

AS PREPARED FOR DELIVERY

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"India and America: Seizing Economic Opportunity"**

It is a special honor for me to be with you today. Given my respect for India -- your ancient civilization, your democracy, and your distinctive potential to influence the world -- I asked President Bush if I could be the first member of his cabinet to visit you.

It is also a special privilege to visit shortly after the arrival of my close friend and colleague, Bob Blackwill, the new U.S. ambassador to India. Ambassador Blackwill is the latest in a line of distinguished U.S. scholar-ambassadors to India, including Senator Daniel Patrick Moynihan and Professor John Kenneth Galbraith. During Ambassador Blackwill's years at Harvard, he contributed importantly to our country's assessment of the changing security agenda, including America's consideration of strategic interests in Eurasia. In addition, he taught a coming generation of leaders from around the world.

Yet I also know Ambassador Blackwill's skills as one of America's premier diplomats. Some ten years ago, we worked closely together, along with Dr. Condi Rice, on the unification of Germany and the panoply of political and security issues associated with the end of the Cold War.

Moreover, as a compatriot with then-governor Bush, Ambassador Blackwill brings to India a strong familiarity with the President, his senior team, and the Administration's strategic thinking. I cannot think of a better person to represent U.S. interests to India and to explain India's interests to the United States.

India's Challenge

Fifty-four years ago this week, India achieved its independence after a struggle that moved the world. Late on the night before India's independence became official, Mr. Nehru delivered a speech from a balcony outside India's parliament. "The achievement we celebrate today," he said, "is but a step, an opening of opportunity, to the greater triumphs and achievements that await us." He then put a test to the Indian people: "Are we brave enough and wise enough to grasp this opportunity and accept the challenge of the future?"

In the years that followed, India faced many challenges. One of the most important legacies of the past 50 years was India's forging of a democratic federalism that has proven flexible enough to respect India's rich diversity, resilient enough to adjust to many pressures, and strong enough to preserve the integrity and durability of an independent Indian state.

Today, leaders from the major parties in India have identified a new, vitally important challenge: How should this vast civilization, encompassing one-sixth of the world's people -- this proud country with a strong sense of sovereignty -- adapt to globalization?

The Cold War has been over for ten years. The original vision of non-alignment does not fit the dynamic of this new era. So whither India?

I have come to India to learn the Indians' answers to these questions. My trip here includes visits with the Prime Minister, senior government leaders, the democratic opposition, strategic thinkers, businesspeople, young entrepreneurs, journalists, and the children at the Salaam Baalak Trust shelter for homeless runaways. The sense of hope in the eyes of the young children and the warmth of the Indians who care for them perhaps send the best message of both the challenge and promise of this vast land.

I am here to listen and observe. I would like to better understand the rich range of Indian life and opinion about changes in the subcontinent and the world beyond.

My prior experience has given me some initial sense of how India is starting to answer these questions.

First, I have read with interest the Prime Minister's appeals to his countrymen and women to be attentive to India's destiny as an increasingly more important country in the world. I have felt a stirring, a new vision, of an India that is looking outward: beyond the borders and mountains of the subcontinent and over the seas that wash South Asian shores.

This new outlook seems to be shared -- with variations in concept and degree -- by many political leaders from the major parties. There seems to be an emerging, yet fractious, consensus that India must engage with the world economy. Indian leaders are recognizing the country's competitive strength and prowess, at the same time they appreciate the risks and problems of change.

Moreover, this new India is taking form through Indian policies. Ten years ago, when I served in the State Department, India's far-sighted Ambassador to the United States, Dr. Abid Hussein, urged me to be alert to the historic shifts just beginning in the Indian economy. So I watched the first, tentative steps toward economic liberalization, followed over the decade by strides to end the license Raj, lower tariffs, and begin privatizations and disinvestments.

India began to create a more vibrant economy, generate more jobs in services and manufacturing, and boost agricultural output. You started the turn away from the controlling regulation left over from both colonial governance and the Fabianism that a newly independent India imported from a fading empire. In doing so, India helped to provide hope and new opportunities for the millions of Indians for whom grinding poverty remains the everyday reality.

Second, I touched the new India through my contacts with many Indian-Americans. At one session with a group of Indian-American businesspeople a few weeks ago, I heard a story that I would like to share with you.

One of my guests had visited India recently with his 13-year old son. Together they had wound their way to a 600-year-old temple in Mangalore, where they were greeted by an elderly priest, a slight, wizened figure with a shock of white hair. At first, the clash of cultures and even of centuries seemed apparent as the boy extended the wrong hand to receive the offering from the seemingly remote priest-- to the great embarrassment of the boy's father. Yet in a moment, the priest, recognizing the boy as an Indian-American, piped up: "You should check out my website," he acclaimed. When they did so, the boy and his father encountered a blend of the old and new Indias -- high resolution-graphics and animation, telling a story of social and cultural events over hundreds of years.

Third, I have a suspicion that the new India might find its origins in an older India -- indeed, a much older India, far pre-dating colonial intrusions. For I first encountered India not here, in the homeland, but in Hong Kong, Singapore, Southeast Asia, and East Africa. I have tasted India in Europe and America. I know that India was one of the great originators of globalization, many years past.

The voyagers from India sought not to conquer, but to trade; they journeyed not to compel others to think in a certain way, but to offer to share a culture. Like the proponents of open computer architectures who share software, these early Indian travelers were marketing geniuses.

A few years ago, when I visited Yogyakarta, in the Javenese heartland of Indonesia, I wandered around the Hindu temple complex of Prambanan and saw the ever present figures of the Ramayana epic. By exporting ideas, these long-distant Indians transformed thinking.

Indeed, historians trace the root of modern physics, economics, and engineering to India's invention of the concept of zero. Hindu numerals spread as broadly as silk and spices, to seats of learning in China, Russia, Baghdad and Egypt.

As commerce swelled, Hindu numerals formed the foundation of estimating, bargaining, reckoning, and records of transactions. Is it any wonder that the land that gave birth to zero would thrive in the zero-one world of computer binary code?

These are not tales of an old India; they are scenes from the life of the India. Any observer of the information technology environment has seen the modern influence on the world of Indian thinkers, designers, and software engineers.

I believe India is on the verge of opening a door to tomorrow. If it chooses to do so, India can help shape this age of flux. With further deregulation, privatization, limited taxation, and open trade, India can free the entrepreneurial and inventive skills of the Indian people to overcome poverty, strengthen the country, and sway the world. The real test—the most important

one—will be to use these tools to tap the Indian spirit and sense of community to transform the lives of those most vulnerable—like the children I met at the shelter.

Yet I also believe this new era of rapid communications, transportation, and financial flows -- of increased trade and investment -- of expanded liberty, choice, opportunity and individual empowerment -- will not wait for any country, not even India.

During this visit I hope to learn that Indians do want to tap their globalized past and unleash their potential future. I am excited about the possibility of forging a common trade agenda that benefits both our nations and the rest of the world—developing and developed alike. Expanded trade and commerce is not a zero-sum mercantilist calculation, but instead a “win-win” opportunity for our peoples, our countries, and the global economy.

A New Era in U.S.-India Relations

I believe India and the United States are entering a new era of more cooperative political and economic relations.

The end of the Cold War, and our shared security interests, present new opportunities for India and the United States -- the world's two largest democracies -- to find common ground. I was encouraged to hear the recent comments of a senior government official that “there is a lot said about where we differ, but I believe that there is much more where are our two democracies agree.” India and the United States are both nations born in bold struggles for independence from colonialism that draw strength from diversity and democracy, while continually striving to improve the lives of our citizens and those living around us.

Yet these often-noted truisms should be just the start of a serious assessment of our shared interests.

Today, the United States wants to treat India realistically for what it is -- a major country and an emerging power. We want to engage India in a strategic dialogue that encompasses the full range of global issues. The United States appreciates that India's influence clearly extends far beyond South Asia. We welcome a broader role for India, and we want to work closely with India to develop imaginative responses in such areas as counter-terrorism, nuclear nonproliferation, human rights, and environmental protection.

India and the United States are just beginning to recognize their shared economic interests. As India opens its markets, seeks to promote exports, and creates a climate for investment, I expect the linkages with America will grow rapidly. The United States is already responsible for a full 15 percent of India's world trade, with an increasingly diverse blend of Indian products and services driving steady growth in Indian exports to the United States. Nearly 40 percent of America's Fortune 500 companies now outsource their software needs to Indian companies. Although U.S. exports to India have not increased in recent years, American firms recognize the

immense potential of the Indian market and are exploring possibilities. Their ongoing interest will depend in part on the economic messages that India decides to send the world.

I hope India sends positive signals. That is one reason I am here with you. I want to work together to strengthen, and deepen, a vibrant trading, commercial, and investment relationship. To take an important step down this path, yesterday I told Commerce Minister Maran that this month the United States would totally free trade for 42 products, encompassing about \$540 million of Indian exports, under the U.S. Generalized System of Preferences for developing countries.

India has also enriched American society. Thousands of Indians have opened companies in the United States – developing innovative products and services, employing tens of thousands of Americans. Your ideas, as expressed by Mahatma Gandhi, provided the non-violent moral foundation for America’s civil rights movement, just as they did for South Africa’s successful struggle to end apartheid. And your human capital has given us countless individuals of high distinction, including Vinod Dharm, the designer of the Pentium chip; Vinod Khosla, a leading venture capitalist in California; Zubin Mehta, one of the world’s greatest conductors; and Jagdish Bhagwati, one of the world’s foremost trade economists. It is a testament to the talents of Indians and Indian-Americans that they have thrived in Silicon Valley -- one of the most competitive markets anywhere.

I recall these individuals to emphasize a fundamental fact: India’s essential strength, its true genius, is its people. When Indian intelligence, creativity, and determination to succeed are unleashed -- when governments here or abroad stand aside so the human spirit can thrive, Indians will transform the world.

Unfinished Business

India has declared the next ten years the Decade of Development. The government’s goal is for India’s per capita income to be twice as high in 2010 as it was in 2000. It is an ambitious goal. But it is attainable. To do so, in our view, India will need to deepen and reinvigorate the process of reform it began a decade ago.

The dividends from the previous decade’s regeneration are already being realized, in ways big and small.

Ten years ago, one airline serviced the Delhi to Mumbai route, with three flights a day. Today, there are 4 airlines, and over 20 flights a day.

According to Asia Private Equity Review, two years ago, \$100 million of venture capital was raised in India. Last year, \$750 million of venture capital funds came into India’s venture community.

Last year, on August 15, India deregulated long distance telephone service. That was a nice coincidence, because the inevitable decline in long distance phone rates will help deliver a 21st century form of independence for the Indian people.

Each of these reforms -- and I hope others -- will trigger inventiveness beyond the imagination of government planners. The weekend before I left for India I read a story in the *New York Times* that described how Indian fishermen from a small village were using their new mobile phones to check prices at different ports while still at sea, doubling their profits. As the head of research at DSP Merrill Lynch explained, "The value of timely access to market information is clearly dawning across business communities" in India. Listen to the new voice of India: "Life without a mobile phone," said one newly empowered fisherman, "is unthinkable."

I was pleased to see that earlier this year the Indian government expressed its confidence in India's capabilities by removing many quantitative barriers and lowering tariffs on imports. That bold stroke demonstrated that India means business.

Yet I hope you do not mind -- as a friend of India -- if I point out that relative to others, India's tariffs and regulatory barriers remain high. Although India's average tariff rate has fallen to about 30 percent, that is still twice as high as China's average rate, and 10 times as high as the United States'. Therefore, I am encouraged that the Indian government has recommended reducing the average tariff rate to Asian levels of 20 percent or lower in the next few years. High tariff rates only retard economic development and reduce industrial competitiveness by increasing the costs of business inputs, raising prices for Indian families, and permitting less efficient companies to avoid the need to improve.

Greater deregulation is also needed. The success of India's high-technology sector offers a striking example of what Indians can do if the government does not stifle innovation. The information technology software and services industry now accounts for 2 percent of India's GDP; this could be nearly 8 percent by 2008, according to a study by McKinsey and Nasscom, India's software trade association.

India could also reap major gains from the further liberalization of its agriculture market. I suspect the old rules date back to an era when Indian states feared local famines. With more open markets, India's real challenge is to use its food supplies efficiently, to lower the prices of imports, and to embrace opportunities to export.

If India is going to tap the muscles, brains, and energies of its people, the country also needs strong, clear arteries within which commerce can circulate -- within India and to the wider world. The lifeblood of commerce requires an infrastructure of roads, ports, ships, planes, water, communication, and energy. But India's arteries of infrastructure are clogged.

Another story from an Indian-American friend painted the problem of India's infrastructure in sharp relief. Because of the poor quality of roads, it took his family 90 minutes to travel 30 miles to visit a local temple. After the long, hot drive the family stopped at a small café for a

refreshment -- only to find that the establishment also offered Internet access. After logging on, my friend's son began exchanging instant messages with his friends in the United States. He then noted the irony of today's India: "It took us 90 minutes to drive 30 miles," he said, "but it took us just seconds to communicate with people in the United States."

Much of the infrastructure investment India needs can be carried out by the private sector, including by foreign companies. Self-sufficiency is not an option for India if it hopes to generate economic growth and participate to India's benefit in the 21st century.

The world of the early 21st century can tap great sources of financial and intellectual capital. But there is also unprecedented competition for these resources. As a result, capital can afford to be a coward. If India wants to attract higher levels of private investment, and to draw on its extraordinary human and intellectual capital, India will need to continue and enhance its drive toward openness and lower the risks for investors.

I hope that India -- like every developing nation -- will see that a bold vision of growth and opportunity for its people is a new independence movement -- a movement to free Indian entrepreneurs, Indian workers, Indian researchers, Indian investors -- from the shackles of excessive regulation and state control. As President Bush points out, it is not the role of government to create wealth, but instead to establish the legal, tax, deregulatory, energy, education, and open trade frameworks in which private individuals can expand prosperity, create jobs, and add to society's capabilities.

India's Stake in Global Trade

The tremendous success of India's high-technology sector offers a potent argument for India's interest in an open trading system. India exported \$6 billion worth of software last year -- accounting for 13 percent of the country's total exports. Over the past five years, the annual growth rate for India's software exports has been 45 percent. And there's every reason to believe it will keep growing. The Software Engineering Institute at Carnegie Mellon University gives its "top quality" ranking to only 32 software companies in the world; 17 of them are based in India.

In 12 weeks, the 142 nations of the World Trade Organization will be convening in Doha. The United States has been working with all the members of the WTO -- developed and developing nations alike -- to ensure a successful launch of a new round of global trade negotiations devoted to growth and development.

I am hopeful that India -- a leader in the developing world -- will work with us. The developing world has the most to gain from a new round, and the most to lose without one.

A new round would be a “win-win” for India. By helping to knock down domestic barriers to trade, the round would provide India’s consumers with more choices and lower prices, while boosting the long-term competitiveness of the Indian economy. By knocking down trade barriers around the world, a new trade round would promote jobs and create valuable new export opportunities for Indian companies.

Of all the economic reforms India has implemented over the past 10 years, the adoption of a more liberalized trading regime has the potential to pay the biggest, and the most lasting, dividends. The World Bank conducted a study recently of developing countries that opened themselves to global competition in the 1990s, and of those that did not. The income per person for globalizing developing countries grew more than five percent a year. For non-globalizing countries, it fell a little over one percent a year. The absolute poverty rates for globalizing developing countries fell sharply over the past 20 years.

We have seen that increased trade promotes growth, which leads to improved working conditions, more resources to protect the environment, increased opportunities for women, and greater investment in education.

Active and constructive participation in a new trading round would provide India with the opportunity to amplify its voice and help shape the rules of globalization. Withdrawal will leave the field to others. The sooner India supports new negotiations, the more influential it will be.

India and the United States share a number of objectives for a new global trade round. Hollywood and Bollywood -- and our software industries -- lead both countries to have an interest in audio visual services and copyright protection. We can promote more open trade in agriculture, reduced barriers for services, and more manufacturing trade. We can work cooperatively to thwart efforts to employ labor and environmental concerns for protectionist purposes. And in electronic commerce, India and the United States will benefit from an open network in which we both add value.

Some in India have complained that the difficulty of implementing the obligations of the last global trade negotiation -- the Uruguay Round -- has caused them to miss out on benefits. The United States is working with other developed nations to address legitimate implementation concerns in coming months and has already offered adjustments. We will also be willing to consider other concerns as part of a new negotiation. And we recognize the need to provide aid and other financial support, including through the World Bank, to help developing countries build the capacity to take part in trade negotiations and to follow through on agreements.

Yet Indians also need to honestly assess the very real benefits of the Uruguay Round for India and other developing nations. India now supplies \$2.8 billion worth of textile products to the United States -- an 84 percent increase because of the reduction of U.S. barriers through the Uruguay Round. During the same period, India’s exports of agricultural goods to the United States grew 74 percent, information technology grew 246 percent, and furniture grew 400 percent. The total value of India’s exports to the United States has more than doubled -- a

growth rate faster than for the rest of the world. Over half of these Indian imports entered the United States duty free. Today, the United States is India's largest trading partner, buying 22 percent of your overseas sales.

Beyond the mere numbers are the success stories of economic cross-fertilization -- of the augmentation of international capital through trade, investment, business contacts, IT exchanges, and myriad relationships that add value for all involved.

The Uruguay Round served another valuable purpose: it continued the post-World War II momentum in favor of opening the world's markets to trade. After the debacle in Seattle in 1999, that momentum is once again in question. The history of the 20th century has shown us that there can be an extraordinarily high economic -- and political -- price of a breakdown in the global trading order. That is why we must remove the stain of Seattle by launching a new global trade round in Doha in November.

We need the active participation of all WTO members in the weeks ahead. By the end of the year, China will be a member of the WTO. Already, China has actively supported the launch of a new global trade round of growth and development.

You will not be surprised if I observe that the emerging strategic relationship between our two great democracies will not be resilient and growing if we fail to draw our economies closer together. Indeed, our private sectors are leading the way. Therefore, I am seeking close governmental cooperation on trade --bilaterally and for the global trading system.

Conclusion

It is a privilege to be at the center of the trade debate at such a time in history. Open trade reflects the spirit of the new century.

The United States and India should leverage this dynamism to open minds and to open markets. Our policies must promote these global trends. We must take practical steps to move the world toward greater freedom and promotion of human rights by linking ourselves to the agents of global change: the new networks of free trade, information, investment, and ideas.

We will have occasional disputes, but the root of our relationship should be strong and healthy -- the shared value that honors an individual's right to economic, political and human freedom. And if we tend to it properly, that root will spawn a century of prosperity and freedom unequalled in human history.

I began my remarks by quoting a speech Nehru delivered on the evening of August 14, 1947. Later that evening, he delivered a radio address to the nation. In it, he said, "We have hard work ahead. There is no resting for any one of us till we redeem our pledge in full, till we make all the people of India what destiny intended them to be."

I am here to learn what destiny Indians now seek. I believe and hope that it is a shared destiny with America. And if you agree, I am committed to working with you as a partner and a friend. Together, we hope Lord Gnesh brings good fortune to our joint endeavors -- so together we can meet the challenges of the future.