

## U.S.-INDIA INSIGHT



“Unlocking the full potential  
of the U.S.-India relationship”

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Reigniting the U.S.-India Economic  
Relationship: A New Framework

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On the heels of reelection this month, President Barack Obama and top members of his administration embarked on a landmark trip across Asia—including stops in Thailand, Burma, and Cambodia—to underscore the United States’ commitment to “rebalancing” its position in the Asia-Pacific region. While this trip focused largely on East and Southeast Asia, the president and Indian prime minister Manmohan Singh met briefly on the sidelines of the East Asia Summit in Phnom Penh where Obama affirmed to Singh, “India is a big part of my plan,” during the second term.

Indeed, during his first term, President Obama declared the U.S.-India relationship “a defining partnership of the 21st century,” and the administration characterized India as a “regional economic anchor and provider of security in the broader Indian Ocean region.” Now, it is up to Obama II to continue working toward this vision by reigniting the key foundational element of this partnership, namely U.S.-India trade and commercial ties.

## Why “Reignite” the Economic Relationship?

As the world’s second-most populous country and on track to become the world’s third-largest economy, India will be important ballast to the U.S. “rebalancing” strategy, and bilateral economic relations will yield substantial growth opportunities for both nations. As Deputy Secretary of State William Burns recently put it, “America’s and India’s long-term economic interests are essentially congruent and mutually reinforcing...Each of us is eager to put to rest questions about our economic staying power...We can and must help each other grow, and prove our doubters wrong.”

Total bilateral trade reached \$86 billion in 2011 and is expected to exceed \$100 billion in 2012. However, as India increasingly diversifies its portfolio of trading partners, the U.S. share of global trade and investment with India is falling. Other nations are pushing ahead on their economic engagement with India. Today, India has investment agreements with upward of 80 countries, including all major European nations, the Association of Southeast Asian Nations (ASEAN), Japan, and South Korea. A comprehensive free trade agreement with Canada could conclude by 2013. Over the next four years the United States should step up its efforts to solidify its economic partnership with India lest it cede ground to India’s other trading partners and fall short of realizing the full potential of a truly “defining partnership.”

Here’s Your Degree,  
Now Go Home?

In this year’s just-released *Foreign Policy* list of the Top 100 Global Thinkers, Vivek Wadhwa is listed “for a fresh idea in the U.S. immigration debate,” namely a “start-up visa.” His recent study highlights the fact that because of arcane U.S. immigration policy, highly skilled immigrant entrepreneurs are no longer heading to Silicon Valley, and the immigrant entrepreneurship that is so much a part of the American fabric, has stalled. They’re heading to other countries who welcome their innovations, ideas, and investments, only to compete with the U.S.

Countless cases exist to highlight how current laws have served to stifle the entry of the invaluable human capital from around the world, including India. Now, there is a clamor for change. The U.S. immigration system is broken, decision-makers of all stripes agree. The last substantial reform to policy—The Immigration Reform and Control Act—took place more than two decades ago. Fast-forward 26 years to today, and the U.S. economy looks markedly different; the composition is weighted far more towards the service industry and less on traditional manufacturing. Demand for high-skilled human capital is unmet by supply.

Indians and Indian Americans are key contributors to the type of economy that the U.S. must cultivate in order to compete in the 21<sup>st</sup> century. They make an outsized contribution to the U.S. economy, specifically in the realm of STEM fields—the primary source for innovation and growth. Indian immigrants start 32% of all immigrant-founded start-ups, 14% of all start-ups in Silicon Valley, and 8% of all tech or engineering start-ups in the U.S.

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## A “New Framework for U.S.-India Economic Cooperation”

The overall U.S.-India strategic partnership is moving toward a state of “normalization,” as both nations’ political establishments and bureaucracies become more accustomed to working with each other. But there is a need for better coordination and collaboration on practical matters of mutual, long-term economic interest. Therefore, the second Obama administration should reignite bilateral economic and trade relations with an ambitious 10-year “New Framework for U.S.-India Economic Cooperation” and quickly get down to the practical work of deepening and consolidating the relationship.

Such a framework would be analogous to the breakthrough 2005 “New Framework for the U.S.-India Defense Relationship,” serving as an organizing principle for bilateral discussions and negotiations at the highest levels. It should be issued as a joint statement at the next meeting of the Strategic Dialogue in 2013. Like its defense cooperation counterpart, this long-term economic framework would establish a detailed and expansive partnership agenda, to include:

- Completing a high-standard Bilateral Investment Treaty (BIT)

At the 2012 U.S.-India Strategic Dialogue, Secretary of State Hillary Clinton and her Indian counterpart, External Affairs Minister S.M. Krishna, called for an “expeditious conclusion” to the negotiation of a high-standard BIT. A BIT would reframe bilateral trade and investment relations and serve as a stepping stone to larger agreements. A high-standard BIT, negotiated on the basis of the 2012 U.S. model BIT, would include important protections for both U.S. and Indian investors, including strong investment protections, meaningful market-access (“pre-establishment”) commitments, and a robust investor-state dispute settlement mechanism.

- Prioritizing the Infrastructure Debt Fund

India plans to invest \$1 trillion in the next five years to better equip itself with fundamental infrastructure needed to support a twenty-first century economy. Originally created by the U.S.-India CEO Forum, the Infrastructure Debt Fund is a consortium of Indian and American firms and financial institutions seeking to finance the massive investment needed in India’s roads, grids, seaports, and airports.

- Moving ahead with individual sectoral agreements

While achievement of a free trade agreement (FTA) will be difficult, pursuing liberalization on a sectoral basis can make more immediate progress. The United States and India should work together to identify specific sectors where lowering tariff and nontariff barriers are politically palatable and mutually beneficial. Priority should be given to successful implementation of announced liberalization in multi-brand retailing and the food sector, civil aviation, broadcasting, and power trading exchanges. Sectors might include information technology (IT) services, chemicals, energy, and education.

They bring a level of human capital (measured by college degree) that surpasses other immigrant classes, and the American population as a whole. On average, over 80% of Indian immigrants possess a college degree versus 28% for the general U.S. population. They also possess a median household income well above the national average. All these figures suggest that Indian immigrants are a source of valuable and necessary human capital, and also provide valuable tax revenue to cash-strapped national, state, and local governments.

With a renewed mandate for good governance, decision-makers in both parties have finally recognized the urgency of reform. In a press conference a week after President Obama’s election, he stated, “...I am a believer that if you’ve got a PhD in physics or computer science who wants to stay here and start a business here, we shouldn’t make it harder for him to stay here; we should try to encourage him to contribute to this society.” Comprehensive immigration reform, to include vital high-skilled labor, is well past due. A prudently crafted immigration policy would go a long way in signaling that the U.S. is open for business and ready to welcome the skills, talents, and entrepreneurial spirit essential to U.S. economic competitiveness in the 21<sup>st</sup> century.

—Niraj Patel

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- Pursuing regulatory reforms

India is slowly pursuing a number of recently announced economic reforms. A separate but parallel approach by the United States to work with Indian leaders to shape appropriate regulatory reforms that promote government transparency, assist with anticorruption efforts, and create a more enabling environment would be worthwhile. A regulatory reform initiative would be the logical extension of an agreement on BIT Articles 10 and 11 (transparency) provisions and could be modeled on the 2010 U.S.-Japan Economic Harmonization Initiative (EHI). The EHI has been effective at focusing attention on a range of “behind-the-border” issues such as IT, intellectual property, insurance, transportation, and agricultural regulation.

- Improving movement of high-skill professionals (see sidebar)

Free movement of professionals allows for greater business-to-business interactions, ensures that companies can effectively operate their overseas investments, and facilitates smoother trade in goods and services. While the model BIT’s provisions on free choices of senior managers would be a first step, the United States is losing out to other countries that provide knowledge, business, and innovation hubs, with appealing tax regimes and easier visa structures. As U.S.-India trade in services increases, it only makes sense for professionals and project teams to move between the two countries more freely.

In addition, as the U.S.-India Business Council (USIBC) and the Confederation of Indian Industries (CII) have proposed, a goal of achieving \$500 billion in annual bilateral trade by 2020 should be established. Taken together, it is conceivable that these goals might culminate—over the longer term—in a full-fledged free trade agreement.

### A “Full Embrace of India”

In a recent address at CSIS, National Security Adviser Thomas Donilon called attention to the Obama administration’s “full embrace of India’s rise...and its rise as a partner” for the United States. But, as Deputy Secretary Burns has stated, “Further progress is neither automatic nor pre-ordained. Keeping a partnership on track between two proud, noisy democracies takes vision and steady commitment.” The overall bilateral strategic partnership made important progress under the first Obama administration. During the second, the administration can demonstrate this “vision and steady commitment” by pursuing a “New Framework for Economic Cooperation” that will set two of the twenty-first century’s foremost economic giants on a course toward a truly “defining partnership.”

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