



OCTOBER 2010

WORKING PAPER

U.S.-India Initiative Series

The Strategic Implications of Indo-U.S. Private-Sector Ties

By Rajiv Kumar



**Center for a
New American
Security**

About the U.S.-India Initiative Series

This paper is one of a series commissioned in conjunction with a major Center for a New American Security (CNAS) study on the future of the U.S.-India relationship. The study, co-chaired by former Deputy Secretary of State Richard L. Armitage and former Under Secretary of State for Political Affairs R. Nicholas Burns, and directed by CNAS Senior Fellow Richard Fontaine, has produced a comprehensive blueprint for the next phase of the U.S.-India strategic relationship. The full text of the final report can be found at www.cnas.org.

Acknowledgments

I would like to thank Mansi Kedia and Subhasis Bera for their assistance in preparing this paper, Rick Inderfurth and an anonymous reviewer for providing comments on it, and Kristin Lord for her editing assistance.

OCTOBER 2010

U.S.-India Initiative Series

The Strategic Implications of Indo-U.S. Private-Sector Ties

By Rajiv Kumar

About the Author

Rajiv Kumar is the Director General of the Federation of Indian Chambers of Commerce and Industry.

The Indo-U.S. relationship is multifaceted and extends well beyond traditional intergovernmental interaction. Three different components of this relationship – people-to-people ties, business-to-business relations and government-to-government interaction – have had independent trajectories in the past but may now be converging. The increased volume of activity in each of these realms is producing a strategic effect that is greater than the sum of its parts. This paper focuses on private sector ties, both business-to-business and people-to-people, and suggests ways in which they can play a useful role in strengthening Indo-U.S. relations.

Growing Private Sector Ties

People-to-people relations date to pre-independence India, when the U.S. public and its government provided widespread support to the Indian national movement. This relationship burgeoned after India achieved independence in 1948, with large-scale emigration from India to the United States and significant aid flows and experts coming from the United States. Following independence, the migration of Indian professionals continued unabated over the next several decades. A marked cooling of official relations during the 1970s and 1980s produced a decline in official U.S. contacts and aid flows from the United States to India. Despite the ups and downs of official Indo-U.S. relations, however, the migration of professionals and students from India to the United States has remained steady over the last half century. Today approximately 2.8 million persons of Indian origin reside in the United States. The majority of these individuals are highly skilled and professionally trained.¹ They constitute

the wealthiest minority group in the United States and are increasingly visible in top professional positions, business ventures and, more recently, the political arena. Additionally, in 2008–09 more than 100,000 Indians were studying at U.S. universities.²

Indo-U.S. business-to-business relations involve trading companies, joint venture firms and technology partners. Typically, Indian firms have depended more on their U.S. counterparts than vice versa. This asymmetric relationship, codified in the special and differential treatment that India received under the General Agreement on Tariffs and Trade framework and the Generalized System of Preferences, allowed Indian merchandise exporters preferential access to the U.S. market. This framework effectively avoided mandated reciprocity in bilateral commercial relations, an issue that the U.S. government is seeking to correct in the Doha round of trade negotiations. The lack of reciprocity is perhaps best reflected in India's persistent trade surplus with the United States over the last several decades, although the imbalance has recently begun to shift. The composition of the goods being traded, however, has essentially remained unchanged, as has the number and nature of the participants. In addition, the declining U.S. share of Indian exports reflects a lack of robustness in the trade relationship (see Table 1). A marked asymmetry characterizes Indo-U.S. joint ventures and technology partnerships as well, with U.S. firms invariably in the role of capital suppliers.³

To improve bilateral trade relations, India and the United States will need to develop measures that can address the problems with their current approach, which tends to focus on the short term. Starting in the 1980s, for example, the United States adopted a long-term strategic approach toward China that is more conducive to building a closer trade relationship and taking economic interaction to a qualitatively higher level. A similar approach could prove beneficial to both the United States and India.

**TABLE 1: DESTINATION OF INDIA'S MERCHANDISE EXPORTS
(BY PERCENTAGE OF TOTAL EXPORTS)**

REGION	1992	1995	2000	2006	2007	2008	2009
Africa	1.91%	2.73%	3.54%	4.71%	5.85%	6.31%	5.56%
Asia	10.84%	15.38%	15.67%	21.77%	21.58%	22.29%	20.41%
SAARC*	3.57%	4.70%	3.96%	5.42%	5.18%	5.96%	4.67%
ASEAN	5.71%	7.31%	6.08%	10.10%	9.98%	10.05%	10.34%
BRCSA**	9.55%	4.94%	5.19%	9.81%	10.21%	10.40%	8.14%
China	0.27%	0.97%	1.47%	6.56%	6.56%	6.65%	5.08%
Latin America	0.58%	1.25%	1.58%	2.63%	2.96%	3.16%	2.83%
ME Total	1.98%	1.64%	2.53%	2.54%	3.15%	3.04%	2.30%
USA	16.35%	19.07%	22.83%	16.83%	14.93%	12.71%	11.40%

* South Asian Association for Regional Cooperation

**Brazil, Russia, China, South Africa

Indo-U.S. commercial and economic relations dating back to the 1960s have yet to reach their potential. Again, in contrast, U.S.-China business-to-business relations that began to develop only in the 1980s are now significantly stronger and more extensive than those between India and the United States. Nevertheless, there is reason for optimism. India's economic reforms of the early 1990s and the continued liberalization of its economy, which together have accelerated growth, have drawn interest from U.S. corporations. At the same time, the liberalization of India's domestic trade and investment regimes has exposed Indian firms to international competition. As a result, they have become increasingly interested in the United States as a source of cutting-edge technologies and investment, especially in technology acquisition.

The services sector, and especially the software export revolution that began with the Y2K phenomenon, has created a new substream in the Indo-U.S. business

relationship. This substream comprises Indian firms and other actors that have a more equal and inter-dependent relationship with their U.S. counterparts and do not suffer from the same asymmetries that characterized earlier relationships. The rate of growth in India's exports and imports of services, unlike that in goods, has been higher than the rate of growth of world trade in services, and the United States' share of India's exports and imports of services has been increasing while exports and imports of goods have declined. This development has given India's software exporters, among others, greater confidence and optimism. Indian service-sector businesses possess a new dynamism and do not seek special treatment from the United States. Expansion of trade in the service sector – for example, in research and development, education, finance, insurance, travel, medical and legal process outsourcing, design, architecture and other higher value-added services could remain strong, an outcome that both sides should encourage (see Charts 1A and 1B).

Indo-U.S. official relations have experienced significant ups and downs over the last several decades. Initially, the main components of this relationship were India's reluctance to join any anti-Soviet coalition and the U.S. policy of seeking to achieve a strategic balance in South Asia. The latter ambition led the United States to extend large-scale economic and strategic assistance to Pakistan, in a sustained effort to develop it as a counterweight to India. The rapprochement between the United States and China under President Richard Nixon only exacerbated Indian concerns, raising fears in India that China, a long-standing ally of Pakistan, and the United States would support Pakistan against India in future conflicts.

Indo-U.S. commercial and economic relations dating back to the 1960s have yet to reach their potential.

The breakup of the Soviet Union and ushering in of market-oriented reforms in India changed this dynamic. As a result, Indo-U.S. governmental relations began to improve. In recent years, the United States has begun to revise its stance toward India in response to the emergence of China as a major Asian power and its rising influence in South Asia, not to mention the growing strength of Islamic fundamentalism in Afghanistan and Pakistan. This change has prompted India's desire to correct its strategic imbalance with the United States. The shift in Indo-U.S. bilateral relations intensified under President George W. Bush, as India effectively gained admittance to the "nuclear club." Over the last decade, the United States has increasingly recognized the importance of India in maintaining stability within South Asia and in potentially helping to balance

China in Asia. As a senior Chinese scholar recently stated, these factors are responsible for what the Chinese have characterized a "honeymoon period" in Indo-U.S. relations.

Still, bilateral ties have yet to achieve their full potential, in part because India and the United States often find themselves on different sides of multilateral issues such as the Doha Round of trade negotiations, climate change, and so on.⁴ Furthermore, despite the sea change in their overall bilateral relationship, progress on some key issues has lagged, such as ongoing restrictions on imports of dual-use technology from the United States, a lack of progress on liberalizing foreign direct investment in the Indian retail sector, and the imposition of investment caps in the Indian banking and insurance sectors. In addition, the Indo-U.S. nuclear deal, which allows civilian nuclear trade to take place between the two countries, has yet to be finalized. In addition, American firms have considerable apprehension about the protection of intellectual property in India, which has resulted in India's inclusion on the "Super 301" watch list.⁵

As a result, India and the United States continue to treat each other with a healthy dose of caution and a level of skepticism that occasionally borders on mistrust – despite the establishment of numerous bilateral initiatives since 2000 (see Table 2). Creating and nurturing relations between the countries' private sectors could speed the building of mutual trust and contribute to the deepening and broadening of ties. It could also help to ensure that divergences on multilateral issues do not become unmanageable and can be addressed within the framework of an overall friendly relationship.

The Way Forward

For the foreseeable future, Indo-U.S. ties are unlikely to resemble U.S. ties with Germany, Japan or South Korea. All three allies fall under the U.S. (nuclear) security umbrella. Similarly, Indo-U.S.

CHART 1A: COMPOSITION OF INDIAN SERVICE EXPORTS TO THE UNITED STATES

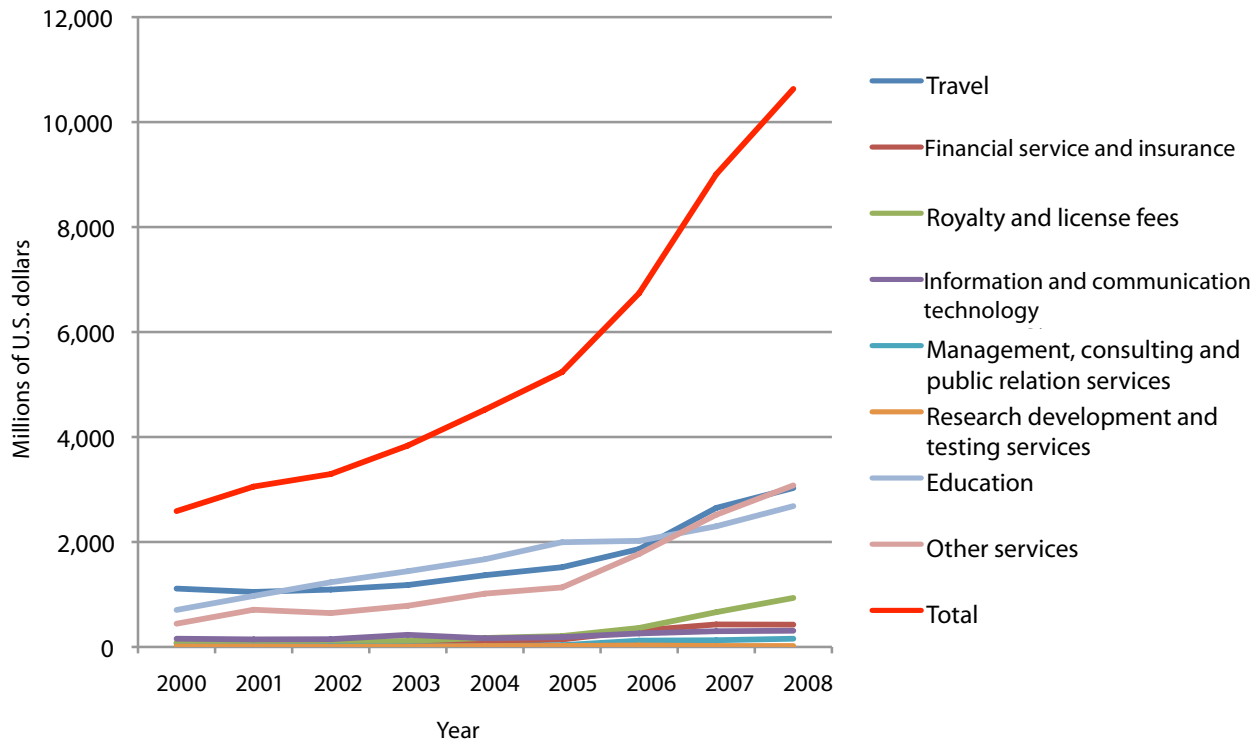
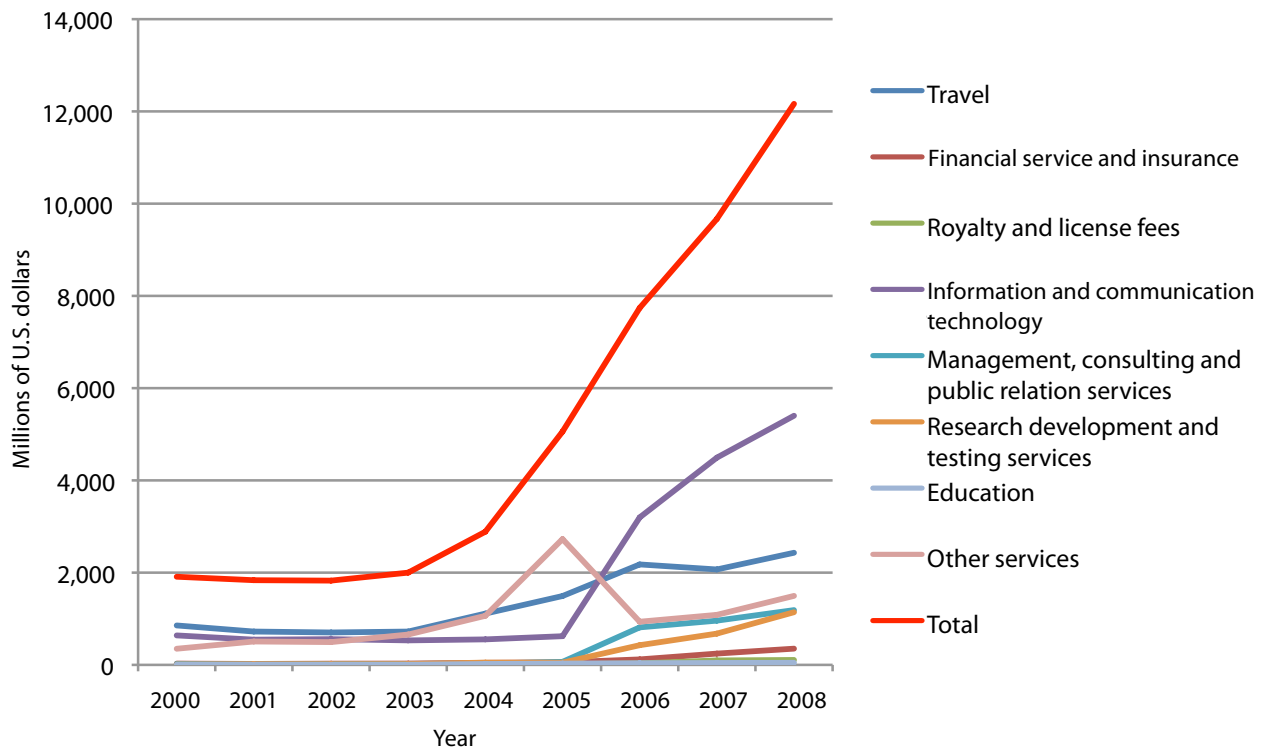


CHART 1B: COMPOSITION OF INDIAN SERVICE IMPORTS FROM THE UNITED STATES



Source: Bureau of Economic Analysis

relations cannot be expected to assume the features of U.S. relations with either the United Kingdom or Israel. Both countries maintain independent strategic deterrents, which account for their relatively autonomous foreign policy stances. Additionally, their extensive and long-standing ethnic, social and cultural links with the United States ensure a level of mutual trust and understanding that India could find difficult to replicate. Furthermore, the Indian leadership may fear that efforts to develop similar levels of trust could compromise India's much-prized strategic autonomy. This situation could change, but it would require a conscious effort by both countries over a long period of time. On the other hand, the United States' relationship with China seems largely opportunistic; it is not based on shared values but rather on the material gains that accrue to both sides.

Indo-U.S. relations will most likely come to resemble those of the United States and France, two countries that share a vision of a democratic free-market world, despite their differences over the role of the government in the economic and social spheres. Their respect for each other is grounded in an array of social, political, cultural, economic and technological achievements. Yet both have independent relationships with the rest of the world, reflecting their differing perception of national interest. The two allies hold contrasting world views on a range of issues and compete for influence in the economic arena (e.g., France's Airbus versus the United States' Boeing) and in the global political arena (e.g., their policies toward Iran and Iraq). The depth and breadth of their private-sector ties, however, span civil society and myriad business constituencies have been able to dampen interstate rivalry.

Two commonalities are evident in Indo-U.S. relations. First, although India and the United States have independent views on various geopolitical issues, their shared values make them natural allies on a majority of global issues, so long as

cooperation is not taken for granted. Second, their national capitalist/entrepreneurial classes compete and cooperate in each other's markets. Given their history, nationalist ethos and recently acquired global aspirations, many large Indian industrial houses (mostly family businesses with professional management like those that run large U.S. firms) may not accept being junior partners, especially in the Indian market. Similarly, American firms and the U.S. Congress may balk at prospects of a divestiture of some sectors in the U.S. economy to Indian firms. Nevertheless, U.S. and Indian companies can prosper if they engage in joint ventures to leverage their market potential by developing new technologies and marketing expertise. Software companies such as Infosys and TCS in the United States and Wal-Mart and New York Life in India have thus far been the most successful examples of this strategy.

To deepen and expand business-to-business relations, India and the United States should focus on the small and medium enterprise (SME) sector in India. This dynamic sector currently faces major obstacles, including access to technology, financing, and market information, as well as dysfunctional government procedures – all of which can stifle growth. On the other hand, SMEs in the United States have little knowledge of the potential opportunities that exist in partnering with Indian SMEs. This situation is a frequent topic in discussions in bilateral business conclaves convened by top Indian industry organizations such as the Confederation of Indian Industries (CII) and the Federation of Indian Chambers of Commerce and Industry (FICCI), as well as the United States–India Business Council, which represents the leaders of the business community in the two countries. The underrepresentation of SMEs themselves in these discussions, however, has hindered real progress.⁶ SMEs and other businesses concentrated in a geographic area within India often have significant connections with India's regional

TABLE 2: ECONOMIC BILATERAL FORUMS

	YEAR
India-U.S. Commercial Dialogue	2000
Knowledge Trade Initiative launched by FICCI and U.S.-India Business Council	2000
Indo-U.S. Science and Technology Forum	2000
India - U.S. High Technology Co-operation	2002
India - U.S. Global issues Forum	2002
Indo- U.S. Economic Dialogue	2003
Alliance for U.S. India Business (AUSIB)	2004
U.S. India Working Group on Civil Space Co-operation (JWG)	2005
India -U.S. Financial and Economic Forum (Part of the broader U.S.-Indian Economic Dialogue)	2005
Indo- U.S. CEOs Forum (Part of the broader U.S.-Indian Economic Dialogue)	2005
Trade Policy Forum (Part of the broader U.S.-Indian Economic Dialogue)	2005
Defense Procurement and Production Group	2005
Agriculture Knowledge Initiative (Part of the broader U.S.-Indian Economic Dialogue)	2005
U.S. - India Energy Dialogue	2005
Indo - U.S. Knowledge Initiative on Agriculture	2005
Next Steps in Strategic Partnerships (NSSP) Initiative / Strategic Dialogue	2005
Open Skies Agreement	2005
Private Sector Advisory Group (Part of the Trade Policy Forum)	2007
India-U.S. Green Partnership	2009
Obama -Singh 21st Century Knowledge Initiative	2009
Memorandum of Understanding renewing bilateral cooperation in the field of intellectual property	2009
Framework for Co-operation on Trade and Investment	2010
Bilateral Investment Treaty (still under negotiation)	2010

Note: Most of these partnerships are government initiatives with significant private sector involvement.

political leaderships. The importance of these enterprises is reflected in their increasing role and influence among India's regional political parties, whose influence itself has grown over the last two decades.⁷ An immediate way forward would be to build ties between existing local industry and business associations in India and their counterparts in the United States or to use the U.S. Small Business Administration to promote linkages. Strengthening and expanding ties among SMEs could significantly benefit Indo-U.S. relations.

To enhance people-to-people relationships, the most useful step would be to further strengthen ties between Indian and American higher- and technical-education institutions. These already-substantial ties could be made even more robust.⁸ On the other hand, the total number of students enrolled in secondary education in India was 40 million in 2006–07. The United States has barely begun to help develop India's human resources. Because India's large population of well-educated, English-speaking workers will constitute the country's principal comparative advantage in the coming decades, the United States should consider shifting its attention to collaborating with public and private provincial universities and colleges in India, rather than concentrating on top-ranking educational institutions, as it currently does. In addition, Indian colleges should increase their interaction with community colleges and polytechnics and vocational training schools in the United States. The Ivy League and other large American universities now making forays into India are out of the reach of the great majority of Indians for both financial and pedagogical reasons.

In addition, public-sector research and development (R&D) laboratories and organizations in India and universities and corporate R&D establishments in the United States could increase their level of collaboration. Indian institutions already have the basic facilities and a reasonably trained body of scientific personnel. The

To deepen and expand business-to-business relations, India and the United States should focus on the small and medium enterprise (SME) sector in India.

recent experience with the U.S.-India Agriculture Knowledge Initiative, however, has not been very positive. The two sides differed in their views on the scale of government intervention and the role of the private sector in the future development of Indian agriculture. Further, the Indian side feared that the initiative would reduce domestic R&D and technology capacity. Overall, these fears and differences in perceptions have greatly hindered the initiative's progress. An in-depth study of the causes of the initiative's lack of success could produce useful lessons for U.S. R&D laboratories located within the network of the Council of Industrial and Scientific Research.⁹

Finally, U.S. and Indian think tanks and social-science research organizations should work to strengthen their existing relations. Currently, these relations are sporadic, of short duration, specific to one-time projects and largely confined to Delhi, Kolkata, Chennai and Mumbai. In the past, the Ford and Rockefeller Foundations, among others, actively supported a number of Indian think tanks and social science institutions.¹⁰ The French, Japanese, Canadians and Germans are busy building and financially supporting Indian think tanks, while the U.S. presence is strangely lacking and has not begun to tap its potential. If the U.S. government or other state government agencies cannot

spare the resources,¹¹ an effort could be made to encourage greater involvement by private U.S. foundations. Indians residing in the United States could also be encouraged to join these think tanks and social science research organizations.¹²

Conclusion

Both India and the United States are vibrant democracies, in which civil society and the private sector influence official policies. As a result, enhanced private sector ties can create constituents in each country that will press their governments to deepen the bilateral relationship. These nongovernmental ties also tend to give ballast to bilateral ties, helping the two governments to weather the inevitable ups and downs of any government-to-government relationship. Both the United States and India should therefore seek to reinforce private-sector relationships at the grassroots level as well as between their business communities. A deepening and broadening of private-sector ties would contribute to a more stable and robust trajectory for Indo-U.S. relations.

ENDNOTES

1. The total number of Indians in the United States in 2008 was about 2.5 million, of which 630,163 were university graduates, and approximately 1.4 million were employed in the civilian workforce. Corresponding statistics for 2005 were 2.32 million Indians, of which 566,182 were university graduates, and 1.2 million were employed in the civilian labor force. See "Selected Population Profile," U.S. Census Bureau, available at <http://factfinder.census.gov>.
2. Based on Open Doors statistics, the number of Indian students studying in the United States increased from 31,743 in 1995–96 to 103,260 in 2008–09. The percentage of Indian students in the total foreign population of students in the United States increased from 7 percent to 15.4 percent during the same period. See "International Students in the US," Open Doors, Institute of International Education, available at <http://opendoors.iienetwork.org/?p=150649>.
3. The total number of technology collaborations between India and the United States increased from 1,690 in December 2005 to 1,841 in December 2009. The percentage of collaborations with the United States compared with those of the rest of the world, however, remained almost the same, from 21.82 percent in December 2005 to 22.7 percent in December 2009. See "FDI in India Statistics," Department of Industrial Policy & Promotion, available at http://dipp.nic.in/fdi_statistics/india_fdi_index.htm.
4. In addition, at the Geneva TRIPS Council meeting, India (along with China) opposed enforcement of the Anticounterfeiting Trade Agreement negotiated by the United States, the European Union, Japan and South Korea, which could seriously hamper India's trade in pharmaceuticals and information technology products.
5. The watch list is a list of countries that the U.S. Trade Representative (USTR) deems a threat to intellectual property rights. Under the Super 301 legislation, USTR is authorized to take measures, including retaliation, in response to discriminatory or unfair trade practices.
6. There is already some recognition in both capitals of the potential inherent in increased SME collaboration. As a result some government-to-government initiatives supporting SMEs in India are already under way. The U.S. Department of Commerce, for example, recently launched the Growth in Emerging Metropolitan Sectors initiative, which convened a conference in Pune, India, in September 2010. The Indian government has also begun exploring opportunities for Indian SMEs to gain access to U.S. markets. Both CII and FICCI are engaged on this front, and CII will soon take an SME delegation to the United States.
7. In the 2009 Lok Sabha elections, 35.72 percent of the voters favored regional parties, as opposed to 34.7 percent in 2004. Also, the percentage of seats won by state parties was 30 percent in 2009 versus 29 percent in 2004. In 2009 the chief ministers elected in eight states belonged to state parties.
8. Based on Open Doors statistics, the number of Indian students studying in the United States increased from 31,743 in 1995–96 to 103,260 in 2008–09. The percentage of Indian students in the total foreign population of students in the United States increased from 7 percent to 15.4 percent during the same period. See "International Students in the US," Open Doors, Institute of International Education, available at <http://opendoors.iienetwork.org/?p=150649>.
9. FICCI and CSIR have recently announced the inception of a joint program aimed at commercializing new discoveries resulting from such R&D.
10. At a budget seminar organized by ICRIER with support from the World Bank in February 2008, it was pointed out that all five think tanks participating in the seminar had received financial and technical support from the Ford Foundation at the time they were created. These are now completely "Indian" policy think tanks, with no foreign support for two decades.
11. The total budget of the U.S. Agency for International Development for India dropped to 109 million dollars in 2004 from 171 million dollars in 2002. In 2009 it further declined to 103 million dollars.
12. In India the Bill and Melinda Gates Foundation, the American India Foundation, the Aspen Institute India, the ICA Institute, the Brookings Institution and other groups are conducting research in collaboration with Indian think tanks. At the same time, a few private companies, such as IBM, Microsoft, PAN ASIA ICT and Motorola, are sponsoring think tank work on particular issues.

About the Center for a New American Security

The mission of the Center for a New American Security (CNAS) is to develop strong, pragmatic, and principled national security and defense policies that promote and protect American interests and values. Building on the expertise and experience of its staff and advisors, CNAS aims to engage policymakers, experts and the public with innovative fact-based research, ideas, and analysis to shape and elevate the national security debate. A key part of our mission is to help inform and prepare the national security leaders of today and tomorrow.

CNAS is located in Washington, D.C., and was established in February 2007 by Co-founders Kurt Campbell and Michèle Flournoy. CNAS is a 501c3 tax-exempt nonprofit organization. Its research is nonpartisan; CNAS does not take specific policy positions. Accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author.

© 2010 Center for a New American Security.

All rights reserved.

Center for a New American Security

1301 Pennsylvania Avenue, NW
Suite 403
Washington, DC 20004

TEL 202.457.9400
FAX 202.457.9401
EMAIL info@cnas.org
www.cnas.org



Center for a
New American
Security

STRONG, PRAGMATIC AND PRINCIPLED
NATIONAL SECURITY AND DEFENSE POLICIES

1301 Pennsylvania Avenue, NW
Suite 403
Washington, DC 20004

TEL 202.457.9400
FAX 202.457.9401
EMAIL info@cnas.org

www.cnas.org