

India-U.S. Economic Ties: Reframing a Mutually Beneficial Relationship

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India and the U.S. have a considerable array of shared interests that have been overshadowed by a variety of irritants in the bilateral economic relationship. The key question is how to reframe some of these issues in a manner that highlights how making progress on them would be in the mutual interests of the two countries.

An obvious dimension in which both countries would benefit is providing broader access to each other's markets for both trade and finance. India is a rapidly growing market for high-technology products (and the technology itself) that the U.S. can provide, while the U.S. remains the largest market in the world, including for high-end services that India is developing a comparative advantage in.

A key issue for the two countries is to work together to address India's concerns about food security that would revive the stalled WTO trade facilitation agreement. This would be a signal of the ability of the two sides to work together in dealing with important but complicated and contentious areas. The two countries could also work together to help India develop a property rights regime and a framework for dealing with patent issues in a way that makes progress on addressing the concerns of both sides. This could serve as a broader template for dealing with a key source of friction among other advanced and emerging market economies.

While India's trade regime has been liberalized considerably over the years, there are still some sectors

where domestic policies related to subsidies and direct government involvement create barriers to trade. Bilateral discussions might help prod the Indian government to undertake reforms that would be good for the domestic economy, both directly and by promoting external trade and financial flows.

A bilateral investment treaty would help provide a framework for U.S. investors to share in different aspects of the Indian growth story and for Indian corporations that are eager to spread their wings into the U.S. Investment barriers have been reduced on both sides, but there are still regulatory restrictions that could be brought down more quickly within such a framework to encourage rapid growth in bilateral investment flows.

India needs better financial markets, including a more vibrant corporate bond market. American investors who want to share in the India growth story would find this a suitable avenue for doing so and India would benefit from having a more stable source of long-term capital for its domestic financing needs, especially on items such as infrastructure that have a long gestation period.

The Reserve Bank of India has already signaled that financial development and inclusion, within the context of a strong regulatory regime, are important priorities for promoting stronger and more equitable growth in India. While the U.S. is hardly the paragon that it was once considered to be, there are still many aspects of financial market development and

regulation where India has some important lessons to learn from the U.S.

India and the U.S. are natural allies but need a better foundation of trust to work together to promote their common interests, including in international forums. For its part, the U.S. must help build this

trust by frontally addressing India's concerns in bilateral and multilateral discussions, and also by delivering on the Obama administration's commitment to governance reforms that would give India and other emerging markets their due voice in international organizations and forums.