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Indo-US Economic Ties during UPA Government

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Abstract

The relationship between the world's first democracy United States (US) and largest democracy India is a topic of all time concern. These two are very significant on the map of world. From last few decades India and US have changed their relationships in positive manner and this trend is likely to followed for coming decades. The strong economic ties can be expected between the two nations as economic issue will be considered as an important aspect in framing the Indian Foreign Policy. Economic ties between India and US are not only beneficial in economic sector but it is also helpful for US to think strategically and balance the powers in Asia especially in South East Asia. The economic ties between India and US are also helpful for the trade of technology and defence equipment for national interest.

Keywords: UPA Government, economic ties, US, India.

INTRODUCTION

After the Second World War, US had occurred as a super power of the World. At that time the military and economic powers of US had beaten all its competitors. The policy makers of US had started to look at their strategic interests around the whole world whereas India got its independence at that time and was struggling to build nation. Also, on the other hand India



had to deal with the problem of imperialism and colonialism. The main objective of India at that time was the economic development and national security.

Hence, the official relations between India and US were begun with the Second World War. US had been following the isolationist foreign policy up to the Second World War but after the Japan's attack on Pearl Harbor on 7 December 1941, US totally changed her foreign policy. After this attack America understood the need of cooperation from India in this war. Due to the strategic importance of India as a base of operation against Japan forced US President Roosevelt took interest in political problems of India with the realization of India's strategic importance against Japan (Chattopadhyay, 2007). US government approved India and Britain to exchange diplomatic personnel in summer 1941. Thomas H. Wilson was the first US Commissioner in New Delhi was appointed in October 1941. Sir Girja Shanker Bajpai was appointed as India's Agent General in Washington. He was to work under the British Embassy supervision (Kumar, 2009). The government of America established the Office of War Information (OWI) in April 1942 in New Delhi. To make a survey related to industrial potentialities of India and to provide suggestions to improve production. Henry F. Grady also came to India to head the technical mission. Many American flocks were stationed in India and these technicians took interest in construction of airports, factories, roads etc. President Roosevelt wanted to solve problems of India but he felt hesitated to directly involve himself in the efforts to evolve solutions.

ECONOMIC COOPERATION

In Indo-US relations most significant factor is economic cooperation since India got independence. Expansion in economic relations between the two has been expanded with the adoption of liberalization policy in economic sector in 1991. US have been the major economic partner of India since the India decided to change the structure of its financial sector. The economic relations between India and US were changed significantly during the leadership of Prime Minister Dr. Manmohan Singh. Especially, after the incidence of 11 September 2001 US recognized India as a largest democracy not only in South Asian region but also in whole world. US realized the capability of India in countering the terrorism by promoting democracy. Hence, during the tenure of Bush, he showed the interest in expanding the economic relations with India by various methods like Foreign Direct Investment (FDI),



Intellectual Property Rights (IPR), trade in services, defence, merchandise, natural gas, entertainment, pharmaceuticals, aerospace etc.

Economically, India also needs the help of US to meet her goods and services aspects. Economic relations of both contribute to decrease the misunderstandings between the two countries. The market of India is critically influenced by the FDI of US and a large number of US based companies developed their manufacturing units in India as labour, land and electricity are available in cheap prices. On the other hand, many Indian organizations gave base to the US for their products and services. For instance, in US doctors, software personnel, other workers like maintenance engineers, plumbers etc. are largely Indians. Further, the economic cooperation has been facilitating the strategic partnership between the two democracies in order to endorse anti-terrorism activities in South Asian regions as well as on global level. During UPA government, the services and commodity enhanced in positive side as many sectors improve their quantity and quality due to investment of US in India and vice-versa. The main US based companies such as Microsoft, Dell, Oracle, and IBM have declared their plans of investing multi-billion dollars in India. India must increase its foreign investment limits related to several key sectors. US also wanted India to change its foreign investment policy in rapid and substantial way especially in financial services, retail, and banking sectors.

US also get engaged in supporting the economic reforms policies of India as her the largest trade and investment partner. So, in November 2005, US-India Trade Policy Forum (TPF) was established to resolve the issues related to India US trade and investment, increased bilateral economic engagement as well as to provide place for discussion of multilateral trade issues. This forum is chaired by the US Trade Representative and the Indian Minister of Commerce and Industry. It focuses on five groups: agriculture, investment services, innovation, tariffs and non-tariff barriers. To promote the opportunities for small and medium enterprises of India and US, TPF organized bilateral dialogues between 2005 and 2010. In 2005 it arranged the meeting and discussion on main economic issues for business leaders and policy-makers from both the states. TPF established the Private Sector Advisory Group (PSAG) in 2007 having experts from various Non-Governmental Organizations (NGOs) in US and India.



In 2006, US accounted for one-sixth of Indian imports and India is the 21st export market for US goods. In 2006 US exports to India aircraft, pearls, fertilizers and chemicals, business and telecommunications equipment, jewelry and gemstones of worth 10.1 billion dollars whereas imports from India included textiles, cotton apparel, gemstones, pearls and jewelry of worth 21.8 billion dollars.

In March 2005, India announced its plan to establish China style Special Economic Zones (SEZs) and soon parliament approved it. This act enforced from Feb 2007 in which 237 SEZ were approved and more 100 were planned. These zones are the areas in which the trade and business laws are different from rest of the country. These SEZ are formed in order to increase foreign investment, create more jobs, employment, balance trade and effective administration. In these zones many financial policies including taxation, quotas, investing, labour regulations, trading and customs were formed for setting business. The companies established in these zones provide free import and export duties, excise and sales taxes and 15 years tax holidays on profits. In 2007, US Trade Representative Susan C. Schwab ended the 18-year ban on import of fruits. As President Bush and Prime Minister Singh intended to enable Indian mangoes entry into the market of US. Indian Official gave Indian Mangoes to US Secretary Rice in exchange for Motorcycles deal.

On 5th April 2010 Treasury Secretary of US Mr. Timothy Geithner officially visit India for the first time. During this visit Timothy Geithner with Indian Finance Minister Pranab Mukherjee launched new Economic and Financial Partnership between the two. This meeting of leaders kicks off the bilateral economic and financial relations of Indo-US. On 5th November 2010 President Obama visits India and addresses the Parliament. This trip of Obama boosts up the economy of India as he announced the trade deals of worth 14.9 billion dollars. They both committed to promote open market economy and job creation. Also, they agreed to work together in order to test, develop and replicate the technologies for the extension of India's food security and promote 'Evergreen Revolution.' This collaboration is beneficial for farmers and consumers of India, US as well as of whole world.



Official US Trade Data indicates that between 2009 and 2013 there was an increase of 69.2% in total trade. However, the Indian Trade Data reports the total bilateral growth of 78.3% over the same time period. According to USITC, in 2013 India was the eighteenth largest export partner for US goods and tenth largest source of merchandise imports of US.

Trade Factor

Trade is the transfer of goods and services within two or more than two nations with primary aim of exchanging money and getting value-price exchange. It plays the important role in framing economic relations among different nations. Policy makers of US during the Bush administration realized that India and US have same values in many economical angles which help in developing friendly relations between two nations. The trade between both the countries is becoming successful in the areas of defence, energy, aerospace and infrastructure and improves the mutual cooperation between the two.

Trade in Manufacturing Services

The most significant contributor to Indian economy is its manufacturing industry because India owned the necessary skills in manufacturing goods, the process and capital engineering. United Nations Industrial Development Organization (UNIDO) showed that the India ranked among the top ten positions of manufacturers of manufacturing output in 2008 (Arya, 2012). Business group of India mainly the companies of gas, electric goods, oil, metals, engineering material products have significantly improved the growth in US. In 2008, India was the fifth significant steel maker in the world which becomes second in 2021. The vehicle part fabricating industry which was seen as a low performing industry becomes high performer in worldwide mechanical network.

During the UPA regime the trade in Aerospace and Defence (A&D) was improved significantly and US claimed that if India become the prime partner of US in the A&D area then the trade of India might grow up to 25 or more billion dollars (Bradsher, 2006). This is possible only if the leadership of India take interest in promoting defence trade with US by changing their policies and deals related to the same. India is increasing its defence budget to lessen the military gap with China for its security and strategic purposes and also to promote peace in Southeast Asian region by countering with global terrorism (Banerjee, 2014). These



international issues made India a larger importer of arms equipment in the world and after Russia, US is the one of largest defence equipment suppliers for India. The defence budget of India was 5.8 billion dollars in 2008 and 13.6 billion dollars in 2013 and 72.6 billion dollars for financial year 2023-24. US based companies like Westinghouse, GE and Boeing are operating in India (Mistry, 2014), these companies among with the Indian companies like Aero India and Def Expo continuously function to encourage the defence business between the two nations. The two countries shared the manufacturing of four military merchandises. This also promotes the high-end technologies used in aircraft transporter technologies and jet aircraft locomotives. The defence relationship between India and US becomes stronger with the raise in FDI by 49%. This increase in FDI encourages US to invest in the defence sector of India and developing manufacturing units in India (Singh, Pulipaka, Kanwal & Mishra, 2014).

The natural gas sector is another important area in encouraging Indo-US economic relations. India has a larger percentage of coal-based energy plants. India is the third major supplier of coal and is the fifth largest producer of energy in the world. The key obstacle in the energy sector is the restriction on coal mining. Due to the carbon release from thermal power plants, India limits the usage of carbon fuels like coal. India has shifted from coal to oil in the production of fertilizer, power and for domestic use. During 2008-09 the natural gas share was 10% which was estimated to increase up to 20% in 2025. To increase the dependence on cleaner resources like natural gas demands its import in greater level and this import will regulate the development of industries.

Apart from the defence and natural gas trade, the pharmaceutical products are in high demand in US and got speed up in trade. The trade of pharmaceutical products was of worth 10.8 billion dollars in 2008-09 with Compound Annual Growth Rate (CAGR) of 11.3% between 2005 to 2009. The world's biggest market for India to showcase their pharmaceutical ability is US in which India sold 19% of its pharmaceuticals which is expected to increase in near future.

Also, the automotive industry is constantly increasing its position worldwide. In 2021, automotive industry of India becomes the fourth largest by production in world whereas in 2022, it becomes third largest automotive market in the world by beating the sales in Japan



and Germany. Currently, the automobile industry of India is of worth more than 100 billion dollars and accounts 8% in the total export of country whereas contributes 7% in GDP of India. Long back, the US based companies set their business in India among which Jeep, Ford, Purolator, Federal Mogul are the major players. The two US based companies Ford India Private constrained and General Motors Private Limited had nearness to India. Ford India Private constrained established Ford Technology Service Centre at New Delhi, Chennai, and Coimbatore. These centers incorporate Ford's worldwide collaboration in the field of information technology, accounting and finance, automotive operations support, engineering services and global analytic. Also, General Motors India Private Limited established center in Bangalore to encourage the manufacturing design, research, and development in automobiles. Other US based automobile organisations built their plants in Maharashtra, Gujarat, Tamil Nādu and the National Capital Region (NCR). The electrical and automotive engines American company Delphi India established its offices in states like Uttar Pradesh, Haryana and Tamil Nadu from 1995. It has established technological centre in Karnataka with partnership with Indian company Tirkurungudi Vengaram Sundaram (TVS) in Chennai. Delphi produced original and quality products that are why its parts have demand in Indian market. It is the growing very fast in India which is creating job opportunities for trained workers of India.

Trade in Services

Economic cooperation between both the states is highly determined by services. This sector contributes 53.8% in GDP of India and 80% in economy of US. America depends upon India for cheap skilled as well as semi-skilled labour and this makes India sixth largest exporter of services. US serves as a biggest market for IT/ITES endeavors contributes 60% to their earnings. India's export in terms of services is 92 billion in 2009 which positively increased from previous years. It increases in software sector which give positive impact to globalize India in technological economy. In 2000-01 the total export of services was of worth 16.3 billion dollars which rise to 87.7 billion dollars in 2007-08. Also, US delivered largest import services in 2007 at 378 billion dollars. The exports of India to US were 9.6 billion dollars whereas export of US to India is of 9.4 billion dollars. In 2007 the overall figures of trade were approximately double than amount in 2005 (10.2 billion dollars). From 1999 to 2004 the



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services trade was in favour of US which turns to India in 2006. According to the US Bureau of Economic Analysis, the bilateral trade in services and goods in 2006 was of 45 billion dollars which was raised to more than 70 billion dollars in 2010.

CONCLUSION

Economic relations are vital for the development of economy of India in various sectors. Economic relations between India and US are important for both the countries from not only economically but also for the strategic partnership between the two. However, there is a continuous development in economic relations between two but the main aim is to strengthen strategic partnership. Economic relations between India and US are helpful in developing friendly and co-operative relations between them. The two countries are contributing in improving their financial conditions by import and export in sectors like aerospace, natural gas, pharmaceutical products, entertainment, trade in manufacturing sector and services, jewelry etc. Official Data of both the countries show that there is continuous growth in economic relations between two. During the tenure of Dr. Manmohan Singh, the economic relations between two nations hit many milestones as he did very hard work in improving the economic condition of India.



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