

INDO – US ECONOMIC AND TECHNOLOGICAL COOPERATION: THE POST COLD WAR SCENARIO (1991-2006)

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ABSTRACT

India and the United States of America are two major democracies in the present world order. With the changes of international political scenario, both have changed their diplomatic orientation to each other. During the Cold War period Washington and New Delhi had different stand points on international politics. Disintegration of Soviet Union had brought an opportunity to each other for fostering their relationship. India had opened its market to MNC's by adopting liberal economic policy. Since early 1990s several U.S MNC's had started a huge amount of investment in various sectors. In response India also enhanced export to the U.S.A. Today India has become the second largest trading partner of the U.S.A. In the era of globalization market economy has been a key factor for both. Actually economic and technological interests have become a reliable and potential partnership. However, technology is playing a vital role in post Cold-War Indo-U.S relations. Several joint ventures have been materialized, for instance IBM-India, Accenture-India etc. Indian experts have good demand in the U.S.A. In space and military technology sectors, both countries are working jointly. All this has reduced the so-called north- south controversy.

Keywords: marketeconomy, globalization, liberal, universalization, multinationals, investment, technology, it, bilateral, power, community, trade, partnership.

This paper will discuss the economic issues in the relations between India and the United States in the post Cold War period. The end of the Cold War and disintegration of the Soviet Union further compelled India to develop closer relations with United States in view of the dominant role the latter was expected to play in the international arena. India agreed to increase economic co-operation with the U.S.A. due to its national interests. In the aftermath of the end of the Cold War, the U.S.A. remained the sole superpower. According to historians like Hobsbawm, the year 1991 marked the

end of the 20th Century and the beginning of the 21st century. For Fukuyama, it signified “end of history” and marked the universalization of capitalist market economy, liberal enterprise and democratic policy.

The post - 1991 years progressively unfolded significant trends in international relations that might provide propitious circumstances for closer relations between the US and India (Pathak,2001:p.181). The new context necessitates rethinking and recasting of their relations. India’s potential can easily be gauged. As the seventh biggest state, India holds 16 percent of world population. It has the fourth biggest army and the third largest pool of scientists. Her well established and vibrant democracy has survived for the last 63 years. It has witnessed the emergence of a fairly sizeable middle - class numbering at least 150 million and providing a big market.

Indo-US relations can be classified under three broad headings, each signifying different areas especially in economic and trading area. In the view of US, India is in the midst of a major and rapid economic expansion with an economy projected soon to be the world’s third largest. Though there is widespread and serious poverty in India, the US Government believes that the long term economic potential of India is tremendous, and the recent strides in the technology sector have brought international attention to such new global high-tech centers as Bangalore and Hyderabad. Although in the post Cold War era, American interests in the South Asia were complex and diversified, for most of the 1990s. US relations with India were focused mainly on market economy. The 1992 liberalization of Indian economy under the Narasimha Rao Government brought into India a host of American multinationals.¹ The Indian government directly approached some of the top US business houses for investing in the country.² The US replying to Indian governmental invitation, showed interests in investment. Washington was investing in the core sectors of the economy like hydrocarbons, power, electronics, computers and development of natural resources. The American investments and economic interactions had been on an ascending curve (Pathak, 2001:182). Both the countries considered illegal trafficking in narcotics as a serious international problem and pledged to attack it at all levels. They had also signed a bilateral extradition treaty.

Economic reforms introduced since 1991 radically changed the course of Indian economy and led to better growth rates, higher investment and trade flows and accelerated decline in income poverty. The effects of these reforms on trade and investment relations with the United States had been profound

(economy watch). There was no doubt that India's liberal economic policy and its vast market evoked American interests. There was perfect convergence between the U.S. need of Indian market and India's dependence on the USA to accelerate the pace of its economic growth.

The US Task Force believes that U.S. interest would be better served by helping both India and Pakistan to develop a "normal" bilateral relationship with one another. After the decline of U.S. development aid in the 1970's, America's economic engagement with India was relatively limited during the next two decades.

In 1990, the year before India launched its reforms, U.S. Private Sector investment in India was a minuscule \$19 million. The removal of many - but far from all administrative restrictions on foreign investment spurred a major increase. Investment by U.S. companies rose to \$ 500 million a year by the mid 1990s but has since declined (Wishner II, 2003, p.21) globally; India currently receives about \$3.5 billion a year in Foreign Direct Investment (FDI). Though the trade between the United States and India is relatively small, it has risen sharply over the years. In terms of India's major trading partner the USA continues to lead. However, India's share in US trade is 24th in US export and eighteenth in US imports. The two countries had been trying hard to strengthen the institutional structure of their bilateral economic relations.

Signing of "India - US Economic Dialogue" by Indian PM, A.B Vajpayee and US President in 2003, aims at deepening the Indo-American partnership through regular dialogue and engagement (Economy Watch). India's sizable population and growing middle and higher income class makes India a potentially large market for U.S. goods and services. The United States remains the largest source as well as the major provider of funds flowing through the financial markets, accounting for \$ 7 billion of India's total \$ 13 billion of portfolio investment. Although investment from abroad remains well below Indian expectations, foreign trade has grown steadily, Exports and imports rose from 13.3 percent of GDP in 1990-91 to 21.8 percent a decade later. India and the United States have come a long way since the early 1990's, when Washington threatened to impose sanctions in retaliation against New Delhi's restrictive trade policies. The policy challenge over the medium term is to see that economic relations continue to expand.

After the end of the cold war, in the economic area USA had shown more understanding of India's enormous problems and poverty, especially in relation to trade policy questions (Kux, 1991, p.451).

Expanded commercial and economic ties, however, lie largely in Indian hands. Unless the Indian government vigorously carries through with its reforms, genuinely modifying India's economic policies to open the country to the rest of the world and to give greater scope for market forces, US business is unlikely to show much greater interest in India than it has in the past.

India was likely to be placed on the US trade list of unfair trading partners for what US officials say is the lack of progress on contentious issues of patents and copyrights. The special 301 list has been published on April 26 (1991) by US trade representative, Mr. Carla Hills. Under the 1988 US trade Act, Mr. Hills was required to name countries which did not provide adequate openings for foreign competition while maintaining a trade surplus with the United States (Shirohi, 1991). The US officials said that India seemed unwilling to make any changes in patent and copyright laws to protect foreign companies.

India said it was unfortunate that the United States of America had decided to put India under special 301 provision of the trade Act which showed no progress. On the issue of intellectual property rights Indian Commerce Ministry sources said that India would react at the proper time because, "We don't know what the US is going to do after naming India under 301" (The Hindustan Times, 1991). However, in the early 1990, India's restrictive trade policies, especially its unwillingness to protect intellectual property, led the United States to threaten relations under section 301 of the trade Agreements Acts. Since then, India had gradually opened its markets to the world in keeping with its obligations as a World Trade Organisation signatory.

India and America have made attempts to know each other for quite some time. There had been sporadic, brief flashes of understanding, but nothing enduring enough to cut through the preponderant bulk of well - entrenched stereotypes. However after taking the path of economic liberalization policy by India various US multinational came here and made strong economic relations like Ford, GE, IBM and Bechtel among others. With the introduction of the second generation of economic reforms under the Vajpayee Government, US investment in India increased. There is a kind of convergence of interest between India's need for technology and capital and the US search for markets.

But the story of Sixty-plus years of Washington - New Delhi relations is that both sides have emerged from a history of mistrust - and a relationship which lacked depth and breadth - to

continuous economic dialogue. Since the middle 1990's India has been able to establish itself as a potential power in terms of economic development and political activities. India is now able to create new situations which make it costly for US interests to ignore India or to contain it. India now has the power to bargain with the US because India now has the means and will to hurt the US interests.

The United States has provided support and encouragement for the process of liberalization, but it can and should step up its efforts in this area even further - by sharing relevant technical, administrative, and financial expertise, by working in conjunction with other national governments and international financial institutions; by working with representatives of state and local governments in India. However, in terms of trade, a relation between the USA and India in early 1990's was not bad. Before the end of the year 1992 India's fresh foreign investment were worth around \$ 2.7 billion in its power sector. It will create nearly 4,000 MW of installed capacity which will be a big boost for the nation's industrial infrastructure. A team of government officials and private sector officials, led by the Union cabinet secretary, Mr. Naresh Chandra was on tour of the US to speak directly with potential American investors.

On November 26, 1991, the Bush administration announced that for the time being it was dropping the idea of retaliatory action against India in the dispute over Intellectual Property Rights (IPR) by formally extending ongoing investigation into the subject by another three months. US Trade Representative Carla A. Hills, reported "progress" in the investigation which began on May 26, 1991, a month after the administration had placed India on its "Special 301 priority list" along with China and Thailand for providing "inadequate" protection to American intellectual property. The list calls for relations against countries which the US seen as excessively protective of their trade. November 26 was the deadline for taking action against India as the six month - long inquiry had ended without resolution of the US complaint that India had failed to provide adequate protection to its Intellectual property Rights.

After the commencement of the US investigation in May, a lot of exchanges had taken place between India and the US to resolve the dispute. The Minister of State for Commerce, P. Chidambaram went to the USA in October 1991 for talks with Mr. Hills who, in turn visited New Delhi for further consultations. The dispute between India and the US was narrowed down to the absence of a provision in the Indian law for product patents in the pharmaceutical industry. The

intellectual property rights have many ramifications - in protecting trademarks, design and copyright. The hardest is the drug and medicine sector. The Prime Minister Narasimha Rao's talks with President Bush in New York on 31 January, 1992, on Uruguay round of multilateral trade talks in Geneva. The two sides agreed that the differences on trade matters were narrowing down and were hopeful that the American and Indian delegations would be able to find a compromise. The time was ripe for a big push forward in Indo-US relations because American thinking is forward looking and cautiously optimistic about India's political and economic future, and there is room for both sides to engage in confidence building measures (Kapur,1991,p.6). The reasons for this optimism were many. In these days trends were in favour of warmer Indo-US relations and cooler US- Pakistan relationships. However, these no longer played on each other; the linkage of the Cold War, these days was over. It implies that India could be independent and still be closer to the USA in the post-Cold War scenario. Americans regarded India's economic crisis as a temporary phase. They accepted that the Indian economy was structurally stronger compared to cold war period and that, they appreciated the trend towards economic liberalization. India and the USA should, be better friends and stronger partners on economic issues. In a World of increasing globalization India's futures plainly are intertwined with the USA. It still needs to be verified by future events and administration.

US Agricultural Secretary Edward Madigan, had in February, 1992 rejected sales of one million tons of US wheat to India under the Export Enhancement Programme (EEP) (The Hindustan Times,1992) The wheat purchase was one of the items on the agenda during India's food Secretary Mr. Tripathy's visit in Washington in early 1992. In February, of that year, New Delhi had again sought to purchase wheat under the EEP, but US Agriculture Secretary Mr. Madigan adamantly turned down the idea on the ground that India had sold rice to Cuba. A Cuban rice deal was not in the picture at the time, but Mr. Madigan was apparently convinced that it was in the offing.

US Department of Agriculture (USDA) officials, tenders were invited from 24 leading grain exporting companies registered with the USA. On the basis of the bids received export of 982, 750 metric tons of wheat to India had been approved. However, US had granted an average subsidy of \$ 33.45 per ton on the exports to India. The net export price for the last quarter of 1992 was \$ 110.50 per metric ton. On the basis of F.O.B. Gulf ports for the succeeding price was \$ 112.50 per metric ton, F.O.B. Gulf ports.

In the beginning of Post Cold War period Indo-US relations suffered setbacks due to some reasons which are as follows:

(1) US attitude to give the loan to India was not positive. The USA had opposed India's application to the Asian Development Bank (ADB), for the Soft loan facility (The Statesman, 1992) while other donor countries such as Japan and Canada were sympathetic to India. For this reason India was primarily doubtful about USA's attitude and policy towards India.

(2) Another irritating issue was America's negative attitude towards 'Indian Space Research Organization' (ISRO). One wonders whether the black listing of the Indian Space Research Organization and the Russian Space Agency-Glavkosmos, with aim to pressurize Moscow to break its contact with New Delhi, for the supply of cryogenic engines, would have come if India bought American technology. The US was certainly trying to kill two birds with one stone. While in the case of India, American objective seemed to be to prevent it from achieving heavy load satellite launch capability and a consequent entry into the high protective world market. In case of Russia, Washington's action was like that after the end of cold war heralding a "trade war" now to keep it out of the international market of high technologies. Under the garb of the Missile Technology control Regime (MTCR), The US had put a two years' ban on 'ISRO' and 'Glavkosmos' and it instigated the other countries signatories to impose sanctions against India and Russia.

The Chairman of the Indian Space Research Organization (ISRO) Dr. U.R. Rao, criticized the two year ban imposed by the US on 'ISRO' as "a unilateral decision" which was arbitrary, unfair, unjustified and one which would not stand up to technical security(The Hindu). It was obvious that it was commercial interest said Mr. Rao.

The US Ambassador to India Mr. William Clark(Jr.) said, the U.S Direct Investment (FDI) in India, had gone on record as saying that US businessmen view India as one of the "most promising" countries in the South Asian region. But the difference between rhetoric and reality appeared to be as wide as the gulf between civil rights and consumerism with a total two-way trade of over \$ 5 billion, the US was India's biggest trading partner, with exports of Rs. 4,797 crores in the financial year 1990-91, the US was India's biggest export market in both exports and imports from India. In 1990-91 it accounted for 14.1 percent of all Indian exports and 12.1 percent of the total Indian exports.

The dialogue with the United States was intensified and a series of talks between senior functionaries of the two sides marked the Narasimha Rao regime's attempt to explore a new relationship with the US (Dutt, 2007: p. 76). India had used its exchange rate to improve its competitiveness in the export sector. The rupee was tied to a basket of currencies with the dollar occupying a major share. However, the rupee was first made convertible on the trade account in 1993 and fully convertible on the current account on 20th August 1994. India's Central Bank, the Reserve Bank of India intervened in the exchange market to keep the rupee stable (Kapur, Malik, 2002, p. 331). Since 1992 the government of India had eliminated the licensing system for imports of intermediate and capital goods. It had also reduced its import-weighted tariffs from 87 percent. As a member of World Trade Organization (WTO), India had no choice but to liberalize further and open its economy to foreign goods on schedule.

For these reasons the Indo-US trade volume at \$ 7.4 billion in 1994 could rise exponentially, this was behind by the U.S. Commerce Secretary Ronald Brown.²⁵ The USA was also pressing India to further open its markets for international trade. India was equally aware of economic and political compulsions for a sustained relationship with the USA while resisting its pressures where its own interests were concerned.

Indian-Americans have been high achievers in some important fields. There are approximately 300 Indian-American entrepreneurs with a personal net worth of at least \$ 5 million, many in the high-technology sector (Clark, 2000: p. 81). Nearly 40 percent of startup companies in the Silicon Valley and Washington D.C are as owned by Indians or Indian Americans, and there are at least 774 Indo-American companies in Silicon Valley alone. These high technology entrepreneurs have their own networks, one of which, TLE (The Indo-US Entrepreneurs), has 1000 members (www.tie.org). In other fields as well, Indian-Americans have moved quickly into important managerial and administrative positions.

Accepting President Clinton's invitation, Prime Minister Narasimha Rao paid an official week-long visit to the US in May 1994. This historic visit cleared much of the earlier misconceptions about American pressure and Indian capitulation and helped to reestablish Indo-US ties on a more vigorous footing. Significant gains of the visit were the signing of six MoUs. There was a shifting of four by low balling non-proliferation and high balling the economic issues. The visit expected

to bring an investment flow into India in the infrastructural sector. The US Commerce Department in a “White Paper” listed India as one of the top Big Emerging Markets (BEM) (Malhotra, 1995:pp.41-42).

Improvement of relations between the USA and India were not that easy as many observers had felt. Some basic issues between the two countries still remain unresolved. The USA pressurized India to agree to certain things which were against latter’s national interest and hence unacceptable. However, in the post-cold war period the US had followed a policy of tilting towards India rather than towards Pakistan. This policy was based on three assumptions: **First**, in the absence of the cold war, Pakistan’s value as an ally decreased but India’s importance increased due to economic factors (market economy). **Second**, in the Post-Cold War period, containment of Islamic fundamentalism would replace containment of communism as the chief objective of American foreign policy. Huntington’s theory of “*clash of civilizations*” was an illustration of this type of thinking. Therefore, Pakistan, being a theocratic state, could not be regarded as a dependable ally by the US in this clash. Some felt there might be a convergence of US - Indian interest in relation to this objective (Kapur, Malik, 2002:p.85). **Third**, new liberal economic policy was taken by Indian Prime Minister Narasimha Rao and his finance Minister Manmohan Singh for free flow of investment. That is why, Washington was interested in looking towards Indian big market. With the transformation of Indian economic policy since 1991, corporate America began to take it seriously. U.S two-way trade to India rose from \$ 5.3 billion in 1990 to \$ 8.5 billion in 1995 and to \$ 12 billion in 1999 with \$ 9.1 billion in imports and \$ 3.7 billion in exports (foreign trade, 2001).

The United Front (UF) government, a coalition of 13 parties - remained in office from June 1996 to March 1998. During this brief period it was headed by two Prime Minister Dave Gowda and I.K Gujral in quick succession. The UF Government continued the earlier foreign policy with USA. The economic relations between the two countries were disturbed by India’s refusal to join the CTBT. In 1996 the issue of joining the CTBT mostly dominated Indo – US relations. The Clinton administration was not happy with India’s attitude. But the year 1997 saw an upswing in Indo - US relations. The Clinton - Gujral Summit in New York was followed by the visit of the US under - secretary of State for political affairs, Mr. Thomas Pickering to set the tone for a strategic dialogue along with economic issues. In November 1997, the US Secretary of state Mr. Madeleine Albright

visited India and made an agreement between the two countries on setting upon an Indo - US science and technology forum. The Investment Incentive Agreement was also signed between the US and India in 1997.

However, in the mid-1990s, the American multinational grew more and more interested in India in the wake of these and other changes. The Indian government has pushed open the energy sector to foreign investment and a number of American companies - for example Enron, Cogentrix etc. entered the market. In various sectors Indo - US Joint ventures were seen during this time. This type of economic relational opened up possibilities that were not thinkable twenty years ago. This was for the first time that the prospect of a substantial economic relationship between Washington and New Delhi was visible.

While the size of the Indian middle-class-market, estimated to be anywhere between 100 million and 300 million, may be exaggerated, American firms understand the advantages of South Asia as a production site as well as a place to sell goods (Cohen,2005:p.289). Today United States is India's second largest source of FDI (Foreign Direct Investment) after Mauritius, accounting about 16% of total FDI flows to India from 1991 through July 2001. USA has 17.08% share in FDI inflows to India, Mauritius is at top with 34.49% and Japan comes 3rd with 7.33% share (Economy Watch).

On the investment front, the USA covers almost every sector in India, which is open for private participants. Both government to government level and business - to - business level conduct regular interactions with each other to promote and strengthen the trade and economic relations between two countries. The US investor community is today increasingly sharing confidence with the future of the Indian economy. Several areas like infrastructure, IT, telecom sector, energy and other knowledge industries such as pharmaceuticals and biotechnology possess immense potential for progressing economic cooperation between India and the US. The US and Congressional interests in India cover a wide spectrum of issues, ranging from the militarized dispute with Pakistan and weapons proliferation to concerns about regional security, terrorism, human rights, health, energy, and trade and investment opportunities (Kronsta,2007:p.8). Throughout the 1990s, however, regional rivalries, separatist tendencies, and sectarian tensions continued to divert India's attention and resources from economic and social development.

The bilateral trade continued to grow further. India's external trade including exports and imports, grew from \$ 54.5 billion in 1990 to \$ 106.6 billion in 1998 a 95% increase Exports of goods and services more than doubled from \$ 25 billion in 1990 to \$ 47.4 billion in 1998. Imports on the other hand grew from \$ 31.5 billion to \$ 59.1 billion, an 88% rise between 1990 and 1998 (economy watch). The US President Bill Clinton visited India in March 2000. This was a visit by an American President after 22years. Last President Jimmy Carter visited India in 1978. President Clinton's visit had brought a new chapter in Indo-US relations. Prime Minister Vajpayee's 10 day's return visit (September 7, 2000) to the US took bilateral relations into a new and amicable phase with Washington unequivocally acknowledging that New Delhi was an emerging global power in terms of economy and politics. Economic achievements of this visit were more significant to India, keeping in view the following facts:

- (1) Resumption of US economic assistance to India, stalled after the May 1998 nuclear tests,
- (2) Signing of agreements for the development of two thermal and one hydro power plant between US energy companies and Indian promoters.
- (3) Resolving to double bilateral trade (to \$ 15 billion in the three years) and to triple US investment in India (to 15 billion a year)
- (4) Opening of General Electric (GE)'s largest research and development center near Bengaluru.
- (5) The US assistance of \$ 900million to the State Bank of India and Exim Bank for purchase of US goods and services by Indian businesses.

However, the Government of India is continuously reviewing its policies to create an investor friendly environment in sectors such as roads, ports and airports, private sectors participation in management, green - field airports, terminals and shipping berths and capacity augmentation has been initiated.

Among the major multinationals of USA that are doing a profitable business in India are General Electric, Whirlpool, Ford (India), 3M, Pepsi, Proctor and Gamble (India), Micro Soft, Intel, IBM, Sun Micro Systems, Oracle Corporation, Texas Instruments .US success stories in this Sector include Citicorp, GE Capital, and American Express. The insurance sector in India is opened up to 26% FDI. However, there are proposals to hike this limit to 49%. US Companies that have successfully entered this field in India include New York life, AIG and Chubb.

Indo-US economic relations is not determined by the simple trade and commercial aspects, it has also another important aspect that is arms trade. Along with increasing military to military ties, the issue of U.S. arms sales to India has taken a higher profile, with some analysts anticipating that New Delhi will spend as much as \$ 40 billion on weapons procurement over the next few years (Timmons, Sengupta, 2007). The first ever major U.S arms sale to India came in 2002, when the Pentagon negotiated delivery of 12 counter battery radar sets (or “Fire finder” radars) worth a total of \$ 190 million.

India also purchased \$ 29 million worth of counter terrorism equipment for its special forces and has received sophisticated U.S made electronic ground sensors to help stem the tide of militant infiltration in the Kashmir region (Kronsta, 2007:35). In 2004, Congress was notified of a sale to India involving up to \$ 40 million worth of aircraft self protection, systems for mounting on the Boeing 737s that carry India’s head of the government.

India is in the midst of a major rapid economic expansion, with an economy projected soon to be the world’s third largest. Although there is widespread and serious poverty in the country, US government’s believe that long-term economic potential of India is tremendous, and recent strides in the technology sector have brought international attention along with USA to such new global high-tech centers as Bangalore and Hyderabad. About one seventh of foreign direct investment in India since 1991 has come from U.S. firms, in recent years, the major U.S based companies Microsoft, Dell, Oracle, and IBM have made multibillion - dollar investments in India.

A very important aspect of US India economic relations comes with the emergence of Business process outsourcing, where in many US Companies are reaping the advantages offered by India’s IT sector. India offers a large pool of trained, English speaking personal which offers huge cost benefits the US MNC’s. Several big names like, American Express, Citicorp, Microsoft, Dell, Hewlett - Packard and converges etc. are taking advantages of the opportunities offered by India’s IT Sector. Others companies such as Morgan Stanley, AT and T, Reebok, GM, Feejitsu, Boeing, these are India’s out sourcing partner.

USA is India’s largest trading partner accounting for 19 percent of the country’s exports and over 10 percent of its imports in the year 1994-95. Thus USA has played a dominant role in India’s trade in to mid of 1990’s. On the other hand, India accounts for only 0.6 percent of USA’s total exports and

imports. Thus there is enough scope for expanding trade with USA.

Indo - US bilateral trade which had been more or less stagnant since 1987-88, increased significantly during 1992-93 and 1993-94. The exports during 1993-94 showed 13.74 growths over 1992-93 while imports rose by 27.71 percent in the same period. Thus, India was having a favourable balance of trade for the last one decade except for the year 1990-91. During 1993-94 the trade balance in favour of India was more than US \$ 1.2 billion (economic survey). This trend improved in the year 1994-95. Exports to the USA has increased by 25 percent while imports during this period. India had thus earned a significant amount of foreign exchange in its trading with USA. Trade with USA is one of the biggest positive factors for correcting India's economic crisis.

In the era of globalization India has been fairly successful in attracting a large number of countries to invest in the country. More than 50 countries from diverse geographical regions have so far made investment in India. The top five countries based on cumulative investment data in the post reforms period, in descending order are: UK, Japan, Switzerland, Germany and USA. But compared to the other four countries USA is the biggest FDI country in India.

American companies have good impact on employment sector in India. No precise statistics are available which indicate the effect of United States on India's employment scenario. In India - employment of US affiliates constitutes 0.6 percent of their total US affiliates of the entire world which is 6898.1 thousand (Banerjee, 1996:p.170). USA is one of the major questions for any country is employment. Indo - US economic relations made a creation of 0.2 labour in India which is higher than the ratios in China, Indonesia, Thailand and Philippines and even Korea.

Of the above items Gems and Jewellery and RMG cotton including accessories are the major items of export which accounted for about 45 percent of the total Indian exports to the US. The USA is the largest market for readymade garments exports from India. In 1994 US \$ 1284 million were exported to USA which was 29 percent of the total garment exports and showing a 44 percent increase in value over 1993. In terms of quantity the exports grew by 31.9 percent over 1993 and reached a figure of 200 million in 1994. It is observed that during the last 4 years since 1991, there had been a consistent increase in India's exports of garments to US at an average rate of 30 percent. The major items of exports to the USA are ladies dresses, gent's shirts and T shirts. India had signed a Textile Agreement with the US on 31st December, 1994 to facilitate the Trade in Textiles product.

It is true that there are political differences between India and the United States due mainly to the Cold War. Politics is only one of the dimensions in the totality of interactions between any two countries. It can be expected that political differences will be gradually overcome by countervailing forces in these sectors: burgeoning economic relations, growing people to people contact and exchanges and the spiritual evolution of man (Jha, 2000:p.316). American investments in the Indian economy have increased as India has liberalized its economy. The implications of this growing economic relationship are evident. Mutual economic interests can override political differences.

However, Indo-US relations were going smoothly in 1997, when India and the USA, on 12th December 1997 signed a work plan for 1998 and 1999 for co-operation and development in agriculture and allied sectors (Biju,2000:p.316). Agreement was signed at New Delhi. The agreement called for joint research and training and exchange of information in the area of technologies, genetic enhancement of crop plant, aided horticulture reproduction technology and skill development for agro business. The agreement was signed by Dr. R.S. Paroda, Secretary, Department of Agriculture Research and Education of India and Edward Hailer, Vice Chancellor of Texas University U.S.

The U.S. Commerce Secretary Mr. William Daley had stated at New Delhi on December 8, 1997 that the U.S. administration may be prepared to go slow on the dispute with India over the Intellectual Property Rights (IPR). During his visit he underlined the importance of regional economic groupings such as the North American Free Trade Association (NAFTA). He felt that India should consider such regional groupings as the NAFTA had benefited Mexico greatly. He also stressed that the scope for Indo-US. Commerce was almost limitless. Bilateral trade had risen by another 18 percent in the first eight months of the 1997 and it might cross the \$ 10 billion level for the first time.

The 12th General Election (1998) of India produced only hung parliament and unstable coalition government led by the Bhartiya Janata Party (BJP) that could work only for 13 months. This government was formed - led by Prime Minister Atal Bihari Vajpayee. Vajpayee Government took the bold step of exercising nuclear option by conducting five nuclear tests three on May 11, 1998 and two on May 13, 1998. The international reaction, as expected, was sharply critical of India's tests. In a message after the explosions the President of India Mr. K.R. Narayanan said that "Indian Science had scored, yet another achievement in the successful testing of nuclear devices at Pokhran. The event was major breakthrough in the realm of national security. I extend my felicitations

to all scientists and technologists who have made this possible and say to them India is proud of you.”

But USA was unhappy about Pokhran II. The Washington has confirmed that the direct impact of the sanctions imposed against India will affect the flow of \$ 142.3 million which this country received as bilateral assistance. The US export - import Bank said its action of ceasing all new approvals of financing US exports to India would immediately be affected by approximately \$ 500 millions of such exports in pending transactions.

The U.S Administration also outlined the potential scope of sanctions against India as mandated by the Glenn Amendments. First, will be the termination of bilateral assistance, except humanitarian items, and this includes \$ 51.3 million as Agency for International Development (AID) Developmental assistance which was come in fiscal 1998. The other component of assistance affected is PL-480 in fiscal 1998 amounting to \$91 millions, taking the total to \$ 142.3 million (Biju, 2000:p.335). The sanctions also resulted in the termination of military sales and financing which amount to \$ 775000 under the foreign Military sales and International Military Education and Training (IMET) Programme. The sanctions also prohibit U.S Banks from extending loans or credit to the Government of India except for the purchase of food or agricultural commodities.

But the Bill Clinton administration was really in a dilemma on the question of sanctions against India for the conduct of nuclear tests. After taking a secret decision U.S administration had withdrawn the economic sanctions from India thinking for Indian big market. A.B. Vajpayee wrote a letter on 11th May 1998 to Bill Clinton “I assure you that India will continue to work with your country in a multilateral or bilateral framework to promote the cause of nuclear disarmament.” The two ways process of normalization of the bilateral relations brought closer the two countries. One outcome of the Kargil conflict was that the USA moved closer to India. The frosty relations that had developed when India had exploded its nuclear bomb began to be repaired in the post-Kargil phase. The American Senate’s rejection of the CTBT in October 1999 helped ease the major hurdle in Indo - US relations. On January 21, 1999 the Maharashtra State Electricity Board signed a power purchasing authority with Dodson Linlelom Inc., USA to set up a 12 MW hydel power project in the Bhandara District in Maharashtra. In early 2000 the US President Mr. Bill Clinton allocated \$ 5 million for economic reforms and liberalization in India, besides funds for several welfare schemes in his fiscal 2001 budget. The amount for India was contingent on progress in American “economic dialogue with India (The Hindu). The US President Bill Clinton visited India

in 1978. President Clinton's visit brought home the fact that a new era of Indo - US ties was beginning. But the Left Parties of India organized demonstrations during the US President's visit. The CPI Politburo Member Mr. Sitaram Yechury said that the visit would formalize the Vajpayee Government's "sub service" to the Clinton Administration. Mr. Clinton's visit, he pointed out "....was coming at a time when the US pressures on India were at a peak. Most of the sanctions it had imposed after the Pokhran nuclear tests were still in force with nearly 150 Indian institutions continuing to be bearded from any contact with U.S agencies."

The game plan for upgrading Indo - US commercial ties had been carefully laid prior to the visit. The only inputs needed to push it forward were a green signal from the political leadership of both countries. Mr. Clinton's entire trip was especially the softening of attitudes on strategic issues and economic engagement of the two countries. The most significant arrow that cements in the ***Vision Statement*** issued after the Clinton - Vajpayee talks, was the creation of an institutional arrangement for a Government to Government dialogue on economic issues.

During Clinton's visit, the major sectors in which the two countries were tied up were energy, environment and information technology: the three areas where there seems to be the greatest complementarities between the two countries. Energy was the area where India needs perhaps the biggest door of investment from the abroad. The vision statement signed by Clinton and Vajpayee on March 21, 2000 was perhaps the substantive part of the visit. The crux of the vision statement is, in the 21st century India and the US would be partners in peace, with a common interest.

The Indian Prime Minister Vajpayee paid a visit to Washington for 10 days, on September 7, 2000. The aim of the visit was to foster the bilateral relations of the two countries. Economic achievements of this visit were more important. During this visit an agreement was signed for development of two thermal and one hydro power plant between US energy companies and Indian promoter. Secondly the US ensured to give financial assistance to India. During the visit they resolved to double their bilateral trade (to \$ 15 billion in three years) and to triple US investment in India (to \$ 15 billion a year). It was ensured during Vajpayee's visit for the opening of FE's largest research and development centre near Bangalore. The US government offered India for giving assistance of \$ 900 million to the State Bank of India and Exim Bank for purchase of US goods and services by Indian business.

The development of bilateral relations opened possibilities that were not imaginable before 1991. There was for the first time the prospect of a substantial economic relationship between the USA and India. The economic interdependence between the two countries makes for a closer relationship which has accelerated the relationship and closeness in other sectors of the relations of the two countries. The diplomatic sector is not immune from this.

These new economic links meant, first, that differences on economic issues can be managed more cordially. The balance of trade favoured India, but some Indians remained concerned that American capital and finance will come to dominate their economy (Cohen, 2005:p.289). Another important aspect of India - US economic relations was the huge number of people of Indian origin residing in the US. These people according to some surveys conducted in the US, contribute a lot to US economy and are among the most highly educated class in America.

The end of the cold war in the 1990s coinciding with the start of the liberalization of the Indian economy saw a steady improvement in India-US relations with Clinton Administration identifying India as one of the 10 major emerging markets. The volume of India - US bilateral trade also started to grow at a good pace even though it still remains a small fraction of USA's global trade.

In the year 2000, while US exports to India accounted for over 10% of India's non oil imports while US figures one fifth of India's exports. USA's trade turnover with India constituted less than 1% of its global trade. India's one percentage share in US imports remained more or less stable, it was 0.88% during 2000. In 2000, India ranked 21st among countries that export to the US (Sondhi, 2004:p.7).

Soda ash was an important matter in Indo - US economic relations. Soda gives washing powder. It is also at the centre of a looming trade conflict between India and the United States. In February 2001, New Delhi officially responded to a US threat to withdraw tariff concession on \$2.8 billion worth of Indian exports. Soda - ash has been a low - key trade dispute between the two countries for over two years then, US Trade Representative said it would withdraw tariff benefits on seven categories of Indian exports, including leather goods. On humanitarian ground also, in 2001, US

President George W. Bush (Jr.) offered to the tune of \$ 5 million aid to India for quake victims after a telephonic conversation with Indian Prime Minister A.B. Vajpayee.

There has also been a change in the composition of our imports from the USA. With India becoming self sufficient in food grains and the PL 480 funds having been used up, imports of wheat and edible oil from the USA on a regular basis had stopped. Crude oil, which was the second highest import item in 1985, had also been virtually phased out. Aeronautical equipment, medical equipment, Organic chemicals are main imported items from the US.

Since 1998, when the BJP led coalition first took office, GDP growth has slowed, dropping from the height of 7 percent in the mid - 1990s to 5.4 percent in 2001-02. Although this growth rate remains higher than that of any other Asian country exceptionally, passing the \$ 50 billion mark for the first time. The services sector, in this time produced almost half of GDP, has been the economy's strongest performer during this time. The star continues to be Information Technology (IT) (Kux, 2002:p.103).

Indian's large pool of well-educated, English - speaking computer specialists whose wages, although high by Indian standards, remain well below those in the United states, makes it an attractive source of software and computer services and location for IT development facilities. Indo - US bilateral trade has also failed to expand as rapidly hoped, and the trade has been mostly one way. In 2002 India exported IT item to USA worth \$ 3.8 billion, otherwise USA was more benefited than India. America continues to be India's largest trading partner, but India ranks only 25th for the United States.

The U.S. Under Secretary of Commerce Mr. Juster said "There is immense potential for trade in the high technology sector between the USA and India in areas ranging from telecommunications to biotechnology." "India and the USA very much understood that there was a vast scope of furthering cooperation in the realm of trade, investment and services and are taking steps to meet some of the challenges and problems", said the Union Minister for commerce and Industry", Arun Jaitly, on 12th June 2003. The U.S exports to India increased by nine percent in 2002 and crossed the \$ 4 billion for the first time.

In September 2003, the Secretary of State for Washington State (USA), Mr. Sam Reed visited

India. Addressing a seminar in Mumbai, he said India should reform its trade policies further and reduce tariffs to boost trade with the USA. He also pointed out that while India had reformed its trade policies and needed to make system transparent and reduce tariffs further for trade policies and needed to make system transparent and reduce tariffs further for trade between the two countries to grow.

The United States Under - Secretary of Commerce, Kenneth Juster, was optimistic of making progress with India in high technology co-operation, but did not set any deadline on when specific agreements could be reached. Visiting India in November 2005 Juster said he was pleased that a drop in Indian tariffs had led to an increase in U.S exports to this country. At the press conference and at a meeting organized by the Federation of Indian Chambers of Commerce and Industry (FICCI), Mr. Juster called on India to drop the trade barriers. He called for better protection by India of patent rights. At the FICCI function, Mr. Juster categorically denied that there were any U.S sanctions in force against India. However India's sizable population and growing middle and higher income class makes India a potentially large market for the U.S goods and services. According to the figure from government sources, the U.S exports and imports from India in 2003 totaled US \$ 5.0 billion respectively.

India is considered a leading software development centre. The US accounts for 61 percent or \$ 3.8 billion of India's total software exports valued at \$ 6.3 billion in 1999 - 2000. In the first half of 2000, exports increased by 63 percent or \$ 2.8 billion representing 12.5 percent of India's exports (Kapur,2001:p.339). Some leading US companies involved in the global IT market have set up their development centers in India especially at Bengaluru, Hyderabad, Gurgaon and Kolkata.

On the other hand 17 of all the 32 software companies in the world receiving the 'top quality' certifications by the Software Engineering Institute of Carnegie Mellon University are Indian (Spach,2000). Indian companies such as Tata Consultancy Services, Wipro and Infosys are listed on the New York Stock Exchange and NASDAQ. These companies employed 2, 80,000 software engineers, the second - largest group of software developers in the world.

The Indian economy has become considerably more open, with the ratio of total trade to GDP reaching 30 percent in 2004 (up from 14 percent in 1990). The idea of a Free Trade Agreement (FTA) with the US appearing to support the Government of Prime Minister Manmohan Singh, a move that was seen in many quarters as benefiting both sides (Ollapally,2005:p.300). Supporters of a

services FTA in India point out that while it would open up some sectors which are now closed to the US, it would in turn provide huge opportunities for high end Indian service providers such as doctors, accountants, architects and software engineers.

During his visit of March 2004, American Secretary of State Mr. Colin Powell, said, “Out sourcing is a global reality, the two governments would remain intensely engaged on the issue. Among a host of economic issues, Powell pitched for “easing bureaucratic obstacles to enter the Indian market, speeding up of reforms and relaxing foreign direct investment. Mr. Powell stressed on fostering bilateral economic relations. But he appeared to have a contrary view on outsourcing. He said, “The American people will find it less difficult to accept out sourcing if India helps generate more American Jobs by supporting trade liberalization in the WTO and further opening its markets to US exports (The Statesman, 2004).

A second term for George Bush had been good for India. Bush was more advantageous to India. In his second term of Presidentship Bush had not taken the old line of foreign policy and was looking at South Asia, especially India, with a fresh approach. Bush declared that he was absolutely committed to building an enhanced, comprehensive relationship with India. Bush is a big advocate of free trade. Indian Prime Minister Manmohan Singh was also a supporter of the liberal economy. So the Head of the government of the two countries were of similar economic views.

US President George W. Bush’s second term in the white House had been welcomed in the circles of Indian Industry and it was expected that it would further strengthen Indian Chamber of Commerce and Industry that there would be a continuity of US policies towards India and further improvement of Indo - US relations.

Bush’s re-victory was particularly good for the Indian IT industry. The US President said, “The United States does not have enough young people to do the jobs that are outsourced to India. The unemployment rate in the US is only 5 percent, comprising people who want to work and 2-3 percent is temporary workers. It thus needs out sourcing as well as immigration” (Sondhi, 2004:p.8).The US market is extremely competitive, requiring that Indian exporters continuously enhance their technological capabilities. High quality packaging e-commerce and globalization have quickened the pace of change. India was implementing a five year medium term export strategy 2000-2005. The second term for George Bush has marked the opening of new and more successful chapter in Indo

- US economic relations.

Prime Minister Dr. Manmohan Singh's meeting with President Bush on September 21, 2004 on the sidelines of UN General Assembly provided an opportunity for the two leaders to further strengthen these relations. Prime Minister commented that the two countries' relations have grown in diverse ways and that the two countries relations have grown in diverse ways and that "the best is yet to come was a clear reflection of the priorities and policies of the government in India (www.indianembassy.org). The Joint Statement, issued after the meeting between Prime Minister Dr. Manmohan Singh and the President Bush stated that bilateral relations had never been as close as they were that time. Both the leaders had agreed that policies encouraging greater integration of the two economies and with the global economy would offer opportunities to expand and strengthen their economic partnership.

The USA welcomed the government of India's commitment to increase investment opportunities in telecom, insurance and civil aviation, and had drawn its attention to the urgency of moving ahead with other reforms, such as tax reform, trade liberalization, and the elimination of subsidies. In 2004, U.S merchandise exports to India rose by 22.6 percent, while imports rose by 18.4 percent, over 2003 levels. U.S imports from India were clothing and apparel and jewelry.

U.S - Indian Economic Dialogue Initiative has enhanced cooperation in four areas - finance, trade commerce and the environment', U.S Ambassador David C. Mulford at an ICC/IACC Luncheon in Kolkata, on August 18, 2005, called for "ADVANCING U.S-INDIA ECONOMIC RELATIONS". This is illustrative of the importance attached to the economic aspect of the relationship. He stated further that the U.S commitment to develop deep economic and commercial ties with India has never been stronger. The open skies Agreement with USA and India was increasing air traffic and creating new jobs, and India has financed a large order of Boeing aircraft. The two relational developments were held between USA and India in 2005, viz. Open skies civil Aviation Agreement and India's-2005 enactment of a new patent protection for pharmaceuticals and biotechnology inventions are indicators for bridging the differences that obtain in the U.S perception (Vijaylakshmi, 2005: p.20).

As India's largest trade and investment partner, the United States strongly supports New Delhi's continuing economic reform policies. An U.S - India Trade Policy forum was created in

November 2005 to expand bilateral economic engagement and provide a venue for discussing multilateral trade issues. The USA accounts for about one - sixth of all Indian exports. India was the 21st largest export market for U.S goods in 2006. Annual FDI to India from all countries rose from about \$ 100 million in 1990 to nearly \$ 6 billion for 2005 and more than \$ 11 billion in 2006.

During the U.S President George W. Bush's visit India in March 2006, he and the Prime Minister Manmohan Singh had expressed satisfaction with the great progress the USA and India had made in advancing strategic partnership to meet the global challenges of 21st Century. Reviewing the progress made in the global partnership between the USA and India since their Joint Statement of July 18, 2005, the President and Prime Minister reaffirmed their commitment to expand even further the growing ties between the two countries (The Hindu, 2006). Consistent with this objective the two leaders wished to highlight the efforts the USA and India were making together in the economic areas, as - (1) welcoming the report of the U.S - India CEO forum, agreeing to consider its recommendations aimed at substantially broadening bilateral relations. (2) Endorsing the efforts of the U.S-India Trade Policy Forum to reduce barriers to trade and investment with the goal of doubling bilateral trade. (3) Agreeing to advance mutually beneficial bilateral trade and investment flows by a high level public Private Investment Summit in 2006 (South Asia Politics, 2006; pp.50-51).

India and U.S have made a good understanding in bilateral economic relations. Previous hostility and mistrust evaporated due to changing scenario. India's emerging market and potentiality and US' changing attitude helped for making this situation. This growing closeness can be seen in what are generically known as reforms. While these have been slow, they have been more or less tended to be such that the US has gained. India has changed its laws more often than the US has and has done so more extensively. The US also has cooperated with India, because Indian skilled workers are getting a huge number of jobs in the USA. India's growing and potential market has been attractive destination to USA. In reply, India has also been interested to make a close relation with the USA for its national interest. India's economic rapprochement with the USA transformed into diplomatic closeness.

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1. The Indian economy is alleged to have been largely de-linked from the rest of the world economy during the initial stage of development. The Indian economy came to be linked, since the 1990's more strongly with the global capitalist order framed by the Development Market Economics (DME). The declaration of New Economic policy (NEP) in June 1991 by the Government of India is testimony to the fact that it had started relying increasingly on the strategy of out ward-oriented industrialization. (For details, see Bhaskar Majumder, *Globalized Indian Economy*, Laburnum Press, Allahabad, 2007.