

India's Trade Investment and Industrial Policies: A Macro Assessment

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Oral Testimony

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Overview

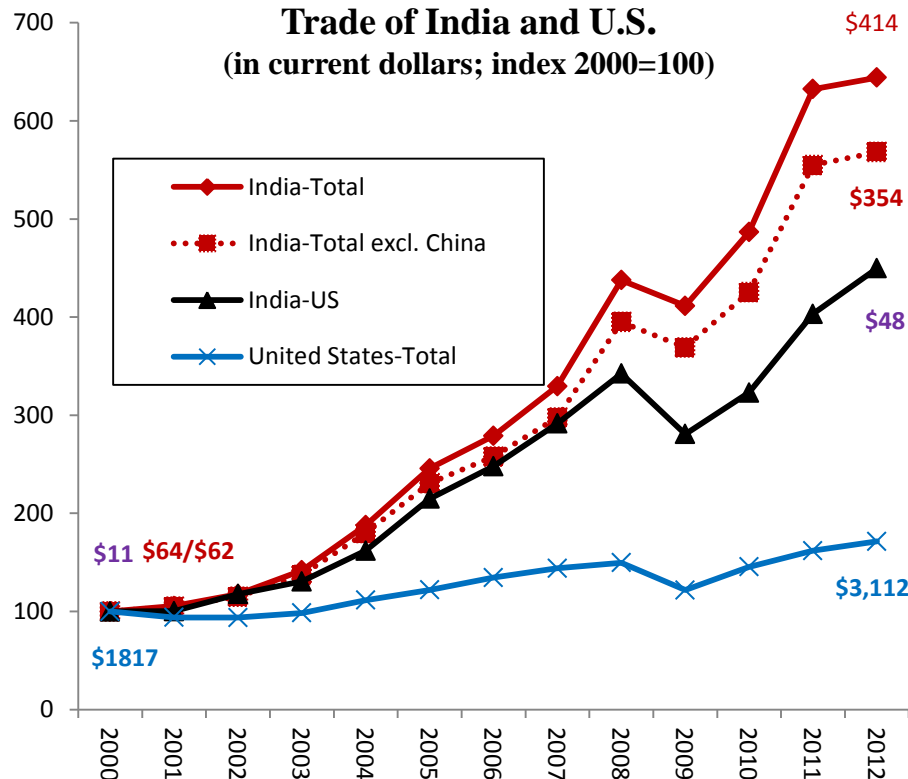
- **Technical assessment**
 - US-India economic integration
 - Indian trade regime
 - Recent policy developments

- **Policy Conclusions**

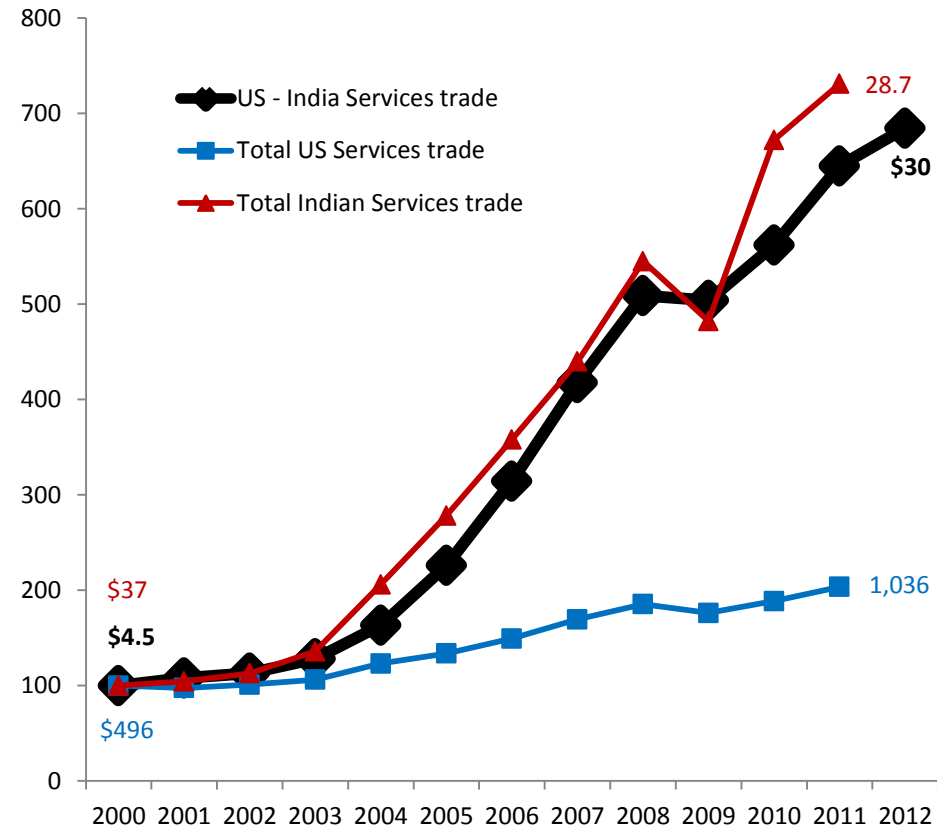
1. US-India bilateral economic integration remains strong

Bilateral goods trade grew at 13 % per year, faster than US goods trade (4.6%), and faster than India's trade with EU and Japan

Bilateral services trade grew at 17.4% per year, faster than US services trade (6.7%) and almost as fast as Indian services trade (19.7%)



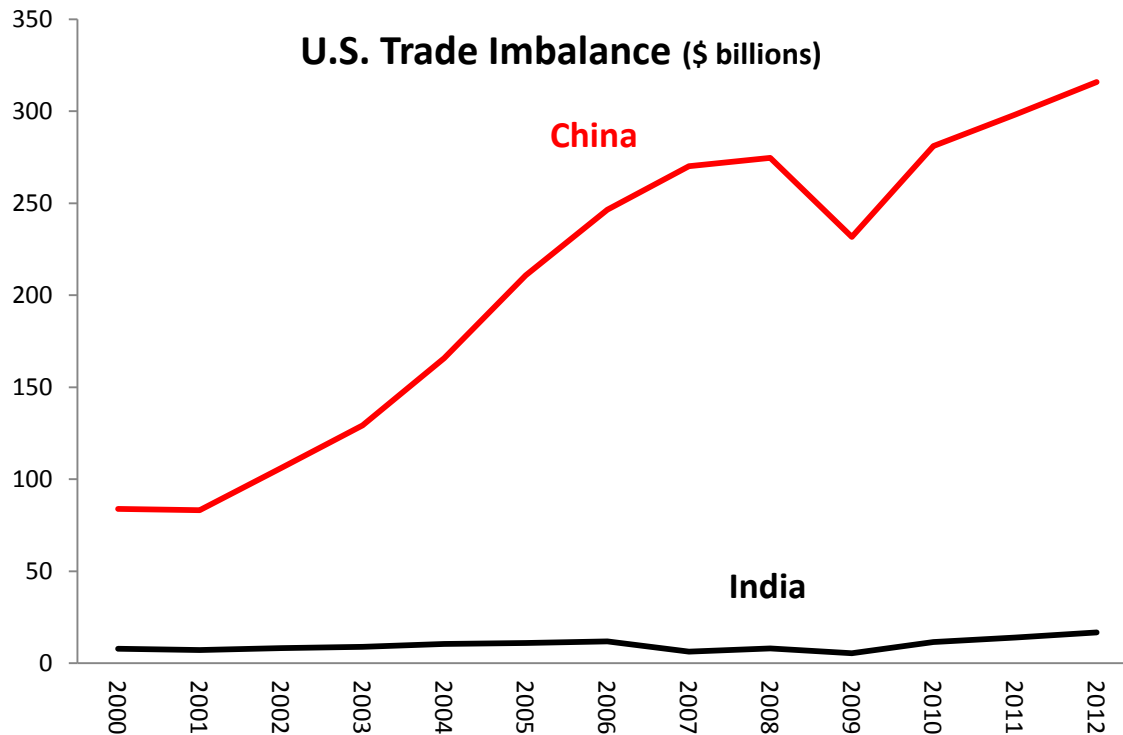
Labels represent dollar amounts in 2000 and 2012. Trade excludes fuel and gold



Labels represent dollar amounts in 2000 and 2012

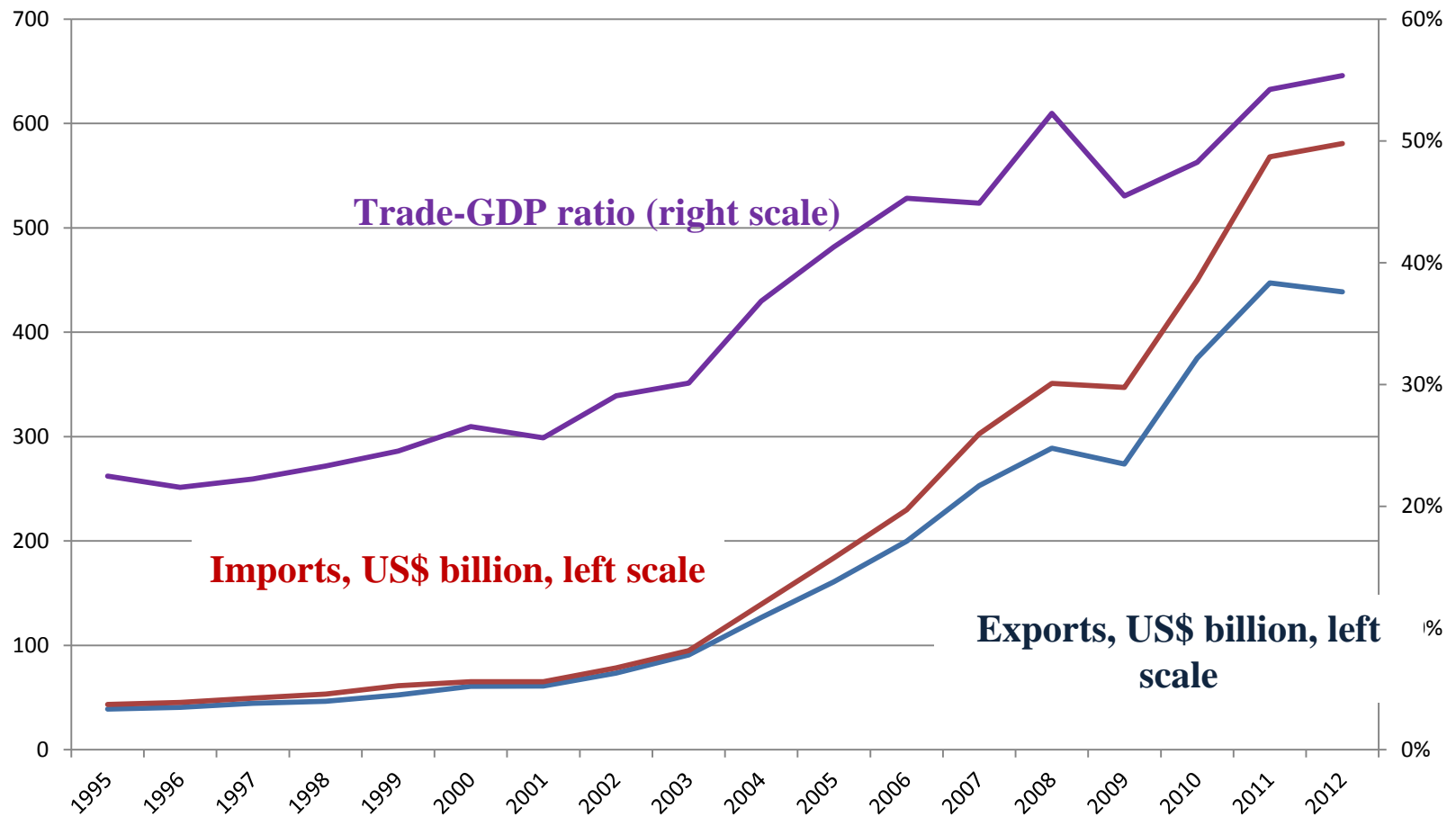
1. US-India bilateral economic integration remains strong without adversely affecting US employment

US trade with India is almost balanced compared with more than \$300 billion deficit with China



Source: Direction of Trade Statistics

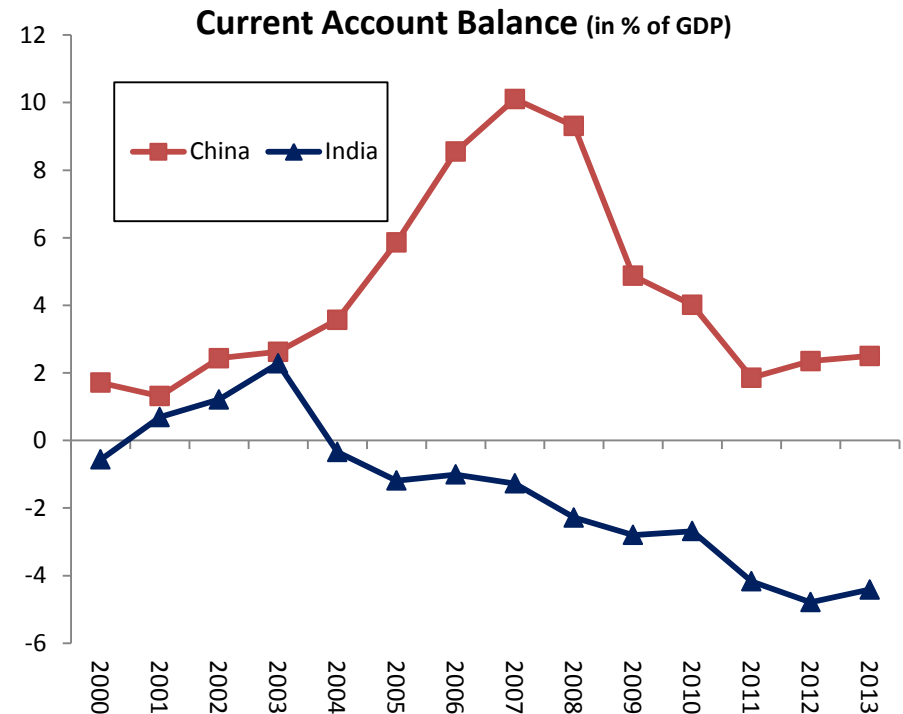
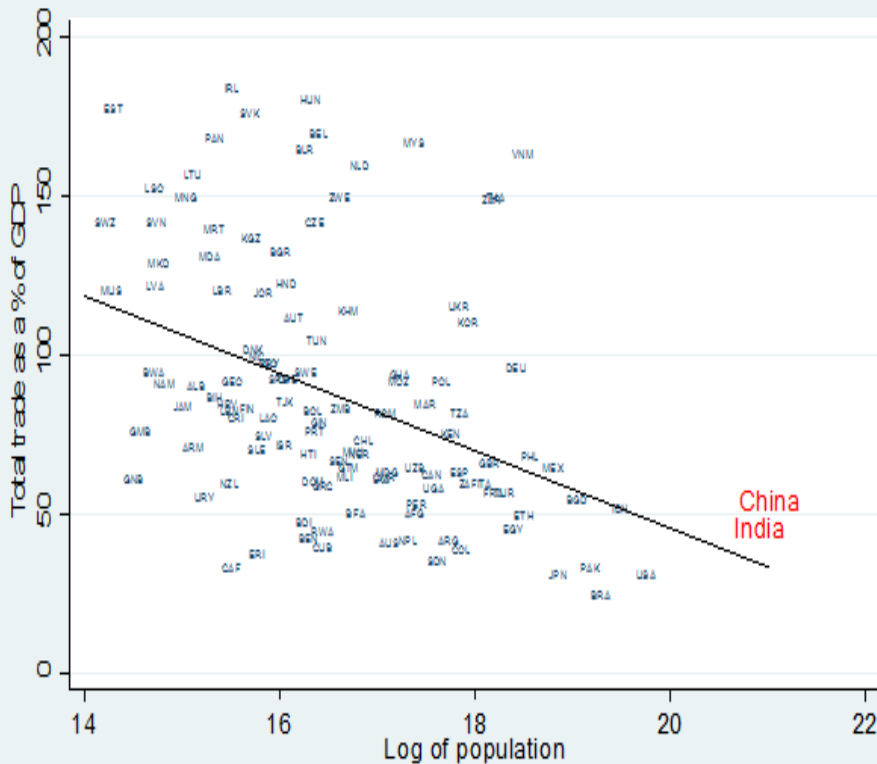
2. India's global economic integration remains strong



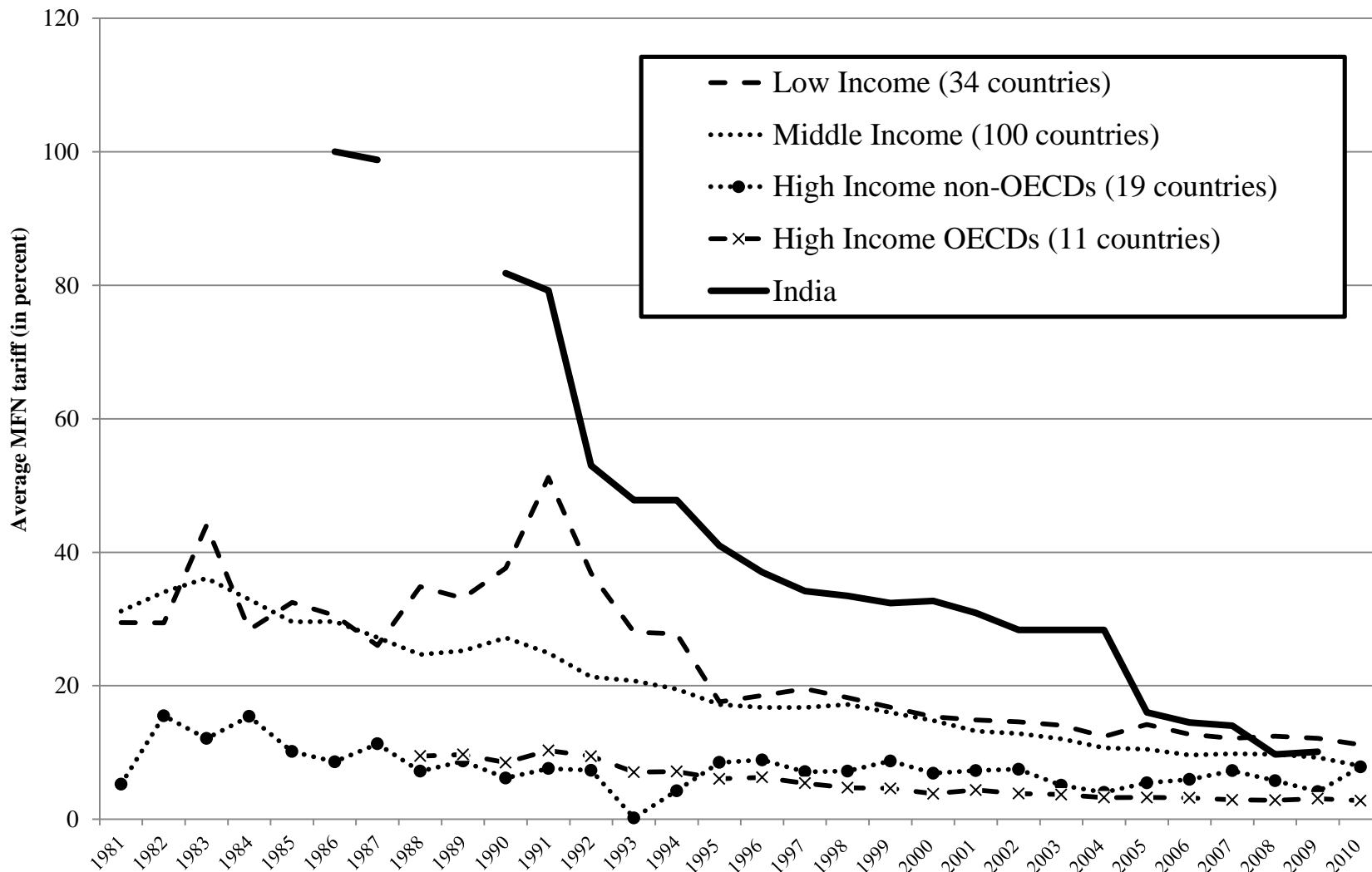
2. India's overall trade outcomes are positive while adding to global demand

India's trade-to-GDP (goods and services) ratio is unusually high given its size and level of development

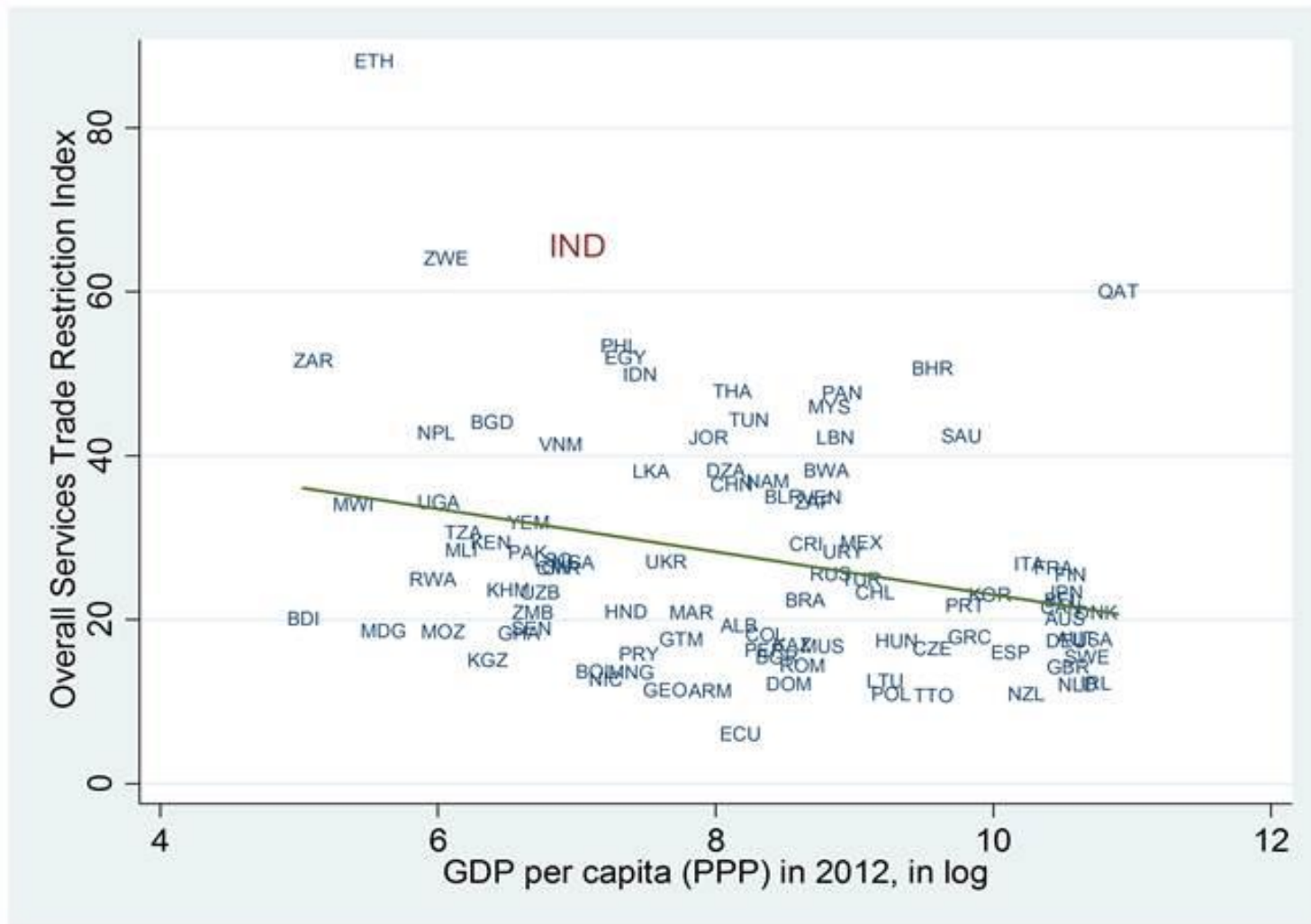
But unusual trade also accompanied by flexible exchange rate and current account deficits which add to global demand



2. Manufacturing tariffs have declined dramatically and are now close to OECD levels



2. However, services regime remains highly protected



3. Inventory of and Framework for Evaluating Recent Indian Trade and Investment Policies

Liberalizing

Restrictive

Neutral/Unclear

I. Border measures that affect/discriminate against foreign business

Agricultural tariffs

Foreign direct investment (retail, defence, telecommunications, pensions, civil aviation)

Foreign portfolio investment and foreign debt limits

Local content requirements (LCRs) in solar energy (under WTO adjudication)

LCRs in electronic products (fully reversed)

LCRs in government procurement of electronic products

II. Domestic regulations that predominantly affect foreigners

Intellectual Property (IP): Due process

**IP: Section 3(d) of Indian patent law
Compulsory licensing for non-working**

Sanitary and phyto-sanitary measures (under WTO adjudication)

Taxation (partially addressed)

**IP: Patent denial
Compulsory licensing for access to affordable drugs**

Nuclear liability law

III. Domestic regulations that affect foreign and domestic investors

**Land acquisition bill
Standards for and testing of electronic products
In-country security certification of telecommunications equipment**

III. Recent Actions

- **Three kinds of actions:**
 - Pure border measures
 - Domestic measures with greater foreign impact
 - Domestic measures affecting foreign and domestic business
- **Liberalizing actions have had macroeconomic impact (opening to FDI and other foreign capital);**
- **Restrictive actions are mostly sectoral and some have been reversed or partially addressed (Local content requirements (LCRs) and taxation)**
- **Some restrictive actions reflect sound objectives but clumsy implementation (security testing of telecom equipment stems from fear of China)**
- **Some restrictive actions are being adjudicated in WTO (LCRs in solar energy, and sanitary and phytosanitary measures in agriculture)**
- **Impact of some actions unclear because it depends on yardstick for evaluation. They:**
 - impact both foreign and domestic business (land acquisition bill, safety, and product testing);
 - are consistent with WTO obligations (LCRs in government procurement)
 - don't go far enough to satisfy foreign concerns (civil nuclear liability law and FDI in retail)

Intellectual Property

- **Recent Indian measures have encompassed the positive, negative, and open**
- **Due process has been commendable: Expeditious, transparent and well-explained verdicts, recourse of appeal to higher authority, remuneration in line with, even greater than, international norms**
 - **Several recent decisions in favor of foreign patent holders (Bristol-Meyer, Roche, Schering)**
- **Restrictive ones should be tested in WTO: (Section 3(d) and compulsory licensing for non-working)**
- **How to assess patent revocation and compulsory licensing?**
 - **If standard is IP in richer trading partners of US, India falls short**
- **But assessment more open under alternative standards:**
 - **Consistency with WTO obligations**
 - **IP regime in rich countries at comparable levels of development**
 - **Indian welfare calculus balancing three objectives: contributing to “fair” share of global R&D, promoting technology, and providing affordable access to medicines**
- **Emerging model of cooperation based on effective IP protection combined with tiered pricing: Gilead Sciences Inc.**

Policy Conclusions: Economic

- **India's economy is a source of concern because of a deteriorating investment climate for all business (domestic and foreign), declining growth and a slowly stabilizing macro-economy**
- **Concerns of US business should be addressed seriously and expeditiously, many through WTO dispute settlement**
- **But concerns are mostly sectoral and;**
- **should not obscure positive developments in broader policies (opening to FDI and foreign capital); and**
- **should not obscure positive, long-term trends in actual trade outcomes (rising trade-GDP) achieved without harming others (current account deficits not surpluses)**

Policy Conclusions: Strategic

- Exercise care in rendering unilateral verdicts that reflect sectoral interests and carry risks of punitive actions**
- Adopt forward-looking perspective especially with likelihood of new government in India**
- Take account of shared security and strategic interests in Asia**
- Create conditions for best addressing economic and strategic concerns: through reviving trade cooperation and eventually moving toward an India-US free trade agreement (INDUS) elaborated in Bergsten and Subramanian (forthcoming)**