

**The U.S.-India Strategic Partnership:
Catalyzing Entrepreneurship and Growth**

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I should come clean at the very outset by confessing that I'm neither a technology entrepreneur nor much of a management entrepreneur. I didn't start a business. I didn't develop a high technology product. I didn't create some path-breaking innovation, like so many Indian, non-resident Indian, and American entrepreneurs, including some of you.

But when I served in the U.S. government until just a few months ago, I did have the privilege of helping push forward the strategic partnership between the United States and India. And from my standpoint, at least, that makes me one of a group of Indian and American *policy* entrepreneurs: political leaders, diplomats, bureaucrats, legislators, businesspeople, students, scholars and ordinary citizens who recognized—and then sought to capitalize on—important and emerging economic and strategic possibilities between our countries.

Absolutely nothing about this partnership has been inevitable. If it had, we would have been strategic partners long ago.

But like entrepreneurs, who question assumptions, take risks, break a little china, and ultimately turn big ideas into path-breaking innovations, those of us who have, in whatever

measure, worked on behalf of U.S.-India relations have had, in some sense, also to be entrepreneurs.

Ask yourself, for instance, just how it could be that the world's largest democracy and its oldest democracy ended up in so much ideational and policy disagreement, rancor, and acrimony during the Cold War?

How could it be that two such entrepreneurial peoples as Indians and Americans ended up with virtually no economic content to their relations for more than fifty years?

So much about today's U.S.-India relationship was unexpected even just ten years ago. And so, much like the entrepreneurs in this room, both governments have had to turn bold ideas into policy innovations. And so the U.S.-India relationship itself became a kind of exercise in entrepreneurship, one that brought together many, many people on behalf of a very big idea.

Now, in that spirit, I thought what I would do today is to talk briefly about three things:

First, I want to provide a little context by saying something about how we got here – in other words, how the United States and India, two countries that looked so warily at each other for so long, came to forge an emerging partnership – and also what could support that partnership, or else what might set us back.

Second, I'll say something about how economics, trade, and investment fit into all that. And I'll also say something about where I think some of the obstacles to closer economic relations still lie.

Finally, I'll say something about how entrepreneurship has contributed—and, I think, can contribute still more—to our relations.

So let me start with the United States and India. Frankly, this is a partnership that should have emerged long ago, but didn't. And I don't need to review the many reasons why, or the aborted earlier efforts to remove some of the old acrimony.

Suffice it to say that the three main obstacles to closer U.S.-India relations have, after several decades, been removed:

The first obstacle was, of course, the Cold War. Locked in a strategic and ideological struggle with the Soviet Union, Americans sought partners and, yes, Americans asked countries to choose sides.

India's nonalignment—which some Americans saw as a quasi-alignment with the Soviet Union—did not fit easily with that worldview. And so as India has reassessed its *own* priorities and strategic options in the wake of the Soviet collapse, the United States, too, has found some common ground with India amidst the geopolitical and geoeconomic changes that flowed from the end of the Cold War.

A second obstacle—and it was a big one—was the almost complete lack of economic content to our relations. And you here in India know the reasons for that better than anyone.

Quite simply, India was not well integrated into the global economy, and certainly not into the global supply chains that have linked so many Asian and other countries to the U.S. economy. Until the 1990s, India also pursued policies that made trade with, and investment by, Americans especially difficult.

The final obstacle involved India's nuclear program. And this, too, proved to be a very big obstacle indeed.

As you may know, the Clinton Administration sought to improve U.S.-India relations without taking some of the steps that its successor took in this area. And that revealed, I think, some of the limits on our relationship, especially from an Indian vantage point.

Indeed, overcoming those limits became, in many ways, the underlying basis for the civil nuclear deal completed last year. And so while I don't need to review in detail the rationales for the deal, I should at least note that, from an Indian perspective—and on a fairly bipartisan basis between NDA and UPA governments—there was a perceived contradiction between America's efforts to pursue a strategic partnership with India, on the one hand, while, on the other, pursuing policies that made India a principal target of American nonproliferation sanctions. That, together with environmental, energy, and commercial-related arguments—as well as India's nonproliferation record and commitments—pushed both sides toward the deal.

All three obstacles have now been removed.

The Cold War is over. And we have built a partnership on a number of key economic and diplomatic issues.

Our relations no longer lack economic content, in large part because India embarked on economic reforms in 1991 that have utterly changed the landscape here. And these reforms helped to create the conditions for the economic content to our relations that had eluded us for so long.

Indeed, India is now one of America's fastest-growing trading partners. And two-way trade nearly doubled between 2004 and 2007, from just under \$30 billion to about \$60 billion. This still pales in comparison to the more than \$350 billion U.S.-China trading relationship – China is America's second-largest national trading partner. But the trend is clear and the trajectory is accelerating. And investment is no longer just one-way. Indian companies, too, are investing in the United States. Essar, for instance, bought Minnesota Steel.

Finally, then, as I said, the civil nuclear agreement removed the third obstacle to closer relations. And so we are well positioned to take U.S.-India relations to the next level.

Now, that doesn't mean we are going to agree on everything. I, for one, am concerned, for instance, about how our governments will manage disagreements on climate and the future of the international trading regime.

Entrepreneurs in both countries may be developing green technologies, but there will be a potentially contentious debate ahead about the *demand* side of controlling emissions—caps and such—as we move toward the Copenhagen conference this fall, which will seek to develop a new international convention to replace Kyoto.

We'll also have to manage some disagreements about the international trade regime that scuttled efforts last year to complete the Doha round. And arms control, too, will be an issue that requires careful management as the United States focuses again on the Comprehensive Test Ban Treaty, and as we move toward a Nuclear Nonproliferation Treaty review conference.

But having said that, we've developed habits of cooperation that were unthinkable even five years ago. We've learned a lot about each other. And we're working in unprecedented ways on everything from counterterrorism to defense sales to education – for instance, through conversion of the American Fulbright program into a jointly funded Fulbright-Nehru fellowship that will expand and extend such opportunities in higher education.

So I think we can look back with pride on an absolutely transformational period in U.S.-India relations.

In fact, if you look back not very far into history—just 12 or 13 years—there was a time in the United States when people thought very little about India at all, especially in elite American foreign policy opinion, and even, for that matter, in elite corporate and business opinion. And when people *did* think about India, it was almost always in the narrow context of South Asia – usually hyphenated with Pakistan. So everything was “Indo-Pak” this or “Indo-Pak” that: Indo-Pak nuclear balance, Indo-Pak force balance, Indo-Pak relations.

That's changed. And I think the change has a lot to do with what's happened in India—the emergence of India as a global player economically—but also with what's happened in the

United States. The world of 2009 just isn't the world of 1949, and we Americans know that. Countries like India bulk larger in the world economy.

And there are ties that bind us now that are developing in *spite* of government. These are the ties between people like you: entrepreneurs, businesspeople, students. We have 95,000 Indian students in the United States, more than from any country in the world. Nearly three million Indian-Americans have played a vital role in forging closer ties between our countries. And for its part, India has made great strides in welcoming non-resident Indians living in the United States and elsewhere to become entrepreneurs here in India.

And so these people—and their contacts with one another—form a kind of “living bridge,” a very human bridge that increasingly binds the United States and India together.

Now, let me turn to economics and trade. As I said, we have a fast-growing partnership. And it isn't just big companies anymore.

A February 2008 small and medium-sized enterprise summit on the margins of the U.S.-India Trade Policy Forum drew around 60 Indian SMEs, while on the U.S. side, companies like FedEx and UPS have been involved in helping American SMEs in their approach to India. For instance, FedEx recently led a trade mission to India of 15-20 U.S. SMEs.

But one statistic, in particular, suggests to me some of the obstacles: While the United States is India's number one trading partner in goods and services, India is America's number 17 trading partner. And that puts it in down the list and in a league with countries as small as Belgium and Ireland and Singapore and Malaysia – countries with populations of between just 4 and 20 million.

So how did this happen?

Well, first, it reflects the legacy I described earlier: we're playing catch-up after decades in which our relations lacked economic content. But it's a function, too, of a series of structural

impediments – some of which the Indian Government is working hard to address, others of which we are seeking to address jointly, but some of which still have some ways to go.

I'm sure you know the list – and, yes, it's a list with an American perspective. But, then, one goal here—and certainly at a conference like this—should be to seek ways to foster investment, support transnational networks of entrepreneurs, and encourage companies from the United States and India to find each other. So we need to be straightforward about what the obstacles are.

And I know, in any case, that the Indian government—and many Indian companies, for that matter—have their own list of obstacles that they see in the United States: rising protectionist sentiment, the question of technology licenses, and visa policies and processing. These undoubtedly will continue to form part of the U.S.-India conversation.

But what are some of these impediments?

Investment caps, of course, including in sectors of greatest interest to American firms, such as retail and the financial sector. And I certainly know this is politically controversial here. Infrastructure. Bureaucracy and regulations that, despite government efforts, continue to overwhelm all other factors as potential deterrents to starting a business in India. RAND's research—and some of the research you're going to hear about at this conference—illuminates these points.

Likewise with the availability of skilled workers – the bedrock on which Indian growth has been based. Over the last few years, a surplus has turned into a shortage.

And then there are educational reforms, which could help to keep Indian students, who so often choose to go abroad, here in India.

The research shows that these are critical concerns to business, not just to non-resident Indians but also to U.S. and other entrepreneurs interested in starting businesses in India.

And there are other challenges: regulations, tax laws, capital requirements, repatriation of profits as applied to foreign-owned business in India. In all of these areas, transnational entrepreneurs have a stake.

The good news, I think, is that the Government of India is well aware of these issues. It has ambitious plans for infrastructure, and this, too, has formed part of the U.S.-India conversation. And the government now has a strong electoral mandate to weigh the next stages of liberalization and reform.

This, ultimately, is something only India can do. It isn't for foreigners to decide India's best course. And goodness knows, there's a lot of debate here and elsewhere in the wake of the global financial crisis about "American" ideas.

But India is ever more deeply intertwined into the fabric of the global economy. Why did the crisis hit here in India, even though some believed its growth model and comparative lack of trade integration could insulate it? As Reserve Bank Governor Subbarao recently told a Washington audience, it has a lot to do with India's financial integration – in other words, Indian corporates borrowed heavily abroad. And so even with a cautious *national* policy on financial liberalization here in India, we still live in a world where India is deeply integrated in other, sometimes unexpected, ways. And there's simply no denying the degree to which India's choices—private and public—have already made it an increasingly important part of the global economic system.

The trick with reform, then, is to remove the bottlenecks that, too often, stifle even Indian entrepreneurship. And so given those challenges, the sessions at this conference on increasing entrepreneurship in education and infrastructure should be immensely useful in debating issues such as foreign direct investment in education and public-private partnerships in infrastructure.

Now, I want to just conclude with one more word about entrepreneurship. It's of course a key engine of economic growth, and it's something at which Indians and Americans really do excel.

Since the liberalization of the 1990s, there are clear signs that entrepreneurship has been on the rise in India. But different states have different initiatives, and analysis from other countries has shown that policies aimed at small businesses have not always helped. So this conference can help to fill that gap.

As our colleagues from RAND, Legatum, and the Indian School of Business will tell us, entrepreneurship can happen in a large firm or a small firm, or among those who aren't currently entrepreneurs. And so through policies geared *discretely* toward each of these groups, India can, one hopes, achieve in parallel its dual goals of rapid growth and inclusiveness.

Ultimately, I suspect, this will require something of a public-private partnership – because as I said, this is one of those relationships that has moved forward, in large part in spite of government.

Indian immigrants in the United States, in particular, have a wide range of professional ties to India, returning regularly for business, and to exchange technology and labor market information with colleagues and friends. Some advise companies. Others invest in start-ups and venture funds. And still others have played an advisory role to the Indian Government – and, for that matter, to the U.S. Government.

So we can only hope that state and local policymakers concerned with economic development recognize the growing importance of relationships with local entrepreneurs.

Economic activity, particularly information-technology-related entrepreneurship, is highly localized everywhere in the world: in Silicon Valley; in Massachusetts; in Beijing's Zhongguancun neighborhood; and here in South India. And that means regional governments are closest to—and are usually the most aggressive in promoting—technology-related entrepreneurship and growth.

This suggests that coordination between the U.S. and Indian governments needs to be complemented by efforts at the state and local levels. Even as the Indian government weighs national-level education reforms—and even as the U.S. and Indian governments work together on initiatives like the new Fulbright-Nehru program—issues related to education and training, corporate incorporation and location, monitoring of occupational health and safety standards, environmental impact, venture capital flows, even certain types of taxation, might also be addressed at the regional and state levels.

Large firms can always find each other: Boeing and Air India. Lockheed and the Indian military. General Electric and Westinghouse and, I hope, NPCIL. But small and medium-sized enterprises need more help: national help, state-level help, and ultimately, policy incentives from both countries. Indeed, the challenges to large firms, both Indian and American, are exacerbated in the SME sector precisely *because* they don't have the same resources as large multinationals.

The business climate matters. For instance, the World Bank's 2009 survey "Doing Business" tells us it takes 30 days to start a business in India, and 17 days to export a product. This is an affirmative change from the 89 days it took to start a business in 2004, and 36 that it took to export something. But it's still a challenge for small and medium-sized enterprises, which have smaller margins, shorter timeframes, and higher transactions costs.

So that's the task ahead. And that's some of what I hope we'll learn about at this conference—and some of what we all seek innovative policy and management solutions to. It is, as I said, just an incredibly exciting time for Americans and Indians to be involved with one another. So I look forward to the conversation.

Thanks for having me.