CHAPTER FIVE
GOVERNMENT POLICIES

The Indian Economy transformed from primarily agriculture, forestry, fishing, and textile manufacturing in 1947 to major heavy industry, transportation, and telecommunications industries by late 1970s. Along with this, there has been a shift in the trends and India is now developed as a highly technical country in this era of e-commerce and bio-technology as well. All this has been possible due to constructive and open policies conceived and adopted by the government of India, under the leadership of different political leaders. Where the Central government planning focused on self-retainer and fundamental growth from 1950 through 1970s, the government focused on economic reforms, privatization, globalisation and liberalisation in the 1980s and 1990s. Going with the trends, the government planned the structural and systematic development of the latest technologies like e-commerce, bio-technologies and information systems with the future focus on space exploration and civilian nuclear power programs.

After achieving independence from British rule in 1947, India pursued policies that sought to assert government planning over most sectors of the economy and strove to promote relative economic self-sufficiency. These policies included extensive government spending on infrastructure, the promotion of government-owned companies in many sectors, pervasive regulatory authority over private sector investment, and widespread use of trade and investment barriers to protect local firms from foreign competition. While some economic goals were achieved (such as rapid industrialization),
the overall effects of these policies was to promote widespread inefficiencies throughout economy (e.g., unprofitable state-run firms and a constrained private sector) and to greatly restrict the level of foreign direct investment (FDI) in India as well as trade.

The leadership of India after the partition saw that India needed to commit its resources into developing the young, violence marred and large multi-ethnic population nation. With this as its primary goal, India decided to keep out of cold war. India did so by starting the Nonalignment movement, a strategy intended to safeguard India’s independence by advocating that each nation choose its own system of governance, and run their own government without any interference by other nations. Nonalignment promulgated by Jawaharlal Nehru, India’s first Prime Minister meant that India would not be able to rely on protection from either of the two superpowers, but would need to build up its own defense system to be ready for any intrusion.¹

However, although Non-aligned nations were not supposed to side with either the U.S. or U.S.S.R., they began to do so anyway. The U.S.S.R. always supported the Non-alignment movement and asserted that no nation should impose its system of government onto another nation. With U.S. sided with China and Pakistan and with U.S.S.R favorable stance on NAM, India found a strong ally in U.S.S.R. With Non-alignment India framed its policies to attain self- sufficiency on her own without any interference in government matter by any western country. India also backed up countries like Vietnam, Afghanistan and South Africa where there was United States interference to a large extent. In wake of all this situations, the trade relations between India and U.S.
were never stable. The first two decades after India’s independence were marked with irregular trade relations between the two countries.

India and the United States are “the two largest democracies of the world”. They are similar in political system and ideology. However, there was no harmony in the relations between the two countries during the Cold War. “Sometimes tension, sometimes relaxation”, which seems to summarize most properly the symbol in Indo-U.S. relations. There have been many changes in international situation after the Cold War, which have contributed to a closer and improving relationship between India and the U.S.

S. S. Mehta, former Director of Indian Institute of Foreign Trade, pointed out when he was analyzing the reason why India was closer to America, that “the United States, today, is the sole superpower with a robust economy and the most powerful military machine in the world. India’s vital national interests will be served by upgrading the relations with it, from cordial to most cordial”. First, the goal of India’s leaders was to make India as a world power since its independence. However, India’s role and influence in the international affairs was reduced after the Cold War. In the process of multi-polarization, India was eager to get a favorable place. So India hoped to develop closer relations with the US after it lost the support of USSR, to achieve its target of world power. Second, India hoped to get America’s support and approval in settling the dispute over Kashmir and dominating South Asia. Third, India’s economic reform needed a lot of capital, technology and market, and the US was the main source of what India needed (The US was already India’s largest trade partner, foreign investor, and supplier of advanced technology). India hoped to strengthen economic relations with America to achieve its economic takeoff. Fourth, with the end of the bipolar era, India’s foreign
policy driven by its own interest was tending towards confluence with the US interests. For examples, both of them were concerned with the issues of international terrorism, religious extremism, drug traffic, and AIDS spreading, etc.

With the ideology of non-violence and socialism, the leaders of India formed a strong government structure to develop the infrastructure and unyielding foundation for the just partitioned country. Partition was one of the most important reasons for India to direct all her efforts to grow through a central support structure. The government of India, through her different ministries, planned for key infrastructural projects like developing nationwide road network, electricity and providing basic amenities to the citizens. With the objective to achieve high and balanced economic development in the general interest, India’s leaders believed that industrialization was the key to economic development. This belief was all the more convincing in India because of the country's large size, substantial natural resources, and desire to develop its own defense industries.

The Industrial Policy Resolution of 1948 gave government a monopoly in armaments, atomic energy, and railroads, and exclusive rights to develop minerals, the iron and steel industries, aircraft manufacturing, shipbuilding, and manufacturing of telephone and telegraph equipment. Private companies operating in those fields were guaranteed at least ten years more of ownership before the government could take them over. Some still operate as private companies.

The then prime minister Jawaharlal Nehru, had once explored the possibility of lining-up with the US. On the eve of his visit to the US in 1949, he asked his close associate and confidant, Krishna Menon as to whether India should, in view of India’s
needs for food, machinery and capital goods, “align with the United States somewhat and build up our economic and military strength.” The US also had a hope to India: “It was possible for India to become both America’s close ally and a brilliant model of democratic system achieving success, which laid a foundation for India to develop into a great country.”

Nehru made the first official visit to the US with the idea of alignment, and hoped to get the latter’s aid. Nevertheless, the US wanted India allied with it in its terms for the need of containing Communism. Therefore there were serious differences over many issues between the two countries, which caused disillusion to each other.

In 1950, Nehru invited California engineer Harvey Slocum to advise on a project conceived before Independence damming the waters of the Sutlej river at the Bhakra gorge. The challenge of the flowing river and the rugged terrain was met by Slocum's determination and ingenuity. Though he died three months before the 10 year contract ended, Slocum had the satisfaction of seeing the 740 foot high dam one of the world's most difficult engineering achievements virtually complete. The real Bhakra story, however, is that of Slocums pioneering role in the practical training of Indian engineers. He effectively mobilized their talents to make the colossal project a reality. Later, when the dam on the Beas was built, many of the Indian engineers on that project were the ones Slocum had trained. USAID provided funds and equipment for the building of the Beas dam, but only two American consultants were assigned to the project. Indian engineers took care of the rest.

Due to division of resources after partition and newly achieved independence after nearly 300 years, India was faced the economic crisis. As such, India needed
financial aid from the developed nations. United States of America was the obvious choice as its economy was very much stable after the World War II, another need for India to look for companionship with a developed nations was her deteriorating relationship with China. As such the Prime Minister of India Pt. Jawaharlal Nehru wrote a personally contacted the President John F. Kennedy of United States, discussing the conflicts in the Sino-India borders, and asked the US to supply emergency military aid to help India check so-called China invasion. India submitted to America in foreign policy since then, so the bilateral relations reached high tide.7

Controls over prices, production, and the use of foreign exchange, which were imposed by the British during World War II, were reinstated soon after independence. The Industries (Development and Regulation) Act of 1951 and the Essential Commodities Act of 1955 (with subsequent additions) provided the legal framework for the government to extend price controls that eventually included steel, cement, drugs, nonferrous metals, chemicals, fertilizer, coal, automobiles, tires and tubes, cotton textiles, food grains, bread, butter, vegetable oils, and other commodities. By the late 1950s, controls were pervasive, regulating investment in industry, prices of many commodities, imports and exports, and the flow of foreign exchange.8

The U.S. economic aid to India began with the loan of $189.7 million to buy two million tons of wheat to cover up the crop failure in 1951. On Jan 5, 1952 India and United States signed a larger scale organized assistance program in order to promote and accelerate the economic growth of India. Before the heavy-industry-oriented second plan, food production in India had been growing steadily and very little food had been
imported to augment domestic production except during 1951-52. Food grain prices had been quite stable before 1956.\textsuperscript{9}

The demand for food imports increased sharply, and for good reason, with advent of the second plan. Since the Indian government channeled the majority of U.S. aid as well as the majority of aid from all foreign government sources into public sector (and some private sector) industrial projects, a systematic capital starvation of agriculture occurred. The rate of net capital formation in farming fell below the rate of population growth, while the government’s industrialization plan included the migration of farm labor to urban areas. By the mid 1950’s as food shortages began to develop and foreign exchange reserves fell sharply, the Indian government entered into an agreement with the U.S. government for assistance for the import of food grains under P.L. 480 from 1955 through 1971.\textsuperscript{10}

Although tracing the economic effects of P.L. 480 food imports is a complex task, a number of serious negative effects have been identified. One major result was the repression of the domestic price of wheat and other commodities that were imported under the program. Farmers reacted to the lower prices and reduced the acreage planted in both wheat and competing cereals. In fact the large and escalating shipment of P.L. 480 food aid between 1955 and 1965 bankrupted large numbers of India farmers.\textsuperscript{11} And that happened when India was a predominantly agricultural country with a significant proportion of uncultivated arable land and vast potential for expansion of food production, an was demonstrated by India’s yield per acre being one of the lowest in the world.
To encourage private American industry to invest in India, a 1957 amendment to this law, sponsored by Congressman Harold D. Cooley, came into effect. It provided that 25 percent of the PL 480 rupees could be used as U.S. Government loans to private Indian firms affiliated with American firms, or to Indian firms marketing American agricultural products. Indo-American collaborations evolving from the Cooley funds included Coromandel Fertilizers, Mysore Cements Ltd., Seshasayee Paper and Board Ltd., Synthetic and Chemicals Ltd., Ex.Cell. India Ltd., East India Hotels Ltd. (Oberoi, Sheraton), Hindustan Aluminum Ltd., Wyeth Laboratories Ltd., Victor Gasket India Ltd., Otis Elevator Ltd., and Semiconductors Ltd. Three truck and automobile firms received American credits to expand their facilities, and Air India used Cooley funds for the purchase of new aircraft. The last Cooley loan was to Madras Rubber Factory Ltd. in 1972.  

By 1973, both governments were concerned about the size of the U.S. rupee fund which had accumulated from the repayments for shipments of wheat and other food stuffs. The two governments, represented by Ambassador Daniel Patrick Moynihan and Secretary M.G. Kaul of the Department of Economic Affairs of the Ministry of Finance, worked out an agreement by which the U.S. granted to the government of India Rs. 1,664 crores roughly two-thirds of India’s rupee debt to the U.S. to be used for development projects under India’s Fifth Five Year Plan.  

The remaining third was to be held in an interest free Indian account and used to pay for U.S. activities in India. At the February 1974 signing of the agreement, Secretary Kaul said. The conclusion of the agreement is a milestone in the economic relations between our two countries, an outstanding evidence of the desire to strengthen these
relations on basis of equality and mutuality of interests. The desire to conclude such an agreement as existed on both sides for many years. Only now as it become possible to this desire motivation. It is disconsolate augury for the further strengthening of economic relations between us, an objective toward which we must proceed with the utmost. The mutual trust begotten by this agreement will, I am sure, make this effort easier and more fruitful. 14

The first stage of P.L. 480 which lasted until 1978, provided concessional food sales to India worth $4,800 million. Although the funding for this program P.L.480 began to leveled off after its highest point in 1981, it still amounted to about $100 million in 1985.15

In January 1987, India and the United States agreed to establish the U. S.-India Fund (USIF) which will ensure 10 year funding for some of the most important Indo-U. S. cooperative projects in education, culture, science, agricultural research and technology. Speaking before the U.S. Congress, Assistant Secretary of State for Near Eastern and South Asian Affairs Richard Murphy said: In the past, our assistance and the work of land grant universities played an important role in India's green revolution, and market self sufficiency in food-grains .... 16

Western government aid to India is often applauded for the central role it has played in financing research on high- yielding varieties (HYV'S) of cereals, particularly wheat, which ushered in India’s so-called Green Revolution of the 1960,s and the 1970’s. HYV research was supported in large part by western aid to international centers under the auspices of the Consultative Group for International Agricultural Research, to which the United States was a significant donor. However, it is not universally agreed that the

272
Green Revolution had any real impact on Indian agricultural development. For example, a number of studies have revealed that in spite of impressive gains in wheat yields and output since 1967, the overall rate of growth of agricultural output did not accelerate after the green revolution. Thus, even in the agricultural sector the effects of foreign aid are ambiguous at best.

India's Green Revolution in the 1960s is an amazing success story of collaboration and intellectual exchange between the U.S. and India. The U.S. certainly did not "cause" the Green Revolution in India -- Indians did. But the U.S. did play an important supporting role -- and we're proud of it. With U.S. government assistance -- through the leadership of the United States Agency for International Development -- the grit and hard work of the Indian farmer was combined with the vision of scientists from both our countries to meet a monumental human challenge to reshape Indian agriculture.17

The United States supplied fertilizers, helped finance the building of fertilizer plants, supported infrastructure for electricity in rural areas, and established irrigation systems to free growers from their traditional dependence on annual rains for their crops. The bilateral "revolution" of shared science, educational exchanges and applied agricultural technology made India self sufficient in food production and was a foundation for people-to-people and government-to-government ties that have matured and are coming of age today. The program reaped enormous long-term dividends for India. Rural poverty declined from 60% in the late 1960's to 27% today.18

In the first Non-alignment conference in September 1961, Prime Minister Jawaharlal Nehru not only openly condemned imperialism and colonialism but also
boosted and advocated the U.S. policy of aggression and oppression. In January 1963 that Indian government of India decided to “cooperate politically and militarily in Asia with the US”. And the two democracies issued a joint statement declaring that they have agreed “to share a common defense cause to prevent China from invading the subcontinent.

Jawaharlal Nehru's strategic approach and continuous effort to make the nation self-sustained provided cohesion to India's domestic and foreign policies. But after his health deteriorated, concerns over who might inherit his mantle or what might befall India after he left office frequently surfaced in political circles. After his death, the Congress Caucus, also known as the Syndicate, chose Lal Bahadur Shastri as prime minister in June 1964. A mild-mannered person, Shastri adhered to Gandhian principles of simplicity of life and dedication to the service of the country. His short period of leadership was beset with three major crises: widespread food shortages, violent anti-Hindi demonstrations in the state of Madras that were quelled by the army, and the second war with Pakistan over Kashmir. Shastri's premiership was cut short when he died of a heart attack on January 11, 1966, the day after having signed the Soviet-brokered Tashkent Declaration. The agreement required both sides to withdraw all armed personnel by February 26, 1966, to the positions they had held prior to August 5, 1965, and to observe the cease-fire line.

Until 1971 nonalignment had a dual effect on United States policies in South Asia. On the one hand, Washington considered Indian economic and political stability necessary to prevent that important regional player from succumbing to communism and Soviet influence; hence the United States gave economic assistance and support to India
during its 1962 war with China. On the other hand, India's nonalignment had led the United States in 1954 to ally itself with Pakistan, which appeared to support Western security interests. The United States-Pakistan alliance was renewed in 1959, with accompanying assurances from President Dwight D. Eisenhower to Nehru that the arms supplied to Pakistan would not be used in any aggressive war. When Pakistan and India went to war in 1965, the United States government refused to support India and suspended military transfers to both countries. The collapse of the Non Aligned Movement (NAM) is also a significant factor in defining relations between India and the US. India has lost the edge as leader of the NAM and with it, its bargaining power.

The impact of the cold war was felt as much by India and by other nations of the world. U.S. and Russia were exciting world powers at that time. After independence India chose the path of Non-alignment and thus focused on the national development entirely on her own. In the early years India had an ally in U.S.S.R. which promoted the non-interference of any world power in the economies of newly independent and developing countries. This led the United States to form an alliance with Pakistan. United States and Pakistan signed the “Agreement of Mutual Defense Association” in 1954 where by United States was to provide defense support to Pakistan to strengthen the developing nation’s military capabilities. India was extremely resentful that the U.S. allowed Pakistan to become a member of the Southeast Asia Treaty and the Baghdad Treaty laid an embargo on weapons to the two belligerent parties after the break of 1965 Indo-Pakistan War.

With these developments in place, the relations between India and United States deteriorated. In the highly escalated circumstances of the prevailing cold war, the trade
relationship between the two countries swayed between the extremes for a period of almost two decades. After the heavy conflicts between India and China on the Sino-India border in 1962; the United States pledged arms aid to India. This move initiated by the United States government led to improved mutual understanding and thus the relationship between the two countries. The lowest point in the relationship between the two countries was witnessed when during the India-Pakistan war in 1971 the United States commissioned Enterprise, the craft carrier-led task force to the Bay of Bengal. Despite their disagreements, both India and America increased their contacts to the best of their abilities when there were opportunities. India declared that it pursued a policy of non-alignment, trying not to rely completely on the Soviet Union, and seeking to cooperate with America. For the US part, it did not want to lose India when it struggled for hegemony with USSR, and continued to keep contacts with India.

The relationship between the United States and Pakistan became one of the main sources of conflict between the United States and India.” However, America has gradually promoted its relations with India and ignored Pakistan, as Pakistan’s importance was reduced in America’s strategy after the disintegration of USSR. America has paid much attention to Pakistan’s nuclear capability and its potential threats to South Asian security, and thus has somewhat relaxed its stance in the Kashmir issue, from direct interference to encouraging dialogue between India and Pakistan.

In 1971 the relations between India and United States were at all-time low in the wake of United States-U.S.S.R., China-U.S.S.R. and Indian-Pakistan conflicts. The United States government initiated a new relationship with China, India signed a
friendship treaty with U.S.S.R. to neutralize United States and Chinese influence in South-Asia. In 1971, the situation in East Pakistan deteriorated and India initiated a move to convince the United States over the arms delivery to Pakistan. The External Ministry of India initiated talks with the Government of Pakistan over reaching the settlement with the elected representatives in the East Pakistan. The then prime minister of India, Indira Gandhi visited the United States in November 1971 seeking a solution to the escalating tensions with Pakistan. But the United States under the leadership of President Richard M. Nixon's did not change its over ceasing the arms supply to Pakistan. In early December 1971, Pakistan’s forces formally started the war by attacking the Indian airfields, the United States and China voted for a cease-fire in the UN Security Council, but the Soviet Union's veto prevented any resolution from coming into effect. As the war between India and Pakistan progressed, the United States government deployed a naval task force to the Bay of Bengal. America deployed the aircraft carrier fleet “Enterprise” in the Eastern part of India, the present day Bangladesh’s area. The action taken by United States provided a major blow to the already deteriorating relations with India. Apart from this, United States of America sided with Pakistan over the issue of Kashmir. The Kashmir issue is still unresolved despite India’s continuous appeals in the United Nations.

Another factor that worsened the relationship between two countries was the friendly relations between India and the Soviet Union. Under the leadership of Pt. Jawaharlal Nehru, India chose “democratic socialism”, established the close relations with USSR, and got its military equipment mostly from the latter. After India signed the Treaty of Peace, Friendship and Cooperation with U.S.S.R in 1971 India and America
were much separated. “Although Washington showed uneasiness whenever Moscow took a political or economic step indicating its closeness with New Delhi, it was the 1971 treaty that became a principal yardstick which determined the US perception of India for the next two decades.”20 The special relations between India and USSR went with the collapse of the Soviet Union, and though its successor Russia has kept friendly term with India, the bilateral relations couldn’t reach the level of the Soviet Union period, because Russia faced many domestic and external difficulties. America seized the opportunity to improve the relations with India.

On the account of above mentioned events, the relationship between the two countries were out of phase with each other throughout the decade of 1970’s. During his office term, the United States President Nixon abruptly US $82 million in economic assistance, India closed down a large United States Agency for International Development program. The Indian government also restricted the flow of American scholars and students to India. India’s criticisms of United States policies in Vietnam and Cambodia increased, and it upgraded its representation in Hanoi.

When the United States expanded its naval base on the island of Diego Garcia and engaged in naval exercises with Pakistan in the Indian Ocean in 1974, India saw its security further threatened. Both governments, however, attempted to limit the damage to bilateral relations. A 1973 agreement defused a dispute over United States rupee holdings by writing off more than 50 percent of the debt and directing use of the remainder to mutually acceptable programs. In 1974 the Indo-United States Joint Commission was established to insulate bilateral dealings in education and culture, economics, and science
and technology from political controversy and to provide mechanisms for regular exchanges at high levels of public life.\textsuperscript{21}

The year 1977 brought with it the hopes for improvements in relationship between India and the United States when Morarji Desai under the flagship of Bhartiya Janta Party assumed the office and Jimmy Carter became president of the United States. These hopes were abruptly diminished when the Soviet Union invaded Afghanistan in 1979. The proliferation of the Carter Doctrine, establishment of the Rapid Deployment Force later known the United States Central Command and an Indian Ocean fleet, planned expansion of the naval base at Diego Garcia, and arrangements to supply Pakistan with US$3.2 billion in military and economic aid over five years all appeared as direct United States intervention in the countries of the Persian Gulf and Indian Ocean. These actions fueled instability in the region and, in India's view, threatened India's security.\textsuperscript{22}

The decade of 1980's was marked with development of technology. As such India also started focusing on the technological development. There was a marked cooperation between India and United States in the field technology which focused on improved relationships between the two countries. But at the same time the policies like Non-Proliferation, which India refused to sign worked as a negative development between the two nations.

The personal affiliation between Indira Gandhi and United States president Ronald Reagan, established during a series of meetings in the early 1980s, enabled the two countries gradually to begin improving bilateral relations. With the changing trends in technological innovation and technology oriented infrastructure development, the United States government reassessed its policy toward India. Taking into account the
technological assistance, economic support and its need to counteract the influence of
U.S.S.R. in the Asian region United States decided to expand areas of cooperation,
particularly in the economic and scientific realms. Washington also regarded New Delhi's
status as the major regional power in South Asia in a more favorable light. On the other
end, Indira Gandhi realized that India was unable to block United States arms sales to
Pakistan, but that improved dialogue with the United States could open other areas of
interaction that could benefit Indian interests. Indira Gandhi's highly successful 1982
state visit to the United States was followed by a series of high-level exchanges,
including the visits of Vice President George Bush and Secretary of State George Shultz
to India. In addition, in 1982 the two sides resolved their dispute concerning supplies of
fuel and spare parts for the nuclear power plant at Tarapur. In 1984 the United States
decided to expand technology transfers to India.

The major difference that remained between India and United States and affected
the trade relationship for more than a decade was still unresolved. That difference was the
United States policy toward Pakistan and the issue of nuclear proliferation. Even after
two wars between India and Pakistan, both of which were initiated by Pakistan, the
United States provided advanced military technology and other assistance to Pakistan. In
spite of United States concern about the clandestine nuclear program of Pakistan, the
United States continued to provide military assistance to Pakistan.

For its part, Washington continued to urge India to sign the Treaty on the non-
proliferation of Nuclear Weapons which India never signed. In May, 1989 India
conducted a successful test of the intermediate-range ballistic missile ‘Agni’. The
government of United States called on India to abstain from developing a ballistic missile
capability by adhering to the restrictions of the ‘Missile Technology Control Regime. India rejected these appeals on the grounds that it had a right to develop such technology and that the Treaty on the Non-Proliferation of Nuclear Weapons and the United States sponsored Missile Technology Control Regime discriminated against non-nuclear states.\textsuperscript{23}

The relations initiated by Indira Gandhi with the United States were carried further by her son Rajiv Gandhi. Rajiv Gandhi became the Prime Minister of India after the assassination of Indira Gandhi in October 1984. The warming trend in the relations between New Delhi and Washington continued with the 1985 and 1987 visits by Prime Minister Rajiv Gandhi to Washington. Furthermore, as the United States appreciation of India’s role as a force for stability in South Asia grew, Washington supported New Delhi’s moves in Sri Lanka in 1987 and in Maldives in 1988.\textsuperscript{24} In the mid and late 1980s, visits exchanged by the United States secretary of defense and the Indian Minister of Defense symbolized a modest but growing program of cooperation in military, technology and other defense matters.

As the decade of 1980’s was marked by heavy technology development activities, India and United States agreed to cooperate in a variety of scientific fields and in order to do so signed a bilateral agreement on Scientific and Technological exchanges in 1985. In 1988 the world's two largest democracies finalized an accord, according to which United States would provide technology India’s light combat aircraft program. The United States agreed to transfer technology for the F-5 fighter planes.\textsuperscript{25}

Along with the technology transfer for military expansion, the non-military technology transfer also accelerated as a consequence of government of India’s drive for
civilian technology drive. In 1987 India purchased a Cray supercomputer for agricultural research and weather forecasting and accepted stringent United States safeguards to preclude military uses. Furthermore, economic liberalisation measures paved the way for increased trade and United States investment in India. In 1988 the improved economic climate resulted in the conclusion of a deal for a Pepsi-Cola plant and the signing of a bilateral tax treaty. In 1989 United States investment in India reached US $1 billion.26

In 1993, India and the United States appeared committed to improve relations and bilateral cooperation. On the one hand, despite differences over India's refusal to sign the Treaty on the Non-Proliferation of Nuclear Weapons and to participate in discussions with the United States, Russia, China, and Pakistan on establishing a South Asian nuclear-free zone the United States directed its efforts to creating a climate of restraint between New Delhi and Islamabad in order to freeze or roll back their nuclear weapons programs. On the other hand, the government of India kept the dialogues open with United States even after the extension of U.S. arms aid to Pakistan for over a decade. However, India and the United States remained wary of each other's long-term strategy regionally and globally.27

Some Indian political analysts criticize the United States for following a "two-track policy." On the one hand, Washington has supported New Delhi's economic reform and has facilitated international loans to India, but, on the other, it has relentlessly pursued an agenda to force India's accession to United States nonproliferation goals and has used human rights issues to try to force India to meet Washington's political objections. Moreover, many Indians have expressed worries that, with the emergence of the United States as the sole superpower, and as the leader of a Western-dominated

282
coalition after the Persian Gulf War, Washington might attempt to impose its own standards for democratic values, human rights, and free markets. India fears that a United States vision of a new world order not only would hurt the interests of Third World countries economically and politically, but also would damage India's drive to become a leading power in a multipolar system. Washington's decision not to place Pakistan on its list of nations that sponsor terrorism and its successful efforts in getting Russia to cancel the sale of cryogenic engines to India are seen as detrimental to good Indian-United States relations.28

In May 1998, the relations between India and United States took a major blow when the BJP government came into power in the same year. In May 1998, under the leadership of Prime Minister Atal Behari Vajpayee, India took a decisive measure in foreign policy with its testing of five nuclear devices. Not only did Prime Minister Vajpayee secure power for his coalition by arousing national pride, through the tests, which yielded approval ratings of around 87%, he also maneuvered Pakistan into detonating devices of their own.

The direct consequence of these nuclear tests by India was the sanctions imposed by the international community.29 The sanctions imposed by United States on India resulted in restriction of import of certain items by India. However, the sanctions did not affect the main items of trade between the two countries – Indian exports of timber and gems, and American exports of electronics and machinery.

The United States estimated that India could lose $20.7 billion in trade, loans and aid under the sanctions, a significant number for a country where total output of goods
and services totaled just over $350 billion in the 1996 fiscal year. But the analysts and foreign business executives waned that American sanctions against India for testing nuclear devices may have only a little impact on India but a broad and lasting one on American business interests there. And that was how the case turned to be. The sanctions imposed by United States on India had a minimal initial impact on India. Sanctions failed to have much of a psychological effect. Indeed, since the Bhartiya Janata Party took power two months before the nuclear tests, the term swadeshi, or economic nationalism, came back into vogue. “For the Indian people, sanctions will breed resentment, not concern”, the Indian diplomat said.

The impact of the sanctions was far more on the United States, who had only begun to crack the huge Indian market. American industry groups were concerned that unilateral sanctions will not deny India the goods or capital it needed to develop, but will reduce the American role in providing those things. Washington’s assessment of the damage to India was based on the assumption that India purchased key American goods with the help of American credits and loan guarantees. As per India, Such aid would be easily replaced if India turned elsewhere for purchases. Also the actual short-term loss to India was estimated at $1 billion.

The decade of 1990s produced mixed results for India. Right in the beginning of 1991 India faced a major economic crisis due to the following reasons:

1. Collapse of USSR in the late 1980s: USSR was India’s major ally and the super power. India’s relationships with USSR were in a detrimental way by USA government, especially in the wake of Cold War. USSR was a major trade partner
for India, especially in the field of military development. USSR also provided considerable economic support for India. With the downfall of USSR, India experienced a cut in reforms extended by USSR, which had a direct impact on the Indian economy.

2. The US – Iraq Gulf War of 1990: The Gulf War of 1990 between Iraq and US impacted the oil prices throughout the world. India was no exception and the oil prices rose sharply, which further added to the depleting economic situation in the country.

3. The continuing budget deficits led to a sharp depletion of the foreign exchange reserves.

Under the leadership of Prime Minister Narsimha Rao of Indian National Congress, the finance Minister Manmohan Singh framed the economic policy to cut the budget deficit and implement a number of economic reforms, including sharp cuts in the tariff and non-tariff barriers, liberalisation and FDI rules, exchange rate and banking reforms, and a significant reduction in the government’s control over private sector investment by removing licensing requirements.

As a result of these reforms, there was a considerable growth that led to a surge in FDI flows to India in the mid 1990s. The annual FDI rose from about $100 million in 1990 to $2.4 billion by 1996 with more than 33% coming from the foreign investors. Reform efforts stagnated, however, under the weak coalition governments of the mid 1990s. The 1997-98 Asian financial crisis, and U.S. imposed nuclear sanctions on India further dampened the financial outlook. Following the 1999 parliamentary elections, the
new Bhartiya Janata Party led government, under Prime Minister Atal Behari Vajpayee, launched second-generation economic reforms, including major deregulation, privatization, and tariff-reducing measures. During the 1990s, real GDP growth averaged 5.6% whereas from 2000-2002 it was 4.7%.

Beginning in 1991, India faced acute financial crisis. The then newly-elected government recognized that India’s budget deficit, balance of payment problems, and structural imbalances would require reevaluation of the past economic policies and structural adjustment assistance from international financial institutions. As part of its economic reform since that time, the Indian government has taken consistent steps towards a more open and transparent trade regime, leading to a significant increase in India-US trade and investment. The finance minister, Manmohan Singh initiated a string of economic reforms that included tariff reductions, liberalisation of foreign investment and exchange regimes, financial sector modernization and changes to monetary and fiscal policies.

After assuming the office, the Prime Minister, Narsimha Rao, declared clearly in the first foreign policy statement in June 1991 that India thought highly of American’s support for India’s economic reform and foreign relations. In December 1991, India supported the United States proposal of removing the UN resolution to identify Zionism and racialism and established the diplomatic relations with Israel. This was a significant turning point of Indian adjustment of the policy towards America. In the meantime, America changed its Indian policy, too. In January 1990, Richard Haas, special assistant to President George Bush and senior director for Near East and South Asia affairs, spoke
in a Asia Societies conference that America wanted a more “developed dialogue” with India, commensurate “with its growing role”. Just before Bill Clinton took presidency, Carnegie endowment released a report titled “India and America after the Cold War”, which urged the American government to give more priority to India as the world’s largest democracy and as a “potential partner” in efforts to resolve global disputes. The following were the highlights of the economic policy proposed by the Government of India led by the Indian National Congress:

1. There were major changes in banking, interest rates, and the ability to fully convert rupees in trade transactions. The policy opened India’s doors to foreign investments.

2. As Clive Crook reported in “The Economist” at the time, the new Government attempted to restructure the ever “proliferating bureaucracy” and the “License Raj” in India.

3. This reshaping dismantled the barriers for foreigners to enter into the Indian Market. Such barriers included series of permits and licenses granted only by members of the Indian Parliament or high ranking bureaucrats.

4. India also turned into favouring export-led growth; therefore, it removed restrictions on foreign trade and significantly reduced customs duties and tariffs on imports.

5. 100% foreign direct investment is permitted in companies that print scientific and technical journals. Previously, this limit was 74%. Further, in the petroleum sector, the FDI ceiling has been raised to 100% in respect of refineries, marketing ventures, exploration companies, and petroleum and natural gas pipeline projects.
This sector has also been placed in the automatic route, subject to compliance with the minimum project investment guidelines, i.e., Rs. 20,000,000,000 etc.

Much of the public policy introduced by the Narsimha Rao government was actually influenced by the public. Political parties and public activists played a major role in the creation and sustenance of governmental political and economic policies. According to Amartya Sen in his work entitled, *India: Economic Development and Social Opportunity*, “The democratic framework of the Indian polity permits this exercise (of public influence) in many ways that are not open in many other developing countries”.

As a result, the major political actors in India’s international relations have been and remained the constituents of the democratic state. The new economic policy of India was being seen as the one to promote liberalized trade and thus attracted new partners for the trade and the old trade partners looked forward to strengthen trade relation with India. The United States viewed this change as appositive development. The Middle class of India in the early 1990s was approximately equal to the total population of the United States. And with the gates of the Indian consumer market opened to the international providers, the United States saw the Indian market as the perfect place to market its products. The Indo-US relations prior to this new liberal era have been quite sour. This tension existed due to the Non-Alignment policy of India during the cold war era and the Swadeshi temperament of the Indian parliament during that time. When Rao took office in 1991, he sought to mend the relationship through liberal ideology. His plan was to increase trade between the world’s two largest democracies, and as a result turn the existing tension into mutually beneficial alliance.
Looking at the outcome of the more liberal policies implemented by India the State Department of US established the Bureau of South Asian affairs in 1993. The Bureau of South Asian Affairs showed that India and whole area of South Asia were more important in America’s foreign policy. India welcomed these changes. Therefore, both India and US spoke more and more “Cooperative Contact and Strategic Cooperation” after the cold war. As a result of liberalisation, India lifted off restrictions on the imports of Capital Goods. The importation of all second-hand capital goods by actual users is permitted without license, provided the goods have a residual life of five years. In March 1993, India abolished the two-tiered exchange rate regime, moving to a single market-determined exchange rate for trade transactions and inward remittances. The rupee is convertible on current account transactions, with indicative limits remaining on foreign exchange for travel and tourism. Capital account transactions for foreign investors, both portfolio and direct, are fully convertible. However, Indian firms and individuals remain subject to capital account restrictions.

Even after opening up the economy to International market and lifting off the restriction to ease up the trade, the trade relations between the two countries were not soaring. According to observers in both countries, the administration of President Clinton placed a low priority on relations with India despite the fact that the United States had become India’s prime trade partner. In May 1994, Prime Minister Narsimha Rao visited the United States for an unfruitful round of talk with President Clinton, who encouraged India’s economic reforms. The two leaders signed six memorandums of understanding with the objective of expanding official contacts, reviewing and updating a 1984
understanding on high technology transfer, enhancing defence cooperation, stimulating bilateral ties, and establishing a business partnership initiative.

Following the Prime Minister Narsimha’s visit in 1994, United States also arranged for high-level visits to India in early 1995. This initiative by the Clinton administration provided a new lease to the India-US trade relationship. On one side, it had a big promise for the American companies who were now looking at the huge Indian customer base for the products and on the other hand, it also boosted the trust of more than 1 million Indians and Indian Americans living in the United States.

Secretary of defence William J. Perry visited in January 1995 to sign a “Landmark Agreement” on military cooperation that was seen by some local observers as a convergence in India-United States Security Preparation perceptions after nearly 50 years of divergent viewpoints. The Perry visit was followed by Commercial Mission led by Secretary Ronald H. Brown in the same month. Both sides signed agreements worth US $7 billion which focused on investments in the communications, health care, insurance, finance, and automotive sectors. Some of the deals were signed in order to build the infrastructural facilities in India for the United States companies to trade in India.

Two month later, in March 1995, Hillary Rodham Clinton, he wife of the United States president, toured India as a part of an extensive South Asian goodwill tour. In April 1995, secretary of the treasury Robert E. Rubin visited New Delhi to sign a bilateral investment protection treaty reflecting the substantial increases in United States
investment in India since 1991 and Washington’s encouragement to India to apply for Agency for International Development loans.32

In the mid 1990s, the United States was India’s largest trading partner and a major source of technology and investment. With the trade ties between the two countries strengthening, the two countries were almost open to each other in fields other than trade. Education was one of the most important channels that were opened for the Indian students. Indian students more than ever sought higher education in the United States, especially in the areas of Science and Engineering. Moreover, the presence of more than 1 million Indians and Indian Americans residing in the United States was a factor in the relationship. Some foreign policy makers also saw India’s strong democratic tradition, although much younger than that of the United States, as an important ingredient in India–United States relations.

First, India’s strategic position could not be ignored. Doctor Zbigniew brzezinski, former national security advisor to US President, published a book titled “The Grand Chessboard: American Primary and Its Imperatives” in 1997, in which India was listed as one of the five key geostrategic Chessman in America’s global strategy. Zbigniew brzezinski thought that India was the most powerful country in South Asia, and its geostrategic design playing a role in this region covered not only its neighboring countries but also the Indian ocean. However, there were not significant conflicts between India’s attempts and America’s interests in Eurasia at present. So the US attempted to put India on its strategic course, in order to maintain balance of power in Asia, adapt to the need of its global strategy, and promote the goal of its global strategy.33
The liberalisation of policies in the early 1990s was bundled with the opening up of the public sector projects to the private sector companies too. As a result, the government owned units faced a stiff competition from the private sector players. In 1998, the Government of India created the National Task Force on Information Technology and Software Development. The purpose of creating the Task Force was to draft India’s national informatics policy. As a result, on November 7, 1998, competitors to VSNL were granted licenses to operate internet service providers. This led to increased competition in the consumer market, thus providing the customers with a wide range of services. On the other hand, it enabled many United States companies to market their products to the Indian customers. Thus by exporting the equipment to India these companies increased their revenues.

A new telecommunications policy was released in March 1999 under which the Indian government decided to allow foreign companies to invest up to 74% in Indian registered companies to establish and operate satellite systems. India announced a technology neutral regime in 1999 for cellular services. In order to remove barriers on mergers and acquisitions in the telecom services sector, in August 2000, the government of India permitted foreign partners to quit a venture by waiving the five-year mandatory presence in the venture with a minimum equity of 10%.

In August 2000, the government opened domestic long-distance telephony to the private sector with a one-time entry fee of one billion rupees ($22 million), a 15 percent revenue-sharing requirement, and a 49 percent foreign equity limit. On February 2, 2000, the Indian cabinet announced its decision to allow automatic approval for more foreign
investments and to review industry-specific equity limits. However, the broadening of automatic approval applies only to new investment and does not apply to foreign companies that already have an existing venture in India or to foreign companies acquiring stakes in existing Indian companies.

“Prior to 2000, all insurance companies were government-owned, except for a number of private sector firms which provide reinsurance brokerage services. Foreign insurance companies had no direct access to the domestic insurance market except for surplus lines, some reinsurance, and some marine cargo insurance. On December 7, 1999, the Indian Parliament passed the Insurance Regulatory and Development Authority (IRDA) bill that ended a government monopoly and established an insurance regulator. The law opened India’s insurance market to private participation with a limit on foreign equity in domestic companies of 26 percent of paid-up capital. In the WTO Financial Services negotiations that concluded in December 1997, India bound the limited range of insurance lines then open to foreign participation. In addition, India committed to most-favored-nation (MFN) treatment effective January 1999, for the financial services sectors, dropping a previous MFN exemption.”

“In December 1997, the Ministry of Commerce issued Public Notice No. 60, which established the new policy applicable to all existing and new foreign auto investments in India. Under the policy, new and existing joint venture companies seeking to import partially assembled vehicles or unassembled vehicle kits or automotive components must sign a memorandum of understanding (MOU) with the government of India imposing the following requirements: $50 million minimum equity investment in
Most Indian banks are government-owned and entry of foreign banks remains highly regulated. The Reserve Bank of India issued in January 1993 guidelines under which new private sector banks may be established. Approval has been granted for operation of 25 new foreign banks or bank branches since June 1993. As of July 2000, 43 foreign banks are operating in India. Foreign bank branches and representative offices are permitted based upon reciprocity and India's estimated or perceived need for financial services. Five U.S. banks now have a total of 16 branches in India. They operate under restrictive conditions including tight limitations on their ability to add sub-branches. Operating ratios are determined based on the foreign branch's local capital, rather than global capital of the parent institution. India's commitments under the 1997 WTO Financial Services Agreement provides for a greater role for foreign banks starting in January, 1999. Foreign banks are allowed to open twelve new branches annually (up from the prior commitment of eight per year). In addition, foreign financial services companies, including banks, are to be allowed to provide equity venture capital in India, up to 51 percent of a company's total equity. However, India did not agree to grant national treatment to foreign companies investing or seeking to invest in the financial services sector, nor did it make any commitments on cross-border banking.36

Foreign securities firms have established majority-owned joint ventures in India. Through registered brokers, foreign institutional investors (FII), such as foreign pension funds, mutual funds, and investment trusts, are permitted to invest in Indian primary and

joint ventures with majority foreign ownership; local content requirements; export obligations; and foreign exchange balancing."35
secondary markets. However, FII holdings of issued capital in individual firms are limited; total aggregate holdings by FIIs cannot exceed 30 percent of issued capital (the limit can be raised to 40 percent with the approval of the board of directors of the company concerned), and holdings by a single FII are limited to 10 percent of issued capital. Foreign securities firms may now purchase seats on major Indian stock exchanges, subject to the approval of a regulatory authority. In the 1998/99 budget, FIIs were allowed for the first time to invest in the debt securities of unlisted Indian companies. Indian companies no longer require prior clearance from the Reserve Bank of India for inward remittance of foreign exchange and for the issuance of shares to foreign investors. The recent introduction of mortgage-backed securities has, in addition, led to the creation of a secondary mortgage market.  

Indian government entities run many major service industries either partially or entirely. However, both foreign and domestic private firms play a large role in advertising, accounting, car rental, and a wide range of consulting services. There is growing awareness of India's potential as a major services exporter and increasing demand for a more open services market. Industries have expressed concern with the Indian government's stringent and non-transparent regulations and procedures governing local shareholding. Current price control regulations have undermined incentives to increase equity holdings in India. Some companies report forced renegotiation of contracts in the power sector to accommodate government changes at the state and central levels.
With almost two decades of somewhat estranged, somewhat comfortable relationship, the areas of common interest for the two countries converged in early 1990s as the benefits of good relations were perceived on both sides. Government policies which encourage Indian firms to expand their foreign trade or to seek business collaborations with foreign firms can be a major factor in India’s development. Many of the recent collaborations involve capital goods that can contribute to India’s modernization and development. Of the Indo-US collaborations now in effect, more than half are involved in some way with high technology. Many of the collaborations directly reflect development needs electrical machinery, chemical and industrial machinery, electronic components and equipment, computers, off shore chemical equipment services, organic and inorganic chemicals and synthetic fibers, to name only a few.

During the mid and late 1990s India witnessed a regular shift of governments, all of which were led by the coalitions. This led to the political instability in the country. Yet India continued with the overall policy of economic reforms. The General Elections of 1998 brought BJP-led coalition to power. It was after a long period of time that BJP came into power. At that time, nobody expected the government to stay for a full term which it eventually did. Due to the “Swadeshi” nature of the party, there was an expectation on change in some major policies in the country.

To India’s surprise and the world’s as well, the BJP government conducted and underground nuclear test in May 1998, just two months after it assumed power. In response India was lasted with a series of sanctions by the international community, most of them coming from the United States, a major nuclear power of the world. Other than
the insignificant initial impact, the sanctions did not do much to stop India continue its reform programs. Moreover, due to insignificant impact on the Indian economy, the Indian government did not take any offensive of the situation and kept the relations intact with the international community.

The items impacted by the US sanctions on India were a mix of items related to traditional trade, military equipment, military-to-military programs and dual-use. The traditional items which were covered under sanctions by United States were the items that were major revenue earners for India like jewellery, pearls, precious and semi-precious stones, marine products, textiles and organo-inorganic products. Along with this, United States also terminated Foreign Military Sales under the Arms Export Control Act and also suspended the licenses for commercial sale of any item on the United States Munitions List. The Military-to-Military Educational Programs were also suspended along with the cancellation of official exchange visits. The major sanctions were brought upon the items of “dual use” which could be used to produce electricity and nuclear weapons both. The United States also suspended the Aid programs to India but excluded the humanitarian aid, agricultural and food items covered under such programs. The sanctions on the traditional items of trade were later removed but the imports of “dual use” items by India were put under the licensing requirements and the procurement of such items was on the discretion of United States Government Agencies which made it very difficult for the Indian organisations.

The regular items of trade were not impacted by the sanctions. Overall India was expected to lose $27 million in the trade after the sanctions were imposed. As such the
BJP government focused more on internal policies to provide the infrastructural support to the country. On the trade front, the government of India maintained a basic ceiling tariff rate (with a few exceptions) of 35%. Since the 1998-99 budget, a “special additional duty” of 4%, intended to be equivalent to sales tax paid by domestic producers, has been levied on imports. Under the 1999-2000 budget, customs duty rates of 5%, 15%, 25% and 35% replaced the lower rates of 0%, 10%, 20% and 30%. Most items were also assessed an additional 10% surcharge on the basic customs duty; only those products subject to bound rates of duty are exempt.38

In February 2000, the Vajpayee Government introduced its 2000-2001 budget proposal. This budget retained 10% surcharge on the basic customs duty and the additional 4% duty. These extra charges were applied more broadly than in the previous fiscal year. Many products that were scheduled to be removed from the quantitative restrictions on April 1, 2001 as a result of the India-US dispute settlement agreement faced the peak 35% tariff.39 The 2000-2001 budget replaced the three-tier of 8%, 16% and 24% excise tax regime with a 16% central value added tax, called CENVAT. Thus, for some products, the additional tax was doubled resulting in higher charges whereas the additional taxes on some items were reduced, thus keeping the average tax revenues around the same. Furthermore, exceptions and additions to the 16% rate actually resulted in six different rates.40 (Zero percent, 8 percent, 16 percent, 24 percent, 32 percent and 40 percent).

India continues to modernize its regulatory framework, with a draft "convergence bill" which is likely to be considered by Parliament in the first half of 2001. The bill will
consolidate authority over telecom, internet, and broadcasting in a single, "super" regulator. In February 2000, the Indian government said it would split the powers of the Telecom Regulatory Authority of India (TRAI) and set up a separate appellate authority, which would hear appeals against TRAI orders as well as disputes between service providers. Industry representatives generally welcomed the ordinance, which they hope will make the regulatory framework more transparent and consistent. Licensing authority, however, remains with the Department of Telecommunications and not the regulator.41

On February 28, 2001, Vajpayee Government’s proposed budget for the year 2001-2002, which was introduced in the Parliament, several positive changes were announced. The 2001-2002 budget eliminated the 10% surcharge on the basic customs duty. In addition, the excise tax structure was collapsed to a basic rate of 16%. However there were some products that were subject to maximum additional “special excise duty” of 16% as opposed to 24% in the year 2000-2001. The excise duties on carbonated soft drinks were reduced by 8% whereas the excise duties on soda ash saw a drop of 15% and were 20% in the year 2001-2002 as against 35% in 2000-2001.42

Under the Vajpayee Government automatic approval was granted by the Reserve Bank of India for equity investments of up to 51% in 48 industries covering the bulk of manufacturing activities. The Indian government has also authorized existing foreign companies to increase equity holdings to 51 percent. The government now allows automatic approval by the Reserve Bank of India of equity investments of up to 74 percent in eight categories including mining services, drugs/pharmaceuticals, storage/warehousing, and transport. In addition, 100 percent of FDI is automatically
approved in a few sectors like electricity generation and transmission, construction/maintenance of roads, venture capital funds, and business electronic commerce.

All sectors of the Indian economy under the Vajpayee Government were opened to foreign investment, except those with security concerns, such as defense, railways, and atomic energy. Government approval is still necessary for more than 51 percent foreign participation in the passenger car sector. Proposals for foreign equity participation exceeding 51 percent (74 percent in the case of eight industries) and projects considered to be "politically sensitive" are considered by the Foreign Investment Promotion Board (FIPB). Through 1994, the FIPB had approved almost all the requests made for higher foreign ownership and for other "exceptional" cases, but still reserved the right to deny requests for increased equity stakes. However, foreign firms report that increases in foreign equity, especially to 100 percent foreign ownership, have become more difficult to obtain since 1994.

After coming to power, the BJP led government held the office for full term of 5 years. This resulted in the political and economic stability of the country and provided a definite direction to the nation with the sentiment focusing on “National Pride” and implemented a regulatory control over the imports from the trade partners. The government also focused on the infrastructural development by means of latest technology, where the private sector of India collaborated with foreign companies to implement the projects.
The government of India made a deliberate effort to take care of Indian citizens all over the world by laying down the framework for “Dual Citizenship” program. With the objective of recognizing the Indians in the whole world and to invite them to invest more in India, the government opened a new channel for increased economic activity in India. This initiative was in the final phase if development and before the program could be formally put into effect, the government announced the “pre-elections”. The result was in favor of Congress-led coalition. The elections gave way to the Congress-led coalition government and Manmohan Singh became the first minority Prime Minister of India.

THE MANMOHAN SINGH GOVERNMENT

After being elected to the Prime Minister office, Manmohan Singh announced that the government will keep on working to implement the “Dual Citizenship” program for Indians worldwide.\textsuperscript{43} The focus of the current government is primarily the implementation of economic reforms program. With the reputation attained with the 1991 reforms, the Prime Minister Manmohan Singh has the confidence of Indian Citizens and is expected to continue to bring the reforms and thus further advancement to the nation.

But the reforms needed this time around are different in nature. In 1991, the reforms were mainly focused to tackle the financial crisis. With the economy already opened to the foreign companies and in the wake of globalisation, e-commerce and technological advances, the government is focusing on building the infrastructure. “The Prime Minister made the note “Perhaps the most prominent area is infrastructure. I have said many times before that India must put infrastructure development on wartime footing”.\textsuperscript{44}
India needs a high quality infrastructure platform to account for faster, consistent growth and for India to become a major world economic power. The fundamental infrastructural planning should, in a long way, focus on the agricultural needs of the country because still a large proportion of the Indian occupation is agriculture. Thus the infrastructure development should be an effective blend of traditional and technological needs of the country.

As per the current government of India, the infrastructure challenges should be addressed first, yet the public sector cannot now provide the necessary finances to India’s infrastructure needs. India must therefore invigorate, as a matter of priority, private sources to finance long term project development. This implies the implementation of the policies in such a manner that foster the private sector investments in the infrastructural projects.

Meanwhile chronic budget deficits at both the federal and state levels must be reduced. Capital will have to be freed from wasteful subsidies and India's financial markets will need further liberalisation. Developing a truly long-term capital market must be a key objective for government, which through greater fiscal restraint and creative financial engineering needs to reduce its own crowding out effect in India's financial and banking systems.45

The government of India views United States as a key ally in the progress of India. Strategic alliance between the two countries is required to meet the infrastructural changes. As in case of nuclear fuel for the existing nuclear power plants in the country, India seeks United States collaboration.
The infrastructure development takes a center stage keeping in mind the technological advances of India. India is the fastest growing information technology oriented country. Information technology has become a major source of revenue for the Government of India in the last few years. As such there should be infrastructural support for the IT sector.

The trade experts worldwide view the foreign investment as important factor in the growth of India. If India opens up the sectors like retail, real estate development, law practice and accounting, together with removal of internal barriers, it would lead to generation of increased revenues and would create high levels of employment and thus would contribute to India’s growth. India’s insurance and pension industries hold out hope for mobilizing long-term capital. Lifting the ceiling on foreign direct investment in insurance would clearly help, as would expand and liberalizing India’s emerging pension industry. So too would reducing government’s dominance in the banking industry, together with stronger encouragement and greater freedom for the growth of private domestic and foreign banks.

The government of India is taking concrete steps towards developing the strong infrastructural support by re-evaluating the policies that would hold a long term promise for India’s growth and would promote the alliance with the trade partners like United States. Some of the policies that have been modified are related to the following sectors where the two governments are co-operating strategically:
1. Media & Entertainment

With the two largest movie industries and two of the most developed cable TV networks, there are plenty of areas for cooperation. Indian cinema has dramatically increased the quality of production, and Indian movies have a growing following in the States. At the same times, more American movie studios are releasing their films earlier in India than ever before.

2. Pharmaceuticals

On January 1, 2005, per the WTO patent agreement, India must adopt full patent protection. That will help India in two ways- foreign companies will bring more high-end pharma products into the Indian market, and India is expected to scale up its research & development programs for new drugs.

3. Textiles

On January 1, 2005 the WTO’s multi-fiber agreement comes into force, whereby countries must drop quantitative restrictions. The Quantitative Restrictions had allowed the U.S. to import only a limited quantity of textiles from each country. It is expected that India will benefit tremendously from having foreign markets open further, and U.S. companies will benefit through being able to import more textiles from Indian manufacturers.
4. Agriculture

The Congress Party came to power on a platform of extending the benefits of liberalisation across India- and they plan to enact a new green revolution in agriculture. This means some new opportunities for American companies that have the latest farm products- from fertilizers to seeds to farm equipment, and, of course, cold chain storage.

In the background of the trade aspirations of the nation, the government policies play a pivotal role in nations’ progress. The government policies are the direct results of the demands and the production capabilities of the country. In the case of trade between India and United States, the government policies of both the nations have long impacted the trade between the two nations. In the fields like technology, industrialisation, high-end e-commerce solutions and biotechnology, the government policies of both nations have been framed in order to maximise the benefits attained from the trade. India’s government policies have been aimed at increasing the infrastructure in order to support the high-end technologies so that the revenue generation from such trade services can be realised on a greater level. As such the government policies will always have an important bearing on the future of the trade conducted by nations which will enable nations reach the optimum compromise between their production capabilities and internal demands.
END NOTES


10. Ibid., p.9
11. Ibid., p.9
15. Ibid.
18. Ibid.

22. Ibid., p.34

23. Ibid., p.35

24. Ibid., p.36.

25. Ibid., p.37.

26. Ibid., p.38.

27. Ibid., p.39.

28. Ibid., p.


31. NCNA, May 19, 1994, Washington D.C.

32. Ibid.


35. Ibid., p.1.
37. Ibid., p.1
39. Ibid.
40. Ibid.
41. Face to Face: An Interview with Mr. Rick Rossow by Amitabha Sen, Director of Operations, U.S. India-Business Council, Oct 14, 2004
44. Ibid., p.2.
45. Ibid., p.2