INFORMATION TECHNOLOGY AND U.S. INDIA RELATIONS: A FRAMEWORK FOR INCREASED COOPERATION

Remarks of Ambassador Susan G. Esserman
Deputy U.S. Trade Representative

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Good evening, I am especially delighted to be here for the 25th anniversary meeting of the USIBC. I have seen first hand the innovative and active role that this Council plays in promoting US-Indo relations and expanded commerce between our nations. We greatly appreciate the USIBC's contribution and dedication to progress and greater understanding between the United States and India.

We gather together at a moment of enormous potential for U.S.-India relations and for expanding exponentially our commercial ties and opportunities. With the historic visit of President Clinton to India, we are inaugurating a new era of cooperation and partnership, based on mutual trust, respect, and benefit. Trade is a critical part of that partnership, as clearly, in the age of globalization, our futures are intertwined.

Our leaders pledged during the President's visit "to reduce impediments to bilateral trade and expand commerce between us, especially in the knowledge based industries and high technology areas." The U.S. and India have an opportunity and responsibility to translate this aura of goodwill and our leaders' pledge into dramatic and concrete new gains in our trade and investment. But it is up to us to seize this opportunity.

We also have the opportunity to build on and further learn from the vibrant Indian community in the United States and the growing links and exchange of goods, services, people, knowledge, and the understanding this community fosters. We have gained from the important insight, experience, and perspective of this community as we seek to forge stronger ties and shape our relationship with India.

We are fortunate that companies and associations in both countries are committed to moving the economic relationship forward. We applaud, in particular, the goals and objectives of the Indo - U.S. Knowledge Trade Initiative which seeks to “project India and the United States as cooperative, progressive actors in the emerging global information economy.”

Underlying the knowledge initiative are several important premises which we share:

First, it recognizes the leadership role that each country has played in pioneering the information technology revolution and the importance of this sector to economic success and greater well-being in our countries. India is emerging as an information technology powerhouse, using its software, design, and computer processing capabilities to become an ecommerce hub. U.S. companies are deeply involved in investments and partnership with Indian firms. The potential for growth, exchange, and partnership is bright, especially given the dynamism and contribution of the Indian American community. Our trade in this area is burgeoning. India's software and related services exports have grown ten-fold since 1992, reaching $2.6 billion last year. Today, nearly three-quarters of those exports go to the United States.

Second, the initiative also recognizes the important contribution of the knowledge fields to the enhancement of education and health services and the alleviation of poverty in our countries and around the world.

Third, it draws on the fact that India's most successful sectors are those that are most integrated in the world economy. Unlike other sectors of the Indian economy, which have long been subject to government control, high technology is an area where the Indian government has allowed Indian entrepreneurs and individuals to take full advantage of their skills and ideas in an open marketplace. This is the same story behind the growth of Silicon Valley and the Internet and it is a lesson that applies more broadly than just to the IT sector.

Fourth, the initiative recognizes the importance of acting with expedition. The pace of economic and technological change is dramatic, and the world will not wait. In the area of information technology, governments do not have the same luxury of time to dismantle trade barriers as occurred in the goods trade over the past 50 years. Here we must be vigilant to prevent the erection of unnecessary trade barriers in the first instance.

Moreover, other emerging economies --especially in Asia and which are already more integrated in the world economy than India --will obviously be seeking to expand their presence in high tech fields where India is prominent The countries of Southeast Asia have already made vast investments in their infrastructure, and are working to improve the skill levels of their workers. China is moving into the WTO, with dramatic new market opening in key services sectors, and an average industrial tariff level of just over 10 percent.

Finally, the vision put forward by the Knowledge Initiative recognizes that the ability to promote trade, attract investment and raise living standards on a sustained basis depends not just on one or two successful industries, but on the development of a sound infrastructure and a strong continuing commitment to reform.

The challenge for us in government is to match the leadership and ingenuity of our private sectors with forward looking trade policies that facilitate commerce and anticipate the dynamism and change expected in the information technology fields, keeping in mind the premises I have outlined. I would like to layout a framework for a government role to that end.

First, commensurate with our private sectors' primacy in this sector, we should take the lead (and not lag) in promoting policies that prevent trade restrictions from hindering the growth in this exciting new field. The role of governments is quite simple: to make sure that trade is not impeded by the erection of barriers in the first place. In the WTO, we should create a framework to enable ecommerce to flourish. Specifically, we should adopt measures in the WTO to extend the moratorium on customs duties on electronic commerce and agree that measures in this area should be non-discriminatory and should not pose unnecessary barriers to trade. These principles should be adopted now. There is no reason to wait for the launch of broader trade negotiations.

Second, we should continue to eliminate tariffs on information technology products by concluding now the second phase of the Information Technology Agreement, known as ITA II. India and the United States agreed to the Information Technology Agreement I, which eliminated tariffs in a wide range of IT products. Some have referred to this as the largest worldwide tax cut ever enacted, resulting in duty savings in billions of dollars on virtually the entire Internet hardware infrastructure: from semiconductors to computers to telecommunications equipment. India has been one of the major beneficiaries of the open markets brought about by the ITA, spurring growth and exports and improving the competitiveness of India's critical software sector.

The ITA II includes a limited but important array of products: printed circuit board manufacturing equipment, some consumer electronics, components and other products. All offer India opportunities as a center for investment in high tech industry and equally important indirect opportunities as a premier producer of the software that drives many of these new products.

Third, we should work together in the ongoing global services negotiations to open markets in a range of high tech fields including software development, computer services, ecommerce, and entertainment. Ecommerce services will be important in these ongoing services negotiations, particularly as most services can be delivered electronically, something that was not possible before. We ought to work together to also find a way to integrate ecommerce into the ongoing services negotiations.

Fourth, a regulatory approach should be adopted and maintained that promotes growth, infrastructure development, and investment critical to information technology. I'd like to briefly mention three areas.

Telecommunications: In the telecommunications sector - the lifeblood of the information economy- India's recent steps to liberalize are important and further steps would enhance growth in e-commerce and other knowledge based industries. In telecommunications, India needs the infrastructure, the technology, and skills that foreign investment brings, and a regulatory structure to ensure that the benefits of vigorous competition are realized.

Customs: We also must make sure that our customs regimes meet the needs of our new information economy and we should work together in trade facilitation matters in the WTO to this end. While information technology has become a key enabler for economic growth, it has also

brought about fundamental changes in how business is conducted. India's strength in the software area has made it a key player in the just-in-time global economy where speed has become the byword: speed of communication, speed in movement of goods, speed of changes in sourcing patterns, and speed in product cycles. Indeed, in many product areas, speed- to-market has become an increasingly important factor -- and in some areas even more important than price factors. This means--more than ever before-- that investors and the trading community need to be able to know in a real-time manner what the customs rules are, and operators need to be able to move their goods into the market place as quickly as possible. These two factors are the most important elements that will bring about an environment that can serve as a fundamental infrastructure increasingly needed for participating in the networked economy, an economy where India is poised to thrive.

Taxation: We should also avoid regulatory policies, such as in the areas of taxation, which hinder U.S. ecommerce activity and investment in India. We are greatly concerned that actions by Indian tax authorities which are out of step with other nations practices will have these adverse effects. We hope these issues will be addressed promptly.

Fifth, we must make sure our enforcement of intellectual property rights is updated to the digital environment. Electronic networks provide a revolutionary means for distributing digital products. Capturing the benefits of this electronic medium, while protecting the rights of stakeholders is one of the most important challenges we face. We will be looking to the advice of our private sectors in this area.

Finally, as I have indicated, success in the high tech sector depends on an overall competitive economy. Unquestionably, a major impediment to India's increased trade and investment are its tariff and non-tariff barriers -- among the world's highest. These barriers act to impede India's own prospects for higher growth, rising living standards, and technological innovation. These barriers effectively raise the price of goods for families, force businesses and farmers to pay higher prices for inputs, and reduce India's overall growth prospects.

We have an opportunity now – if we choose to seize it – to build upon the spirit, partnership, and goodwill to expand trade. This is not only true for the high tech sector, but other areas where we can mutually reduce barriers to export trade.

In summary, our governments must work to turn the vision of closer ties articulated by our leaders this year into concrete achievement. We have the opportunity to be partners in the high-tech area, to reduce impediments to trade in other areas and to engage in a dialogue that anticipates problems, and listens and responds constructively and expeditiously to the concerns of our private sectors. Let us work confidently to seize this opportunity, so that we can be, as the President said in India, not just partners in spirit, but partners in fact.

Thank you.