.S. trade with India is only one-seventh of our trade with China, despite the fact that one country is a strategic partner and the other a strategic competitor.

Regrettably, the biggest trade initiatives of the Obama administration – KORUS, the Trans-Pacific Partnership, and the Transatlantic Trade and Investment Partnership – do not include India. For its part, India has enacted or is negotiating trade agreements with Japan, the European Union, ASEAN, and a range of other partners – but not the United States. Preferential trade agreements with other big markets tilt the playing field against U.S. companies, even as the Indian private sector remains keen on closer collaboration with American firms.

The primary trade-and-investment initiative between our countries has been a modest Bilateral Investment Treaty (BIT), which remains in draft form with enactment uncertain. This rather unambitious initiative was inexplicably stuck in the U.S. bureaucracy for several years. Then late last year, just when Washington was finally ready to move, India launched its own review of a model BIT. The initiative is now stuck in the bowels of the Indian bureaucracy. So we don't even have an investment framework agreement between these two big economies, much less a pathway towards a more comprehensive free trade agreement.

A fundamental problem in the trade and investment relationship between the United States and India is that we have not been sufficiently ambitious. As we saw with the breakthrough in U.S.-India ties during the Bush administration, the best way to elevate the relationship above our feuding bureaucracies is to set out a compelling aspirational goal – backed and driven by the top political leadership of both countries -- who then empower our government institutions to deliver on a big political vision.

A modest Bilateral Investment Treaty is not a sufficiently ambitious goal. Indian negotiators continue to skirmish with their American counterparts not only in bilateral channels, but in multilateral bodies like the World Trade Organization, where the United States and India have lodged various cases against each other. Rather than bilateral trade and investment being greater than the sum of its parts, too frequently trade ties have degenerated into narrow disputes over things like pistachio nuts and chickens that have occupied even top political leaders. This is no way to build a strategic economic relationship between the world's largest democracies.

Not only is India excluded from the Obama administration's signature trade initiatives; it is also excluded from APEC, which brings together many of the key economies across the Pacific. India applied for APEC membership all the way back in 1991, but Washington eventually backed a decade-long moratorium on membership designed partly to exclude India.

That moratorium has expired. Although India is part of Asia's security architecture, it is not a part of Asia's economic architecture. This disjuncture makes little sense for a country that sits in the middle of Asia, is an important partner to countries like American and Japan, and has an economy that, according to the OECD, could comprise nearly 20% of global GDP by 2060.

To elevate our economic relations to the strategic level in a way that organizes our bureaucracies to cooperate on a big vision rather than continuing to clash over micro conflicts, the United States and India should launch negotiations for a free trade agreement. India will necessarily be compelled to undertake a substantial set of domestic economic reforms to qualify for the kind of high-quality FTA Americans prefer. New Delhi might find it easier to undertake those reforms if it can do so as part of the process of acceding to APEC.

This process will take time, but the requirements of membership could incentivize an Indian system wary of the political costs of reform to pursue aggressive liberalization of trade, investment, and regulatory restrictions. The prize of APEC membership coupled with an eventual FTA with the United States could empower the substantial cadre of economic reformers within the Indian system. It could also help mobilize the Indian private sector, which is fed up with the slow pace of reform in India -- and would be empowered by the potential prizes of a U.S. FTA and APEC membership to step up its lobbying campaign for liberalization.

Skeptics, starting with American trade negotiators, will rightly argue that Indian officials have been among the most obstreperous opponents of the U.S. trade agenda in bilateral settings and in venues like the WTO. This is a tactical perspective that rings true. However, stepping back and looking strategically at India's deepening involvement in international institutions, we see that India behaves very differently once it is inside a club than when it is excluded from it. Rather than throwing bombs from the outside, India acts more responsibly as an insider -- in part because Indians crave the status of full membership in an international order they believe excluded them for too long, and once seated at the high table are more inclined to help enforce global rules rather than undercutting them to protest Indian exclusion.

In the International Atomic Energy Agency, India has voted with the United States five times to sanction Iran for its illicit development of nuclear weapons. New Delhi would have been unlikely to have done so had the United States not worked to normalize India's status as a member of the international club that trades in civilian-nuclear technology. Indeed, in addition to membership in the IAEA, India now aspires to join institutions like the Nuclear Suppliers

Group, the Missile Technology Control Regime, the Wassenaar Arrangement, and the Australia Group – the very clubs that once excluded and sanctioned it. It wants to help make global rules rather than be powerlessly subject to them.

Similarly, India is excluded from permanent membership on the United Nations Security Council, a long-standing grievance for the world's second-most-populous country. However, it recently completed a two-year rotation as a UNSC member in which it behaved as a responsible power rather than an obstructionist one from a U.S. perspective. In the UN Human Rights Council, India has also behaved more responsibly, for example supporting resolutions condemning human rights violations in Sri Lanka. This is not to say that the United States and India always agree in international forums – we do not. But the record suggests that when India is brought in as an equal member, it can be a responsible partner that looks beyond narrow self-interest.

The same would likely hold true should India accede to APEC. At the first East Asia Summit in 2005, India's representative actually proposed an all-Asia free trade agreement. India's active or pending trade agreements with the European Union, Japan, ASEAN, and others suggest an ambition to organize preferential trade agreements with major world economies. An India-U.S. FTA would be an aspirational goal that would take many years, and much reform on the Indian side, to realize. But it would fill out the lack of an institutionalized economic framework for India-U.S. trade and investment relations and would be a prize that could well induce Indian leaders to take hard decisions on reforms. To further incentivize Indian leaders to liberalize key economic sectors of interest to American companies, it would be helpful for the U.S. Congress to liberalize visa rules for high-tech workers, who disproportionately hail from India and whose talents have enriched the American economy.

America has a lot of politics that stymie necessary reforms; so does India. The gap between India's actual and potential growth is enormous, given its stage of development, rich human capital, and a supportive international environment. India needs to grow in order to underwrite its security in a very tough neighborhood, particularly given the continuing export of terrorism from Pakistan and China's enormous leap forward in military modernization.

India needs to grow very fast for a very long time to permanently lift hundreds of millions of people who live on less than \$2 a day out of poverty. Growth rates that have dipped from 10 % to 5% are morally troubling in a society with more poor people than all of sub-

Saharan Africa. The Indian government has implemented massive rural welfare schemes, but government welfare projects cannot build the world's largest middle class. Only a dynamic private sector can do that.

Former Indian executive Gurcharan Das argues that “India grows at night” – when the government is asleep and the private sector can go about its business. Indeed, India's economy seems to grow despite, rather than because of, government policies, which remain stifling to private enterprise. India has made some progress, liberalizing foreign investment in aviation and multi-brand retail last year. India's 2014 elections will be in part a referendum on the government's economic management, with potential prime ministerial contenders like Narendra Modi and Nitish Kumar flaunting the economic competence with which they have managed their states to rally electoral support.

India's electorate is also evolving. Most Indian voters still live in rural villages, but a growing aspirational class in the cities supports a reformist agenda that actively seeks to grow India's economic pie rather than simply redistributing it. As this “politics of aspiration” replaces what the Indian intellectual Shekhar Gupta calls the old “politics of grievance,” Indian political leaders will find that their voters demand more economic liberalization to invigorate a private sector that will soon employ the world's largest workforce.

This will be a multi-generational endeavor. The United States can help speed it along by incentivizing our Indian partners to continue to open up the economy to the international trade and investment that, alongside domestic demand in what will become the world's largest consumer market, will produce economic growth rates approaching 10% on a long-term basis. This is the kind of growth India enjoyed in the first decade of this century. We've seen China grow at this pace for several decades, just as Japan, South Korea, and the other “Asian tigers” did before it. There is no cultural or historical reason India cannot deliver a “South Asian miracle” to accompany the “East Asian miracle” that has transformed the Pacific rim.

In considering how to seed economic growth through foreign investment, technology imports, infrastructure development, foreign trade, and investment in human capital, India will find that it has no stronger partner than the United States. It's time to put in place an agenda for economic cooperation that mirrors the ambitions of our strategic partnership and catalyzes enduring prosperity for Americans and Indians alike.