Building Innovative Economies

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Today I would like to share some thoughts on how India and the United States can help each other strengthen our positions as "innovative economies." When I speak of an innovative economy, I mean one where the frontiers of knowledge and technology are being pushed out constantly and rapidly and where this knowledge and technology are applied effectively to expand productivity and improve the lives of all citizens.

Both India and the United States need high and sustained rates of economic growth in order to reach our national goals. India needs growth rates of 8% to 10% annually in order to lift hundreds of millions of its citizens out of poverty. The United States needs rates of economic growth of around 4% annually in order to educate our children and provide health care and income security for an aging population.

There are many characteristics that define an innovation economy. Today I will discuss seven of them: 1) human capital; 2) IPR protection; 3) pro-competitive regulatory systems; 4) openness to international trade and foreign investment; 5) efficient and responsive systems for moving goods across international borders; 6)comprehensive readiness for electronic business; and 7) democratic societies that protect free speech and dissent.

Let’s start with human capital. The most important assets in an innovation economy are creative minds with the freedom and institutional support to develop and apply new ideas. Here India has important strengths -- including a world-class cadre of software engineers and an institutional support system to promote S&T cooperation and to develop IT talent.

Through the Indo-U.S. Science and Technology Forum, Indian and American scientists are sharing ideas on ways to strengthen our respective capacities. The current focus of the Forum is on six subjects: nano-science and technology; genomics; brain research; computer modeling; education and the broad area of environment, energy, and health.

We need to continue to deepen this cooperation, and each country must also take steps at home. Here in the United States we need to encourage more Americans to pursue advanced training in science and engineering. In India, it will be important to broaden the educational base so that more Indians are equipped with the basic skills they need to participate in a modern economy.

A second characteristic of an innovative economy is an effective policy to protect intellectual property (IPR). Without IPR protection, new ideas do not blossom into new products and services. Stronger IPR protection will reinforce India’s efforts to attract domestic and foreign investment into its knowledge-based industries.

We are encouraged by the private sector dialogue on IPR between Indian and U.S. firms in the pharmaceutical, biotech, and other knowledge-based industries. India needs to adopt a patent law that is fully consistent with WTO rules on Trade Related Intellectual Property, or TRIPS. Such a law would be a win-win proposition.

A third important characteristic of an innovation economy is a technologically neutral and pro-competitive regulatory environment. This is especially important for the telecommunications industry.

The Government of India has made welcome progress in telecommunications reform. International long distance will be open to competition in April 2002, two years ahead of India's WTO commitment. Internet service providers will soon be allowed to bypass VSNL, the state-run international telecommunications carrier. Customs duties have been reduced on such equipment as mobile hand sets.

The new telecommunications convergence legislation could give India a chance to rationalize and streamline its regulatory structure. It will be important for this legislation to conform to basic, tested principles of independence, transparency, fairness and prompt decision-making.

Biotechnology is another sector where it is vital to establish a regulatory environment that permits innovation. Biotechnology has significant potential to contribute to food security in India and around the world. India, as one of the leaders of the green revolution, is well-placed to show the way forward to developing countries. The U.S. supports efforts to ensure that biotech can be harnessed to address the challenges and conditions in developing countries.

Food safety and environmental regulations should be science-based. Good science builds consumer confidence and underpins trade flows. We have programs to assist countries on these issues. There is significant potential for India and the United States to cooperate in ensuring that trade in biotech products is not disrupted, or protectionist sentiments, and in developing new biotech products designed especially for Indian needs.

A fourth characteristic of an innovation economy is openness to international trade and foreign investment. Some of the most innovative products to reach the U.S. market came initially as imports and some of the most innovative technologies and management practices were introduced by foreign investors. It is not an accident that the world's most innovative economy is also the one with the largest level of imports and the largest level of inward foreign investment.

Over the last decade India has made significant but unsteady progress in dismantling a protectionist trade policy. Unfortunately, the level of trade protection remains high, trapping capital and labor in inefficient uses and making the economy less responsive to new opportunities.

The November WTO Ministerial in Doha offers a golden opportunity to launch a new round of trade negotiations that could help India lay the foundation for an export-oriented, innovative economy. In addition to addressing the built-in agenda on agriculture and services, this round will provide an opportunity to ensure that traditional trade rules apply to electronic commerce.

India can be among the big winners if there is a development-oriented round that brings down barriers in both developed and developing countries. As developing trade barriers fall, India will benefit twice. First, the reduction of India's own barriers will put its economy on a more competitive, export-oriented footing. Second, the reduction of trade barriers in other developing countries will create important new export opportunities for India.

Indian business leaders should recognize that it is time for them to think globally. To create an innovation economy, business executives must have a vision of how different the future can be from the present. They must understand that demand is something that can be created. And they must recognize that it is better to compete in a dynamic global marketplace than to have a fixed share of a stagnant domestic market.

Reduced trade barriers in India and other countries around the world will stimulate a new surge of international investment flows. To get its fair share of this investment, and of the innovation it will bring, India will need to strengthen its investment environment. We welcome the significant steps India has taken in recent years, yet by any reasonable standard the level of foreign investment into India is low.

Speaking frankly, the investment dispute between the Dabhol Power Company and Maharashtra State is now casting a cloud over India's investment climate. While it is not my intention to make specific suggestions for resolving this dispute, I do want to underscore that it will be hard for foreign investors to look seriously at India until this dispute is resolved in a satisfactory way. I encourage the central government and the Indian business community to do everything they can to bring about a prompt resolution.

A fifth characteristic of an innovation economy is an efficient and responsive system of international transportation. In the innovation economy, markets move faster. Businesses need rapid and responsive supply-chains. Information technology provides businesses with tools

that make it possible to track global sales and link them to "just-in-time" supply chains, but these tools can be effective only if goods can move cheaply and reliably across national borders.

This is why I believe an Open Skies civil aviation agreement between our two countries is urgently needed. An Open Skies aviation deal would let the carriers of both sides compete and cooperate to provide a high standard of service to travelers and shippers. It would also do much to spur regional development in India. I hope the privatization of Indian Airlines and Air India later this year will provide an occasion to move forward on Open Skies.

A sixth characteristic of an innovation economy, at least in today's world, is a broad-based readiness for electronic business. Despite India's many strengths, the **Economist** magazine's website rated India 45th out of 60 countries ranked in its E-Business Readiness Assessment. Some of the factors that contribute to readiness are ones we already have discussed -- education ; IPR protection; the regulatory environment, especially for telecommunications; openness to trade and investment; and the efficiency and responsiveness of international transportation systems.

Other factors that affect E-Business Readiness include the regulatory environment for advertising and sale of goods and electronic payment and authentication systems. It is important to look comprehensively at all of the factors that determine whether electronic business can flourish. Because policies in many different areas need to be considered, we at the State Department have talked about the need for "Comprehensive Policy Readiness" for electronic business. In order to spur the development of electronic business between India and the United States, we are exploring the possibility of a joint US-India workshop on comprehensive policy readiness for electronic business.

The seventh and final characteristic of an innovation economy that I will discuss today is a political and social characteristic. Innovation is more likely to thrive in a resilient democratic society that protects free speech, welcomes new ideas, permits the free flow of information and is tolerant of constructive dissent. As democratic societies, the United States and India have important advantages in tapping the power of the information economy. We need to work together to support these principles in the various international organizations that will shape the rules for the global economy.

Democracy supports innovation in other ways as well. Innovation means change, and change can be difficult. Through democratic institutions, societies can address the dislocations that change inevitably brings. Ultimately, politics is more likely than economics to be the speed bump that slows innovation and rapid growth. Therefore, we need to use our democratic institutions to help those threatened by change to equip themselves to benefit from change.

In closing, I would like to thank the business community for its leadership and for its support of the Knowledge Trade Initiative. Working together, we can help strengthen America's and India's position as innovative economies.

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