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Obama faces heavy lift with India trade relations

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Supermarkets want full ownership of their stores. Drugmakers want their patents respected. Manufacturers want to compete with home-grown companies for government contracts.

And until those things are possible, none of those American businesses will make major moves into India's market — despite its growing middle class and its status as the world's largest democracy, former U.S. Trade Representative Charlene Barshefsky warned Tuesday at a meeting of trade policy wonks.

Her comments underscore the challenges facing President Barack Obama and Prime Minister Manmohan Singh as they prepare to sit down to talk economic issues on Sept. 27 in Washington.

Barshefsky, who was President Bill Clinton's second-term trade representative, identified three key policy areas that India must reform to improve trade relations with the United States: an economic slowdown that has diminished the value of India's currency; a set of "vexing regulations and a very challenging rules system" that businesses struggle to navigate; and market access barriers that include tariffs, "buy local" requirements and lax intellectual property protections.

Additionally, the United States must back off immigration reform proposals that could make it more difficult for Indian tech companies to send their workers here, she said.

"This is a relationship that should be much stronger than it is. It's a relationship that should be healthier than it is. It's a relationship that should be contributing more to both economies than it is," Barshefsky told a crowd of about 50 people at a Center for Strategic and International Studies discussion, in Washington.

Her speech focused on the upcoming meeting between the two leaders, which is likely Singh's last visit to Washington before India's elections next spring. The trip follows recent trips to New Delhi by both Vice President Joe Biden and Secretary of State John Kerry.

Improving trade with India appears to be a growing priority for the Obama administration. Despite India's population of 1.2 billion, it is the United States' 13th-largest trading partner. The \$22 billion in U.S. exports to India in 2012 was dwarfed by \$110 billion in exports to the

similarly sized China.

“Both sides ought to do two things: Reaffirm the commonalities between the two countries, and put the economic relationship on a far more positive and accelerated trajectory,” said Barshefsky, who helped negotiate China’s entrance to the World Trade Organization.

The market access barriers, Barshefsky and others agreed, is critical to address. According to a World Bank index that ranks countries by the ease of doing business there, India ranks No. 132 out of 185.

Barshefsky said the Indian government blocks foreign investment in audio-visual services, banking and financial services, insurance, telecommunications and more by capping foreign equity in companies in those industries.

The Indian government’s decision to decline or revoke drug patents for cancer, glaucoma and other pharmaceuticals from companies including Pfizer and Roche — decisions aimed at providing its citizens with cheaper drugs — “call into question India’s commitment to intellectual property rights,” she said.

The pharmaceutical problems were also emphasized in a panel discussion that followed Barshefsky’s speech.

India has denied or revoked at least 12 pharmaceutical patents in the past year — and as a result, “India has lost the trust” of U.S. drugmakers, said Linda Menghetti Dempsey, the National Association of Manufacturers vice president of international economic affairs and a former Senate Finance Committee trade staffer.

Beyond the drug industry, U.S. companies have also pulled back plans for investments in India’s steel, insurance and retail industries, Dempsey said.

Another problematic barrier exists in India’s multibrand retail sector, said Diane Farrell, the executive vice president of the U.S.-India Business Council.

In an effort to draw foreign investments and lower product prices, India announced this month that foreign supermarket giants, such as Wal-Mart, are now allowed to own up to 51 percent of outlets located in the country. Wal-Mart has yet to make an entry into India, Farrell noted. But elections are scheduled to take place by May 2014, and the opposition party is pushing to reverse that allowance and protect the country’s 12 million retailers from foreign competition.

“Multibrand retail is emblematic of some of the deep frustrations and concerns of those who have great enthusiasm and high expectations of the strength of the relationship,” Farrell said.

One area for cooperation could be energy, said Raymond Vickery, a top Commerce official under President Bill Clinton and now senior director of the Albright Stonebridge Group. He

said India could be a ripe market for U.S. natural gas exports.

Farrell said she agreed that India could be a major importer of U.S. natural gas. “It’s one of the top talking points you’ll hear from Indian officials,” Farrell said. “Solar also has immense potential,” especially if India drops “buy local” requirements that are currently the subject of a World Trade Organization case the United States is pursuing against India.

Addressing the string of barriers between the two countries, Farrell said, will take time. “It’s a marathon, folks,” she said. “Wear comfortable shoes.”

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