No. 733

March 29, 2001

TIME FOR EXPANDED TRADE RELATIONS WITH INDIA

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A massive population and rapidly developing economy make India the world's largest untapped market for American goods and services. If its ongoing transition from a socialist-style command economy to a free market comes to fruition, India will become even more attractive as a destination for investors. India's effort to liberalize its economy began in 1991 and was greatly accelerated after India joined the World Trade Organization (WTO) four years later. However, with WTO multilateral negotiations currently ensnared by labor and environmental issues, India's reform efforts have proceeded at a slower pace than would be possible with a bilateral trade arrangement.

The ruling Bharatiya Janata Party (BJP) has expressed its desire to encourage further economic development in India by reducing trade barriers and encouraging foreign, particularly American, investment. The Clinton Administration failed to take advantage of this willingness by insisting on unrealistic labor and environmental standards and by relying solely on WTO mechanisms to reduce India's barriers to trade. The multilateral process, under which agreements are reached at the lowest common level, lags far behind what could be accomplished bilaterally. If the BJP is indeed willing to make unilateral tariff reductions, the Bush Administration should seize the opportunity to expand trade with India and reduce its tariffs by negotiating a comprehensive bilateral trade agreement.

Dismantling India's Protectionist Regime. Despite years of reform, India maintains the highest tariff barriers in the noncommunist world, with average rates at nearly 30 percent. The Heritage Foundation/Wall Street Journal *2001 Index of Economic Freedom* ranks India in the bottom quintile of its 161-country survey, categorizing India's economy as "mostly unfree." The BJP recognizes the need to open India's markets to foreign business but is characteristically long on rhetoric and short on results. There are numerous areas in which trade barriers could be eliminated—for example, in goods not manufactured locally—without harm to protected indigenous industries. India, for example, maintains a high tariff on mobile phone imports even though there are no domestic producers of those products. Consequently, an estimated one-third to one-half of all mobile phones in India are purchased on the black market. This not only deprives the government of much-needed tax revenue, but also undercuts legitimate business opportunities.

Produced by the
Asian Studies Center

Published by
The Heritage Foundation
214 Massachusetts Ave., N.E.
Washington, D.C.
20002–4999
(202) 546-4400
http://www.heritage.org

This paper, in its entirety, can be found at: *www.heritage.org/library/execmemo/em733.html*

In the service sector, India's foreign equity caps

are a disincentive to American investment. American insurance companies are eager to enter India's virtually vacant market, but New Delhi requires them to form joint ventures with local firms and limit their investment to 26 percent. Because of a 45-year government monopoly on insurance, only a few Indian firms are experienced enough to enter a joint venture with an American insurance company. Even fewer possess the financial wherewithal to provide the 74 percent investment necessary to start a new business. If an agreement could be reached to lift the foreign equity cap, more American investors would be able to enter the market, providing better insurance coverage for Indians in the process.

Technology: A Common Border. The technology sector is one of the least regulated in India and offers the greatest opportunity for U.S. investment. The wage demands of India's large computer-literate, English-speaking workforce are below the global average. Lucent Technologies reports that approximately 280,000 Indians are employed in the information technology (IT) sector, making it the world's second largest IT workforce. This sector generated $4 billion in trade last year, and India hopes to expand IT exports to $50 billion annually by 2008. U.S. companies are only beginning to take advantage of this skilled labor force.

The latest innovation in this field is a sophisticated form of international telecommuting. Growing numbers of Indians are working as customer service representatives, software developers, and Web site designers on projects for foreign companies from offices in India. The development of high-capacity digital telephone lines, for instance, makes it possible for American companies to have call centers in India that cater to inquiries from customers in the United States. The New York-based consulting firm of McKinsey & Company expects that by 2008, such services will create 800,000 new jobs and $17 billion in revenue for India while drastically reducing overhead costs for U.S. companies. This sector should be cultivated, not restricted by U.S. regulators.

Technology transfer between the United States and India is an inevitable result of a more open commercial environment. Therefore, some boundaries must be established to protect dual-use technologies. India has made it clear that it aspires to be a nuclear power capable of deterring aggression from rivals such as Pakistan and China. The sharing of technology between the United States and India—specifically, technology with both civilian and military (dual-use) applications—should be regulated in light of these nuclear ambitions.

Nevertheless, India is not a security threat to the United States. While the United States should not transfer technology that would help India improve its nuclear and missile programs, technology transfer restrictions imposed on India should not exceed those imposed on other friendly countries to ensure that national security is not compromised.

What to Do Next. Although no substantive agreements were made during President Bill Clinton's trip to India last year, his visit generated a lot of goodwill. Many Indians now see the United States as a potential friend rather than as a cultural hegemon. President George W. Bush has an historic opportunity to build on that goodwill to create a more meaningful partnership.

If India is willing to lower its prohibitive tariff regime to demonstrate its commitment to trade liberalization, Washington should initiate negotiations for further reductions under a comprehensive bilateral trade agreement. The agreement should build on the existing WTO framework but advance bilateral trade beyond the limits imposed by the multilateral process. While opening up the floodgates to trade could result in protracted negotiations, striking an enduring trade relationship between the world's two largest democracies is a grand opportunity for American diplomacy.

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