CHAPTER – IV

Indo-U.S. Economic Relations
of Soviet Union, the disappearance of the Warsaw Pact, and the end of the Cold War are milestones in the historic year. The fall of the Berlin Wall in 1989, the sea change in Eastern Europe, the disintegration of the Soviet Union and the signing of the Maastricht Treaty to establish an economic union in Europe with a single currency and a Central Bank have ushered in a new era in international relations. This new era has renewed hopes for building a new and equitable international order for stable peace and common security and for economic and social justice. The Cold War has ended and with it the bipolar structure of the world. The collapse of the bipolar structure of the world presents unprecedented possibilities as well as challenges for cooperation among nations. Interdependence, integration, democratization and globalization of the world economy are among the new realities of international politics.

As the world moves into the 21st century, international relations are most likely to be largely determined by economic factors. There is no dispute that economic considerations have always driven foreign policy objectives of nations, big or small, powerful or weak. But the role-played by the political, military and ideological issues during decades of Cold War between the United States and the former Soviet Union would perhaps be circumscribed by the extent economic considerations assume an expanding role in international affairs in the context of post-Cold War developments. After all, during the Cold War years, economic issues were often overshadowed by political factors. Today we see several instances of economic interests taking precedence over politico-security concerns. A glaring example of this fact can be observed in the evolving nature of the Sino-American relationship. Today, actions of countries are interpreted from an economic point of view. Although power
and security constitute the nuclei of the foreign policy of every state, the emphasis on
the economic aspect of their relationship has assumed new dimensions. We already
see the emergence of economic power blocs. Europe with its European Economic
Community, the US, Mexico, and Canada with a North American Free Trade
Agreement (NAFTA), the Asia Pacific Economic Cooperation (APEC), the South
Asian countries with the South Asian Free Trade Agreement (SAFTA) are examples
of such regional trade groupings.

Now, after 40 years of arms race and Cold War, the major power blocs have
been reducing political confrontations and moving towards trade-cum-commercial
groupings. The emergence of a global economy with growth of world trade and
spread of foreign investments in the international markets coupled with the revolution
in the communication technology show that there has been a clear shift in the study of
international affairs from politics to economics. In this changing context, a new and
energetic Indo-US relationship based primary on economic interests can be envisaged
for the 21st century.

However, the end of Cold War did not bring absolute blessing for India. It did
bring about opportunities but also poses threats from the US’s unilateral behaviour as
evidenced in Iraq. What it did for India was that it removed the suspicion of the USSR
from the Indo-US relations.

**Indo-US Economic Relations: Cold War Period**

Any analysis of India-US relations will not be complete without the inclusion
of the economic interests and concerns of the two countries. India and the United
States are two great and advanced democracies, though democracy has hardly been a
defining factor in their relationship. India and the US had little interaction
strategically and politically in the post-war period. However, the absence of enthusiasm for political and strategic interaction does mean that there was total breakdown of interaction. The economic aspect of relationship tried to provide a link to the two estranged democracies from time to time. The economic relations between the two countries since Indian independence have been strong despite all differences. However, in the strained political environment the intensity of economic cooperation is much less than desirable. The common interests between India and the United States are likely to inspire movements that will help to sort out the tricky issues in the relationship.

The economic links between the two countries have to be examined from three perspectives—the US developmental assistance to India; trade relations between the two countries, and the US direct investment in this country. All three have their long-term significance in India's economic growth as well as India's relations in that regard.

During the decade after our independence, the two countries made a fantastic record in food aid. Also the way in which the PL 480 funds were ultimately liquidated in the early Seventies were instances of their economic assistance to India. The US aid to India's development had helped all sectors including agriculture, industry, health and population control, environment, technology, education and the like.

Indo-US trade relations are exceptional, in which the US has become India's largest trading partner, while India's share in US trade is very small. Indo-US trade dates back to the early 19th century when India began to export spices, cashew nuts, and jute to the United States. After independence, Indo-American trade has

diversified into a wider range of commodities and grown into enormous volume, making the US the largest trading partner of India.

The indo-American economic relationship is to be seen from the direct investment point of view also. The entry of US companies into India is very significant and this started after our independence. In 1949, when the Government of India spelled out its foreign policy on foreign collaboration, it recognized the significant role the foreign companies had to play in building this country. Since 1949, there has been a steady rise in the American private investment programmes, rising from Rs.11.2 crore in 1949 to Rs. 422 crore in 1968. While this has been the picture in 1968, this trend has continued more vigorously in the 1990s.

India and United States have come a long way in their economic relationship from one that began as a donor-recipient one in the 1950s and 1960s to one that aims at establishing a commercial alliance in the 1990s. While the US food aid to India in the 1950s and 1960s was of considerable help, the fact remains that the donor-recipient ties were not a happy experience. The undue delay in the authorization of food aid sometimes guided by American arrogance and at other times by political considerations not only begot bad blood between the two countries but also created painful memories in the Indian mind. Two successive draughts in the mid-1960s and the abrupt withdrawal of the PL-480 import facility by the United States soon thereafter, pushed the policy-makers towards evolving a new agricultural strategy of intensive cultivation through the Green Revolution and thereby meet the economy’s growing foodgrain need. U.S. policy in India up to the middle 1960s stressed the linkage of American economic assistance to India’s national developmental plans. The fatal flaw in this strategy was that failures or shortfalls in meeting India’s national

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targets, or inadequate support from the U.S. at critical points in the process, could-and did-lead to recriminations against the external partner. The US role in India had declined from the middle 1960s, while the Russian presence has increased substantially. In the 1970s, as India decisively won the war against Pakistan leading to the birth of Bangladesh, forged closer political and economic ties with the former Soviet Union, successfully dealt with its food crisis through the Green Revolution and became the sixth country in the world to explode nuclear device, the Indo-US economic ties did not register any positive growth. In March 1977, the defeat of the ruling Congress Party and the coming to power of the Janata Party opened an opportunity for the US to reconsider policies toward India, and the priorities they deserved. The Carter Administration called the Janata Party’s victory a ‘noteworthy’ example of the assertion of democracy. The new Prime Minister Moraji Desai has stated that India’s foreign policy will not be altered in any major way, but that nonalignment will be more strictly observed, with no special stress to be given to one country over another. This statement implies a reduction in Russian link, but by no means a break. New political conditions in India do lay grounds for rapprochement with the United States.

In America also, Senate Foreign Relations sub-committee, on 30 March 1977 voted for repeal of anti-Indian amendment adopted by American Congress in 1974 in reaction to India’s nuclear explosion. This had earlier statutory required that American representative to the World Bank would vote against low-interest loan to India. The US President Jimmy Carter showed full satisfaction with the direction of non-alignment as professed by the Janata Party. President Carter’s designations of

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4 Times of India, March 25, 1977.
Robert F. Goheen as Ambassador to India was a “signal,” in Washingtonese, of the wish of the US to negotiate a fresh start with India. Goheen, former President of Princeton, was born in India and had maintained a lively and steady contact with his land of birth. The Carter Administration showed interest in resuming bilateral aid to India.\(^5\)

In July 1977 the Congress voted to make up to dollar 60 million available to India for a grain storage programme and other agricultural programmes. This action, which was particularly appreciated in India because neither the Indian nor the American government had requested for it, was a forerunner of the resumption of bilateral economic aid by the United States to India, initiated after a lapse of seven years in 1978.\(^6\) Finally, President Carter had also urged Congress to increase the US resource pool for economic aid to be used for bilateral as well as multilateral external purpose.

India experienced a severe external shock in 1973 when oil prices quadrupled and again after 1979, when oil prices more than doubled. India was able to adjust to both shocks somewhat more easily than other oil-developing countries, but there were important differences between the adjustments in the two cases. The adjustment to the first oil shock was remarkably easy, so much so that the current deficit, which peaked in 1974-75, turned to a substantial surplus within two years. The second external shock was more severe. The adjustment to the second oil shock differed greatly from the adjustment of the first one. Whereas earlier the current account deficit was turned into a surplus within two years, it declined only gradually on the second occasion


from the peak level of 1.6% of GDP in 1980-81 and 1981-82, to a little over 1% in 1983-84.\(^7\)

During the 1980s India witnessed serious foreign exchange crisis and a serious technological lag and bottlenecks and these two developments pushed India to deal with global economy and institutions from a position of weakness and vulnerability.\(^8\) The external financing environment facing India after the second oil shock has been much less supportive than it was in the mid 1970s.

The road followed by India during the 1980s to overcome the challenges of economy was based on a package of policies. Short and medium-term resources from various IMF facilities effectively covered a large part of the current deficits in the period 1980-81 to 1983-84. In 1980-81 India drew Rs.541 crores (SDR 530 million) from the Trust Fund and Rs.274 crores (SDR 266 million) from the Compensatory Financing Facility, both low conditionality facilities. Facing a rising trade deficit, Mrs. Indira Gandhi, was forced to approach the IMF for a SDR 5 billion loan (US$ 3.6bn approx) in order to withstand India’s immediate difficulties.\(^9\) An important feature of this adjustment programme was that it was much more oriented to the requirements of structural adjustment, with particular emphasis upon achieving investment targets in critical sectors, especially energy.

In the four-year period 1980-1981 to 1983-84, India obtained a total of about Rs.4,700 crores from IMF sources, equivalent to about 55% of the cumulative deficit in those years. It was at that time that India began the slow crawl from the “license raj.” In consultation with IMF policy advisers Mrs. Gandhi subsequently removed

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\(^8\) C.P. Bhambri, “The United States of America and India”, in M. Rasgotra *et.al.*, (eds.), *India’s Foreign Policy in the 1990s* (New Delhi, Patriot, 1990), p.122-123.

licensing requirements in 20 key industries and further relaxed restrictions on manufacturing imports. These measures provided a foundation for more extensive efforts to deregulate the Indian economy under the Rajiv Congress from the mid-1980s. The first IMF loan resulted in the introduction of selective economic liberalization, first under Prime Minister Indira Gandhi, and then her son Rajiv.  

India continued with this approach, and foreign debt of India up to 1988-89 is estimated at US $ 53 billion. There is every possibility of increasing debt burden of India during the 1990s. The policies of liberalization, the long-term fiscal policy, and the growing financial and technological collaborations with foreign countries were the new thrust areas of the 80s to accelerate economic growth of the country. The consequences of the policies of the 80s are debt dependence and technologic dependence of India on the industrialized countries of the West. Nearly 75 per cent of Indo-US collaborations have been established after 1980, with the tempo markedly increasing during the 1990s. 

With the assumption of power by Rajiv Gandhi, the youngest Prime Minister, in 1985 there was great optimism about improved relations between the two largest democracies. Among the most difficult tasks faced by Rajiv in his effort to accelerate India’s rate of growth through a process of liberalization of one of the most comprehensively controlled and regulated economies in the non-Communist world. From the time he came to power in late 1984, Rajiv Gandhi made liberalization of the economy a priority. Significant changes in the domestic economy, and some changes that would alter India’s link with the world economy, were introduced during 1984-

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11 John Gunther Dean, Ambassador of the US to India in his forward in Indo-US Cooperation in Business and Industry 1996.
88. They included an easing of state control over many of the activities of national firms (such as entry into production, production decisions, and expansion in size), a lowering of corporate and personal income taxes, a long-term fiscal policy that would substitute tariffs for import restrictions and would reassure business groups regarding future patterns of taxation, some currency devaluation, and a lowering of import barriers against selected items.\(^\text{13}\)

The new budgetary and other measures adopted by new government gave rise to the view that Rajiv Gandhi was inclined towards free enterprise and liberalized trade and economic relations with the West. The advent of a new Prime Minister in India, the several policy decisions of his new government and the June 1985 “highly successful tour” of Prime Minister Rajiv Gandhi, with 5 busy days spent in USA, have given rise to new hopes and invigorated interest in analyzing Indo-US relations in the contemporary times. The US government looked favorably on India’s efforts to liberalize and reform its economy, not only because it created opportunities for American investors but also because the United States would like to lure India, especially through technology transfers, to a more balanced position on key issues such as Afghanistan and the US military presence in the Indian Ocean.

Although interest by American business in India grew during the years, trade was only marginally greater. There was more uncertainty whether the Indian economy would be able to afford the technology transfers some of its leaders hoped to procure and, as with other countries of Asia, whether Indian exports would grow sufficiently to enable it to afford the GNP growth it aspired to.

Attempts at liberalization had been made within India before 1989-91 in 1975-77, and then briefly in 1985-86, but they had petered out with little effect. Between 1985 and 1990 deregulation appeared sufficiently permanent to encourage a number of US-Indian joint ventures, but India showed a reluctance to reform various anti-monopolies legislation to facilitate private corporate expansion, or indeed to reform legal requirements that compelled equity shares in any foreign collaborations. A liberal model of development has not replaced the mixed-economy model premised on state controls and import substitution. The legal and bureaucratic framework of a highly interventionist state remains intact, as do the state’s many public-sector activities. Nevertheless, the policy reforms have been aimed at enhancing competitiveness and broadening the scope of individual and corporate initiatives within the old framework.

After lengthy and sometimes acrimonious negotiations, India had signed an agreement in 1988 for the purchase of a Cray supercomputer. Although the computer was built in 1992, it remained in the Cray factory in Wisconsin as Delhi and Washington haggled over how to ensure that it would not be used for nuclear-weapons research. The deal finally fell through in December 1992 when India ran out of patience. But in the mean time, India has built its own supercomputers. Not only can India use them without restrictions in any domestic programmes; in fact India is competing successfully against US firms to sell them around the world, including German, Canadian and US universities as well as Russian research centers. India’s Param 8600 super computer is considerably cheaper than the Cray X-MP. It is also much faster, using modern technology.

Indo-US Economic Relations: Post Cold War Period

In the post-cold war period, the US has been groping to give its foreign policy a new shape. President Bill Clinton declared, “In this new era, our first foreign priority and domestic priority are one and the same: reviving our economy...I will elevate economics in foreign policy, create an Economic Security Council...and change the State Department’s culture so that economics is no longer a poor cousin to old school of diplomacy.”15 American economy is no longer largely self-sufficient; it has become deeply dependent on export led growth.16 The share of trade in the US economy has risen by two and half times since 1966. The US now relies as heavily on trade as do the European community and Japan. India is also adjusting itself to the new environment; it has embarked on the path of liberalization. In the era of globalization almost all countries, including India, are eager to be integrated in the global economic system. After the end of the Cold War, India and the US came closer due to the changes in the bipolar world system, which denied an alternative to guide its foreign policy, while the US industry was in search of markets to promote business and commercial interests. Of late, India has emerged as a software state. New economic realities are determining bilateral relationship of the two countries.

The end of the Cold War has serious implications for Indian’s foreign policy. Economically, the early 1990s were difficult times for India. Though the 1990s saw steady economic growth and achievements in economic reform, it began in crisis.17 A broad confluence of factors contributed to India’s economic bind in 1991. Although the Indian economy grew more quickly during the 1980s than it had during previous

15 Quoted from Span, May 1994.
decades, the proportion of the central government's fiscal deficit grew over the decades as well. By the mid-1980s, the fiscal deficit represented approximately 8 per cent of the GDP, and it continued at that volume through the remainder of the 1980s. Inflation also grew over the course of the 1980s, and stood at 10 per cent at the start of the 1990s.

Several factors led to the 1991 Balance of Payment (BoP) crisis. The first was the Iraq’s invasion of Kuwait in August 1990 and the ensuing Gulf War, which led to a short-term increase in the price of oil. It had strained India’s already precarious economic position. The World Bank asserted that India, along with several other South Asian and East Asian countries, was among the most adversely affected due to the escalation in oil prices, loss of foreign exchange earnings of workers in the Gulf region, displaced workers, and reductions in export profits. At the end of the Gulf War, the country’s foreign exchange reserves had dwindled to negligible levels. The second factor was political instability, with no major party able to win a clear mandate from the electorate. Finally, numerous international lenders feared that India would fall into a debt crisis.

By 1991 increased borrowings had depleted Indian reserves and led to a series of emergency meeting with the IMF to gain access to credit. In February 1991 the Indian economy was in a state of free fall, with the budget estimates for 1991-92 being suspended for a period of four months following the fall of the Chandra Senkhar government, and a major crisis in foreign reserves. It was reported that India had just US$ 42.5 million in its foreign currency reserves, the equivalent of

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about two weeks of imports. The V.P. Singh government, and the interim Chandra Senkhar administration, had little choice but to negotiate the first of a whole series of stand-by agreements, the largest loans India had ever agreed to over US$ 4 billion.

The year 1991 has been described as a watershed year in terms of a shift in India’s economic and foreign policy. The immediate impetus for adopting market reforms came from the fiscal and balance of payments crises that beset the country in 1991. The 1991 balance of payments (BoP) crisis forced the political elite to adopt the new economic reforms policy that marked a sharp break with the earlier policy framework. The Government of Prime Minister P.V. Narsimha Rao took up economic reforms in right earnest only in 1991. Indian discovered the ills of socialism and began to move toward a market-oriented economy, adding got the mutual attractions between it and the United States.

Since mid-1990 India was living under the shadow of a large external debt in hard currency that had transformed the economic scenario beyond recognition. In January 1993, India and Russia signed an agreement regarding the size and modalities of repayment of India’s debt to the erstwhile USSR.

According to the Economic Survey 1992-93 (p. 119), “India’s debt to the erstwhile USSR stood at about 9,871 billion roubles at the end of March 1992- 8. 899 billion roubles incurred for defence imports and the rest for civilian imports. As per the agreement of 1993, this debt, to be denominated henceforth in rupees, has been valued at Rs. 31,342 crore, of this, Rs. 19,660 crore to be repaid as per the existing schedule. The remaining Rs 11,682 crore will bear no interest and is to be repaid over the next 45 years. The negotiations have resulted in a net reduction in the debt owed

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22 Poonam Mann, India’s Foreign Policy in the Post Cold War Era (New Delhi: Harman Publishing House, 2000), pp. 75-76.
to the former Soviet Union according to the 1978 Protocol, by about 32 percent.” The critics were perplexed by the Indian government accepting the Russian position that 9.9 billion roubles of debt be converted into hard currency, not at the Moscow auction rate of 488rb/$ as of January 1992, but at the ‘old’ ‘unchanging’ Soviet official rate of 0.78rb/$ at end-1989.

1. After the disintegration of the USSR in late 1991, Russia has moved towards a market economy. The major macro-economic and social changes affecting the rouble since 1989 may be briefly enumerated: 23

2. There has been a sharp fall in national income, industrial production, and many other sectors of economy.

3. The old system of centralized planning has been dismantled, but an orderly market economy is yet take place.

4. Although privatization has been on the agenda, most big enterprises remained state owned.

5. Tariffs have been introduced on both exports and imports. Quite a large number of exportable items are on the banned list.

6. Along with the decline in national income, etc., the Soviet foreign trade also shrank from 1990.

7. While Soviet prices were remarkably stable till 1989, there were significant increases in 1990 and 1991; since January 1992 a hyperinflation has been raging in Russia.

Meanwhile, India’s foreign policy has adjusted to the end of Cold War. Although Russia remains India’s most important military supplier and a valued political contact, it can no longer deliver the kind of international support to which India had become accustomed for its policies. India is now actively cultivating a broader range of relationship, focusing on countries to which it had previously paid little attention.

Starting in 1991, India has carried out sweeping changes in its national economic policies to stimulate domestic and foreign investment in many sectors of the country’s economy. The new economic reform policy takes India away from import substitution and towards export promotion. Liberalization and its accompanying package of economic reforms opened up the Indian economy to foreign companies, thus forcing Indian companies to streamline production, cut costs and concentrate on their core products to achieve efficiency. The underlying features of the ongoing economic reforms include decontrol and deregulation of licensing regime, procedural simplification and streamlining the system, disinvestments in public-sector, emphasis on privatization in economic activity, drastic changes in FERA and MRTP rules, trade policy, foreign direct investment and foreign technology with minimum controls on fiscal, trade and industrial policies to provide impetus to attract inflow of foreign investment into India. Since 1992, the government has eliminated the licensing system for imports of intermediate and capital goods. It has also reduced its import-weighted from 87 per cent to 23 per cent. India as a member of World Trade Organization (WTO) has passed several trade-related legislations to meet the WTO requirements. Among such bills are the Trademarks Bill, Geographical Indication of Goods, and the Copyright (Amendment) Bill. A government decision to switch to the
harmonized system of commodity classification has brought more transparency in its export-import policy.24

India has used its exchange to improve its competitiveness in the export sector. Exchange rate reforms are manifested either in the devaluation or revaluation of the domestic currency. If the exchange rate reforms result in devaluation as happened in India, exports are made more competitive and imports are more costly. In the context of exchange rate reforms an important development has been the introduction of current account convertibility. The Indian rupee has been made fully convertible on the current account. The rupee was first made convertible on the trade account in 1993, and fully convertible on the current account on 20 August 1994. The exchange rate was henceforth to be determined by demand for and supply of foreign exchange in the market. As regards Industrial Policy, no license is required to set up an industry except for 14 industries related to defence and other sensitive areas. As a result of these measures with vast investment opportunities available to Non Resident Indians and foreign companies, the flow of foreign investment has significantly increased.

Liberalization has been considerably strengthening the Indian economy. Commenting on the present economy the Southern Economist states: “Now foreign investors are finding India as much better destination as there is confidence enough that the country is not going to drift away from the course of the present on going economic reforms. India has the second largest reservoir of technical manpower and this being harnessed through providing consultancy services all over the world. Indian industry has diversified its products making them comparable with the best anywhere in the world. In the field of electronics, textiles, garments, machine tools, engineering

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products and so on, today India is second to non in terms of their quality and specifications.\textsuperscript{25}

In India opportunities for traditional and new sectors are constantly expanding. There is strong opportunities in sectors such as biotechnology, pharmaceuticals, telemedicine and healthcare, environmental technology, nano-technology, defence technology, space applications etc. From the perspective of US firms, new markets are constantly opening up in India. After the banking, insurance and securities markets, there would be new opportunities in the potentially large pensions market.

The US was quick to realize this and stepped up efforts for promoting bilateral trade and investment. Reflecting their relative economic size, trade and investment links between India and the United States are asymmetric in the sense that the US has a greater role in the Indian economy than the converse. The need of the Indian economy to absorb US capital is very high at the moment. There is difficulty for India to finance its development through domestic sources. The US has emerged as the most powerful country with rich natural resources, superior technology and military power. Its liberal economic principles have dominated the world economic system under the aegis of the International Monetary Fund (IMF) and World Bank. In order to finance reform projects Indian relies on close cooperation with the World Bank and the International Monetary Fund. These require a more intensive relationship with the USA as the world’s most important economic power. India needs trade, investment and technology and the United States is a major source of all three. The opening up of foreign policy towards the western states is thus an essential framework condition for Rao’s economic reforms. The Indian government has finally realized the fact that the best way to deal with America is to deal through business. India’s economic reform

\textsuperscript{25} Southern Economist, 32(8), 15 August 1993, p. 2.
programme such as tariff reductions, far-reaching legislations, and financial sector reforms should go a long way in making a success of India’s new economic policy.

In the post Cold War era it will be prudent for India to take note on the changes in the American attitude and respond positively. No other areas offer a greater scope for expansion than economic relations and cooperation in science and technology. India can draw a lesson from United States relations with China. Despite sharp differences on many issues and mutual suspicion what keep them together is their economic interest in each other. Collaboration with the United States in the areas of trade, industry, infrastructure, etc. will be very critical for India at this juncture when India has adopted a policy of economic liberalization. India has shown the courage and pragmatism to make the necessary adjustments in its policy towards the United States.

In his visit to Washington in May 1994, Prime Minister Narsimha Rao’s agenda was dominated by economic issues. During his visit, it was decided to revive the India-US Economic/Commercial Sub-commission. The evolving economic liberalization policy in India alerted several US business houses and analysts, and the Presidential Economic Mission, headed by Brown, was the natural outcome. US Secretary of Commerce Ronald H. Brown led a delegation of top American business executives and government officials to India from 14 to 19 January 1995, giving a major boost to Indo-US trade relations. During his visit he signed a MOU with Indian Commerce Minister Pranab Mukherjee to create an Indo-US “Commercial Alliance” - a super forum for bilateral consultations aimed at forging closer business-to-business links. The delegation members also concluded commitments on projects worth $7 billion with Indian organizations in the field of power, telecommunications.

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health care, environment, petrochemicals, insurance and financial services. Robin Raphel, US Assistant Secretary of South Asian Affairs remarked, "The structure of our growing economic ties with India now reflects their growing scope and scale. Secretary Brown established a US-India Commercial Alliance to promote interaction between the private sectors of our two countries. The alliance is expected to complement the work of the sub-cabinet level Indo-US Economic/Commercial Sub-commission...

Energy Secretary Hazel O'Leary also led a delegation of businessman to India in July 1994 that produced 11 private sector agreements in power and energy. The India-US Commercial Alliance has be a successful so far due to the Indian governments commitment to open markets and set up a fair and transparent regulatory system. India is now going through the gigantic task of transforming its economy while maintain its democratic traditions. Despite change in government after the general elections (1996) major economic reforms have continued. All major political parties now favour this fundamental shift in policy.

Today's bilateral relationship is mainly based on economic interests. The policy of economic liberalization adopted by India has found favor with the US and is expected to open up new vistas in the realm of economic co-operation. With the liberalization policies of the government of India, the interest of the American business community to invest in India has enormously increased. The Clinton Administration has recognized India as a major player in the economic fields. President Clinton has said that it is the economic reform of India that has become the

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engine of growth in the bilateral relationship. India’s economic programme has unleashed the expanding trade and investment ties of the US.\textsuperscript{28}

President Clinton and his foreign policy team insist that US interests are intermingling with a new global economy and that trade has become a key element in the foreign policy. One of its primary aims is to capture the rapidly expanding markets of developing countries such as India. A subtle shift can be observed in the geographical thrust of US foreign policy – away from the primacy of Europe to the preference of Asia. The shift is dedicated by economic compulsions. The economic factor which is going to be a determinant of power and influence in future is relevant and valid not only for a developing country like India but for the US as well.

South Asia as a whole is increasingly becoming a region of intense growth and development. The economic reform carried out in India and other South Asian countries has set the region on to the road of economic development and industrialization. There has been a constant inflow of foreign capital and investment from the West in general and the United States in particular. This practical manifestation of the marked shift in American perception of South Asia from a region of a poverty-stricken millions to a region with immense long-term trade and investment opportunities is noteworthy.\textsuperscript{29} This newly perceived trend in South Asia has been an acceptable and welcome development for the United States.

No doubt, the US increased its economic activities in the countries of this region yet its economic efforts in India deserve special mention. US Ambassador to India, Frank Wisner rightly remarked: “The United States was among the first to see India as an emerging economic power, a country on its way towards becoming an

\textsuperscript{28} Quoted from \textit{Span}, May 1994.

important player in global trade and investment. In fact, if World Bank estimates prove to be true, India will be the fourth largest economy in the world before the year 2025”. Frank G. Wisner was US ambassador to India during President Clinton’s tenure. He also pointed out that “our relationship with India is one of the most important we have in the post-Cold War era, presenting as it does an opportunity for economic and political partnership between the world’s two largest democracies”.

In the age of globalization, the US has a new outlook on India - its vast middle-class could be its potential buyers for the products of several American multinational corporations. This market is variously estimated at between 100 and 400 million consumers. These corporations now seek legislation favorable for the entire south Asia, leading to a better economic relationship between India and America. This will make a difference. Economic issues can be negotiated more cordially, leading to a better balance of trade for India.

India’s international competitiveness—and the corresponding opportunities for multinational corporations—will differ from those in high-performing Asian economies that have emerged as manufacturing powerhouses. Rather than enjoying competitiveness in natural resource industries or low-skill, labor-intensive manufacturing, India is revealing surprising strength in skill-intensive tradable services, including software development, information technology (IT)-enabled services, product/project engineering and design, biotechnology, pharmaceuticals, media, entertainment, and health care. As a result, India is likely to emerge in the short to medium term as the back-office of global corporations and in the medium to

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long term as a leading provider of skill intensive tradable services. Foreign firms that enter sooner will be in a better position to profit from the emerging opportunities in India than firms that wait long to enter. “The US firms are interested in these developments because skilled labor and services are more cheaply available in India than in developed countries,” jointly observe Morgan, Subrahmanyam, Sundarji, and White. New clusters are emerging in these activities in cities like Bangalore and Hyderabad, where vibrant Indian firms are being joined by well-known multinationals. One interesting example is General Electric (GE), which is investing $100 million in Bangalore to build its largest R&D lab in the world, employing 2600 scientists, including more than 300 with PhD degrees. Similar investments have been made in research and development centers by dozens of other well-known firms, including Lucent, Hewlett-Packard, IBM, Microsoft, Cisco, and Eli Lilly.

Indian manufacturing is not showing similar dynamism, although in the medium run it may do so as India’s physical infrastructure improves. However, in the short run, tradable services will be the engine of India’s export growth. In that regard, India’s international competitiveness—and the corresponding opportunities for multinational corporations—will differ from those in high performing Asian economies that have emerged as manufacturing powerhouses.

In the era of fast-paced globalization, the competitiveness of US business, including the defence industry, depends on at least two factors. First, is the ability to rationalize R&D and production through collaboration and sub-contracting. Second is the ability to earn profit through marketing products before they become obsolete. While the first factor requires the identification of worthy partners, the second requires identification of niche markets. Recent estimates have found India to be an

attractive destination for US businesses on both accounts. However, long-standing divergence in Indian and US perspectives on regional and international security has hampered meaningful follow through. Despite this, more analysts are beginning to highlight the need for modification, if not overhaul of US policy towards India, albeit from different perspectives.

It is well known that the economies of both India and the USA are complementary and not competitive. This is one of the reasons for increasing more cooperation from one of the richest countries in the world for India's economic development. The economic relations between India and the United States have been remarkable in evolving a fruitful partnership. This is despite the fact that India's share in the US foreign trade is disproportionately small compared to its size and population. From the viewpoint of India's balance of payment and external earnings, the US market is crucial. But much more important is the US interest to invest in India. One basic reality is that India, with all its frailties, is a large continental economy with a great deal of opportunities. Here one must analyze as to why India has assumed too much importance in the global market. The first stage of market-oriented reforms in 1991 brought about a marked increase in both domestic and foreign investment. Since then, the annual growth rate in India's gross domestic product (GDP) has averaged 6.4. per cent, one of the highest rates in the world. In addition during the same period, the services sector expanded from 6 percent to 8 percent of the economy. India's growth has been one of the least volatile among developing countries. Because India's external accounts have been managed cautiously and prudently, its foreign-debt-to-GDP ratio and debt service ratios have been low and declining, and it has escaped damage from international events like the Asian financial crisis. On the basis of the purchasing power parity, India has the
world’s fourth largest economy. A large and rapidly growing consumer market with up to 300 million people who constitute the market for branded consumer goods, which are estimated to be growing 8% annually. India has one of the largest manufacturing sectors of the world, spanning almost all areas of manufacturing activities. It has one of the largest pools of scientists, engineers, technicians, etc. and incorporates a long history of market economy infrastructure along with an effective financial sector. India has a long history of stable parliamentary democracy, which assures stability to the policy initiatives of the country. The major world economies have been interested by the government’s ability to stay focused on economic reforms despite various turmoil.

US business too, has realized the potential of India’s market and has identified it as one of the ten emerging markets in the world. This is based on US identification of economies where rapid growth is likely to take place in the next two centuries. The prediction is that three-fourth of world trade in the next 20 years is expected to take place in the developing countries, and most of it in the ten emerging markets. According to the Organization for Economic Cooperation and Development (OECD) report of May 23, 1995, the Asian developing countries will account for almost a third of global demand by 2010. India is one of the emerging markets in Asia where growth will have a profound impact on the economy. The current Indian emphasis on a free market economy and deregulation policies have elicited support from Americans and they want India to liberalize much more than it has done so far. At this stage, the Carnegie Endowment Study Group on US-India relations saw this as a positive development in India-US bilateral relations. According to them:

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The greatest potential for a rapid improvement of Indo-American relations lies in the economic sphere, and the success of India’s economic reform will directly condition the climate both for bilateral trade and investment and for US-supported multilateral assistance. Areas where there is a complimentarity of interest include trade and investment.

The industrialized countries have become increasingly important in India’s external trade. Within the industrialized grouping, the most important trading partner for India is the United States. The US global trade is very large and therefore India is not as important to the US as the US for India. Indo-US trade is significant for India’s trade-led path to development. The good news is that India’s gradual integration in the global economy has ensured a quantum jump in trade between the two countries. USA is India’s largest trading partner accounting for 20% of the country’s export and 10% of its imports. In 1991, the US was the largest single-country export market for India, taking 18.9 per cent of its exports; and the largest single-country supplier, providing 8.9 per cent of its import. The two-way trade between India and the US in 2000 totaled US $ 14.35 billion, reflecting an increase of nearly 100% since 1993. In January-May 2000, India’s exports to the US totaled $4.53 billion, a 27 per cent increase over the previous corresponding period, while its imports were pegged at $1.53 billion (a 3 per cent increase), resulting in a positive trade balance of $3 billion. As per the figures published by the US Census Bureau for 2000, while the US export to India stood at $3.66 billion, its import from India amounted to $10.69 billion, giving India a trade surplus of $7.03 billion, its highest with any country. India’s trade surplus with the

US for 1998 and 1999 stood at $4.67 billion and $5.38 billion respectively, demonstrating that while India's export to the US had been growing over the years, largely due to the software exports, its import from the US had been falling. A reason for this could be the sanctions imposed by the US in the wake of India's nuclear tests. However, India does depend on the US more than any other country for its exports, with software emerging as a significant component of India's export basket. The Indo-US trade has grown substantially to $18 billion during 2003, with India enjoying the favorable balance.

India's exports to the U.S. have been growing since 1992 at an average rate of 13.7% in dollar terms. Imports from the USA have been fluctuating. The rate of growth declined by 0.6% in 1996, increased by 8.9% in 1997, declined by 1.96% in 1998 and grew by 4.6% in 1999.

Much as exports to the US are important for India, the US also needs the Indian market in a global market that is increasingly becoming competitive. Major Indian exports to USA are textiles and apparels, diamonds, jewelry and precious stones, engineering goods, shrimps and prawns, cashew nuts, carpets, handicrafts, naphtha, dye stuffs, autotyres, computer software. Six items, namely, textiles and clothing, cut and polished non-industrial diamonds, carpets, shrimps and prawns, footwear, leather goods and cashew nuts, account for about 75% of total Indian exports to the US. However, in coming years the trade profile is expected to undergo radical changes. The business information technology between the two countries is believed to be around $5.5 billion. It is expected to grow tremendously in the future.

India has got a software exports targets of $50 billion by the year 2008. Today, nearly three-quarters of those exports go to the United States.

There has also been a change in the composition of India’s imports from the USA. With India having become self-sufficient in food grains and the PL 480 funds having been used up, imports of wheat and edible oil from the USA on a regular basis have stopped. Crude oil, which was the second highest import item in 1985, has also been virtually phased out. Among the major items imported from USA are fertilizers, aircrafts, turbo jets, aircraft parts, machinery parts, malt extracts, soybean oil, automatic data processing machines, electronic goods, wood pulp, parts of railway locomotive etc.\(^{37}\)

Indo-US trade continues to grow from year to year. In 2002, India’s exports to the United States grew 21.4 per cent and came close behind the 22.4 per cent growth in China’s exports. In 2003, however, the growth was the more modest 11 per cent. India has generally maintained double-digit growth in merchandise exports to the United States-12.5 per year over the last five years. In 2002, for example, when world merchandise exports to the United States grew by only 2 percent, India’s merchandise exports to America expanded by 21 percent, from $10 billion in the previous year to $12 billion. Growth in India’s merchandise exports to the United States is increasingly on account of industries such as pharmaceuticals, chemicals and machinery. Also in 2002, merchandise exports from the United States to the world dropped 5 percent - but US merchandise exports to India shot up by 9 percent. US exports to India continued to grow with a sharp increase of about 22 per cent in 2003.

\(^{37}\) Ibid.
A more competitive dollar and a strong investment climate in India have contributed to the recent surge in US exports to India.

India's service exports to the United States grew by 20 percent in 2002. As is now well known, this part of Indo-US trade, mostly high technology related, has been expanding phenomenally in recent times. One aspect of this growing economic interaction has raised a bump or two in the road to otherwise improving relations.

Similarly, the US continues to be a dominant investor in India in terms of foreign direct investment (FDI), approvals, actual inflows and portfolio investment. Of the total FDI of $60 billion that India received between 1991 and May 2000, approvals from the US constituted $13 billion. If Euro issues and NRI investments are excluded, then the US accounts for 22 per cent of the total FDI commitments made to India in this period.\(^{38}\) The bulk of the investment has gone into such industries as fuel (power and oil refinery), food processing, telecommunications, manufacturing services, financial and non-financial services, electrical equipment, and electronics and computer software. The total FIIs (foreign institutional investments) from the US to India were nearly $11.5 billion till July 2000. The FDI from the US has increased and the links in the service sector are growing. The improved performance of the Indian Economy during 1999, continued emphasis on economic reforms and liberalization and India's technology sectors are the positive reasons for increased interest in India as a destination for US investments and exports.\(^{39}\)

This investment inflow is a result of the major overhaul of India's industrial policy in 1991. First, FDI is permitted in almost all manufacturing industries (except six specified industries of strategic concern reserved for the state). Second, the


\(^{39}\) “President Clinton’s Visit to India,” http://www.meadev.nic.in/clinton/relations/economy.htm
striking feature of the post-1991 policy is the flexibility provided to the level of foreign equity participation. Automatic 51 per cent equity participation is permitted, in a number of identified industries. Besides in some of thrust areas there is no upper bound for foreign equity. In addition India has liberalized the insurance sector by setting up the Insurance Regulatory and Development Authority (IRDA); passed the New Information Technology Bill, and has created special economic zones to increase exports and remove quantitative restrictions on more than 700 items, making the foreign exchange management more investment friendly.\textsuperscript{40}

Indo-US collaborations have shown a dramatic rise since 1991. The number of Indo-US collaborations approved has from 177 in 1991 to nearly 300 in 1993. In 1993, US investment worth US$ 1,103.56 million accounting for 40 per cent of the total was approved. India has received massive infusion of private capital through both direct investment in joint ventures and portfolio investment in stock markets.

At the micro-level there are many powerful examples of excellent and very successful American investments and India-US joint venture in possibly every sector of business. These successful enterprises in India form a nuclear of excellence, which will expand into a more broad-based relationship between Indian and US firms.

As a result of government policy India’s share of FDI has increased but there are some impediments for the foreign investments in India. Bureaucracy and red tape are one among them. Many feel that India has not effectively communicated its new policies to potential foreign investors. The US would want India to speedily undertake the second generation of economic reforms. At the same time US businessmen also

express fear about lack of commitment towards contractual obligations and lack of infrastructure.

There is lot remaining to be done by India if it wants to attract more FDI. To begin, there is need to improve the quality of domestic infrastructure. Second, procedural delays will have to be reduced and, finally policy coherence and stability both at the Central government and state government level must be ensured.\(^{41}\)

The US is not only a major source of foreign direct investment but also an important source of technology for India. In the past, a total of 2,168 technical collaborations and 1,892 financial collaborations have been approved. Out of these, the US accounts for 442 technical collaboration approvals and 389 financial collaboration approvals. Hence, in terms of number of collaborations approvals also, the US occupies a leading position accounting for over 20 per cent collaboration approvals.

In the Indo-US economic relationship, government-to-government contact is being first complimented by the private sector. Several agreements have been signed by the government departments or government funded organizations and private companies from both sides. The governments tend to play mediatory and regulatory roles in some of the agreements signed between private companies of the two countries. Presently, the governments of both countries are encouraging private companies to assume a greater role in economic affairs and in turn in economic diplomacy. The main joint business group for private sector cooperation is the India-US Business Council. This body has increasingly become more active in organizing promotional events apart from holding the Annual meeting of the Business Council,

alternately in Washington and New Delhi. In addition, on the initiative of General Electric an India Interest Group has been set up with the Washington-based representatives of some major U.S. Corporations as its members. The India Interest Group, the National Association of Manufacturers and the India-US Joint Business Council are participants in the India-US Commercial Alliance.42

India is also of interest to Washington in efforts to keep pace with China's aggressive commerce. According to a report from the Indian Institution of Foreign Trade, for every dollar of foreign direct investment received by India in 1991, China received $51. The ratio fell to 31:1 in 1991 and 10:1 in 1994.43 Compared to China, India is a latecomer in economic reforms. But western experts are already a vibrant public sector, a rudimentary financial system, a huge consumer base, a large professional class, an educated system with established links to the English speaking world, a well-developed system of property rights and commercial law, an independent judiciary, an attentive public and a watchful media will sooner rather than later bring India into the centrestage of economic activities, and India offers better long term prospects for economic, trade and investment opportunities than China.

However, the bad news is that the US’ total trade turnover with India is less than one per cent of its global trade. India is ranked 23rd among countries exporting to the US, and is yet to become its favourite FDI destination. A more liberal attitude of the US with regard to market access for India's export and greater confidence in the Indian economy by increasing the flow of FDI would significantly help both the countries.

42 "India - U.S. Trade Relations," http://www.indianembassy.org/indusrel/trade.htm
Indians settled in the US have proved their credentials by hard work. Before the liberalization of immigration laws in the early 1960s, Americans of Indian origin numbered no more than 25,000. The 2000 census counted 1.7 million. U.S. Census data make interesting a reading for students of India-U.S. relations. Indian Americans constituted 0.6 percent of the total U.S. population and had an average annual growth rate of 7.6 percent. The number of Indian Americans during the decade 1990-2000 has increased by as much as 106 per cent, and Indian now represent almost 1/6th of the total Asian-American population. Of the total population of Indian Americans, the largest concentrations were in the states of California (314,819), New York (251,724) and New Jersey (169,180).

Indians are reputedly well educated (with more than 5000 being faculty members at U.S. universities), hard working, and at an advantage because of familiarity with the English languages. The mean Indian family income was $59,777, which is 25% higher than the national average and second only to Japanese Americans among all ethnic groups in the country. Their total purchasing power is estimated to be over $20 billion.

The Americans of Indian origin fell into three broad groups. The first consisted of doctors, academics, and other professionals, especially engineers, who were evenly distributed through the United States. This brought many Americans into very close and positive contact with professionals of South Asian origin. Another group was the Indian business community, which pursued more or less traditional business interests, often in imports-exports, jewelry, or gems. These were concentrated in the eastern metropolitan areas of the United States. The third group comprised Indians who came to the United States to study and work in high-

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technology fields. Many found employment in the aerospace industry, telecommunications, and in software and computer development. Concentrated in Silicon Valley and its Washington, Boston, and Austin counterparts, they have achieved fabulous personal and professional success. Apart from computer software and information technology, Indians have excelled in numerous other areas such as medicine, engineering, law, international finance and management, higher education, media and journalism, real estate, retailing etc.

Moreover, The Indian-American community has also begun to organize itself along political lines and has become an important source of funding in several House and Senate races. As the community progressed economically, it became active in the political arena, making generous financial contributions to election campaigns. Numbering more than 50,000 in California, New York, Illinois, Texas and New Jersey, they could exert a significant political influence in these five states. It influenced the relaxation of sanctions legislation following the 1998 nuclear tests. However, unlike China, India has not yet successful to exploit the asset of its substantial diaspora, a large concentration of which is in the United States.

The Indo-US economic relationship has faced many hurdles. After the nuclear tests in South Asia in May 1998, the international community had identified four "benchmarks" that India (and Pakistan) had to achieve if they wanted to show their commitment to regional stability and international security. Export controls were one of these benchmarks. The United States not only applied sanctions on the two countries, but also began a sustained effort to engage them through dialogue. As a result of this dialogue, there is a growing acceptance in India that its export controls can no longer remain in the domain of unilateral national policy.

In the context of the new world order, the United States binds it to be a matter of mutual interests to intensify co-operation and collaboration with India. In the context of economic and trade relations over the last fifty years, both India and the US joined GATT in 1948 as bounding members and went onto agreements that helped farm families find new opportunities, protect rights of Indian and American authors, software engineers and scientists, promote innovation and growth in service sectors and open the industrial markets to India’s textile factories and artisans. A number of factors make Indian a lucrative partner in developing economic relationship, trade and investment between the two countries:

- India’s growth rate of 5-7% has been high, allowing for creation of 10 million new jobs every year.
- India’s finances are strong, with foreign reserves rising by $6 billion in 1998.
- With income growth in rural and urban areas life for many has improved.
- Last, but not the least India has become a world leader in information technology (IT). With 4,500 enterprises currently in business in Bangalore, this southern Indian city now ranks among the top five-world class IT centers with the cheapest pool of skilled manpower.\(^{46}\)

In 1999, two-way trade between Indian and the US reached $16 billion in goods and services, with most of it coming from India to the US. WTO benefits have been most evidence in the textile and apparel sector with the implementation of the Agreement on Textiles and clothing.\(^{47}\) President Clinton, during his visit to South Asia in March 2000, signed a number of agreements on the transfer of dual use

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\(^{47}\) Ibid.
technology to India, the most prominent being in the IT sector alone ($5 billion), and a Joint Indo-US Statement on Energy and Environment which seeks to promote cooperation in the area or clean energy technologies.

**Software and Information Technology**

India-US economic relations are being driven more and more by the wealth and value generating industries of the future - the services and knowledge-intensive industries. High growth in software and services exports from India to the United States is also creating opportunities for US hardware and software companies in India besides a range of consumer goods and services. The success in the software sector is being replicated in Business Process Outsourcing and research and development facilities, with over 100 major US corporations having set up R&D laboratories in India.

All futuristic assessments about how the United States should gear up to take advantage of the technological revolution and to deal with its challenges, discuss the role of emerging markets like India. Similarly, almost all proposals for higher economic growth in India recognize the lead role of knowledge-based industries such as software and electronics. India is emerging as an information technology powerhouse, using its software, design, and computer processing capabilities to become an e-commerce hub. In much of the developed world, India today has a substantial mind share amongst those involved in information technology (IT) software and services.

India’s software industry has been growing at 50 percent annually, starting from a small base in 1990. The IT industry today accounts for 2.87 percent of India’s GDP. The IT software and services exports has greatly contributed to the IT sector
which enlarged from US$ 1.73 billion in 1994-95 to a US$ 13.5 billion industry in 2001-2002. Software exports have grown $ 0.30 billion in 1985 to $3.9 billion in 1999/2000.\textsuperscript{48} Indian IT industries’ turn over passed the $ 15 billion level in 2002, including $ 7.5 billion in exports. More than 800 firms, located in cities like Bangalore, Hyderabad, Pune, Chennai, and New Delhi provided a range of software services, mostly targeted at foreign customers. Even though the global computer industry remains depressed, Indian IT continues to grow at a brisk space and now accounts for more than 16 percent of its exports.

US continued to be the prime destination for India’s software exports. 61% of India’s software exports go to North America.\textsuperscript{49} According to a NASSCOM (National Association of Software and Services Companies)-McKinsey projection, US will continue to be the major market for Indian software services, with the US generating about $18.3 billion of the projected $50 billion exports by 2008. Earnings abroad come mainly from software programming for the U.S. market, but computer-related services- call offices and help lines, medical transcription, and back-office operations for financial institutions, airlines, and other large enterprises-have booming of late.

Indian has done well in software because that industry makes intensive use of resources in which India enjoys international competitive advantage, while making less intensive use of resources in which India is at comparatively disadvantage. Software makes intensive use of human capital, and India has several advantages in this regard. First, India produces the second largest annual output of scientists and engineers in the world, behind only the United States. Second, because of its relatively low wage rates, Indian has comparative advantage over the United States

\textsuperscript{49} Ibid., p.23.
and other industrial countries in providing qualified computer engineers. Even with the rapid growth of the last few years an Indian software engineer costs one-half to one-fourth that of an American software engineer. Thirdly, the English language capability of Indian graduates facilitates interaction and collaboration with programmers in the United States or Europe. Fourthly, the IT sector has been able to operate largely free of government regulation and control. 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.

The Silicon Valley in the United States and the Indian Silicon Valley in Bangalore have already established an extremely profitable, symbiotic relationship. U.S. companies are deeply involved in investments and partnership with Indian firms. Today, Microsoft, Intel, IBM, Sun Microsystems, Abode, Oracle, Texas Instruments, and other major U.S. computer firms have significant and growing operations in India. At the same time, Indian software firms like Infosys and Wipro opened offices in the U.S., or acquired U.S. companies, to better serve their clients on high-end projects and to have “listening posts” in Silicon Valley. The Indian professional working in the Silicon Valley of the United States have emerged as a new bridge between India and the United States and could begin to contribute in a big way to building Indo-U.S. economic cooperation in the information age. Indian technology professionals working in the U.S., who had upgraded their skills through learning-by doing, sometimes returned to India, while others circulated between the two countries, thereby diffusing technology and skills.

Indo-US Cooperation is facilitated by the following factors. First India has the 145 ISO 9000 certified companies, and 35 companies have passed the Software
Engineering Institute – Capability Maturity Model’s (SEI-CMM) certification. In a world where only 19 companies have achieved the SEI-CMM’s level five certification, 12 are Indian companies. More than half of the software development centers in the world with Carnegie Mellon University’s CMM Level-5 rating are located in India. The first company in the world to obtain this distinction was an Indian company, Wipro, and companies like Citicorp, GE, Honeywell, IBM, and Motorola had their only CMM-certified operations in India rather than the U.S.\(^5^0\) By 2000, more than 200 of the Fortune 1000 companies were outsourcing their software requirements to Indian software houses,\(^5^1\) and in software services “made in India” was becoming a sign of quality, according to an MIT expert.\(^5^2\) Second, a large pool of English speaking computer literate graduates enables the Indian supplier to service US needs. Third, India is providing itself as a competent supplier of high end products. Having established themselves over the years in terms of brand image and credibility, India’s larger software companies are better placed to get the lion’s share of any new business from the US.

**Outsourcing**

Recently the outsourcing of white-collar jobs to India is big news in the US. In India, free-market reforms are creating the world’s largest back office, transforming the country into a major force in IT, outsourcing, and critical service application delivery. India’s quality and cost benefit edge is one of the major draws for the increase of offshore outsourcing by MNCs to India. Business Process Outsourcing (BPO) has been identified as the next high growth business for the Indian IT industry.


\(^{51}\) According to website of the National Association of Software and Services Companies (Nasscom), February 2001.

\(^{52}\) M. Casumano, “‘Made in India’ a New Sign of Software Quality,” *Computerworld*, March 2000.
Many US companies have started outsourcing jobs to India, creating anxiety in some American states. 82% of US companies ranked India as their first choice for IT/Business Process outsourcing. A study by Forrester Research of Cambridge, Massachusetts, estimates that sending service or knowledge-intensive work to countries like India could climb to 3.3 million US jobs sent abroad by 2025. India, with its large number of English speakers and over 2 million college graduates in 2002, might get 70 percent of these jobs.\(^{53}\) The media attention over jobs moving to India, China, Mexico and elsewhere is mainly due to the stunted job market in the US. Unlike the blue-collar jobs going to Mexico and China, the jobs sent to India are white collar and professional jobs.

As is well known, companies cut jobs and move them to India due to the availability of skilled, English speaking labour for a fraction of the wages paid in the US. Finding cheaper labour is an easy, short-term fix to help cut losses/raise profits, especially at service companies where labour often accounts for a big portion of total costs.

Outsourcing in today’s world is seen as a strategic management option rather than a just a way to cut costs. It helps achieve the companies their business objectives through operational excellence and an edge in the market place. Resources of the companies need to be focused on core business functions so the non-core functions need to be outsourced. Outsourcing gives the right combination of people, processes and technology to operate effectively in the global market place without burdening time and budget. Outsourcing expands the set of relatively low-wage workers available to firms and this encourages the further adoption of technology that makes it

possible to utilize them.\textsuperscript{54} Companies outsource in order to achieve the benefits of financial savings, technical abilities and market agility.

In an election year, and with job growth still slow in the United States, outsourcing has become a politically charged issue, even though almost all economists agree that it greatly benefits the US economy while causing temporary dislocation and hardship in a few specific sectors. A number of states as well as the US Congress have either legislated or have pending legislation against outsourcing. But attempts to outlaw outsourcing may not work, especially in private sectors, and may violate WTO norms against restrictive trade practices.

Outsourcing has always been an integral part of business processes. Overseas outsourcing is an inescapable reality of globalization. US business houses by and large are opposed to any curbs on outsourcing, as this was nothing but a "political proposal" in an election (Presidential) year. The U.S. Chamber of Commerce set the record straight in relation to business process outsourcing, asserting that the fears in the United States about outsourcing were "misplaced". It found little hard data to support claims of an impending exodus of U.S. jobs overseas. Interacting with captains of the Indian industry at a meeting organized by the Confederation of Indian industry in New Delhi, Thomas J. Donahue, president and CEO, U.S. Chamber of Commerce, said the backlash against outsourcing was based not on facts but on emotions, and in some cases, politics.\textsuperscript{55}

Energy

The energy sector holds the key in accelerating the economic growth of India. India depends on both primary commercial energy sources such as coal, oil, natural

gas, uranium and hydroelectric potential and non-commercial energy sources such as agricultural residue, firewood and animal waste. The share of non-commercial energy has declined from about 70 per cent in 1971 to almost 33 per cent in 1990 and it is declining further. Bringing the availability of energy up to the global average will require huge additions to the energy infrastructure in India. To attract foreign investment in the energy sector, the Indian Government has provided attractive packages and policy incentives.

Indo-U.S. cooperation in the field of energy has been crystallizing over the years in government, academia and industry. Immense Indo-U.S. energy cooperation possibilities exist in the area of energy efficiency, nuclear energy, the application of biotechnology in biomass gasification, geophysical exploration, renewable, and other clean energy technologies. The United States can also play a role in regional energy cooperation and ensuring energy security by promoting greater cooperation and integration of regional energy markets in electricity and natural gas, as well as the unhindered cross-border trading of cleaner fuels and energy resources among South Asian countries. Some collaboration in the coal, gas and electricity sectors now exist and a number of American enterprises are operating in India but the magnitude is small relative to the total potential that can be exploited.

The major primary energy source available in India is coal. Coal is contributing 64 percent of India’s power generation. Unfortunately, India’s coal is poor quality, with high ash content. The United States could help India use its coal more efficiently and make it ecologically more sustainable. Clean coal technologies, specifically designed for high ash content, are the answer. Indian engineering companies, research institutions, and public utilities, as well as various U.S. public

and private entities, could combine to develop the appropriate systems. The Indian Ministry of Power and the U.S. Department of Energy could act as facilitators. Indian funding of its public utilities and U.S. Export–Import Bank loans for U.S. companies would be crucial. Similarly, India and the United States could collaborate to improve Indian coal mining practices and equipment. 57

India has enormous undeveloped hydroelectric capacity; at a load factor of 60 percent, India may have as much as 84,044 megawatts of hydroelectric potential, of which only 27 percent has been realized. 58 Hydroelectric power—properly developed, with due attention to the rehabilitation of displaced persons and to environmental dangers—is India’s greatest energy source, one that will long outlast global oil supplies. It represents the single most important investment in India’s development and security. The United States could play a major role in mobilizing multilateral funding for, and the engineering and construction of, a series of projects. 59

The United States can play a low-key but crucial role in India’s oil problem, too. India depends on imports for 70 percent of its oil. New Delhi’s perennial concerns are reliability of supplies and price stability, both of which would be alleviated by a pipeline connecting India to the Persian Gulf via Pakistan. The most important U.S. contribution would be allowing Iranian participation in the pipeline’s construction and operation. Without U.S. acquiescence to Iran joining a consortium, international financing of such a massive scheme would be politically doomed. An ancillary benefit of the scheme, which coincides with the United States’ long-term

58 Ibid., p. 94.
59 Ibid., p. 93–95.
interest, would be to give India, Iran, and Pakistan a stake in each other's security and well being.

In the post liberalization era, Indo-US Energy Cooperation has had two broad components: (1) Private investment in Power Projects; (2) Collaboration Projects for Research, Development, Technology Demonstration, Systems/Management Expertise Transfer, etc. between Government agencies of the two countries. Many of the collaborative projects were initiated following the visit of then US Energy Secretary, Ms. Hazel O’Leary, to India in 1994 and 1995.

After the nuclear tests, the US virtually frozen the collaboration projects, but private power projects remain largely unaffected. During the visit of U.S. Energy Secretary Bill Richardson on 26th October 1999 an agreement was signed between Mr. Richardson and External Affairs Minister Jaswant Singh for the cooperation in conventional energy projects, renewable energy, clean coal technology, energy efficiency and related environmental aspects. While in India, Richardson is reported to have said, "There is a strong future for our relationship (with India) in various areas, especially in the energy sector. What is now needed is the political will to accelerate the energy sector reforms, including the restructuring of India's energy enterprises, establishing independent regulation at the State and national levels, and being more open to competition".

The US has started reactivating projects and programmes in India relating to clean energy and reduction of greenhouse gas emissions. India would like to have greater access to US expertise in clean energy technologies, in particular clean coal technology, renewable energy, energy efficiency and conservative in production and consumption.

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Enron Controversy in India

Over the last decade, private ‘investment’ in infrastructure development and management, in particular relating to the power sector, has been in the news in one form or another. In the process a series of myths have sprung up around the sector, ranging from power shortages to the absolute necessity to somehow rope in foreign investment. Enron issue is the most controversial, private power project in India since 1991 being set up by the Enron Corporation in Maharastra. Controversy over Enron’s Dabhol project in Maharashtra state has raged since April 1992 when Houston-based Enron was invited to bid for the project as part of India’s economic liberalization drive. The issue, which pits local people against a global energy corporation, has generated endless controversy, including protest rallies, environmental concerns, charges of human rights abuses, court cases and political skullduggery.

Shortly after the initiation of the reforms process in June 1991, the Government of India in October 1991 (Ministry of Power, 1991) opened up the power sector for foreign private plants. 100 per cent ownership was permitted and the requirement to balance dividend by export earnings was waived. In June 1992, the Enron Corporation of USA offered to build a 2015 MW plant at a cost of nearly US$ 2.8 billion in Maharashtra. The plant was to be constructed on a coastal site at Dabhol in Maharashtra, some 250 kms. south of Mumbai.

In October 1992, the Congress led government of Maharashtra announced that it had signed an MOU with the Indian subsidiary of Enron Corporation, Dabhol Power Company (DPC), for an LNG plant of about 2,000 to 2,400 MW capacity and to purchase electricity for 20 years. The MOU was completed with alacrity and secrecy, despite the considerable size and financial obligations of the project,
amounting to expenditure of roughly $1.3 billion per year.\textsuperscript{62} Thereafter, in 1993, a contract was signed in Maharashtra between the state owned electricity board (MSEB) and the Indian subsidiary of the Enron Corporation, the Dabhol Power Company (DPC) for the supply of 695 mega watts of electricity. The contract between the two parties was finalized after purportedly detailed examinations of various aspects of the project by both the central and state governments. While this was going on, there was a great deal of opposition to the project on various ideological, economic, political and environmental grounds. The new BJP-Shiv Sena government, whose election platform in 1995 had stressed national self-reliance (but was not anti-reform or anti-privatization, as such), cancelled the contract and proposed to invite competitive bids. To legally substantiate that decision, the Government of Maharashtra filed a suit in the Bombay High Court. This suit sought to cancellation of the contract on various grounds. This single act brought international attention to the project, although the response was primarily negative towards the Indian polity, with solicitous concerns expressed about the India’s reform programme.\textsuperscript{63} By this time, Indian energy analysts and journalists had begun to explore the implications of the project and had found indications of astonishing complicity among officials to bend laws to accommodate Enron’s demands and obtain clearances.

Within three months of that decision the government backtracked on its decision without assigning any reasons. After lot of delays and further negotiation, the


\textsuperscript{63} The international news media, financial institutions and credit ratings agencies have repeatedly made statements that put enormous pressure on the state and central governments to fulfill the terms of the PPA. The following remark by an analyst at Moody’s Investor Service is a comment on recent events, but it exemplifies a long-standing international posture on Dabhol: ‘The dispute indicates that India’s government may not be willing to live up to its contractual obligations...this would further deter foreign direct investment from coming into the country’, \textit{Reuters News}, June 1, 2001, ‘Moody’s ‘Disappointed’ in India’s Fiscal Effort.’ http://investor.cnet.com/investor/news/newsitem/0-9900-1028-6159822-0.html.
GoM approved the renegotiated deal at a slightly lower power price (Rs 1.86 per kWh as compared to Rs 1.89 per kWh renegotiated by the Committee).

Under the existing power purchase agreement of 1995, which itself is the result of a disputed renegotiated deal, the MSEB has to pay the DPC a minimum of $220 million a year for 20 years whether it needs the power produced or not. The contract, which is controversially counter-guaranteed by both the state and federal governments, threatens to bankrupt the MSEB and the state exchequer itself. The deal is also designed to pass on the effects of rupee devaluation and rises in international petroleum prices to the MSEB. Over the past year, both of these things have happened, making DPC power increasingly more expensive.

Enron Corporation had invested $3 billion for the 15-year liquefied natural gas power plant development project, which is the largest development project and the single largest direct foreign investment in India’s history. India’s deal with Enron to build a power plant seemed to offer big advantage to both sides. The 2,184 megawatt Dabhol plant would help India meet its national energy needs while expanding India’s trade relations with the U.S. The U.S. government also saw benefits from U.S. companies gaining access to business in India.

Over the months the cost of electricity from Dabhol has fluctuated and has remained at levels that seem very high to people. In April 1993, a World Bank analyst questioned the project’s economic viability, citing the high cost of importing and using liquefied natural gas relative to other domestic sources of fuels. Because of those findings, the World Bank refused to provide funds for the project. Indian officials see the price as very high compared to domestic gas and imported and

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64 Sam Parry, “Enron’s India Disaster”, http://www.rense.com/generall9/enfl.htm
indigenous alternative fuels. Critics charged that the project had not been opened to competitive bids and that the deal was too costly. Some expressed concern over the terms of India’s agreement to underwrite the project. On the other hand, the project’s defenders inside India have dismissed anti-Dabhol protests as political posturing; seeking to exploit public worries about the economic liberalization policies.

In July 2000, the cost of electricity reached Rs.7.80/KWhr. This raised an outcry and the Maharashtra government set up on February 9, 2001 Energy Review Committee to review the power situation as well as specific reviews of particular projects. In June 2001, with the project about 90 percent complete, development was again put on hold amid new disagreement over the price of energy. The controversial contract for extremely expensive electricity was suspended by the Maharashtra power board, which nearly went bankrupt itself as a result of high power prices.

The United States has warned India that delay in resolving the dispute over Enron-promoted Dabhol project and other power projects could lead to change in attitude by US companies regarding investment in the power sector. Deputy Treasury Secretary Kenneth Dam, who visited India, had told New Delhi to resolve the Enron issue speedily and fairly taking into consideration the investors and all the parties involved. He said, “if the dispute lingers on, it is bound to have an impact on the attitude towards investment”.

The Enron issue may have adverse affect on the foreign investment in India. Approach of both Indian and American governments is to be blamed for revoking and then revalidating the Enron project. But it has surely damaged “the credibility of

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India’s commitment to opening the economy to foreign investment”, 67 observes Jagdish Bhagwati.

**Limits and Future Prospects of Indo-U.S. Economic Cooperation**

However, the US-India economic relationship has not always been a smooth one. From the US side, unilateral measures like the Super 301 and Special 301, and from the Indian side the domestic socio-economic constraints and compulsions will periodically affect the pace of economic interaction between the two countries. In spite of cooperation both countries have their share of disagreements on such issues as unjustified quantitative restrictions, minimum import prices on steel imports, investment rules in the auto industry, and access to Indian markets for services and textiles. 68 Differences over labour laws, quality control, visible and invisible import restrictions will create bilateral tension.

As attempts are being made to link international labour standard and international trade, developing countries are increasingly coming under pressure while the industrialized countries seek full implementation of the ILO standards, the developing countries find that such policies are often adopted by the former for protectionists goals. The proposed negotiations and agreements in the areas of environment and labour standard may be used by the developed countries to restrain exports of the developing countries. This is an area where Indo-US tension has developed and may recur in the future. India has emphasized de-linking of trade policy from non-trade issues, such as the standard specified for wage employment, dubbed as labour standard. If elimination of ‘child labour’ is the objective, then the developed countries should be willing to underwrite a major scheme of improving

education and awareness in developing countries: what is require is a domestic
instrument of intervention rather than a trade instrument.

Despite extensive efforts already made by the Indian Government to liberalize
its economy, India has come under additional pressures to deregulate under
GATT/WTO rules and from US bilateral action. Firstly, it has been threatened with
penalties under the Trade Related Investment Measures (TRIMS) and Trade Related
Intellectual Property Rights (TRIPS) provisions of the GATT Uruguay Round
(‘Dunkel Drafts’), for failing to provide adequate protection to overseas patents and
for failing to allow overseas companies sufficient access to its nationalized insurance
sector. This follows retaliatory action taken against India in 1992 by the US
Government under Special 301 clause of the 1988 US Trade Act for failing to protect
US patents. The United States, in early 1992, suspended duty-free treatment to
chemicals and pharmaceutical worth some $60 million imported from India. And
India remains on the U.S.’s Super 301 list of ‘unfair traders’. The U.S. has been
alleging that several countries, including India, do not go by the rules in the field of
protection of IPR of the US companies. The Special 301 clause of the Omnibus and
Competitive Act of 1988 is applied to countries perceived by the United States as not
giving adequate protection to intellectual property rights, including patents and access
to markets. India has all along been opposed to the Special 301 provision on the
ground that Washington desires to take unilateral action on multilateral issue. The
disputes over the violation intellectual property rights and other trade rules should be
resolved by the General Agreement on Trade and Tariffs (GATT), and now the World
Trade Organization (WTO) of which both India and the United States are members. In

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fact intellectual property rights protection is anti-competition and anti-liberalization. It virtually tantamount to legalizing the ‘monopoly’ of multinational corporations.

In the last seven years, India has own disputes against the US relating to import restrictions on woven wool shirts and blouses, shrimps and shrimp products. In the famous Shrimp turtle Case, for example that involved a dispute concerning American restrictions on the import of shrimps and shrimp products from countries like Malaysia, Thailand and India on the grounds that the shrimp harvesting technology used killed sea turtles, the WTO panel had ruled against the US.

Despite of its strong opposition, the United States, has reconciled to the review of the rules on anti-dumping at the Doha meeting of the WTO. It has agreed with other WTO members that an ideal long-term solution to the evil of anti-dumping lies in seeking tighter rules. This has been another feather in India’s cap, which has been seeking concessions for developing countries in the application of anti-dumping action.

Rise of anti-dumping actions has increased dramatically over the last decades, reaching an all time high of 340 investigations in 1999. Interestingly, until as late as 1990, just four developed countries accounted for 80 per cent of all dumping actions: Australia, Canada, European Union, and the US, but now developing countries including India, South Africa, Brazil and Mexico, have been increasingly taking recourse to these laws.

Anti-dumping is more often being used as pure protection than as a trade remedy. The developed countries, especially the US and the EU, have been repeatedly accused of misusing anti-dumping laws for protecting domestic industries from
foreign competition. In the recent years, however, their own exports have been increasingly encountering the same unpredictable, arbitrary, and disruptive obstacles in other countries. The US was the third most frequent target of anti-dumping measures during 1995-2000.

This trend is worrying. Taking increased trade as a necessary condition (but not sufficient) for developing countries to grow, the increasing use of anti-dumping measures may undermine the considerable progress, which has been made in liberalizing world trade.

As far as India is concerned, it has emerged as a new player in the game of anti-dumping. During the period between 1992-2000, India initiated a total of 89 anti-dumping cases, the highest number by any country. However, for India as well as other developing countries in order to achieve long-term sustainable growth, it is important to ensure that each global trading partner must aim to minimize the use of anti-dumping measures. The growing realization that anti-dumping is being used least as trade remedy measure rather than strategic considerations are important explanations for India to participate anti-dumping negotiations with its own proactive gander.

Slackening of the US resistance, towards inclusion of anti-dumping issues in trade negotiations, during Doha conference, is a positive signal and an opportune moment to push for disciplining the anti-dumping regime, India should join together with like minded governments to stem and then reverse the tide of anti-dumping proliferation.

The most blatant is the anti-dumping duties imposed by the US on import of steel. India is reeling under the latest Section 201 assault of the Bush administration

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around steel trade with the US. The US Presidential announcement have initiated safeguard action and asked the US International Trade Commission to investigate injury to the local steel industry under Section 201 of the Trade Act, 1974.\textsuperscript{71} The steel industry is by its very nature a political being in India because of its enormous employment potential and in the USA for its sheer money muscle.

What is of concern to India – which is not among the major exporters of finished steel to the USA – is that the big steel-makers of the USA appear to have influenced opinion that in India steel exporters are being subsidized in a manner that is detrimental to the USA. The subsidies calculated for various steel-makers by the US Department of Commerce ranges from 34.27 per cent for Jindal Iron and Steel to 8.08 per cent for Tata Iron and Steel Company. Indian steel makers dispute these findings.

One of the basic objectives of GATT and WTO was to promote growth in world trade, yet the share of developing countries has fallen from 30 per cent in 1980 to 26 percent in 1998.\textsuperscript{72} While the developing countries have been forced to open up their markets to the developed countries, the later have circumvented their obligations and adopted protectionist measures. While multilateral deliberations remain inconclusive, the powerful economies like the USA have a tendency to impose their will and the US threat of Special 301 is a case in point. India’s export commodities such as textiles and leather face high tariff; 12 percent on textiles and apparel compared to an average of 4-5 per cent on industrial products. Industrial nations must relax trade barriers and open their markets to the developing world because otherwise Third World countries will have to rely on unpredictable foreign capital for economic

growth, the United Nations trade and development agencies urges in a new study.\textsuperscript{73} It urged that the concerns of poorer countries be the center piece of coming global trade negotiations, contending that market access, not foreign capital, was the key to growth.

The Multi-fibre Agreement is one of the most blatant double standard in international trade. The MFA came into force in 1974. It not only goes against the GATT principles of multilateralism and non-discriminations. By employing quotas rather than tariffs, the MFA distorts trade to a much greater extent.\textsuperscript{74} Moreover, quotas are also less transparent than tariffs in terms of the impact of distortions. There is a way to quantify the restrictiveness of quotas. The export tax equivalent (ETE) for a given product is the value of the quota divided by the price received by a producer who does not own a quota for a particular product.

Even after 28 years of MFA, tariff on textiles in the US, for example, range from 15 to 20 per cent. The US and the EU accounted for 73\% of India's total garment and textile export. A study finds that the US was more restrictive towards garment exports from India than the EU. For the US as a whole, overall ETE was 38.8\% of the unit value of exports in 1993, and 36\%-37\% in 1994 and 1995. It declined over the next few years but picked up in 1999 when the same figure was 40\%. Exports to the EU faced aggregate weighted ETEs around 14\% between 1993 and 1995, increasing to 19\% in 1996. The US ETEs in the range of 28\% to 40\% are higher than the actual tariffs.\textsuperscript{75}

\textsuperscript{73} "Third World Needs Trade, UN Declares," \textit{International Herald Tribune}, September 22, 1999.
The MFA has been a particular cause of irritation for states with buoyant textile and clothing industries, because it prevented countries with low unit costs benefiting from comparative advantage. A study made by the policy division of the Union Commerce Ministry found that the multi-fibre agreement (MFA) put up by US and European Union have acted as a major barrier against textile products from India. India has been consistently demanding for the removal of the quota restriction on export of textiles from the developing countries. India, Pakistan, Sri Lanka and Bangladesh have long protested that the MFA is against the spirit of GATT, and that it ought to be progressively phased out.

India is also demanding for the relaxation in the agreement on patents to enable developing countries to safeguard public health by making available essential drugs at reasonable prices in times of epidemics. The Agreement on TRIPs is in contradiction with the objective of liberalizing international trade, as it is designed essentially to protect the monopoly rights of patent holders. It has also been apparent that the implementation of this agreement will result in manifold increases in the prices of live saving drugs.76

USA, which forced the TRIPs agreement (patents) on developing countries in the Uruguay Round, recently threatened to override the patent protection unless the German firm, Bayer, supplied its antibiotics drug, Cipro, at reduced prices to meet the outbreak of Anthrax, the deadly disease reported from several cities in USA. This has only strengthened the case that poor countries must be free to implement the TRIPs agreement in a way that the people get health protection against contagious diseases.

Another issue where India and the United States also differ is related to subsidies on the agriculture. There are divisions among the developed countries on

agriculture with the Cairns group and the USA on one side and the European Union on the other. Studies following the Uruguay round showed the hypocrisy of the developed countries which accounted for about 80 per cent of all agricultural subsidies in 1995 and 1996. Similarly, while the Aggregate Measure of support (an index of domestic protection) for agricultural commodities was as high as 70 per cent for the EU and about 26 per cent for the US, it was negative for India. The USA, which is supposedly committed to phasing out farm subsidies, has just enacted legislation for farm support of $180 billion over a decade.

Subsidies normally maintained by developed countries have been made non-actionable, while several of those given by developing countries in pursuit of an export led development strategy have either been prohibited or put in the actionable category. Subsidies to farmers maintained by major developed countries have, instead of coming down, gone up primarily because these countries were able to switch over to subsidies permissible under the Agreement on Agriculture, before the commencement of its implementations. In the case of export subsidies on agricultural products, the countries which had not used them before the Uruguay round are not allowed to resort to them while those using such subsidies are expected to decrease it by a small margin.

By signing the Agreements on Agriculture (AoA), developing countries discovered that they had agreed to open up their markets while allowing the big agricultural superpowers to consolidate their system of subsidized agricultural production. This led to the massive dumping of surpluses on those very markets a process that was, in turn, destroying small holdings-based agriculture. In India majority of the farmers have small and even marginal holdings of land.

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Tariff peaks in the developed countries continue to block exports from the developing countries. Tariffs still remain very high, especially for cereals, sugar and dairy products. The United States had 244 per cent of import duty on sugar and 174 per cent on groundnuts: on several other items also the import duty continues to be high.

The issue on agriculture has not been solved at the WTO due to the hold that the multinational corporations are having at every stage of negotiations. Governments of the rich countries, heavily influenced by corporate lobbyists, have given sweeping rights to multilateral companies. Negotiations on agriculture, which began in January 2000, were virtually frozen while efforts were stepped up on a global scale to reach accord on starting on a new round of trade negotiations. India had taken firm stand on the Doha meeting taking up implementation issues before considering a new round. Both EU and USA tried to prevail upon India to take part in the round launching session, without directly addressing its concern. The US trade representative even warned that India might find itself isolated in Doha if it persisted on its uncompromising stand. While it is politically impossible for any one country to end agricultural subsidies and high import tariffs on its own, what is possible, though by no means easy, is global agreement to lower subsidies, so that global surpluses of agricultural products decline, prices rise and trade expands.

India has objected that ecological standards may become another non-tariff barrier to trade. The benefits from trade liberalization may not be realized if special interest in the US tried to hide behind turtle excluder devices in order to check shrimp exports from India into the U.S. The developed countries including U.S.A. insisted that the talk should go beyond the immediate agenda at hand and include new issues

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like labour standards, environment and e-commerce, which is objected by India and other developing countries. If the environment has to play its legitimate role in trade, rather than just being a protectionist measure, it must be de-linked from the WTO. A purely Scientific Global Environmental Organization could pursue the objective of enlightening the world about the real environmental problem facing trade. It is scientific assessment and negotiations, and not trade sanction, which will pave the way for an agreement on environment protection.

In fact, frictions over trade and investment rules and restrictions are part of international economic relations. But all these issues are unlikely to create major road-blocs for enhanced level of economic interactions between India and the United States.

India and the United States also share a concern over the sustainability of economic growth and development. A number of global ecological problems confront them, but perhaps the most serious is the prospect of global warming. The build up of chlorofluorocarbons (CFCs) has been identified as one of the factors contributing to a warming of the atmosphere. This could lead to the rise of ocean levels, the submergence of vast areas of coastal land, and the massive displacement of population as a result. The economic losses incurred plus the social tensions engendered by population movements will occur on a global scale. India and the United states will be affected directly and indirectly. In the context of the 1987 Montreal Protocol negotiation on chlorofluorocarbons, and again during the UN's 1992 Earth Summit at Rio de Janeiro, India and China took a strong, generally anti-Western stand, notwithstanding the fact that New Delhi is a signatory of the Montreal Protocol.79

Global warming is by no means the only ecological problem both countries must take account for. There are other forms of air pollution, chemical and oil spills in international waterways and coastlines, the attendant damage to sea life, the destruction of tropical rain forest, and, the spread of hazardous smoke from forest fires. All these are problems that no country, however powerful, can control without the co-operation of other major actors. India and the United States will be directly and indirectly affected by the actions and choices of others in controlling ecological threat, and they will have to bear much of the responsibility – along with the other major economies – of managing the ecological future of the planet.

The visit of the US president in March 2000 tried to give a further boost to economic cooperation between the two countries. The US President, Mr. Bill Clinton, accompanied by high level dignitaries including Commerce Secretary Mr. William Daley and Ambassador Susan Esserman, visited India from March 20-24, 2000. India and the US took a conscious decision to institutionalize bilateral economic interaction at different levels. A high-level coordination group led by the Prime Minister’s office and the US White House was set up. This group is to pay special attention to the issues of advanced and information technologies. Both governments also decided to set up the Indo-US Finance and Economic Forum headed by the Indian Minister of Finance and the US Secretary of Treasury. The forum would focus on resolving finance and investment issues and macro economic policy and would map international economic developments. Two groups were formed during Clinton’s visit to take care of interests of the private sector. The first was Indo-US Commercial Dialogue. Its objective was to facilitate trade and maximize investment opportunities in a number of areas. Prominent among them are information technology,

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infrastructure, biotechnology and services. The second was Indo-US Working Group and Trade. The mandate of this group was to increase cooperation on trade policy. It would also sort out the matters related to WTO. The main joint business group for private sector cooperation - the US-India Business Council met in June 2000.

During Clinton’s visit a Joint Consultative Group on clean energy and environment was also set up to encourage taking up collaborative projects for developing and deploying clean energy technologies, public and private sector investment and cooperation, climate change and other environmental matters. Also established was India-US Science and Technology Forum with an aim to promote research and development, the transfer of technology, the creation of a comprehensive electronic reference source for Indo-US science and technology cooperation and the electronic exchange and dissemination of information in Indo-US science and technology cooperation.

Although India-US economic relations are largely shaped by the industry in both countries, the two governments recognize that strengthening these ties are important for their shared objective of transforming bilateral relations and building a strategic partnership. In November 2001, Prime Minister Vajpayee and President Bush agreed on a new Bilateral Economic Architecture, comprising live components – dialogues on finance and investment; trade policy; commerce; energy and environment. Within the framework of dialogue on commerce, the two governments have a special focus on infrastructure and knowledge based industries. The two governments have also established a Bilateral High Technology Cooperation Group to enhance high technology commerce, including trade in 'dual use' goods and technologies, or what is referred to as strategic trade. The private sector is also an integral part of this Group as well.
Economic factor is rapidly becoming an important basis for strengthening Indo-US relations in the post-Cold War era. Though economic relations are not free from differences in perspective and interest, they present the brightest opportunities for closer relations. Economic sphere has a great potential for the enlargement of Indo-US relations. The force of economic factor has pushed political differences between the two countries into the background. Not only relations between the governments are growing but direct businessmen to businessmen interactions are also expanding. Better economic ties will result in consolidation and enlargement of democracy. Both the countries have their own compulsions, needs and interests to have commercial relations among themselves. It is clear that US has emerged as the single largest investing nation as well as biggest trade partner of India. But still, in relative term it is low. The amount of US foreign direct investment in India is small relative to overall USFDI. Technology transfers to India, too, are limited. However, all these transactions are expected to increase as India’s economy opens up and a sustained growth rate is achieved. In a world that will be increasingly competitive, the United States is looking to establish a presence in markets such as India in the expectation of future returns. Given that India’s population is likely to reach 1.5 billion in the future, future returns from areas such as power and infrastructure alone would be enormous. There is an urgent need to make all efforts to tap the full potential of trade and investment. In order to expand the Indo-US economic cooperation in the near future there is need of reciprocity on the part of both countries to resolve outstanding issues with the proper understanding of each other needs and interests.