Politics and economics India style

Largest democracy a proponent of democratic reform

Atul Keshap, Pushpinder Dhillon and John Peters

At a meeting with staff members of the U.S. Embassy in New Delhi, the Global Executive Forum was briefed by:

- Atul Keshap, Deputy Administrative Counsel for Political Affairs, on the current political environment and India’s relationship with the United States;
- Pushpinder Dhillon, First Secretary of Economic Research, on the current economic situation;
- John Peters, Counselor for Commercial Affairs, on conditions in general.

Forum member Earl L. Wright provided the information for this report. Wright is president/chief executive officer of AMG National Trust Bank, a nationally chartered, non-depository trust bank headquartered in Denver with regional banks in Chicago, New York and Philadelphia.

Shared values – a commitment to democracy and economic development – are helping the United States and India form a closer partnership as they move forward on a series of agreements designed to advance the goals of each country.

“The United States and India have signed 18 joint-venture agreements in the six month period ending March 2006,” says Earl Wright, reporting on a presentation by Atul Keshap, Deputy Administrative Counsel for Political Affairs, U.S. Embassy India.

“The agreements stem from a pact signed on July 18, 2005, by Prime Minister Manmohan Singh and President Bush and are part of the NSSP initiative (Next Steps in Strategic Partnership), launched in January 2004. “The pact calls for the integration of relationships in 15 different areas. Agriculture, high tech, science, space, civil use of nuclear power, education and global democracy are among the areas impacted,” says Wright.

Atul Keshap expressed the opinion that the pact of 7-18-05 would achieve great global power for India and set a very positive foundation for the US-India relationship going forward.

“India is a strong proponent of worldwide democratic reform. It is their belief that they are much safer when they are surrounded by democracies. While they would not like to see Iran have nuclear bombs, they don’t want to be forced by the United States to take a position on a time line not their own. Their position will be on their terms and in their best interest.”

As with other speakers, “the issue of India versus China came up. And without fail, China was once again described as a global economic power with a huge appetite for consumption of materials in their manufacturing base. Whereas India is considered a global economic power with significant indigenous services and resources. They feel they have an ability to generate more effective growth with less foreign direct investment.

“Because of its relatively isolationist geographic perspective, India has not developed a culture that makes them particularly aggressive with regards to their views and reaching out to the economic environment,” says Wright.
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“Petroleum diplomacy and support of world democracies are important in India’s ability to sustain future growth. It does not appear, however, that the government has specific principles or policies as to how they can handle their long-term energy needs.

“Atul Keshap pointed out that opportunities for US companies trying to do business in India are a mile deep, but pursuing them effectively requires sound advice and planning up front with an Indian partner and adequate investments. That done, good profits should result.”

Government regulations

Speaking on the economic outlook of India, Pushpinder Dhillon, First Secretary of Economic Research, US Embassy India, noted that reforms since 1991 have had a positive effect on the ability of the country to grow, reports Earl Wright.

By any measure, growth is impressive: 7-8 percent a year over the last five years, with low inflation; exports growing at the rate of 20-30 percent a year and a foreign exchange balance of $140 billion.

But some industries have yet to be included in reforms and released from government regulations. According to Wright, the agricultural sector is inefficient. Educating the rural agricultural population is critical to sustain India’s growth and accommodate the needs of the nation.

US to help India increase its civilian nuclear power

India’s looming energy crisis may be averted if the US Congress approves a deal signed on March 2 by President Bush and Indian Prime Minister Manmohan Singh in New Delhi. The deal, which has received more attention than all previous agreements between the two countries, calls for the US to help India develop its civil nuclear power program.

The foundation of this landmark agreement was laid back in January 2004, when the Next Steps in Strategic Partnership (NSSP) was signed. At that time India and the US agreed to expand cooperation in three specific areas: civilian nuclear activities, civilian space programs and high-technology trade and also to expand their dialogue on missile defense.

According to a statement from the US Department of State regarding the most recent deal, India will be able to purchase nuclear fuel and technology from the US and other countries. India needs this increased civilian nuclear capacity to help satisfy its growing energy needs and continue its economic expansion. The economic benefit is expected to be in the billions.

The agreement requires India to separate its nuclear facilities into two programs, civilian and military, and place all existing and future civilian nuclear facilities under international safeguards. It is designed to bring India into compliance with major international agreements that govern the disposition of nuclear materials and nuclear energy, according to the State Department.

India already has a nuclear bomb and that will be unaffected by the agreement. US Congressional approval is not assured. Some members of Congress fear the deal will not prevent India from expanding its nuclear weapons arsenal.
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The financial sector is burdened by government controls. Political interference, not the market, affects interest rates. “Some foreign banks have opened branches but banking is still mostly controlled by the government. The government also regulates insurance companies as to where and in what industries they can make investments outside the country.

Pension commitments are ‘funded’ with IOUs to be paid at some future time, says Wright. “Right now the IOUs represent 12 percent of the Indian budget. Considering how young the population is – 70 percent under 35, 50 percent under 25 – this is a problem that will only get worse with time.

“Another issue with the potential to negatively impact the economy is the government’s continued subsidy of food and fuel. Eventually, this issue will have to be resolved. “Privatization of telecoms has proven that the country is better off without government regulation,” says Wright. “This has been a strong motivator for privatization of the airports. Currently, airport usage is going up 30 percent per year.”

Despite these smoldering problems, “business confidence is high. The IT sector is very competitive internationally. Pharmaceuticals are doing well and the automotive sector is strong.”

However, considering all the political changes in the government, Wright wonders “how long economic reforms will last. And how the government gets the capital to grow could be difficult.

“Obviously, the growth and profit will help sustain reinvestment, but the country is growing relatively fast. It is important to note that corporate growth is really only four-five years old. Credit is starting to be made available and that’s an important part of funding the economy. However, capital from collateralizing the ownership of assets has not materialized and is unlikely to materialize with regards to the farmers and the lower income parts of the economy.

“When asked who is the most successful in negotiating and dealing with India, Pushpinder Dhillon said that the European Union seems to be more adept at dealing with Indian enterprises.”

A mixed bag

John Peters, minister-counselor for commercial affairs, touched on various aspects of the Indian environment. “He said the opportunities in exporting and investments are the best he’s ever seen,” reports Earl Wright. But that comes with a caveat.

“Peters wasn’t very bullish about the idea of investing significant dollars because of government regulations and political uncertainty within the government.” A coalition government made up of diverse interests plus a large communist block makes parliamentary agreement on any given issue difficult.

The export picture is bright whether coming or going: US-India bilateral trade in 2005 was $26.8 billion. “US merchandise exports to India increased to $8 billion in 2005 from $4 billion in 2001. Approximately half of the $8 billion represented sales of coal for Indian power plants,” says Wright. India’s merchandise exports to the US grew to $18.8 billion in 2005 from $9.7 billion in 2001. ”

Boeing in December 2005 was awarded a contract from Air India for 68 airplanes, valued at more than $11 billion at list prices.” Deliveries are scheduled to begin in November 2006. He also mentioned that there are 80,000 Indian students attending schools in the US. They spend approximately $22,000 per student. There are 63,000 from China. There is an assumption that since 9/11 visas have been hard for
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foreign students to get to come to school in the US. However, Peters pointed out that the number of foreign students has not decreased; rather, the number has flattened out.

“Tech manufacturing represents an opportunity in India. But caution is advised. The cost of shipping out of the country could potentially wipe out any savings that might be realized in the manufacturing process. The lack of good highways and ports makes the cost of exporting from India two to 47 times the cost of shipping from other Asian countries,” reports Wright. “However, tech manufacturers have 12 Deming awards and 80 out of 115 Level 5 certifications have been achieved by Indian companies.” Named for Dr. W. Edwards Deming, the award recognizes corporations and individuals who demonstrate an outstanding commitment to quality control, and whose products or inventions make exceptional advances in the pursuit of quality.

“The difficulty is that even with all the growth in the Indian economy, the infrastructure cannot support it going forward,” says Wright. “Water and energy are going to be huge problems in the high tech industry. Thus, India is limited as to how rapidly it can build this manufacturing capability.”

Help for businesses wanting to explore India

There are a lot of opportunities for small businesses overseas but they are often unaware of it. “This was one of the main themes in the presentation by John Peters, Counselor for Commercial Affairs at the U.S. Embassy in New Delhi,” says Earl Wright.

Despite the opportunities, smaller companies are challenged to find the right partner and to achieve the economic and political clout necessary for solving unexpected problems that can derail a business plan. “Large companies don’t have this problem,” says Wright. “Because of their financial power and their ability to work with the government, they have a better potential for success in India.

“The biggest failures embassy people see result from companies failing to get professional guidance relating to financial, legal, bureaucratic and people issues. When things go bad for a foreign business, close to half the time it is because of a poor choice of an Indian partner.”

An invaluable resource for companies new to India, Wright says, is the US Commercial Service India (CS). The CS is an export promotion agency of the U.S. Department of Commerce, helps US firms export goods and services to India. The CS also helps Indian firms in their search for US products and trade partners.

“The primary purpose of the CS is to stimulate the export of goods from the US into India as well as encourage Indian companies to move into the US for the production of some of their goods. For a reasonable fee, the CS helps companies find deals and partners and advises them on the Indian and US markets.

“The success of the CS contributes to the improvement of our balance of payments,” says Wright. In addition to the U.S. Embassy in New Delhi, US citizens can seek help from consulates in Calcutta, Chennai and Mumbai.