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NATIONAL ASSOCIATION OF Manufacturers

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Pre-Hearing Statement

of the National Association of Manufacturers
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before the United States International Trade Commission

on “Trade, Investment and Industrial Policies in India: Effects on the U.S. Economy” (Investigation No. 332-543)

January 30, 2014

PRE-HEARING STATEMENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS BEFORE THE

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Inv. 332-543

JANUARY 30, 2014

Chairman Williamson and members of the Commission, the National Association of Manufacturers (NAM) appreciates the opportunity to submit this statement on India's discriminatory trade and industrial policies and their impact on manufacturers in the United States. We expect to provide additional information and documentation to supplement this pre-hearing statement in a subsequent post-hearing brief or written submission.

The NAM is the largest industrial trade association in the United States, representing manufacturers small and large in all 50 states. Our membership includes multinational businesses with operations in many countries, as well as small and medium-sized firms active in international trade. Across the country, manufacturing employs nearly 12 million women and men and accounts for two-thirds of private-sector research and development.

Today, India is a major global economy with rising household incomes and a burgeoning middle class. It boasts one of the world's largest economies, bigger than South Korea, Mexico, Canada and Australia, and a rising middle income country according to the World Bank.[1] India also accounts for a significant share of international trade. India's stake in global merchandise exports nearly quadrupled over the last 30 years, catapulting the country into the ranks of the top twenty trading nations.[2]

Manufacturers in the United States have long been partners in India's growth and development. As the country pursued economic reforms launched in the 1990s and opened important sectors to new investment, manufacturers expanded bilateral commercial ties and have sought to continue to grow commercial partnerships.

Over the last two years, however, we have seen a damaging pattern of actions in India that are discriminating against a wide array of products and putting at risk a bilateral trading relationship worth more than $60 billion in 2012.

Through discriminatory industrial policies implemented by a wide array of means, India is systematically blocking imports and forcing the local production of everything from automobiles, textiles and steel to high-tech, clean energy equipment, medicines and medical devices. These policies serve to favor India's domestic corporations at the expense of manufacturing and jobs in the United States and elsewhere. Numerous U.S. government reports have detailed widespread concerns with India's discriminatory and access-limiting policies and actions.[3] Concerns over India's policies are widespread globally and reflected in

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[1] *Worldbank,* "Country and Lending Groups," *accessed at* http://data.worldbank.org/about/country-classifications/country-and-lending-groups;World Bank, *accessed* at http://data.worldbank.org/indicator/NY.GDP.MKTP.CD.
[2] World Trade Organization, **International Trade Statistics 2013**.
[3] See, for example, the 2013 National Trade Estimates Report on Foreign Trade Barriers, the 2013 Report on Technical Barriers to Trade, the 2013 Section 1377 Review on Compliance with

their decline in rankings in major independent reviews of each of the world's economies. According to the highly respected World Economic Forum's *Global Enabling Trade Report*, India's trading regime already dropped to 100th in the world (out of 132) in 2012 in terms of how its economy ranks in terms of enabling trade.[4] Similarly, India ranks 134 out of 189 countries on the World Bank's *Doing Business* report – below Papua New Guinea, Swaziland and Yemen.[5]

Tariffs are the oldest tool in India's industrial policy arsenal. To promote domestic auto and textile production, India maintains duties on these products that can range as high as 75 or even 300 percent. Overall U.S. exports to India face an average applied tariff of more than 13 percent – over six times higher than U.S. duties on Indian goods.[6] Little wonder U.S. exports to India have inched along over the last decade while India's sales to the United States have grown tenfold, contributing to an $18 billion trade deficit.[7]

In 2012, India became the fifth largest steel manufacturer in the world. But the Indian government recently increased export duties on key manufacturing inputs like iron ore, iron ore fines and chromium to drive down costs and promote local production. Some Indian states are even pushing to ban ore exports altogether, which would do significant damage to international markets.

Telecommunications Trade Agreements, and the 2013 Special 301 Report. USTR will be issuing the 2014 reports in the coming months.

[4] World Economic Forum, **Global Enabling Trade Report 2012**, *accessed at* http://www.weforum.org/reports/global-enabling-trade-report-2012.

[5] World Bank, **Doing Business 2014,** *accessed at* http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Full-Report.pdf.

[6] *World Trade Organization*, "Tariff Analysis," *accessed at* http://tariffanalysis.wto.org/report/TariffAverages.aspx.

[7] U.S. Department of Commerce, TradeStats Express.

But import and export duties are far from the only means India uses to advance its industrial policy goals. The Indian government is imposing local content requirements and denying or revoking patents to “induce the building of more manufacturing capabilities and technologies within the country”, particularly in “industries with strategic significance” and “industries where India enjoys a competitive advantage.”[8]

One such strategic industry is clean energy. India is requiring developers of solar photovoltaic projects employing crystalline silicon solar technology to use only solar modules and cells manufactured in India. India reportedly is considering whether to expand the scope of this rule to include solar thin film technologies that comprise the majority of U.S. solar exports to India. In February 2013, the United States filed a WTO dispute challenging India’s solar local content requirements.[9]

Another strategic industry is telecommunications. Beginning in late 2009, India has sought to impose multiple, burdensome requirements designed to promote the domestic production of telecommunications equipment and products at the expense of goods manufactured in the United States and elsewhere.[10] For example, new regulations would require local testing of all network equipment acquired by telecommunications service providers. And while India’s proposed

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[8] See “National Manufacturing Policy,” Government of India Ministry of Commerce & Industry Department of Industrial Policy & Promotion (Manufacturing Policy Section), Press Note No. 2 (2011 SERIES) accessed at http://commerce.nic.in/ann/National_Manfacturing_Policy2011.pdf.

[9] “United States Challenges India’s Restrictions on U.S. Solar Exports,” USTR (Feb. 2013), *accessed at http://www.ustr.gov/about-us/press-office/press-releases/2013/february/us-challenges-india-restrictions-solar.*

[10] USTR, **2013 Section 1377 Review on Compliance with Telecommunications Trade Agreements** (2013), *accessed at http://www.ustr.gov/sites/default/files/04032013%202013%20SECTION%201377%20Review.pdf.*

local content mandates appear to have been put on hold, there remains substantial uncertainty in this market as a result of India's actions over the past several years.

Coupled with intrusive facility inspections that can put sensitive trade secrets and other intellectual property at risk, this requirement is extremely onerous in light of international standards and the availability of internationally accredited laboratories that can conduct tests. India lacks the capacity to do such testing in a manner that is efficient and does not disrupt complex global supply chains. The requirement is not feasible at this time and is far out of step with global standards or best practices.

To benefit its domestic generic drug industry, India has denied, revoked or compulsory licensed patents for more than a dozen innovative medicines designed to treat cancer, diabetes and other chronic diseases. This includes medicines that were distributed in India free of charge or sold at a small fraction of their cost in the United States. India bans imports of remanufactured medical imaging devices and other equipment, while allowing sales of such equipment remanufactured in India.

The combined effect of India's industrial policies is to block or prevent imports of a growing range of manufactured goods from the United States and other countries in a misguided attempt to provide an unfair advantage to its own domestic industry. Through a variety of means, India is seeking to force the local production of these manufactured goods without regard to the efficient allocation of resources or other commercial and economic considerations.

The actual and potential impact of these policies is significant. An analysis by the Peterson Institute estimated that just one kind of industrial policy tool maintained by India and other countries, local content rules, reduced world trade by $93 billion annually.[11] At a time when global trade has been stubbornly slow to rebound from pre-recession levels, eliminating industrial policies implemented through local content rules and other means could have a huge impact on welfare in India and around the world.

Policies that deny manufacturers in the United States the chance to compete abroad put at risk today's jobs and tomorrow's opportunities. Exports are a critical engine of growth and job creation for businesses large and small. A recent Brookings Institute report found that exports accounted for more than half of output growth in the 100 largest U.S. metro areas between 2009 and 2012.[12] According to the Commerce Department, two of every nine American manufacturing jobs are tied to exports.[13]

These effects are compounded by the size and influence of India's economy and the nature of the sectors harmed. With nearly 20 percent of the world's consumers and growing international profile, the effect of India's discriminatory industrial policies are all the more devastating manufacturing and jobs in the United States and in countries like Nepal, Mauritius and Sri Lanka that send more than a quarter of their total exports to India.

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[11] Gary Clyde Hufbauer, Jeffrey F. Schott and others, **Local Content Requirements: A Global Problem** (Sept. 2013).
[12] Brookings Institution, **Export Nation 2013** (Sept. 2013).
[13] *See, e.g.*, John Tschetter, **Exports Support American Jobs,** International Trade Research Report No. 1 (2010).

India's industrial policies not only harm overseas businesses selling to customers in that country, but also provide an unfortunate example for many other governments to follow. Already, countries like Brazil, Indonesia, Russia and South Africa are adopting similar policies aimed at forcing the local production of telecommunications equipment and medicines, including through local testing rules and requirements for the local storage of electronic data.

India's policies also target sectors that are critical to sustaining and growing innovative manufacturing in the United States. High value-added sectors like telecommunications, clean energy, pharmaceuticals and medical devices are research and capital intensive and highly dependent on international trade. They support jobs on the shop floor and in many services professions. According to McKinsey, every dollar of manufacturing output in the United States requires 19 cents in services.

India's industrial policies are inconsistent with international norms. Several appear to violate India's obligations in the World Trade Organization, including certain provisions of the GATT and Uruguay Round Agreements that prohibit local content requirements and mandate equal treatment for imported and domestic products. As a founding member of the GATT, India helped establish these fundamental "national treatment" rules some 65 years ago.

The U.S. government and manufacturers in the United States repeatedly have expressed serious concerns about India's industrial policies. To press for change, the NAM and 16 other trade associations formed the Alliance for Fair Trade with India (AFTI). President Obama, Vice President Biden, Secretary of

State Kerry, the U.S. Trade Representative and other top Administration officials have raised manufacturing concerns address this issue at the highest levels of the Indian government.

Unfortunately, while some discriminatory policies have been put on hold, these actions have not resulted in an end to the wide-spread discrimination against exports from the United States. While taking some positive steps, India has continued to expand its industrial policies to other products and sectors. Urgent solutions are needed, and manufacturers hope this investigation can contribute to that end.

The NAM commends the Senate Finance and House Ways and Means Committees for requesting this investigation and looks forward to working with the Congress and the International Trade Commission on a report that accurately describes and explains the devastating impact of India's trade and industrial policies on manufacturing and jobs in the United States.

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