Chapter 4

Economic Engagement
President George Bush’s tenure at the Oval Office coincided with a period of remarkable turbulence and transformation for the Indian economy. During this period, India moved away from the inward looking controlled economic policy regime that it had for more than four decades. The transformation to a decontrolled liberalized economy was a deliberate policy response for overcoming one of the worst economic crises encountered by the country since independence. Politically too, India experienced considerable turmoil during the period, which is evident from four different governments assuming command in quick succession.

It is not that the United States was free from economic difficulties during the Bush presidency. The US economy had enjoyed a sustained phase of economic expansion after 1981-82. ‘Reagonomics’ had been successful in taking the US economy to commendable heights of prosperity during the decade of the 1980s. However, the days of economic glory gave way to depressed conditions during the Bush years. Much of the difficulties (the outbreak of a mild recession during 1990-91 and a period of prolonged slowdown beginning from the middle of 1989), ironically, were adverse fallout of the expansive, aggressive consumerism pursued during the Reagan era.

The economic and political upheavals in India during President Bush’s era were accompanied by radical changes in the international economic order. The global trading environment struggled to cope with the uncertainties arising from the contentious negotiations in the Uruguay Round of Multilateral Trade Negotiations (MTNs). Other factors responsible for creating major ripples in the global economic order were the efforts made by the European Community
towards regional economic integration, the restructuring of the East European economies and the growing importance of East Asian economies in world trade.¹

The economic engagement between India and the US during this period requires to be analysed in the light of significant international political developments that occurred during the time: disintegration of the USSR, reunification of Germany, political transformation of East Europe, the Gulf war, and sweeping economic changes heralding the international revival of the forces of market capitalism, intensification of globalisation, the slowdown affecting the US economy after nearly a decade's unhindered growth and the unprecedented structural transformations taking place in the Indian economy. All these developments influenced the mutual perspectives of the US and India regarding each other's economies and impacted the economic relations between the two nations. By the end of President Bush's Administration, India's commercial importance for the US seemed to have risen significantly compared to what it was during previous decades.

This chapter focuses upon the issues that were significant in shaping economic relations between the US and India during the period 1989-1992. It also attempts an explanation of the nature of economic engagement between the two nations during this period. For analytical convenience, the chapter is divided into four separate sections. The first deals with the domestic economic situation in the US during the period. The second section illustrates the conflict experienced by the two nations over the US reservations about India's alleged inability to safeguard the commercial interests of US business in India due to perceived

inadequate protection for intellectual property rights and inappropriate policies in the service sectors. The third section details the economic crisis experienced by India in the year 1991 and the ambitious economic reforms programme that was adopted subsequently. The final section analyses three core aspects of economic engagement between the two nations during the period: trade, investment and external assistance.

Section 1:

At the time of President Bush's assuming office, the US economy was enjoying possibly the longest phase of its economic expansion in the post World War II era. The robust growth of economic activity during the Reagan Presidency had imparted considerable optimism to the economy-watchers regarding the ability of the US economy to prolong the phase of sustained prosperity. The optimism, arguably a shade unjustified, made many overlook the lurking danger in rising price levels and falling consumption growth. The overall mood was buoyant and the economy was expected to continue its expansion into the decade of the 1990s.²

Slowdown and recession

The clearly discernible optimism however gave way to marked concern midway through 1990. The palpable slowdown, which had set in from the second

quarter of 1989; worsened into a recession in the year 1990. Beginning from July 1990, the US economy was in the throes of a recession till March 1991. The repercussion of this recession on the US economy is evident from a comparative analysis of the growth rates of the US, European Union and Japan during the period 1989-1992 (Table 1).

Table 1: Growth Rates for the World, US, European Union and Japan (1989-1992)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>3.4</td>
<td>1.2</td>
<td>-0.9</td>
<td>2.7</td>
</tr>
<tr>
<td>European Union</td>
<td>3.5</td>
<td>3.0</td>
<td>1.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Japan</td>
<td>4.8</td>
<td>5.1</td>
<td>3.8</td>
<td>1.0</td>
</tr>
<tr>
<td>World</td>
<td>3.7</td>
<td>2.6</td>
<td>1.8</td>
<td>2.6</td>
</tr>
</tbody>
</table>


As is obvious from Table 1, the first three years of the Bush presidency saw the US economy growing at rates lower than the world growth, as well as below those of the European Union and Japan. The year 1991 was by far the worst witnessing an absolute decline in output growth. However, in the final year of President Bush, the economy showed signs of recovering from the setback it had suffered in the previous year.

It is also evident that the poor performance of the US economy, particularly during the years 1990 and 1991, impacted overall world output growth. Since the US economy had enjoyed an uninterrupted high growth run for more than seven years before the onset of the recession in mid-1990, it had acted as a major driving force for global economic activity. The slowdown in the US economy reduced the growth momentum for the world also.

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Reasons behind the economic slowdown

The sudden shifting of the economy to a lower growth path during the Bush period had much to do with over-expansive policies pursued by the Reagan administration earlier. ‘Reagonomics’ focused overwhelmingly upon increasing the purchasing power of consumers by enhancing private disposable incomes. For increasing private incomes, outlays were reduced in social sectors and public infrastructure, and personal income tax rates were cut significantly.\(^5\) While these measures initially led to a deluge of consumer spending and pushed up growth rates, the fiscal situation worsened over time leading to high budget deficits. The macroeconomic difficulties compounded further due to sharp rise in interest rates and price levels. The eventual outcome of the developments was increase in unemployment and steep drop in private spending, leading to low growth and overall economic slump.

While a considerable amount of President Bush’s economic difficulties can be attributed to past policies, it is ironical that he took his country to a war that put severe pressure on the national exchequer. Fears were expressed that the US was waging a war in the Gulf, which was far beyond its means, accounting for around US $500 million per day.\(^6\) It was also predicted, in the same context that the US involvement in the Gulf War could exert severe pressure on domestic price and interest rates, which could further worsen an already depressed economy.\(^7\)

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\(^7\) Ibid.
Given the scenario, it was imperative for the US to discover fresh economic stimulus that would pull the economy out of its current slackness, which was threatening to achieve alarming proportions. New demand, capable of providing fillip to domestic industries and business, was the need of the hour. Generation of new demand called for exploration of new markets providing exciting business opportunities. A reforming Indian economy, shedding unproductive controls and adopting outward-oriented economic policies, presented the US an ideal option for pursuing its growth agenda. It is therefore hardly surprising that India’s efforts to restructure its economy received strong support from the US, as would be seen in the next sections. However, in spite of the promise that India held, critical policy rigidities were serious constraints coming in the way of a flourishing business relationship. The major discordant notes in this regard were experienced in the controversies generated over Super and Special 301 provisions of the US Trade Act of 1988.

**Section II**

Conflicts regarding intellectual property rights and trade in services

Under the Bush Administration, the US trade officials were uncomfortable and often extremely critical towards India in so far as the latter’s policies relating to protection of intellectual property rights and foreign investment in domestic service industries were concerned. The US displeasure arose from India’s identification as a country that invited action under the Special and Super 301 clauses incorporated in the US Trade Act of 1974.
Special and Super 301

The US adopted the Omnibus Trade and Competitiveness Act in the year 1988. This new Act added two additional sections to the Section 301 of the Trade Act of 1974. The sections were designated Special and Super 301 respectively. The Special 301 sought to address observed violations in the area of intellectual property rights. The Super 301 on the other hand was to do the same in the area of services. Both these sections gave the US Trade Representative powers for threatening retaliatory actions against 'erring' trade partners in two key areas of the ongoing Uruguay round of Multilateral Trade Negotiations under the GATT.  

Uruguay Round Deliberations

In order to comprehend the significance of the Special and Super 301 clauses, it is important to review the deliberations that were taking place at the Uruguay Round. In September 1986, trade ministers of the GATT countries launched a new round of multilateral trade negotiations (MTNs) at Punta Del Este in Uruguay, which came to be known as the Uruguay Round (UR). The Uruguay Round succeeded seven earlier rounds of negotiations and was the most complex in terms of the range of issues covered and the conflicting nature of negotiations involved. It went beyond the examination of traditional GATT issues like tariffs and other barriers to market access and extended to areas that were largely neglected in the past (e.g. agriculture), or maintained under derogations from GATT (e.g. textile and clothing), and explored new areas (e.g. services).  

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Services were the most contentious issue in the Uruguay Round. Most of the developing countries perceived that if services were included within the GATT framework, the leverage of market access for trade in goods would be used to extract concessions in the area of services. Finally, as a compromise, it was agreed that negotiations on trade in services would be conducted on a separate tract within the Uruguay Round but outside the framework of GATT.

The mid-term ministerial review of the Uruguay Round was held in Montreal in December 1988 for providing political impetus to the negotiations, which was formally concluded at Geneva in April 1989. The guidelines emerging from the mid-term review led to intensification of the work of the negotiating groups on goods and services with the participants submitting a large number of proposals to the groups. In July 1989 the trade negotiations committee of the GATT agreed that the Uruguay Round would be formally concluded at the ministerial meeting to be held at Brussels in December 1990.\(^\text{10}\)

The concerns of developing countries regarding ramifications of inclusion of services under the GATT framework were brought into sharp focus by the aggressive attitude of the US. Though there were no precipitate retaliatory actions under special and super 301, the US Trade Representative used the provisions to issue multiple threats to quite a few countries. The countries not conforming to the requirements of the two sections were put under a ‘priority watch list’ following which their attitudes towards US business interests were closely scrutinized. India figured prominently on the ‘priority watch list’ under special 301 for its Patents...
Act and also for its views on intellectual property rights in the Uruguay Round negotiations, both of which were considered inimical to US business interests.\textsuperscript{11}

\textit{Super 301 and India}

On May 25, 1989, the US Trade Representative Carla Hills named Brazil, India and Japan under Super 301 as ‘priority countries’ having unfair trading practices and demanded bilateral negotiations with each of these countries for changing their domestic laws and practices that invited action under the Section.\textsuperscript{12}

The policy restrictions, which India had on foreign entry and participation in domestic insurance industry made it vulnerable to unilateral US action under Super 301 provisions.\textsuperscript{13} The following Table (no.2) indicates the specific priority practices (according to major trade barriers and distortions that the US aimed to eliminate in the Uruguay round) and countries that were found most suitable for investigation under Section 301 of the US Trade Act of 1974.

\textbf{Table 2: Super 301 Priority Practices and Countries}

<table>
<thead>
<tr>
<th>Nature of Priority Practice</th>
<th>Type of Trade Barrier</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Quantitative Restrictions / Import Licensing</td>
<td>Licensing of Agricultural and Manufactured Products</td>
<td>Brazil</td>
</tr>
<tr>
<td>2. Government Procurement</td>
<td>Satellites and Super Computers</td>
<td>Japan</td>
</tr>
<tr>
<td>3. Standards</td>
<td>Forest Products</td>
<td>Japan</td>
</tr>
<tr>
<td>4. Services</td>
<td>Insurance</td>
<td>India</td>
</tr>
<tr>
<td>5. Investment</td>
<td>Investment Restrictions</td>
<td>India</td>
</tr>
</tbody>
</table>


The above list was prepared on the basis of actions to be taken under the Super 301 provisions of the Omnibus Trade and Competitiveness Act of 1988.

\textsuperscript{11} No.8.
\textsuperscript{12} C. Raghavan, “India to bring Super 301 issue before GATT Council,” June 10, 1989; www.sunsonline.org/trade/process.
The US argued that the Super 301 provisions should be used as instruments for opening foreign markets and for supporting the US objectives in the ongoing Uruguay Round of trade negotiations of the GATT.\textsuperscript{14} The US Trade Representative Carla Hills mentioned that India’s actions in the Uruguay Round of negotiations would be watched closely before deciding on any retaliatory action.\textsuperscript{15}

Subsequent to its inclusion in the ‘priority watch list’, India formally notified the GATT Secretariat and asked it to inscribe the US action as a separate item on the agenda of the GATT Council meeting scheduled for June 21-22, 1989. The Indian Commerce Minister was quoted in the press as having commented that India was willing to communicate with other countries on matters of mutual interest, ‘but it cannot be under duress, under threat of retaliation’.\textsuperscript{16} Moreover, he also mentioned that if the US formally sought bilateral discussions on the priority issues with India under Section 301 India would refuse to negotiate.\textsuperscript{17}

Like India, Brazil also made a similar request to the GATT Secretariat with respect to the US action. However, immediately thereafter, both the US Trade Representative and the US delegate to the GATT pointed out that the US would not abandon its Section 301 efforts even if the GATT held it illegal. The USTR was on record as repeatedly saying that she will be using this provision as a ‘crowbar’\textsuperscript{18} for opening up new foreign markets for US exports of goods and services and promoting US investments.

\textsuperscript{15} No.8.
\textsuperscript{16} C. Raghavan, “India to bring Super 301 issue before GATT Council”, June 10, 1989; www.sunsonline.org/trade/process
\textsuperscript{17} Ibid.
\textsuperscript{18} Ibid.
The pressure put by the US on India under the Super 301 provision was a glaring example of threat of use of unilateral punitive measures on trade by one of the world’s largest economies for realizing its individual expansive objectives. The US actions (vis-à-vis India and other countries) underlined one of the major concerns of the developing world. The US attempt to use bilateral negotiations as a threat for securing greater market access in the other countries was viewed by the developing world as a serious foreboding to the global efforts for arriving at a multilateral rule-based trading regime, which would favour the industrial nations. The US actions were also responsible for generating considerable friction among the negotiating members and were one among the several controversial issues that led to the inconclusive Uruguay Round.

**Special 301 and India**

India was one of the very few countries, which got marked under both the Super and Special 301 provisions of the US Trade Act. In May 1991, India invited the attention of the US Trade Representative under the Special 301 section for its allegedly weak and ineffective intellectual property rights regime. After a detailed investigation lasting nine months, the US Trade Representative ascertained that though India had strengthened its copyright and trademark laws, it was still short on adequate protection for intellectual property rights.\(^{19}\)

Drugs and pharmaceuticals were one of the main industries that witnessed considerable controversy over intellectual property rights issue between India and the US during the Bush Administration. In April 1992, Indian exports of drugs

and pharmaceuticals were removed from the duty-free list of US imports drawn up on the basis of the GSP (Generalised System of Preferences) scheme. The step was, arguably, an effort to offer protection to US drug manufacturers, whose estimated losses on account of drug piracy amounted to nearly US $ 400 million.20

Pharmaceuticals remained a major subject of negotiations between India and the US during the last months of the Bush regime. The conflicting views over the nature of pharmaceutical patents were a manifestation of the fundamental differences between the two nations on the issue of intellectual property rights. While the US was in favour of a watertight patent regime that would offer protection to products, India favoured a more flexible system protecting processes, rather than products.

The divergence of views shot to sharp focus in an incident involving the Indian drug manufacturer CIPLA. The company wished to market an indigenously produced version of an AIDS treatment drug (AZT) at nearly one-fourth of the cost at which it was originally manufactured by the US company Burroughs Wellcome. The latter was licensed to export the drug to India. India argued that while the majority of its 1 million HIV positive population could not afford even CIPLA’s cheaper version, a limited better off segment could possibly avail the medicine.

Under existing Indian laws granting patents to processes, CIPLA could legally manufacture and market the drug under a different process and was not required to pay royalties to Burroughs Wellcome. The incident was viewed as another example of the lack of protection under the existing Indian patent laws

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20 Ibid.
and provoked the US authorities to exert greater pressure on India for reforming its patent regime.\(^{21}\)

Section III

India: The Economic Crisis and Restructuring

The Outbreak of the Economic Crisis

The 1980s were a high-growth decade for the Indian economy. National income grew at a healthy rate of 5.5% per annum during the period. This was far higher than the historical growth trends experienced by India during the previous three decades. Industrial growth was upbeat and the country did not experience any exogenous disturbances (e.g. the oil shock of the 70s), or any hardships in domestic economic management (e.g. agricultural shortfalls or food shortages).

The positive outlook of the international community about India’s future economic prospects was best expressed in an article published in the *Financial Times*, London (‘Ready to confound the critics’, 11\(^{\text{th}}\) October 1989), which declared ‘fundamental changes are taking place in the economy which suggests that India would soon find place in the ranks of Asia’s fast growing newly industrialized countries’.\(^{22}\) International financial institutions like the World Bank and the International Monetary Fund (IMF) expressed satisfaction at India’s performance in their respective annual reports. While the World Bank praised the commendable performance of the domestic industry, the IMF applauded India’s sound macro-economic performance.\(^{23}\)

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\(^{21}\) Ibid, p.41.


As can be seen from Table 3, India's macro-economic profile for the year 1990-91 contained mixed signals. While the rate of growth of GDP (5 per cent), industry (8.4 per cent) and domestic investment and savings (as proportion of GDP) were commendable, disturbing symptoms were particularly evident in widening current account deficit in the balance of payments (Figure 1) and in the areas of foreign exchange reserves, inflation and fiscal deficit.

_Evolution of the economic crisis_

The balance of payments situation had begun to face difficulties since 1988-89. A bulging import bill and large repayments to the IMF under the Extended Fund Facility created pressure on the external payments situation in 1988-89, which was reflected in the dwindling balance of foreign exchange reserves. Total foreign exchange reserves stood at SDR 3,715 million at the end of March 1989, showing a fall of SDR 771 million during 1988-89, as compared to a
GRAPH SHOWING EXTENT OF GAP BETWEEN EXPORTS AND IMPORTS IN INDIA'S FOREIGN TRADE DURING 1989-90 TO 1993-94 (RS. CRORES)
decline of SDR 627 million during 1987-88.\textsuperscript{24} The balance of payments situation continued to remain under substantial pressure during 1989-90.\textsuperscript{25}

The delicate balance of payments situation aggravated further in 1990-91. During the second half of 1990-91, oil prices rose sharply amidst a major crisis in the Persian Gulf. Foreign exchange reserves began declining from September 1990 and were reduced from a level of Rs.5, 480 crore (US $3.11 billion) at the end of August 1990 to Rs.1, 666 crore (US $896 million) on 16 January 1991.

The fast erosion in foreign exchange reserves forced the government to resort to emergency measures. The government of India took recourse to the IMF resources by drawing Rs.1, 177 crore (US $660 million) from the reserve tranche during July-September 1990. In January 1991, India again drew Rs. 1,884 crore (US $1.025 billion) under the Compensatory and Contingency Financing Facility (CCFF) of the IMF, accompanied by a further withdrawal of Rs.1, 450 crore ($789 million) under a First Credit Tranche (FCT) arrangement.\textsuperscript{26} The aggregate purchase from the International Monetary Fund by the Government of India in January 1991 amounted to Rs.3, 334 crore (US $1.814 billion).\textsuperscript{27}

The troubles in the external sector gradually spread to other segments of the economy. Balance of payments difficulties and shortage of foreign exchange had forced the government to sharply compress imports during 1990-91. The import compression reduced availability of inputs for domestic industry, thereby

\textsuperscript{24} SDR is an asset issued by the IMF that IMF members had to their holdings of foreign currencies and gold. The SDR is calculated on the basis of the average worth of the world's 5 major currencies. For example on August 24, 1998 1 SDR=US$1.32523 as cited in 'What is the international monetary fund?', http://www.imf.org.
\textsuperscript{25} Economic Survey (Government of India, 1989-90), pp. 112-113.
\textsuperscript{27} Economic Survey, 1991-92, Part I (Government of India), pp.1,4,10.
affecting its output and leading to decline of industrial production from early 1991-92. Inflation, which had begun accelerating in 1990-91, reached a peak level of 16.7 per cent in August 1991. As a result of these adverse sectoral developments, the growth of real GDP decelerated sharply in 1991-92.28

Indian exports had grown at a robust rate of 19 per cent year (in US Dollar terms) during the period 1986-87 to 1989-90. The momentum was lost in 1990-91 with export growth decelerating to 9 per cent. Conditions worsened further in 1991-92 as the full effect of import compression began to be felt in the industrial sector. The disruption in India’s Rupee trade with the erstwhile Soviet Union also affected aggregate exports with exports to Rupee Payment Areas declining by more than 50 per cent.29

By June 1991, the Indian crisis had reached alarming proportions: What was initially dubbed as a difficult external sector situation had, over time, blown up into a crisis of confidence in the government’s ability to manage the balance of payments. The loss of confidence had undermined the government’s capability to deal with the crisis by closing off all recourse to external credit. For the first time in India’s history, the country faced the ominous possibility of defaulting on its payments, in June 1991.30

**Reasons behind the economic crisis**

The outbreak of the severe economic difficulties in 1990-91, coming after several years of rapid growth, is to be viewed in the context of exceptionally serious

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28 Ibid.
29 Ibid, pp.15-16.
30 Ibid.
conditions in two respects: a grave external payments situation and a high rate of inflation. Both reached their peak by the middle of 1991. Foreign currency assets had declined to Rs. 2,383 crore (US $1.1 billion) at the end of June 1991, which were barely enough to finance two weeks of imports. The annual rate of inflation, which began to accelerate in 1990, reached a peak of 16.7 per cent in the fourth week of August 1991.31

The economic troubles faced by the country and the loss of confidence in the government’s ability to reverse the trends was compounded by political uncertainty. The period was marked by heightened tensions on the domestic political front. The fragile political climate in the country affected the government’s performance on the economic front.

Political instability

The build-up to the economic crisis and its eventual manifestation coincided with a succession of rapid changes in political authority in the country. The process began with the defeat of the ruling Congress Party under the leadership of Rajiv Gandhi in the general elections to the Indian Parliament held in November 1989. The elections resulted in a hung Parliament and a coalition Government under the leadership of V.P. Singh assumed office.

The new Government was confronted with serious domestic disturbances right from the beginning, which included irksome issues like implementation of the Mandal Commission report and the Ram Janmabhoomi-Babri Masjid dispute. Internal pressures led to the fragmentation of the V.P. Singh government on

31 Ibid, p.3.
November 19, 1990. Another minority Government headed by Mr. Chandrasekhar, and supported by the Congress Party, came to power, and was in command during the outbreak of the Gulf crisis.

The Chandrasekhar government however, resigned in March 1991. The precarious position of the government was indicated by its failure to present the Union Budget in February 1991. Fresh elections were held in May-June 1991. The electoral exercise was rocked by the sudden assassination of Rajiv Gandhi. Finally, a new Government led by the Congress Party came to office under the stewardship of P.V. Narasimha Rao. This was the fourth Government in the country within a span of only two years!

**Economic Reforms and Restructuring**

The new Government, which assumed office in June 1991, had to act swiftly to deal with the situation and bring back the economy from the brink of default.

**Measures taken for resolving the economic crisis**

*Leasing of gold*

In May 1991, in order to prevent a default in payments, the then interim Government had leased 20 tonnes of gold out of its stock to the State Bank of India for enabling the Bank to sell the gold abroad with an option to repurchase it at the end of six months. The Narasimha Rao government allowed the Reserve
Bank of India to ship another 47 tonnes of gold to the Bank of England in July 1991, which helped in raising about US $600 million.\textsuperscript{32}

\textit{Economic reforms programme}

It was evident that the economy required substantial reforms if the occurrence of similar crises were to be prevented in future. The new Government moved rapidly to implement a programme of macro-economic stabilization to restore viability to the balance of payments and to bring inflation under control. In a move that intended to release the pressure on the Balance of Payments, the exchange rate of the Rupee was adjusted in July 1991 by effecting currency devaluations in two stages. Besides, the government also undertook a far-reaching programme of structural reform, which included bold initiatives in trade and industrial policy aimed at improving the efficiency of the economy and increasing its international competitiveness. This restructuring was essential to ensure longer-term viability in the balance of payments and to restore the conditions for rapid growth.\textsuperscript{33}

\textit{Finance from multilateral institutions}

For the immediate future however, substantial financing of balance of payments was unavoidable if import compressions were to be relaxed. Accordingly, the Government attempted to mobilize support for the balance of payments from multilateral financial institutions (e.g. the International Monetary

\textsuperscript{32} Ibid, p.11.
\textsuperscript{33} Ibid, p.1.
Fund, the World Bank and the Asian Development Bank, as well as from bilateral donors) and was able to negotiate successfully.  

**Mobilising NRI resources**

Another important initiative taken by the Government for meeting the urgent need for financing balance of payments was the announcement of two schemes designed to encourage the inflow of capital funds from abroad. The India Development Bond Scheme and the Immunity Scheme for repatriation of funds held abroad were introduced in October 1991 with the objective of mobilizing resources from the Non-Resident Indians.

**Recovery from the crisis**

The quick, short-term actions taken by the government proved effective and led to encouraging results. The BOP position, which had reached alarming levels during June 1991, slowly stabilized during the course of 1991-92. Foreign currency assets, which had declined to their lowest point of US $1.1 billion in June 1991, rose to about US $4.4 billion by 19 February 1992. The Government was able to bring back the gold pledged to the Bank of England. The India Development Bonds, issued by the State Bank of India, fetched US $1.605 billion. Thus, there was an increase of about US $4.6 billion in external assets. This however, had to be viewed against an increase in foreign liabilities of about US $3.2 billion.  

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34 Ibid, p.14-15  
Import restrictions were gradually lifted with the stabilization of the Balance of Payments situation. The Government removed import licensing for most capital goods, raw materials, intermediates and components. A new Liberalized Exchange Rate Management System (LERMS) was introduced in the Union Budget in 1992-93.\textsuperscript{36}

The year 1992-93 saw better performance by both exports and imports. The current account deficit also showed signs of improving. However, disturbing developments in the month of December 1992 (the destruction of the Babri Masjid in Ayodhya) were reasons for renewed uncertainties on the economic front.

India was able to successfully overcome the crisis experienced during 1991-92 by pursuing a credible policy of structural reforms aimed at macroeconomic stabilization. The buoyant level of foreign exchange reserves and better performances by exports and imports were certainly promising indicators. India’s enhanced economic credibility in the US perspective was underscored by the Indian Finance Minister’s successful visit to Washington in the year 1992. The then IMF Managing Director, Micahel Camdessus, lauded India’s economic progress and restructuring efforts by referring to the Indian economy as an ‘emerging tiger’.\textsuperscript{37}

However, at the end of 1992, disquieting features were clearly discernible in the international economic environment in form of recessionary global conditions (particularly the slow recovery in the advanced economies), the inconclusive Uruguay Round of Multilateral Trade Negotiations (MTNs) and a

\textsuperscript{36} Economic Survey 1992-93, p.5
sharp decline in Indian exports to RPAs (Rupee Payment Areas) due to the difficulties faced by the Commonwealth of Independent States (CIS) economies. Despite the troubled circumstances at home and abroad, India had strong reasons to believe that its liberal trade and investment policies coupled with removal of controls in the domestic economy would considerably brighten its economic prospects in the coming years.

Section IV
Trade, Investment and External Assistance

Trade

Though India and the US have traditionally enjoyed fruitful trading relations, the relationship has had a skewed orientation. Historically, the US has been one of India's main sources of imports. It has also been one of India's largest export markets whereas Indian exports have comprised relatively insignificant shares of total US imports.

Exports

The volume of Indian exports to the US, and US imports to India, during the period 1987-88 to 1992-93, is given in Table 4 and Figure 2.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>EXPORTS (US $ million)</th>
<th>IMPORTS (US $ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987-88</td>
<td>2,252.1</td>
<td>1,543.8</td>
</tr>
<tr>
<td>1988-89</td>
<td>2,574</td>
<td>2,236.8</td>
</tr>
<tr>
<td>1989-90</td>
<td>2,686.2</td>
<td>2,561.2</td>
</tr>
<tr>
<td>1990-91</td>
<td>2,673.2</td>
<td>2,923</td>
</tr>
<tr>
<td>1991-92</td>
<td>2,921.1</td>
<td>1,994.7</td>
</tr>
<tr>
<td>1992-93</td>
<td>3,515.9</td>
<td>2,147.4</td>
</tr>
</tbody>
</table>

Figure 2: Direction of India’s Trade with US (US $ million) from 1987-88 to 1992-93.
Indian exports to the US remained more or less static during the period 1988-89 to 1990-91 ranging between US $2.5 billion to US $ 2.7 billion. Exports began rising from the year 1991-92 and increased sharply to around US $ 3.5 billion in 1992-93. The surge in exports during the later years reflects India's successful emergence from the economic crisis of 1991 and the effectiveness of its new economic policies in promoting exports.

### Table 5: India's share in US imports

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Share of India's exports in total US Imports (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>0.64</td>
</tr>
<tr>
<td>1989</td>
<td>0.67</td>
</tr>
<tr>
<td>1990</td>
<td>0.62</td>
</tr>
<tr>
<td>1991</td>
<td>0.63</td>
</tr>
<tr>
<td>1992</td>
<td>0.71</td>
</tr>
<tr>
<td>1993</td>
<td>0.78</td>
</tr>
</tbody>
</table>


Table 5 and Figure 3 indicate that India's exports to the US, as a proportion of the total US imports, improved from 0.64 per cent in the year 1988 to 0.78 per cent in 1993. Though the US has been one of the largest absorbers of Indian exports, India, on the contrary, never figured prominently as an importer for the US. This was in sharp contrast to a few other developing countries, particularly from the East Asia (e.g. Korea, Thailand etc.), who had come to occupy significant shares of US imports. Nevertheless, the rising share of Indian exports in US imports during 1991 and 1992 underscored the possibility of India becoming a more significant source of imports for the US in the future.

*Commodity composition of exports*

The following Table (no.6) gives a detailed commodity profile of Indian exports to the US during the period 1987-88 to 1992-93.
Figure 3: Indian exports as share of US imports

(per cent)


Years

0.64 0.67 0.62 0.63 0.71 0.78
Table 6: Value of Indian Exports to the US: 1987-88 to 1992-93 (US $ million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tea</td>
<td>6.8</td>
<td>7.1</td>
<td>6.9</td>
<td>7.3</td>
<td>8.5</td>
<td>10.6</td>
</tr>
<tr>
<td>2. Coffee</td>
<td>25.6</td>
<td>18.2</td>
<td>13.5</td>
<td>3.9</td>
<td>9.7</td>
<td>7.5</td>
</tr>
<tr>
<td>3. Rice</td>
<td>12.9</td>
<td>7.6</td>
<td>10.9</td>
<td>11.1</td>
<td>17.2</td>
<td>16.1</td>
</tr>
<tr>
<td>4. Tobacco</td>
<td>0.3</td>
<td>0.7</td>
<td>0.5</td>
<td>3.9</td>
<td>2.3</td>
<td>1.7</td>
</tr>
<tr>
<td>5. Spices</td>
<td>45.6</td>
<td>27.4</td>
<td>20.1</td>
<td>21.5</td>
<td>29.6</td>
<td>41.4</td>
</tr>
<tr>
<td>6. Cashew kernels (incl.c.n.s.l.)</td>
<td>76.8</td>
<td>32.6</td>
<td>25.9</td>
<td>31.8</td>
<td>81.7</td>
<td>112.4</td>
</tr>
<tr>
<td>7. Marine products</td>
<td>58.4</td>
<td>53.7</td>
<td>47.2</td>
<td>63.2</td>
<td>62.1</td>
<td>65.4</td>
</tr>
<tr>
<td>8. Leather &amp; manufactures</td>
<td>109.8</td>
<td>125.6</td>
<td>156.2</td>
<td>175.2</td>
<td>176.2</td>
<td>208.1</td>
</tr>
<tr>
<td>9. Gems &amp; jewellery</td>
<td>803.3</td>
<td>1,055.4</td>
<td>1,037.6</td>
<td>928.7</td>
<td>887.1</td>
<td>1,156.5</td>
</tr>
<tr>
<td>10. Chemicals &amp; allied products</td>
<td>67.4</td>
<td>92.9</td>
<td>131.8</td>
<td>135.9</td>
<td>176</td>
<td>173.5</td>
</tr>
<tr>
<td>11. Engineering goods</td>
<td>118</td>
<td>170.1</td>
<td>183.8</td>
<td>218.3</td>
<td>226</td>
<td>280.1</td>
</tr>
<tr>
<td>12. Cotton yarn, fabrics, made-ups etc.</td>
<td>130.8</td>
<td>104.8</td>
<td>109.3</td>
<td>124.1</td>
<td>168.4</td>
<td>189.8</td>
</tr>
<tr>
<td>13. Readymade garments</td>
<td>427</td>
<td>458.1</td>
<td>513.6</td>
<td>524.9</td>
<td>600.1</td>
<td>710.3</td>
</tr>
<tr>
<td>14. Jute manufactures, (incl. floor coverings</td>
<td>26.3</td>
<td>18.7</td>
<td>18.7</td>
<td>19.9</td>
<td>30.6</td>
<td>26.3</td>
</tr>
<tr>
<td>15. Carpets</td>
<td>96.9</td>
<td>93</td>
<td>105.6</td>
<td>100.3</td>
<td>157</td>
<td>166</td>
</tr>
</tbody>
</table>


During the period 1987-88 to 1992-93, exports of tea, spices, cashew/kernels, marine products, leather and manufactures, gems and jewellery, chemicals and allied products, engineering goods, cotton yarn and fabrics, readymade garments and carpets, are seen to have increased in value. Among these commodities, gems and jewellery exports had the highest value, followed by readymade garments, engineering goods, leather and manufactures and cotton yarn and fabrics. Over the period, value of coffee exports reduced sharply.
Exports of spices also declined while that of jute manufactures remained more or less unchanged.

Table 6 gives a snapshot view of the commodity composition of Indian exports to the US during 1987-88 to 1992-93. It would be interesting at this juncture to compare the composition of the export basket for the period with the long-term commodity profile of Indian exports to the US.

During the decade of the 1960s, textile yarn and fabric were the dominant Indian exports to the US, followed by tea, coffee, spices, fruits and vegetables, sugar, fish and preparations and crude agricultural matter. Polished diamonds and clothing entered the export basket during the decade of 1970s. During the decade of 1980s, the commodity composition remained more or less identical except for the addition of petroleum products.\(^{38}\)

During the period under consideration (1987-88 to 1992-93), gems and jewellery and textiles (including readymade garments, cotton yarn, fabrics, made-ups etc.) were the two most significant Indian exports to the US in value terms (ref Table 6). Between the two items, the value of gems and jewellery exports actually declined from US $ 1,055.4 million in 1988-89 to US $ 887.1 million in 1991-92, before shooting up again to US $ 1,156.5 million in 1992-93. Contrary to the fluctuations experienced by gems & jewellery exports, readymade garment exports rose steadily during the period from US $ 427 million in 1987-88 to US $ 710.3 million in 1992-93. The observation underlines the continuing importance of textiles as an Indian export for the US market.

Constraints to exports

During the early years of the decade of 1990s, the American market, which was already a major destination for India's exports, assumed greater significance. The increased importance of the US market was the result of displacement of India's trade with the Soviet Union and the East European countries to some extent. Besides, the new liberal trade policies implemented by the Government of India for encouraging exports also began to produce dividends.

Notwithstanding the growth of Indian exports to the US during the later years of the Bush period, barriers to trade limited the market access for Indian exports. These trade barriers were both of the tariff, as well as non-tariff kinds. The average rate of US tariffs on imports experienced a consistent decline from 60 per cent in the late 1930s to only 3 per cent in 1991. However, as far as imports from India were concerned, US tariffs displayed a rising tendency during the period 1988-1992. From an average rate of 4.72 per cent in 1988, the tariffs increased to 5.73 per cent in 1989 and further to 6.35 per cent in 1992. In other words, the overall incidence of the average rate of US tariffs on Indian products grew by 34.53 per cent during 1988-1992.

As far as non-tariff barriers (NTBs) were concerned, quantitative restrictions on volume of textile imports imposed under the Multi Fibre Agreement (MFA) was one of the major constraints. Since textiles were one of the key items of Indian exports to the US, the physical limitation on quantity of exports prevented India from exploiting its comparative advantage in the US market. The restrictions, arguably, were imposed by the US for offering protection

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39 Ibid. p.21.
40 Ibid.
to its domestic textile producers and invited considerable protests from India and other developing countries, which traditionally exported textiles.41

While the MFA restrictions were product-specific and affected textile exports, more critical impediments arose in form of non-tariff barriers like stringent health and federal regulations. While 17 per cent of Indian exports came up against NTBs in 1986, the incidence increased to 35 per cent in 1989 and further to 39 per cent in 1992. During the period 1986-1992 therefore, the incidence of US NTBs on Indian exports is seen to have registered a phenomenal increase of 129 per cent.42

Imports

India’s total imports during the period 1988-89 to 1992-93, imports from the US, and the share of US imports in total Indian imports, are illustrated in the Table(no.7) below.

Table 7: Share of the US in India’s Import Trade: 1988-89 to 1992-93

<table>
<thead>
<tr>
<th>Year</th>
<th>India’s Import trade (in Rs)</th>
<th>Imports from US (in Rs)</th>
<th>Share of US Imports in total Indian imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>28235,22,37</td>
<td>3239,25,58</td>
<td>8.71</td>
</tr>
<tr>
<td>1989-90</td>
<td>35415,90,11</td>
<td>4263,44,57</td>
<td>8.30</td>
</tr>
<tr>
<td>1990-91</td>
<td>43192,85,51</td>
<td>5244,71,31</td>
<td>8.23</td>
</tr>
<tr>
<td>1991-92</td>
<td>47850,83,97</td>
<td>4917,21,91</td>
<td>9.72</td>
</tr>
<tr>
<td>1992-93</td>
<td>633374,51,60</td>
<td>6219,42,86</td>
<td>10.18</td>
</tr>
</tbody>
</table>


41 Ibid, p.15.
42 Ibid, p.22.
India’s imports to US

While Indian exports to US are seen to have picked up sharply during the later part of the Bush period, India’s imports from US, on the other hand, declined after 1990-91 and increased again in 1992-93. The decline in 1990-91 is largely attributable to the import compression effected by the government of India for tiding over the balance of payments difficulties.

Beginning from a share of 8.71% in total Indian imports (1988-89), the proportion of imports from the US reduced sharply to 8.23% (1990-91) and reversed the declining trend to rise to 10.18% (1992-93). The fluctuations in the pattern of India’s imports from the US during the period can be explained by a variety of reasons.

The initial decline in share of US imports is largely on account of the outbreak of the economic crisis in India in 1991-92 (the beginning of which was felt in 1989-90 itself). External disturbances, in the form of the Gulf War and the disintegration of the Soviet Union, combined with domestic political instability heightened India’s economic difficulties and reduced the domestic industry’s demand for imports. The crisis of 1990-91 also forced the authorities to restrict entry of imports.

The sharp rise in share of US imports in total Indian imports from 8.23 per cent in 1990-91 to 9.72 per cent in 1991-92, and further to 10.18 per cent in 1992-93 (Table 7 and Figure 4) can be explained as a combined outcome of the devaluation of the Indian Rupee (in terms of US$) and the gradual adoption of liberal trade policies. At the same time, the end of India’s settled trade with the
Figure 4: Share of US in India's Imports (1988-89 to 1992-93)

- 1988-89: 8.7%
- 1989-90: 8.3%
- 1990-91: 8.2%
- 1991-92: 9.7%
- 1992-93: 10.2%
USSR and East Europe implied greater possibilities for US imports in the domestic Indian market.

**Commodity composition of imports**

During 1991-92 and 1992-93 (the early years of the economic liberalization era), the main Indian imports from the US were: machinery (except machine tools), metal ores and metal scrap, fertilizers (manufactured), electrical machinery, professional instruments (including optical goods), project goods, transport equipment, organic chemicals, inorganic chemicals, artificial resins and plastic materials, cereal preparations, pulp and waste paper, pearls and semi- precious stones etc.\(^{43}\)

Most of these imports were in the nature of intermediate products and capital equipment, used as inputs by domestic manufacturers for producing final products. The commodity composition of imports along with the increase in import volume during the end of the period (1988-89 to 1992-93) indicates the gradual revival of the domestic Indian industry as indicated by the increasing use of imported imports in making final products for exports by the Indian manufacturers and the benefits of adoption of liberal import policies.

**Exchange rate movements**

The Table below (no. 8) and Figure. 5 illustrate the movements in Rupee-Dollar exchange rate during the period 1987-88 to 1992-93.

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\(^{43}\) *Monthly Trade Statistics of India*, (Calcutta: DGCI&S), March 1993, pp.105-106.
Figure 5: Rupee-Dollar Exchange Rate

Per unit US Dollar vis-a-vis Rupee

Table 8: Movements in the Rupee-Dollar Exchange Rate (1987-88 to 1992-93)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>AVERAGE RATE OF US DOLLAR (in terms of Indian Rupee)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987-88</td>
<td>12.9658</td>
</tr>
<tr>
<td>1988-89</td>
<td>14.4817</td>
</tr>
<tr>
<td>1989-90</td>
<td>16.6492</td>
</tr>
<tr>
<td>1990-91</td>
<td>17.9428</td>
</tr>
<tr>
<td>1991-92</td>
<td>24.4737</td>
</tr>
<tr>
<td>1992-93</td>
<td>30.6488</td>
</tr>
</tbody>
</table>


One of the important factors that played an important role in influencing the volume of Indian exports in the early 1990s is the exchange rate between the Indian Rupee and the US Dollar. As can be seen from Table 8, from a value of just under Rs.18 per US $ in 1990-91, the Indian Rupee dropped sharply to more than Rs.30 per US $ in 1992-93. The significant decline in the value of the Indian rupee is largely attributable to the two-stage currency devaluation effected by the Indian government in July 1991. The devaluation of the Indian Rupee made Indian exports cheaper in Dollar terms and made them that much more competitive in the overseas markets. The enhanced competitiveness of Indian exports was evident from the higher growth of Indian exports to the US during 1991-92 and 1992-93. On the other hand, higher price of imports due to a devalued Indian Rupee, coupled with import restrictions, resulted in reduction in volume of imports from the US, after 1990-91.

*Trade in services*

The far-reaching policy reforms adopted by India and a rising trend of global integration of markets and economies created opportunities for exports of Indian services to the US. India enjoyed the comparative advantage in production of various human skill-intensive services like computer software, accountancy,
legal and health services. The US was also keen on exporting services to India in view of the large size of the Indian market and the exciting business prospects that the economy offered subsequent to the economic restructuring.

At the Uruguay Round of negotiations, India urged for facilities that would ensure temporary relocation of skilled labour to other countries. The US administration was, in general, positive to the demand. The two countries were, already exchanging professional consultancy services, comprising of legal, accounting, management and advertising services, though in a marginal way. However, migration of Indian consultants to the US was severely restricted due to rigid immigration laws and visa categories, ceilings on duration of stay in the US and the requirement of possession of US recognized professional credentials.44

Tourism was another service sector having significant potential for expansion between the two countries. The USA accounted for the second largest number of tourist arrivals in India after UK. American tourists were found to spend an average of 29.2 nights in India, which was higher than the overall average of 27.9 nights (in 1992).45

Despite no remarkable progress in expansion of trade in services, the later years of the Bush Presidency were significant for witnessing the possibility of trade in services coming to occupy much greater share of bilateral trade between the two nations. Important obstacles, however, remained, which were largely of a socio-political nature calling for extended bilateral dialogue for amending national regulations to facilitate trade in services.

Investment


Foreign investment policy

The significant foreign investment reforms announced by the government of India were as follows:

- Permission for automatic approval for foreign investment up to 51 per cent equity in 34 industries.
- Establishment of Foreign Investment Promotion Board (FIPB) for processing applications relating to foreign investment in cases not covered by automatic approval.
- Permission for foreign direct investment in core sectors like exploration, production and refining of oil, marketing of gas, coal mining and power generation.
- Permission to NRIs for investing up to 100 percent equity in high-priority industries.
- Liberalising the provisions of the Foreign Exchange Regulation Act (FERA) thereby permitting equal treatment between
companies having more than 40 per cent foreign equity and fully Indian owned companies.

- Permission to reputed Foreign Institutional Investors (FIIs) to invest in the Indian capital market subject to procedural requirements (registration with Security Exchange Board of India (SEBI) and RBI approval) and up to an overall investment ceiling of 24 per cent of share capital in Indian companies.

- Several measures enabling Indian companies to access global capital markets through Global Depository Receipts (GDR) mechanism and also liberalizing guidelines for Indian joint ventures abroad.46

*Foreign Direct Investment and Foreign collaboration proposals*

The results of the new foreign investment policies adopted by the Government of India were certainly encouraging. The FDI (Foreign Direct Investment) approved in the country increased from Rs 1,283.2 million in 1990 to Rs 3,8875.4 million in 1992. Beginning from August 1991 till December 1992, a total of 2,154 foreign collaboration proposals were approved, out of which 894 cases involved foreign equity participation.47

*US Foreign Direct Investment (FDI)*

The United States of America played the most significant role in enhancing foreign investment inflows into the Indian economy over this period.

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The Table below and Figure 6 indicates the volume of FDI approvals from the US in India during 1990 to 1993 and the share of these approvals in aggregate approvals annually.

Table 9: FDI Approvals for US Investors: 1990-1993

<table>
<thead>
<tr>
<th>YEAR</th>
<th>US APPROVALS (Rs million)</th>
<th>TOTAL APPROVALS (Rs million)</th>
<th>SHARE of US in TOTAL APPROVALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>344.8</td>
<td>1283.2</td>
<td>26.9</td>
</tr>
<tr>
<td>1991</td>
<td>1858.5</td>
<td>5341.1</td>
<td>34.8</td>
</tr>
<tr>
<td>1992</td>
<td>12315</td>
<td>38875.4</td>
<td>31.7</td>
</tr>
<tr>
<td>1993</td>
<td>34618.5</td>
<td>88593.3</td>
<td>39.07</td>
</tr>
</tbody>
</table>


At the end of the year 1988, India had a total stock of only US$ 1.2 billion as Foreign Direct Investment. This was miniscule compared to China, which had a stock of US$10.6 billion at the end of 1989. The share of FDI in Gross Fixed Capital Formation for India during the period 1981-1991 was only 0.2% compared to 1.6% for China.48

It is evident that FDI played a negligible role in mobilization of resources for the Indian economy before 1991. The situation however, changed remarkably after the economic restructuring initiated from the middle of 1991. The liberal investment policies sent out strong, positive signals to the international investment community regarding India’s willingness to accept foreign investment as a major resource in its developmental efforts.

The US investors were quick to realize the opportunity offered by India. Beginning from 1990, the US was the largest source of FDI for India. The sharp increase in proportion of FDI approvals from the US in the volume of total

Figure 6: US FDI as share of Total FDI approvals for India (1990-93)
approvals, from 26.9% in 1990 to 39.07% in 1993, is a clear indicator of the confidence reposed by the US investors in the Indian economy. A disaggregated profile of the foreign collaboration proposals approved in India during 1991 to 1994 (in terms of purely technical collaborations and proposals involving financial participation) is given in the Table below.


<table>
<thead>
<tr>
<th>YEAR</th>
<th>US COLLABORATIONS (in no.)</th>
<th>TOTAL COLLABORATIONS (in no.)</th>
<th>US SHARE IN TOTAL COLLABORATIONS (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Fin.</td>
<td>Tech</td>
</tr>
<tr>
<td>1991</td>
<td>177</td>
<td>53</td>
<td>124</td>
</tr>
<tr>
<td>1993</td>
<td>296</td>
<td>151</td>
<td>145</td>
</tr>
<tr>
<td>1994</td>
<td>348</td>
<td>179</td>
<td>169</td>
</tr>
</tbody>
</table>


It is mentionable in this context that Table 10 reflects data for two years, namely 1993 and 1994 that are beyond the tenure of President Bush in the Oval Office. However, data for these years have been included in the Table for illustrating the time trend of foreign collaboration proposals in India and the corresponding US shares in these proposals. These two years also reflect the maturing of positive investor sentiments in the US regarding the Indian economy, which developed during the Bush regime and continued beyond.

An interesting observation that can be noted from Table 10 is the gradual increase in the number of collaborations involving financial participation. Beginning from 289 financial collaboration proposals in 1991, the number of such proposals increased to 1062 in 1994. Simultaneously, the number of financial collaboration proposals from the US increased from 53 in 1991 to 179 in 1994. The above trend underlines a growing inclination on part of foreign investors,
including the US investors, to bring in more FDI into the Indian economy, as opposed to purely technical collaboration proposals not involving foreign equity.

The reforms instituted by Prime Minister P.V. Narasimha Rao under the able stewardship of the Finance Minister Manmohan Singh paid rich dividends, particularly in the area of foreign investment, and rubbed off positively in enhancing both the quality and the quantity of economic engagement between India and the US. Several renowned US multinationals like Chevron, Mobil, Colgate-Palmolive, Kellogg, General Motors, IBM, General Electric, Goodyear, Bechtel, Citibank, Soros Fund Management, Dupont and others, either increased their stakes in India or set up new investments. One of the best examples of the promise of the Indian market in the perspective of the international investment community was the re-entry of Coca Cola, which had quitted its Indian operations in the late 70s due to adverse investment climate.\(^{49}\)

The large size of the domestic market, availability of cheap skilled labour, presence of a sound industrial base, and gradual enunciation of outward-looking progressive economic policies, made India an attractive destination for global and US foreign investment. The US investors displayed remarkable keenness in exploiting India’s ‘knowledge base’, which principally relates to availability of technical expertise at internationally competitive rates. This tendency is underlined by the high R&D intensity of US majority owned companies in India. The R&D intensity of US companies in India was much higher than that witnessed in Philippines, China, Malaysia etc.\(^{50}\)

Indian investment in US

Another interesting observation relates to take-off of Indo-US economic relations in a different direction, which involves the formation of joint ventures by Indian companies in the US. Liberalised guidelines for Indian joint ventures abroad saw the initiation of 245 joint ventures by Indian companies overseas till 31st December 1991. The total equity involved in these ventures was around Rs 150 crore and 12 of the ventures were located in the United States of America.\textsuperscript{51}

Though the number of ventures located in US was not significant in number, it indicated a beginning made by Indian corporates, as far as mobilisation of resources from the US market was concerned.

Technology transfer from US to India

Traditionally, the US has always been a major source of technology for Indian companies. After introduction of far-reaching economic reforms in the early 90s, the volume of technological collaborations between the two countries increased, as expected. However, technology transfer and collaboration could perhaps have been much more than what was actually observed if certain sensitive issues had not been involved.

Impediments to technology transfer

The COCOM (Coordinating Committee on Multilateral Export Controls) in the US had imposed restrictions on transfer of technology in the form of capital

\textsuperscript{51} Economic Survey, 1992-93, pp.111.
goods components and strategic raw materials. The restrictions aimed to reduce the outflow of strategic technological inputs to other countries. However, an inevitable outcome of the controls was creation of bottlenecks in flow of technology in dual-use areas like advanced computers, telecommunication and electronics.

The issue of intellectual property rights was also a major obstacle in the process of technology transfer. The US technology suppliers found the Indian patent system inadequate as far as assuring adequate protection for their technological secrets and know-how was concerned. The ‘weak’ patent system and India’s possession of a skilled technical human resource base made US technology exporters wary about their technology being imitated.

The intellectual property rights issue remained a major irritant in the otherwise promising arena of technology transfer from the US, to a gradually liberalizing Indian economy, during the Bush era. The sectors that were critically affected due to the difficulties were pharmaceuticals, biotechnology and computer software.

Apart from the COCOM restrictions and patent problems, there were other barriers to technology transfer. These were prohibitions imposed on subcontracting of technology, unwillingness on part of US suppliers to allow alterations in the technology transferred, demand for high technology fees, restriction on re-export of technology and end-use prohibitions.

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52 Ibid, pp.84-85.
53 Ibid.
54 Ibid, p.87.
External Assistance

As mentioned earlier, in order to tide over the balance of payments crisis experienced by the Indian economy during the middle of 1991, the government of India had to resort to two sets of policy measures. The first of these included multilateral assistance meeting the immediate liquidity shortage arising from low level of foreign exchange reserves. The second set of policy measures related to medium and long term economic restructuring that envisaged a decontrolled liberalized economy, where export promotion would play a major role. As far as the first set of measures were concerned the role of the IMF was critical in helping India to meet its immediate difficulties. By using IMF resources substantially, India was able to comfortably avoid its Balance of Payments difficulties.

India’s withdrawals from the IMF

The Table below (no.11) indicates the withdrawals made by India from the IMF at various points of time beginning from July-September 1990.

<table>
<thead>
<tr>
<th>DATE</th>
<th>FACILITY</th>
<th>AMOUNT (in US $million)</th>
<th>AMOUNT (in Rs crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July-Sept.1990</td>
<td>RT</td>
<td>666</td>
<td>1168</td>
</tr>
<tr>
<td>23.01.1991</td>
<td>FCT</td>
<td>789</td>
<td>1450</td>
</tr>
<tr>
<td>23.01.1991</td>
<td>CCFF</td>
<td>1025</td>
<td>1884</td>
</tr>
<tr>
<td>22.07.1991</td>
<td>CCFF</td>
<td>221</td>
<td>570</td>
</tr>
<tr>
<td>16.09.1991</td>
<td>CCFF</td>
<td>637</td>
<td>1647</td>
</tr>
<tr>
<td>15.11.1991</td>
<td>UCT</td>
<td>117</td>
<td>305</td>
</tr>
<tr>
<td>02.01.1992</td>
<td>UCT</td>
<td>265</td>
<td>683</td>
</tr>
<tr>
<td>02.07.1992</td>
<td>UCT</td>
<td>663</td>
<td>1717</td>
</tr>
<tr>
<td>09.12.1992</td>
<td>UCT</td>
<td>643</td>
<td>1685</td>
</tr>
<tr>
<td>Expected in Feb.'93</td>
<td>UCT</td>
<td>325</td>
<td>845</td>
</tr>
<tr>
<td>Expected in May '93</td>
<td>UCT</td>
<td>325</td>
<td>845</td>
</tr>
</tbody>
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Notes: RT- Reserve tranche; FCT- First Credit Tranche; CCFF- Compensatory and Contingency Financing Facility; UCT- Upper Credit Tranche;
External Assistance from other sources

Apart from the International Monetary Fund, India secured external assistance from other sources also. The Aid-India Consortium (comprising of 12 countries and 7 agencies) in its meeting in Paris in September 1991 committed US$ 6.7 billion for the year 1991-92, which was 6% higher than its disbursement in the previous year. In the light of the critical financing requirements of the Indian economy, the Consortium provided US$ 2.3 billion of its commitments in the form of fast-disbursing assistance mainly from the International Bank for Reconstruction and Development (IBRD), Asian Development Bank (ADB) and bilateral donors like Japan and Germany.55 In June 1992, the Consortium increased its commitment to India for the year by 7.5 per cent to US $7.2 billion.56

The World Bank approved a Structural Adjustment Loan (SAL) of US$ 500 million in December 1991 for helping India in implementing reforms in industrial and trade policies. The ADB sanctioned a Programme Loan of US$ 250 million for restructuring, and associated policy reforms in the oil sector. Japan also assisted India with two fast-disbursing loans of US$ 150 million each.57

US grants to India

The US grants to as India provided as bilateral assistance during the Bush years (there were no loans given during the period) are indicated in Table 12 and Figure 7.

Figure 7: US Grants to India (1989-90 to 1991-92)
Total grants to India declined sharply from US $ 432.6 million in 1989-90 to US $ 291 million in 1990-91. The volume of grants increased again in 1991-92 and dropped to lower levels in 1992-93. While the fluctuation in volume of total grants is somewhat confusing, it is interesting to note the share of US in total grants. US grants, as a proportion of total grants, reduced from 9.4 per cent in 1989-90 to a low of 5.9 per cent in 1991-92 and recovered sharply to peak at 14.7 per cent in 1992-93.

The US Administration also proposed a total aid of just over US $127 million to India for fiscal 1993 beginning,\textsuperscript{58} despite Bush’s forthcoming election 1993 beginning. Even pressing domestic problems and an increasing pressure on its economy due to recession, did not prevent. The proposed aid was definitely too small compared to what India had expected, but given the times of trouble faced by the US at that point of time, it reflected a sense of direction Washington was initiating towards India during the period.

India's problems in procuring international credit

The importance of multilateral and bilateral assistance for India during the years 1990-91 and 1991-92 was extremely important given the fall in availability of commercial credit for the country. Internationally, for almost all countries, the volume of credit shrunk rapidly, thereby making it difficult to mobilize resources from the international capital markets. The overall shortage of funds in the international markets arose due to low levels of savings in some major developed countries and the pressure on international savings due to increased demand for funds on account of re-unification of Germany, post-Gulf War reconstruction in West Asia and the restructuring of East Europe.

India's problems in obtaining commercial credit from international markets were compounded by political instability and erosion of international confidence in the economy, which saw successive downgrading of India's credit worthiness by the international credit rating agencies. The International Finance Corporation, Washington (IFC-W), the major multilateral agency promoting productive private investment in developing countries, however, approved US$ 126 million for India in 1990-91 and US$ 222 million in 1991-92 (up to November) respectively. 59

It is evident that the overwhelming support received by India from multilateral and bilateral sources for tackling its economic crisis wouldn't have been possible had not the international community been positive about India's economic restructuring and the ability of the transformed Indian economy to expand rapidly in future. Undoubtedly, the United States of America played a crucial role in mobilizing support for extension of financial assistance to India at

various levels. The United States has the largest contributory quota to the IMF’s pool and therefore has the largest voting power.\textsuperscript{60} The role of the US in influencing policy decisions taken by the IMF is substantial and can be assumed to have been of considerable significance in ensuring quick disbursement of IMF support for India.

What is significant to observe is that the key components of the external financial assistance received by India (from IMF, World Bank, ADB, Aid-India Consortium and bilateral sources) were intricately linked to successful implementation of India’s economic programme. It is evident that India’s new economic agenda contained enormous possibilities that were appreciated by the international community led by the US.

President Bush’s tenure at the Oval office was noteworthy for the significant improvement that took place in Indo-US economic relations. At the end of his term, economic ties between the two nations were on an upswing, underpinning the promise of becoming even stronger in the coming days.

The initial years of the Bush Presidency, however, were not so encouraging. Both the US and India went through serious economic difficulties. The American economy experienced a prolonged slowdown after nearly a decade’s sustained expansion. The Indian economy, on the other hand, was on the brink of its worst external sector crisis since independence. The ominous proportions of the crisis forced the authorities to implement drastic restructuring measures. Apart from successfully averting the crisis, the initiated reforms

\textsuperscript{60} The US contributes about 18.25\% of the IMF’s quota; the next largest countries are Germany ad Japan. Amongst all members the US has the largest i.e., 18\% of the total votes in the IMF as cited in ‘What is the international monetary fund?’, http://www.imf.org.
promised to transform the Indian economy from an inward-looking, protective system to a decontrolled, dynamic framework. The emerging opportunities in the Indian economy aroused considerable interest in the US business community. This was reflected in the sharp rise in US foreign collaboration proposals and FDI approvals in India, as well as in the growing volume of bilateral trade during the later months of the Bush period.

The end of the Cold War created serious foreign policy dilemmas for the US Administration. The confusion was apparent in its approach to economic issues also. Uncertainties of a post-Cold War world order got further complicated due to the contentious negotiations taking place at the Uruguay Round. These negotiations included controversial issues like intellectual property rights and trade in services, which, it was apparent, were going to play important roles in the final evolution of a multilateral rule-based framework for international trade. The US, while relishing its new identity as the sole superpower, was keen on expanding into new, unexplored markets. The depression and lack of growth stimulus in the domestic economy heightened this expansive desire.

In the early part of the Bush period, India was threatened with unilateral retaliatory actions under the Special and Super 301 sections of the US Trade Act. The problems arose over existing Indian laws regarding intellectual property rights and investment policies in certain service sectors (e.g. insurance). Though there were no instances of precipitate retaliatory action, patents continued to remain a thorny issue between the two nations. However, greater commercial involvement of the US in the Indian economy after 1991, irrespective of no major changes in Indian patent laws, underlined the seriousness of the US interest in the Indian market.
A decontrolled Indian economy presented wide-ranging business prospects to the US. After economic liberalization, India was displaying unmistakable signs of developing into a major economic power not only in South Asia, but also in the emerging international economic order, in the light of the onset of globalisation and growing integration of world markets. This explains the sustained US support to India’s economic reforms through mobilisation of external assistance from multilateral institutions (e.g. IMF and World Bank) and the international community.

The improvement achieved in bilateral economic relations was noteworthy considering the initial differences over Special and Super 301 issues, the domestic economic difficulties experienced by both countries, and the uncertainties prevalent in the new World Order. However, it was clear that betterment of economic relations would require review of certain prohibitive national regulations on both sides. While on the US side, the COCOM restrictions were major hindrances in transfer of technology to India, as far as India was concerned, modification of existing patent laws and further relaxation of trade and investment policies were important for improving economic ties with the US. Most of these restrictive regulations, on either side, had more to do with political compulsions and strategic considerations, rather than economic logic. If non-economic considerations had not partially sidelined economic interests, then the Bush Presidency could have possibly been pronounced as a shining milestone in the evolution of Indo-US economic relations.