

Indo-US trade leaping towards \$ 40 bn-mark

US firms well poised for tie-ups in the Land of Great Promise

Economic relations between India and the United States have reached a grand take-off stage, thanks to gigantic efforts at both government and corporate levels. Economic agendas have been drawn up at the highest levels of both governments for implementation with the active participation of the corporate sector in both countries. Against this backdrop, **Jim Cunningham**, US Commercial Consul, Mumbai, talks about the potential that India holds for US firms for collaboration and lists 15 key sectors best suited for their exports and investment.



Jim Cunningham

The history of the trade relations between India and US.

The Indo-U.S. relationship is in the midst of a remarkable transformation. The two countries, politically and economically estranged for much of the late twentieth century, now find their national interests converging at many points. India and the U.S. collaborate on an array of issues where cooperation was insignificant to non-existent as recently as three years ago, including the global war on terrorism, the reconstruction of Afghanistan, disaster relief, and non-proliferation and disarmament. Aside from the recent vast increase in economic interaction in IT, the U.S. and India have also made progress in high tech cooperation under the Next Steps in Strategic Partnership (NSSP) rubric, including in the civil and space, high technology trade, and civil nuclear energy fields.

The rapidly growing community of Americans of Indian origin, locally referred to as Non-Resident Indians (NRIs), the 80,000 Indian students in the U.S., and India's growing middle class have shaped Indian public opinion, producing a more sympathetic view of the U.S. than during the Cold War. Considering the vast numbers of students and IT professionals India sends to the U.S. every year, as

well as the enormous and growing links between the two countries on all levels, favorable perceptions of the U.S. in India will likely continue for the foreseeable future. On both the official and the people-to-people level, cooperative interaction between India and the U.S. is resulting in an increasingly collegial political relationship.

In recent times, the declining value of the dollar, vis-à-vis competitors' currencies, is expanding and accelerating these opportunities. India's infrastructure, transportation, energy, environmental, health care, high-tech, and defense sector requirements for equipment and services will exceed tens of billions of dollars in the midterm as the Indian economy globalizes and expands.

Bilateral trade:

Total bilateral trade in 2004 was \$21.66 billion. U.S. exports to India in 2004 increased to \$6.1 billion, a 22.4 percent increase from the previous year, and imports from India in 2004 totaled \$15.56 billion, a 19.2 percent increase from the previous year.

Construction of nearly everything from airports to container ports to teleports is setting the stage to remake India. However, much bureaucratic reform is needed, and



extensive barriers to trade remain in place. Indian tariffs have been reduced progressively since the early 1990's, though India's economy remains one of the world's most protected. Tariffs and poor infrastructure present the biggest obstacles to foreign investment and growth, but India's infrastructure requirements also present trade and investment opportunities for American companies.

As India gradually opens up its markets, many tariff and non-tariff barriers remain. India's customs tariff and excise tax system is confusing and laden with exemptions. Problems with the country's roads, railroads, ports, airports, power grid, and telecommunications may be the biggest obstacle for India's economy to grow to its full potential. Nonetheless, a slow process of liberalization in these areas has been underway, led by a more liberal environment in the information technology and telecom sectors, with increasing roles for the private sector in ports, roads and other key sectors.

However, the absence of a clear policy framework has hindered critical private investment in infrastructure overall.

What are the potential emerging areas of trade between these two countries?

As mentioned our agency's annually updated Country Commercial Guide (CCG) for India, following are the top 15 leading sectors for U.S. exports and investment:

- Airport and Ground Handling
- Computers and Peripherals
- Education Services
- Electric Power Generation, Distribution and Transmission Equipment
- Food Processing Equipment
- Machine Tools
- Medical Equipment
- Mining and Mineral Processing Equipment
- Oil and Gas Field Machinery
- Pollution Control Equipment
- Process Control
- Renewable Energy

- Equipment
- Safety and Security Equipment
- Telecommunications Equipment
- Water

Most of the above sectors are self-explanatory, however, I would like to expand on some of the area of growth in the Indian economy:

Oil and natural gas:

India is the world's 8th largest consumer of oil. This consumption is expected to increase, as the economy becomes more fuel hungry to keep pace with the economic growth. Energy dialogue that seeks to expand cooperation in areas such as clean energy and civil nuclear energy is also gaining importance. This bilateral dialogue looks at the critical area of energy cooperation as the Indian economy slowly emerges as a major energy consumer. This dialogue looks at India's energy security and several American companies can provide critical inputs in this area.

Services:

Apart from tourism, insurance, banking, transport and communications, retail is an emerging sector that will drive the economy of future India. Today, service sector comprise slightly more than 56.1 percent of GDP and this is one sector that has greatly benefited from the decade-old process of economic liberalization.

Healthcare:

India's healthcare industry, about 6 percent of GDP, is a \$15 billion business. Its strengths include low costs and a large, trained labor pool of healthcare professionals. Although health insurance coverage is low, per capita spending on healthcare has been rising. This increased demand has created a national



shortage of hospital beds. A World Health Organization report states that India needs to add 80,000 hospital beds each year to meet the demand of its population. Medical equipment and managing health care in India is another area where American companies can assist.

High technology:

U.S. still continues to be a prime source for high technology for development of competitive India. Realizing this The US-India High Technology Cooperation Group (HTCG) was formed in November 2002 to provide a standing framework for discussing high-technology issues of mutual concern.

Civil Aviation:

Civil aviation and aviation maintenance is another major area that India can benefit from close cooperation with the U.S. Two weeks back American aircraft manufacturer Boeing announced that it is likely to set up its maintenance, repair and overhaul (MRO) base in India worth US\$100 million.

Biotechnology and clinical research:

These are two areas where Indian expertise will be key for American companies to succeed in the global market. India is slowly attracting global pharmaceutical companies to set up their clinical testing facility in India.

Real Estate:

This year started on a promising note when the government of India allowed 100 percent FDI under the 'automatic route' in the construction and development sector, in order to spur investment in the vital infrastructure sector. I am sure this will interest several major American companies in the real estate sector in India.

Could you name few successful US ventures in India?

According to the American Chamber of Commerce in India - which has seen its membership base grow from zero in 1992 to more than 300 today - a majority of US firms with a presence in India have been reporting double digit year-on-year growth. Nearly 100 of the U.S. Fortune 500 companies have invested in India.

India has been identified as one of Coke's most profitable global markets. According to a study conducted by BCG, the Indian arms of two American banks, Citibank and Bank of America are more profitable in India than their global average. General Electric has recouped more than three times its investments. India is already Reebok's fastest



growing market in the Asia Pacific and the country is Motorola's third largest market. Ford arrived in India at the turn of the millennium with 12 dealerships in 8 cities; today it has 90 dealers in 70 cities. The US auto major has just completed what it calls 'its best ever year' in terms of sales.

Nine out of the 20 highest revenue generating Indian IT firms are from United States. These firms make up over 37% of the turnover of the top 20 firms operating in India. Oracle recorded operating margins of over 40 per cent between September and November last year. At another level, IBM led India's server market in 2004 with a 30 per cent market share.

How many US companies have invested in India and which are the sectors?

United States is India's second largest source of FDI, accounting for or 16% of total FDI flows to India from 1991 through November 2005.

On the investment front, the US covers almost every sector in India, which is open for private participants. These sectors range from technology outfits to cola makers; from carmakers to seed makers; from construction equipment companies to banks.

Top sectors attracting FDI from USA are: fuels (power & oil refineries), telecommunications (radio paging, cellular mobile & basic telephone services), electrical equipment (including computer software & electronics), food processing industries (food products & marine products),