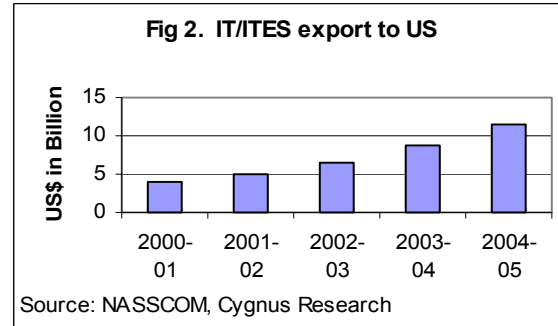
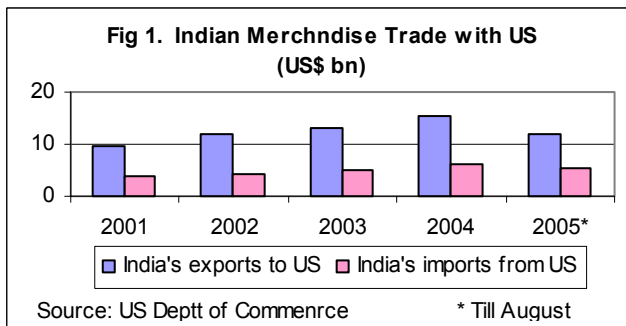


Indo-US trade: Bilateral trade target needs to be raised by 50%

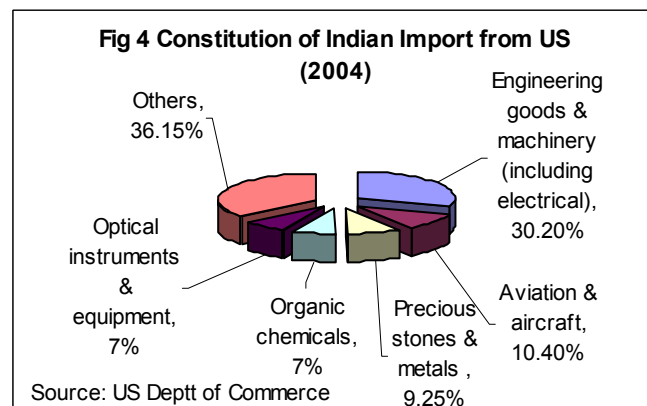
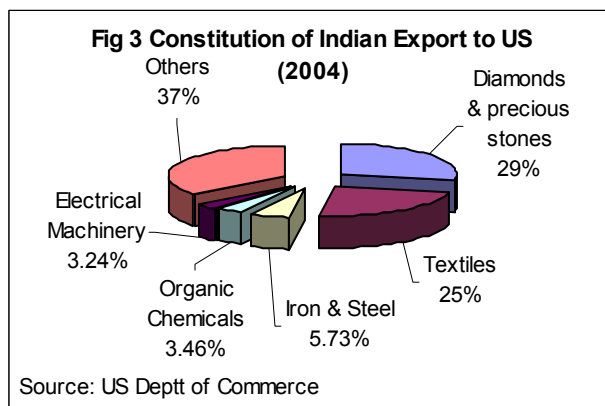
Indo-US trade is crossing new milestones. The mood is bullish and the political developments favorable. Time has come to raise the bar. The present target of US\$40 billion by 2008 is not challenging enough says Pranay Kumar. He exhorts policy makers to think bold and raise the target to a more ambitious US\$60 billion.

The relations between India and the USA have improved in the recent past. Consequently, the bilateral trade between the two countries has expanded furiously in the past few years. The compounded annual growth rate of the Indo-US trade has exceeded 17% in the last three years (2001-04), reaching US\$21.7 billion in 2004. The bilateral trade between the two countries totaled US\$17.2 billion in the first 8 months of 2005 and could cross US\$26 billion by the end of this year. This translates into a year-on-year growth of 20% (see fig. 1 & 2).



Bi-lateral trade is dominated by Gems & Jewellery, Textiles, engg goods and aircrafts

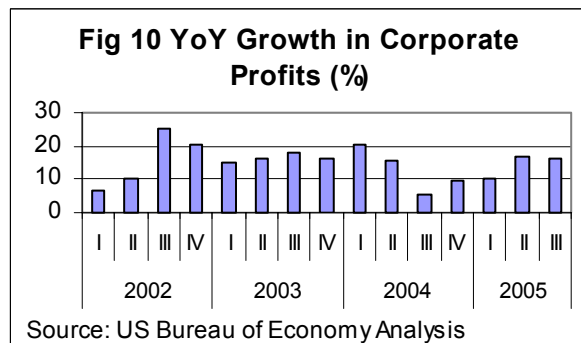
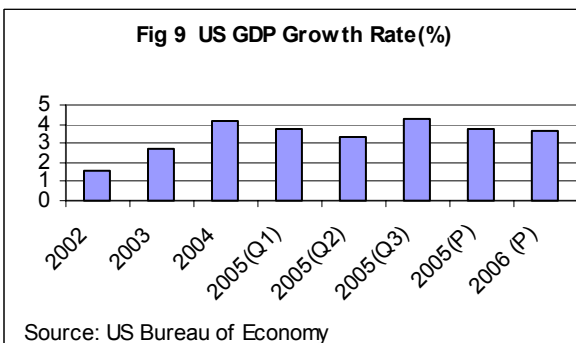
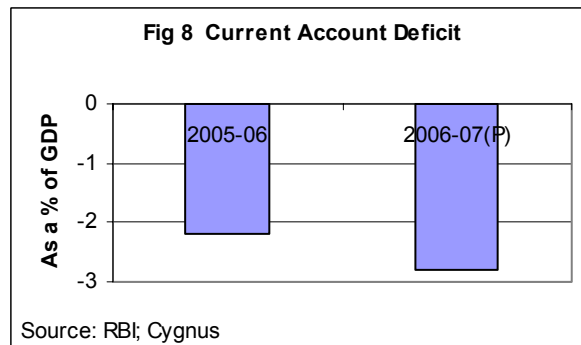
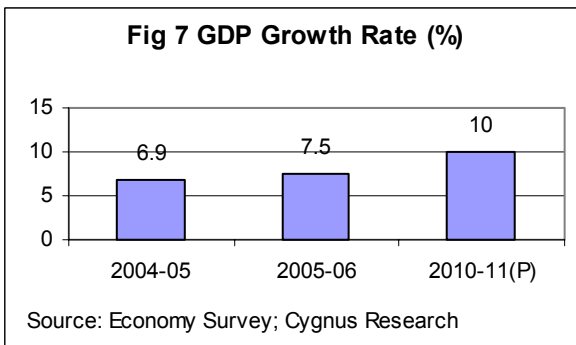
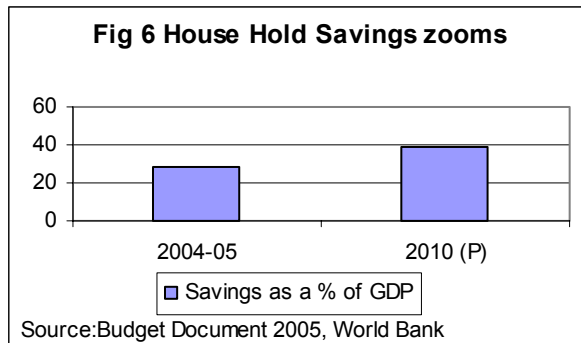
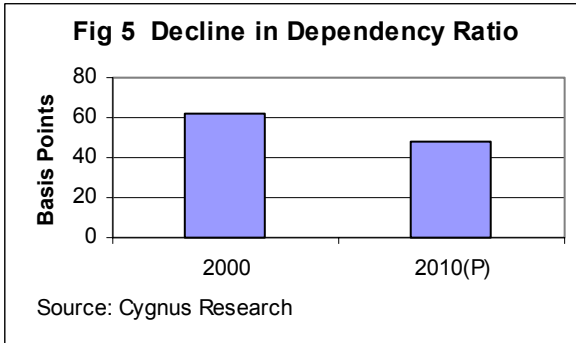
The merchandise exports to the USA are dominated by gems and jewellery, and textiles while imports from the USA are dominated by engineering goods, and aviation and aircrafts (see fig. 3 & 4). Clearly, textile exports have benefited from the phase out of Multi-fibre Arrangement (MFA). Similarly, gems and Jewellery exports have continued to expand at a fast pace. More importantly, India is climbing the value chain in gems and Jewellery business, graduating from cut and polished stones to diamond and gold Jewellery. Rising exports of Information Technology\Information Technology-enabled Services (IT\ITES) to the USA highlight India's rise as a knowledge power.



Trade prospects improving

Both Indian and US economic growth is commendable

India's economic progress, though not as dramatic as China's, is still breath-taking. The country's gross domestic product growth, already high, is expected to reach an astonishing 10% soon. House hold savings have already surged from an 18-19% level five years ago to 28% currently. The demographic profile of India, comprising an expanding middle-class, continues to entice foreign direct investment. The decline in dependency ratio is striking. Furthermore, rising current account deficit is expected to make Indian currency more competitive. What is more, continued consumption-led growth of the US economy and rising corporate profitability are expected to boost bilateral trade from the current levels (see fig. 5 to 10).



Political relations on the mend

The political relations between India and the USA have improved following a series of meetings between their leaders during 2004 and 2005. The two countries moved closer after the meeting between US President George Bush and the then Prime Minister of India, Atal Bihari Bajpeyi, on January 13th 2004. Subsequent meetings between President Bush and the current Indian Prime Minister, Manmohan Singh, on September 21st 2004 and July 18th 2005 have brought the two countries even closer. The developments, which brought the two nations together, and the outcomes are as under:

Developments

- Terrorism
- WTO Issues under DOHA Framework
 - Endorsement of IPR
- Review of Press Note 18
 - Relaxed registration of foreign investment/technical collaboration under automatic route for investors having existing JV/Technology Transfer / Trade Mark Agreement
- Revival of Dhabol Power Project
- Opening up India's aviation sector

Outcomes

- FDI inflows into Indian infrastructure
- Initiative on agricultural research, service
- Development of energy market
- Launch of US-India disaster relief initiatives
- Closer ties in space exploration, satellite navigation & launch
- Cooperation on use of civil nuclear energy
- Lifting trade barriers

Emerging Opportunities

The tone for future Indo-US trade was set by Kamal Nath, India's Union Minister of Commerce and Industry, on June 2nd 2005. While delivering the keynote address at the 30th Anniversary Celebrations of the US-India Business Council (US-IBC) in Washington—the theme of which was **2035 WHERE WE WANT TO BE?**— the minister listed guiding principles for future Indo-US trade (see table 1).

SI No.	Guiding Principles	Details
1.	Nature of Engagement	Strategic Partnership
2.	Enabling Environment	Served from India to coexist with Made in India
3.	Build Stronger Physical & Virtual Network	FDI shall be bidirectional and emphasis on technology transfer and exchange
4.	Integrating our Markets	As world shrinks, alignment around fundamentals and convergence of consumer interest
5.	Nurturing Shared Values	Respect for individual, free speech and liberty

Size and direction of bilateral trade

In view of the recent economic and political developments, a distinct acceleration in bilateral trade is expected in the coming years. The average growth rate has already reached 20% in the first 8 months of 2005. While exports of precious stones and textiles will continue to improve, auto component and pharmaceutical exports are expected to witness explosive growth. The exports of auto components to the USA are expected to

rise due to adoption of cost cutting measures by the ailing US vehicle manufacturers. Pharmaceutical exports, meanwhile, are forecast to rise owing to a large number of blockbuster drugs going off patent up to 2010. The outsourcing of clinical research to India is also forecast to increase in the coming years. The USA, meanwhile, will continue to remain a source of engineering and aircraft goods for India. Other growth drivers of the Indo-US trade are medical equipment, chemicals & fertilizers, infrastructure, and agricultural research & training (see table 2).

Advantage India				
SI No	Sectors	Exports to USA		Remarks
		2004	2010	
1.	IT/ITES	11.48	35.0	Present focus on customer application development and application outsourcing will expand to include packaged software implementation and support. ITES exports will grow at a CAGR of 40%
2.	Gems & Jewellery	6.28	18.8	Present focus on cut and polished diamonds to shift to Jewellery including that of gold.
3.	Textiles	5.40	16.1	Cotton textiles and garment exports to flourish
4.	Auto- Components	0.42	1.3	Indian exporters to graduate from body chassis and drive transmission parts to engine and electrical parts
5.	Pharmaceuticals	0.57	1.7	Generics to drive growth
6.	Agri-products	0.12	0.3	Baby potato, floriculture and cashew nut will drive growth
Advantage US				
1	Electrical Eng. goods including machinery	1.84	5.5	Imports to surge
2.	Aviation & Aircraft	0.63	4.0	Order placed with Boeing this year
3.	Precious Stones & Metals	0.56	1.7	In order to keep pace export growth
4.	Organic Chemicals	0.43	1.3	Imports have surged this year
5.	Optical Instruments	0.43	1.6	Health care to drive growth

Source: Cygnus Research

India's attractiveness increasing

Other countries are equally keen to improve relations with India. Recent examples include the meteoric rise of the Indo-China trade, Japan stepping up investments in India and developments on SAARC preferential Trading Arrangement (SAPTA). Iran's nuclear ambitions could also impact Indo-US relations (see box).

Factors impacting Indo-US relations

- Indo-China Trade is growing faster
1999-2000: US\$1.8bn
2004-05: US\$11.35bn
- Japan aggressively focusing on India
 - ✓ Soaring Sensex
 - ✓ Japanese City planned near Chennai
 - ✓ Rising trade enquiries
- SAPTA has been given new thrust
- Iran's nuclear ambitions may prove to be a stumbling block

The Road Ahead

Despite other contenders on the horizon, India would like to expand trade with the USA. While the USA continues to be the largest economy in the world, India represents a growing knowledge power. The trade figure of US-Japan and US-China indicate the future potential for Indo-US

trade. There is no reason why India cannot become as big a trade partner of the USA as Japan and China currently are. Clearly, the target of US\$40 billion by 2008 for the Indo-US trade needs to be raised to US\$60 billion, if not more.

TIME TO THINK BIG BOLD

CONSIDER

US-Japan Trade : US\$160bn (in 2005)

US-China Trade : US\$245bn (2004)

Indo-China Trade : US\$11.35bn (2004-05)

- Present Target of Indo-US trade of US\$40bn by 2008 needs to be raised to US\$60bn

This article is written by Pranay Kumar. He is a Senior Analyst and Consultant with Hyderabad-based Cygnus Business Consulting and Research. Views put forth in this article are his own and not necessarily of the organization's. He can be accessed at pranay@cygnusindia.com.