Indo-US Trade

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Abstract - In the present review essay Indo-US trade relations between 1971-85 have been studied. Foreign trade plays an important role in the economic development of a country. The volume of the trade and composition of goods influence the size and character (Modern or traditional) of the development[1]. Trade and aid are known as the two vehicles which help in transforming the economies which effectively uses them. Through trade countries get an access to the goods which are otherwise not available. The outflow of capital from developed countries to the developing countries helps the latter to increase their investment capacities. Trade helps the developing nations to import machines, equipment and also technical known-how to change their traditional economies into modern ones, so as to reap the benefits of the science and technology. The development strategy adopted by India requires maximum use of the available resources of foreign exchange including trade and aid[2].

Trade between USA and India started as early as in nineteenth century. At the end of 1946-47, the USA shared 25 per cent in India's export and 25 percent in India's imports[3]. However, the volume of trade was insignificant as India's total international trade's contribution to the economy was meager. After Independence from a moderate beginning in the 50s' Indo-US trade has grown rapidly in volume and composition (of goods). By the end of sixties USA has become India's major trading partner. From 1965 onwards the promotion of exports and regulation of imports became a cardinal part of India's foreign trade policy[4]. In 1966, the World Bank and IMF recommended, the devaluation of rupee by 36.5 per cent to increase exports and thereby to overcome the balance of payments problem[5]. However, devaluation proved to be insignificant in increasing foreign exchange earnings. Indian exports no doubt increased as they have become cheaper in the international market but the competitive edge provided to them through devaluation proved to be quite insignificant in decreasing the foreign exchange crisis[6]. But imports mainly capital equipment, intermediate goods which were essential for the economic development have become costlier. As a result there was he trade deficit.

Keywords – Indo-US, Economy, Trade Relation.

I. INTRODUCTION

As this juncture USA and World Bank failed to provide India with increased assistance[7]. So India had to increasingly depend on the export promotion. Consequently in 1970 an export policy has been adopted, which accorded exports highest priority next only to food and defence[8]. To promote exports India, apart from searching for the new markets, had to strengthen its position in the old markets. In this context USA being India's largest trade partner, improving trade relations with it was in the interest of India.

Unlike aid relation, political strains between India and USA have little impact on Indo-US trade relations. However, India stopped issuing of letters of credit for imports from the US following the suspension of non-project aid to India by USA IN 1971[9]. But the suspension of letters of credit affected only those imports which were imported under US aid. However, undeterred by these two events, Indo-US trade continued to flourish. In a statement in Lok Sabha, former foreign minister Swaran Singh said, "We may have differences in the political field… but we have always endeavored to held… our economic relationship somewhat on a different level compared to our political relationship[10]. Accordingly the value of Indian exports to USA has increased from Rs. 207.34 crores in 1970-71 to Rs. 520 crores by 1973-74. But imports decreased from Rs. 452.95 crores in 1970-71 to Rs. 234.87 crores by 1972-73. However, due to increase in import of wheat in 1973-74 the value of imports has doubled. With the setting up of the Indo-US Joint Commission in 1974 a further boost was given to the trade links between the two countries. At a meeting of the Joint Commission in 1975, India and USA signed an agreement to establish a Joint business council to foster trade between the two countries[11]. These measures taken by the two governments helped in increasing the quantum of trade. Thus the two way trade with was only Rs. 660.29 crores in 1970-71 has increased to Rs. 1805.00 crores by 1975-76.

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The oil crisis of 1973 caused recession in the economic growth of the industrialized economies including USA. In an attempt to tide over the problems like Balance of payments, unemployment, USA resorted to restrictive measures through numerous tariff and non-tariff barriers to check imports from third world countries and India was no exception. However, inspite of the trade restrictive measures taken by USA Indian exports to US continued to rise. Thus, we find from the Table-3.6 that exports increased from 145.67 crores in 1976-77 to Rs. 8074 crores by 1979-80. At measure time imports decreased from Rs. 1285 crores in 1975-76 to Rs. 762 crores by the end fiscal years 1978-79. However, it is to be noted here that the extension of GSP by USA in January, 1976 to India was more of a goodwill gesture than a genuine attempt of liberalizing import structure to increase Indian exports. During the trade talks with USA, held in January, 1978, the Indian side expressed its concern at the imposition of non-trade barriers like countervailing duties on textiles, anti-dumping duties and trigger price mechanism for steel imports by USA[12]. Indian requested favorable action to remedy this. Though Indian continued to pursue an outward looking import policy i.e. importing more to export more[13]. USA insisted on further liberalization of the import policy of the India[14]. India and USA reached an agreement on concessions including duty reduction on exports to each other in July, 1978. Under the agreement USA agreed to provide duty reduction on mica, jute and several other agricultural products. Similarly, India agreed to eliminate common wealth trade preferences and to liberalise import licensing procedures, regarding products like, machine tools, chemicals, medicines[15]. Though the contribution of these agreements, by themselves to Indo-US trade was small, it was an welcoming measure to the increased Indo-US Cooperation in the economic fields as noted by the Joint Communiqué issued during the visit of President Carter to India[16].

The rise in the oil prices in 1979, created severe balance of payments problem for India. India's policy towards exports further strengthened in the wake of the second oil price rise in 1979.

Exporters were given special favourable access to import raw materials, capital goods and also technology[17], which only meant to purpose of liberalization of import policy, was to increase productivity. However, it is noted in the Joint Communiqué issued after the meeting of the Indo-US sub-commission on economy and commerce held in March, 1980, that India's liberalized import policy would depend on international support for tiding over the crisis[18]. The World Bank had also periodically pressurized the Indian Government to decontrol and open up the economy to foreign investments[19]. Similarly, under the loan agreement with IMF in 1981 India liberalized the imports of manufactured goods. All these factors help in increasing the trade between India and USA. The value of exports increased from Rs. 772 crores in 1978-79 to Rs. 1752 crores by 1984-85. The value of imports also increased from Rs. 762 crores in 1978-79 to Rs. 1552 crores by the end of financial year 1984-85.

Thus in the whole period under review, increase Indian exports to USA was eightfold and that of imports was more than threefold. The average annual growth rate of exports as evident from the table is 15.53 per cent during the period 1971-1985. Imports from USA experienced and average growth rate of 15.19 per cent. It is evident from these statistics that political differences apart trade between India and USA has increased impressively.

II. BALANCE OF TRADE

India experienced negative trade balance in its trade with USA with exceptions in the years 1972-73, 1978-79 and 1984-85, indicating that imports were higher than exports. But the extent of favourable balance of trade was very meager as the excess of India's exports over imports in the above said fiscal years was only to the tune of Rs. 41 crores, Rs. 100 crores and Rs. 200 crores respectively. In the remaining years the balance of trade was negative.

However, the adverse balance of trade faced by India in its trade with USA was not a special case. It is a common problem faced by developing countries in their trade with the developed countries. To modernize their economies, developing countries require large amounts of capital goods which increases the value and size of their imports. On the other hand their exports do not rise enough to equalize their import needs, since the exporting commodities are traditional; they fetch less income and are inelastic, due to the trade barriers imposed by developed countries. The commodity pattern of the Indo-US trade not different from that of a developed and developing economy.

III. COMMODITY PATTERN

Important items of India's exports to USA were tea, cashew kernel, marine products, cotton piece goods, jute products, etc. However, some changes in the composition were noted during the period under study. Table 3.6 gives an account of top ten commodities and their respective share in the total value of the exports in various fiscal years. As is evident from the table, these items accounted for more than 65 per cent of the total exports to USA except in the year 1974-75. In this year the share of these items was only 49.8 per cent of the total. In this particular year sugar, which was not included in the items given in the table, accounted for 6.86 per cent. Thus if we add this to the items in the table, their share rises to 56.66 percent of the total. However, we find some changes in the respective shares of these items during 1971-85.

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Table-3.6: Share of Major Indian Exports to USA

Sl.No.	Commodity	1970 -71	1974 -75	1979 -80	1984 -85
1.	Tea (Black)	2.6	1.64	0.89	-
2.	Cashew Kernel	11.85	5.06	4.58	5.05
3.	Cotton piece goods and Articles of Apparel etc.	3.89	5.30	15.38	21.79
4.	Jute Manufactures	37.57	21.73	10.27	1.41
5.	Leather and Leather Manufactures	1.28	2.86	5.43	4.35
6.	Marine Products	7.04	4.68	4.09	3.46
7.	Iron & Steel	2.90	2.34	1.48	0.79
8.	Precious and Semiprecious stone including Pearls	2.25	6.19	18.86	30.79
9.	Chemicals	Neg	Neg	1.76	2.20
10.	Mental Manufactures	Neg	Neg	3.65	4.25
Total		**69.38**	**49.8**	**66.49**	**74.09**

Source: DGCI & S, Monthly Statistics of the Foreign Trade of India, Calcutta, Various Issues.

Two items cotton piece goods including clothing accessories and articles of apparel, and precious and semi-precious stones including pearls showed a phenomenal growth during the period 1971-85. Together these two items accounted for more than 50 per cent of the total value of exports to USA in 1984-85. Cotton piece goods constituted just 3.89 per cent of the value of the exports in 1970-71. Its share increased to 5.3 per cent by 1974-75. By 1979-80 its share in the total exports increased about three-fold. Since then its growth rate slowed down and its share in 1984-85 was 21.79 per cent. Similarly the share of the precious and semi-precious stones increased at a rapid pace. Starting from 2.25 per cent share in 1970-71, its share increased to 18.96 per cent in 1979-80 and then to 30-79 per cent in 1984-85. Between 1970-71 and 84-85 its share registered about fifteen-fold growth.

Other commodities that showed an increasing share in the total exports are leather manufactures, chemicals and metal manufactures. Chemical and metal manufactures, whose share was negligible in 1970-71 and 1974-75 improved their respective shares by 1979-80. In this year their shares are 1.76 per cent and 3.65 per cent respectively. In 1984-85 metal manufactures increased to 4.25 per cent and chemicals to 2.2 per cent in the total value of the exports. Similarly leather manufactures improved gradually its position in the total exports. From 1.28 per cent in 1970-71 it increased to 2.6 per cent in 1974-75 and then to 5.43 per cent in 1979-80. However, its share declined slightly by 1984-85, it recorded a share of 4.35 per cent in the year, though in absolute value its performance was better than in 1979-80.

The proportion of all the remaining commodities declined from 1970-71 to 1984-85. Deterioration was highest in the case of jute manufactures. From a very high of 37.57 per cent in 1970-71, its share in the total value of the exports gradually decreased. Thus in 1974-75 its share was 21.73 per cent, which came down to 10.27 per cent in 1979-80 and further slumped to a very low of just 1.41 per cent in 1984-85. Similarly cashew kernel which was another major item in 1970-71 with a percentage share of 11.85 dwindled gradually upto 1979-80. But since then it bettered its position in the overall exports. Thus from 4.58 percent in 1979-80 its share increased to 5.05 in 1984-85.

Marine products was another commodity whose share in the value of the total exports to USA came down gradually. From 7.04 per cent in 1970-71 its share decreased to 4.68 percent in 1974-75. Between 1974-75 and 1979-80 its share hovered around this figure. But again slumped to 3.46 percent in 1984-85. However, it is to be noted here that the decrease in the value of the marine exports to USA was not due to lack of demand in US market but because of the health and sanitary regulations in USA.

Tea and iron and steel were the other two products whose share in India's exports declined since 1970-71. From a respectable share of 2.6 and 2.9 per cent respectively in 1970-71, the value of these two commodities had become negligible by 1984-85. Iron and steel recorded only 0.79 percentage share in the value of the India's exports to USA in 1984-85.

The changing behavior of these exports indicates that in Indo-US trade, Non-traditional items gradually took the place of traditional items. It is heartening to note the progress of engineering goods despite non-tariff barriers like trigger price mechanism. It was symbolic in the sense that the growth of exports was towards equal exchange which is a feature of developed countries from unequal exchange of benefits from trade.

Imports:

The importance of trade also depends on the composition of imports from a country. Imports influence the economic growth and also the future trade prospects. The strategy of export led growth based on agriculture and light industries influenced the commodity pattern of India's imports from USA. Table 3.7 shows the major items of import from the

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USA during the years 1969-70, 1974-75, 1980-81 and 1984-85. It is clear from the table that wheat was the predominant item of import. Upto 1981 it topped the list of major items. However, by 1984-85 it almost disappeared from the list and it's place was occupied by fertilizers. The share of machinery including specialized had increased impressively. In 1984-85 the share of industrial machinery was above 14 per cent. Most of the items which were virtually non-existent in 1974-75 were in the list of major imports by 1980-81. Thus we see space-craft and associated equipment, professional scientific and control, data processing and office equipment, electrical equipment and parts etc., figures in the list of major imports.

IV. US RESPONSE TO INDIA'S EXPORTS (US TRADE POLICIES)

The absence of required response through tariff reductions, presence of non-tariff provisions etc., from developed countries to the exports of the developing countries restricts the growth of the latter's exports. It adversely affects the gains from trade and leads to transfer of resources from the 'have-nots' to the 'haves' as the import bill of the developing countries would be higher than the export bill. In the following paragraphs an attempt is made to study the US Trade responsiveness towards Indian exports. In the absence of bilateral treaty on trade or taxation India and the US relied on multilateral treaties such as GATT, which govern the trade between them.

The US trade policy essentially aims at disciplining and restricting foreign competition in the US market to protect its industries and seeks greater access for its services and high technology products in other countries[20]. However, United States provided some tariff liberalization under the provisions of the General Agreements on Trade and Tariffs (GATT). US made tariff concession on 93 per cent of imports from the negotiating participants and tariff reductions on 74 per cent of imports from the participants of the Geneva round of GATT negotiations held in 1947[21]. India being an active participant of this meet gained substantially from the reductions of tariffs. The tariff concessions under the Kennedy Round (1964-67) were larger than witnessed in earlier rounds of the GATT. Though the average tariff rates on the manufactures were reduced in the Kennedy Round, a wide difference between nominal and effective tariff in the case of developing countries remained[22]. In the case of India \$233.1 million worth of India's exports to the USA involved tariff reduction. In return India gave concessions to the tune of \$18 million worth of it's imports from the USA[23]. However, these tariff reductions have been substituted by the quantitative restrictions and other non-tariff barriers to the exports.

Table 3.7: Major Imports from USA

Sl.No.	1969-70		1975-76		1980-81		1984-85	
	Commodity	***% to the Total***	***Commodity***	***% to the Total***	***Commodity***	***%to the Total***	***Commodity***	***% to the Total***
1.	Wheat	44.84	Wheat	64.66	Wheat	13.82	Fertilizers	24.14
2.	Fertilizers	16.35	Fertilizers	6.07	Fertilizers	12.25	Specialised industrial machinery	9.17
3.	Cotton (Raw)	5.96	Iron & Steel	0.36	Industrial Machinery including specialized	9.3	Chemicals	5.87
4.	Sulphur	2.80	Aluminum	0.11	Food Items including vegetable oil	7.77	Equipment including professional scientific and control	9.21
5.	Copper	2.58			Aircraft, space craft associated equipment	6.46	Misc. Industrial machinery	4.58
6.					Other equipment including professional	6.27	Electrical equipment	4.07
7.					Chemicals	5.3	Aircraft, spacecraft equipment	4.61
8.					Ores and Metal scrap	3.44	Ores and metal scrap	4.88
9.					Electrical equipment and spare parts	2.7		
Total		**72.53**		**71.2**		**67.31**		**66.53**

Source: DGCI & S.Monthly Statistics of the Foreign Trade of India, Calcutta, Various issues.

The multilateral trade negotiations under the Tokyo Round (1973-79) stated that that objectives of the round as non-tariff barriers and problems of developing countries24. But the progress from developing countries view point, was very slow, and the results were limited. Tariff concessions were given to the exports of the developing countries. The value of such exports was estimated at US \$40 billion (to all developed countries). Agricultural products accounted

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for $12 billion (weighted average tariff decline from 8.1 per cent to 7.1 per cent) and industrial products accounts for $28 billion (weighted average tariff reduced by 27 per cent)25. In the field of non-tariff barriers nine agreements like agreement on government procurement, agreement on anti-dumping code, were arrived at26. However, failure to reach an agreement on safeguards system as provided in Article XIX of GATT, was regarded as a serious setback by developing countries including India.

Thus, we find that the underdeveloped countries including India gained from the tariff concessions under the various rounds of GATT. However, these gains were offset by the non-tariff barriers and reciprocity as demanded by developed countries. As developed countries and developing countries represent two different levels of development reciprocity under the GATT negotiations means equal exchange between unequal partners. Gains from this type of exchange will be confined to the developed countries.

V. GSP

In the second round of the UNCTAD held in New Delhi the principle of Generalised System of Preferences (GSP) was accepted. The scheme was intended to help developing countries through trade by giving duty free entry to the exports of the developing countries. The importance of the GSP was in its non-discriminatory, non-reciprocal and unilateral character[27]. This scheme was implemented by CEC, Japan and Norway in 1971, by Denmark, Finland, Ireland, New Zealand, Sweden and the UK, Switzerland and Australia in 1972. Whereas USA introduced it only in 1976 for a period of 10 years[28]. The scheme covered as many as 2,700 items which could enter the US market without any duty barriers[29]. It was subject to certain conditions: GSP will not be available if the total supply exceeds 50 per cent of the total value (Competitive need criterion); secondly, under the rules of origin clause which prevents re-exporting of goods produced in another country without substantial processing, United States has limited the import of materials and components of such product to 35 per cent of the direct processing cost. In effect such a limitation brought down the percentage of the local component of the product well below 65 percent[30]. These conditions did not permit a number of manufacturers enter into the US market. Apart from these restrictive conditions many important items which form these restrictive conditions many important items which form the bulk of India's exports to USA were not covered by this scheme. Items like textiles jute goods, leather goods, chemical and pharmaceuticals, etc., were excluded from the GSP beneficiary list[31]. Further it was substantially diluted, because the new scheme empowered the US President to consider the beneficiary country's overall trade relations with USA to determine the GSP eligibility. To extend the benefits under the GSP the President of US considers whether the beneficiary country[32].

a) Provides reasonable access to its market and refrains from unreasonable export practices;

b) Provides adequate protection in intellectual property rights;

c) Reduces trade distorting investment practices and barriers to trade and services.

Also waivering of the competitive need limit for any particular product depended on the discretion of the President. Thus the GSP was made an instrument for 'Carrot and Stick' policy with the main aim of promoting (a) market access to US exports of high technology products, (b) investment abroad and (c) trade in services, defeating the very objective or motive of the scheme[33].

In the overall analysis we find that tariff preferences under GSP were subject to restrictive clauses resulting in failure to encourage Indian exports to an appreciable level. However it had a favourable impact on the Indian exports. Many items like Ginger and Pepper, Castor oil, Mango pulp and Marine products, wood manufactures, hand tools and machine goods, cells and batteries, etc., enjoyed the tariff preferences provided under the scheme[34].

Non-Tariff Barriers:

Apart from Tariff provisions there were a number of non-tariff barriers which restricted the growth of Indian exports to USA. They were imposed on a large scale in the Post Kennedy round of GATT negotiations. As these negotiations resulted in large scale cuts in tariffs and there was a spurt in the exports from the developing countries including India to USA. To arrest the trend which would hamper the domestic industry, many laws were enacted in USA. Some of the laws were contrary to the GATT provisions, particularly in respect of anti-dumping duties, countervailing duties and subsidies.

a) Countervailing Duties and Subsidies:

Countervailing duties are the special duties imposed to offset the amount to subsidy given by exporting country to the industry. Under the US laws these duties can be imposed on imported items, that are otherwise dutiable and enter the US market with the benefit of a bounty or gain[35]. But the law does not specify what bounty or grant is and is left to the interpretation of the US Treasury Department. US conducted a countervailing duty investigation on import of textile imports from India in 1977 and 1980. Creating uncertainty among the textile traders and in 1979 18% duty was imposed on industrial fasteners, though India proved that it was not subsidizing the exports of this product[36]. As a result there was a near stagnation in exports.

b) Anti-Dumping Duties:

Anti-Dumping duties are the special duties imposed on goods imported into US. If export price of these product is less than the normal sale price in the home market. Time

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consuming and administrative prices in disposing of antidumping cases are the main features of USA anti-dumping regulations. In USA anti-dumping duties are imposed from the date of applications of professional measures and not from the date of the damage determination to the domestic industry according to the Article 11 of the anti-dumping code of GATT[37]. USA was the leading country in the World in opening cases for investigation under this law. India also has been threatened by US under this act, regarding public works castings on the ground that India was exporting the item at a lower price than the domestic level[38].

Customs Valuation:

In USA customs authorities resort to many bases to arrive at the imported value of the goods in order to assess the customs which are leviable on them. The various bases are foreign value, export value, US value, value based on cost of production and American selling price. It becomes difficult either for an exporter or an importer to find out exactly the amount of duty on a particular product. Indian export of castor oil was one of the major items facing American selling price provisions.

Quota Restriction:

Quantitative restrictions are imposed on a number of industrial as well as agricultural products. In 1971 the percentage of items under quantitative restrictions were about 22. Textiles, sugar, stainless steel, flatware, dairy products from India faces quota restrictions in USA. The export of cotton textiles was guided by long term agreement upto early seventies, when in 1974 Multi Fibre Agreement was reached. The principal objective of the MFA was to promote orderly restructuring of Western clothing and textile industry by limiting growth of low cost imports from developing countries[39]. During 1971-85 the quota restrictions were not serious obstacles in the way of expanding exports to USA except in the case of textiles.

Health and Sanitary Regulations:

Foods, drugs, cosmetics and medical devices were covered under the food, drugs and cosmetics act, which was administered by and enforced by Food and Drug Administration[40]. The rules of FDA were very stringent often resulting in rejection of consignments of food stuffs. USA rejected many consignments of frog legs and shrimps from India due to existence of two organisms known as Salmonella and arizones which are supposed to be dangerous from health point of view[41].

Consumer Goods:

Consumer goods are covered by the consumer products safety act. Standards for these products were framed by the consumer product safety standard commission. Importers of these products were required to[42]: (a) meet the applicable standards, (b) be accompanied by certification from the manufacturer attesting that the products have been properly tested and passed; (c) meet the commissions labeling requirements and (d) have no hazardous defects. The safety regulation introduced in 1976 for bicycles have completely routed out the Indian exports from US market.

Escape Clause:

Section 20 of the 1974 Act of USA (Amended in 1984) allows the US to escape its obligations under article XIX of the GATT. This section provided industries to seek restrictions on imports even for fairly trade items, if they seriously injure or threaten to damage domestic industry[43]. To protect domestic industries the US President can restrict imports, negotiate orderly market arrangements, impose import duties, etc. Though it appears to be a stringent measure for India and other developing countries its application in the past has proved it on the contrary. The main reason was the political pressure from the developing countries[44].

Buy American Policy:

Under this policy a restriction was imposed on importers under which they cannot import 100 per cent of their requirement from outside. Moreover, a premium of 8 per cent of the price of a product was allowed for Home produced commodities under this policy which increases the competitiveness of the American products due to their cheaper prices.

VI. TRIGGER PRICE MECHANISM

In February, 1978, United States introduced a new method to check the imports of iron and steel products into its market. The trigger price mechanism has three components (a) base price for a steel product, (b) extras and (c) shipping insurance, etc. (base price is calculated on the basis of Japanese costs of production). Trigger prices were calculated on c.i.f. basis[45]. If a steel product included under this type is imported at prices 5 per cent or more below the trigger price, immediate action will be taken and anti-dumping duties were levied. More than 30 categories of iron and steel products are covered under this mechanism. Some of the products of interest to India that were included in this mechanism were: track accessories, bars-cold finished, welded pipe tubings, galvanized wire, fencing wire, nails, barbed wire, ERW structural tubings and ERW standard pipes[46].

Apart from these well-known non-tariff barriers, there were others which came in the way of the expansion of India's exports to US. These include, voluntary export restraints, country for origin marking, regulations concerning food stuffs, stock pile release, etc.

Thus, in the ultimate analysis, we find that in the case of Indo-US trade, whatever the benefits accruing from GATT negotiations (tariff concession) and GSP were counteracted largely by the existence of non-tariff barriers.

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From the above discussion it is clear that US aid during the period 1971-85, had been helpful in meeting India's needs of foreign exchange. The absence of such an assistance would have caused further strain on India's limited foreign exchange resources. Aid was used in the industries and areas which were important in overall growth of the economy. However US opposition to concessional loans from IDA and also the IMF loan to India were sour points in the Indo-US economic relations during this period. In trade the US provided an expanded market to the Indian goods. However the growth of protectionist measures, were a hindrance to the further growth of trade between the two countries. Potential conflict between India and the US over the issues like arms to Pakistan, Nuclear Non-proliferation etc., were mediated by India's desire and need to maintain and improve here economic relations with the US.

VII. FOOT NOTES

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