

# An Analytical Evidences of Indo-U.S Relationship with Reference to India's Act-East Policy



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**Abstract:** *India and the USA are having an unprecedented warmth in their relationship presently. After all the hindrances and hiccups, the two largest Democracies are finally engaged optimally in economic and trade activities. Simultaneously, India is also developing fruitful relationship with East Asian countries and the present government has evolved the Indian foreign policy from "Look East" to "Act East".*

*However, this Act east policy need not to be seen in isolation and it has to be seen as a strategic alliance between India, USA, and east Asian countries to neutralize the strategically and economic advancement of China as the global economic superpower. This closeness is unprecedented, however it should not be subjected to the sovereignty of the Indian foreign policy and India should remain Non-aligned as it has reaped humongous benefits by being non-partisan. This paper is aimed to highlight the India's Act East policy and trade relations between the countries. So it is needed to analyze the present trend in the Indian trade with East Indian countries.*

**Keywords:** *Government, economic, global, relationship*

## I. INTRODUCTION

India has always been a non-aligned country as it was the country which was majorly involved in the creation of the Non-Alignment Movement which was formed as a neutral Block during the cold war era. Despite being a non-aligned country, India's economic and defense ties were strategically more inclined towards Russia. However after the decline of the USSR In 1991, a major vacuum was created in economic ties of India, coupled with the miserable situation of the foreign reserve of India as a result; India opened its economy and started building economic confidence measures with the United States of America. It was at that time in 1991 when, to neutralize the Impact of China, Indian government Under the Leadership of Mr. P.V.Narsimha Rao, Adopted look east policy which targeted in building Diplomatic and trade relations with East Asian Countries.

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The successive governments in India carry forward this approach along with increasing the political and economic ties with United States of America. However it was in 2014 under the prime Minister ship of Mr. Narendra Modi when the potential of this approach was optimally realized and India adopted "Act East" Policy.

This paper will chronologically deal with the emergence and repercussions of the relationship Between India and the United States, Keeping in mind the impact of the other Major economic superpower China and East Asian countries.

## II. INDIA AND THE UNITED STATES OF AMERICA

India and United states are two of the world's largest democracies, therefore, by means of the homogeneity of their Political Ideology, India and U.S. should be the natural political and trade Allies, However Indian and United States Relationship have not always been as smooth as now. To be able to understand the relationship between these two countries we are dividing the Relationship in two eras Pre 1991(cold war era) and Post 1991(Post LPG era).

### A. India and U.S Pre 1991

India became a nation state in 1947 .It got independence After world war 2 and since It was a new nationhood, it Needed a strong partner to develop its economy and for smooth political transformation from provinces to nationhood. India opted for democracy however; it did not adapted capitalism and opted for Mixed economy; which practically meant socialist democracy during Nehruvian Era Therefore Indian economy was more inclined towards Russia. Simultaneously, United States of America found Pakistan strategically more important than India due to Its Geographical Proximity with USSR and China. The Indo-U.S relation further deteriorated during 1970s when India and Pakistan went on war for Eastern Pakistan ( Now Bangladesh ) and further slumped when India Performed Its First Nuclear Test ( Pokhran – 1974 ) . Trade and Political Relations are internally connected; therefore India's and United states Of America's Trade Ties were Minimal. The infrastructural and military needs of India were quenched By USSR , which was politically and economically opposite to USA.

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Wheat was the only major commodity which was supplied to India by United States of America however after India Adopted Hybrid technologies and became self-sufficient In Agriculture. The Import of American Wheat also became Minimal.

### B. India and U.S. Post 1991

Before 1991, India was having closed economy and in 1990 Indian Trade constitutes only 15% of G.D.P. However the USSR collapsed in 1991 and it shattered the economic structure of the world economy. India which was following close economic and trade ties with Russia was left stranded. Also since Indian economy was Closed and heavy on protectionism , its foreign reserve was in Miserable condition and it was only 1.2billion \$ in Jan 1991.To be able to Pay its Import liabilities and to avoid bankruptcy India had no other option but to open Its economy and therefore India adopted LPG policy ( Liberalization, Privatization and Globalization).

Also, it was the time when China emerged as a power In Asia and U.S.A. started to Treat China as a threat to its trade, defence and geo-political arrangements. Therefore it changed its Approach towards India and started to build economic and confidence measures to neutralise the Impact of China on world Economy. The relationship of U.S.A and India further Improved During 1990s and barring a few slump (especially when India conducted Pokhran II in 1998). It has constantly been on a positive term. It reached its peak when India and USA agreed to the nuclear deal in 2007. The present governments have further strengthened this relationship which is clearly visible with the frequent visits and reaction of Indian Diaspora to the Prime minister of India.

As stable political and economic relationships are precondition of trade relations; India's trade with U.S.A. has increased exponentially after 1991.

**Table I. Indian and U.S. bilateral trade**

Year	Indian Export to U.S.A. ( in million USD)	Indian Imports from U.S.A. ( In million USD)	Trade Balance
1991	3192.40	1999.40	1193.0
1995	5726.30	3295.80	2430.50
2000	10686.60	3667.30	7019.30
2005	18804.20	7918.60	10885.60
2010	29532.90	19248.90	10284.10
2015	44741.40	21529.60	23211.80
2019	25,996.3	43,849.2	17852.9

(Source- website of the US census)

It is clearly visible that India is having a trade surplus with U.S.A. The surplus has increased from 1193 Million U.S.D. in 1991 to 17852.9 Million U.S.D.in 2019. Therefore closer ties with U.S.A have proved to be very fruitful in terms of trade.

Along with the trade scenario, Indian Diaspora is Also Having visible presence In USA which signals the strong relationship between the two biggest democracies.

However Indian and USA's Relationship cannot be seen in Isolation and India's relationship with china and simultaneously with East Asia is the major impact factor of the relationship between two countries.

### III. INDIA & CHINA

India and china are considered to be the two Asian giants which, if act in partnership, can change the entire global economic structure and tilt it towards Asia. However The Indian and Chinese relationship signals a different trend.

India's economic policy towards East Asia is needed to be analyzed since the Nehruvian era. As India got independence in 1947, and China became republic in 1949. Nehru's Vision

was to create a grand Asian alliance between India and China. This is evident from the fact that India was the first non-left country which established diplomatic relationship with China. India and china also signed the historic "panchsheel" in 1954.However, over the border Dispute, china engaged on war with India In 1962, shattering the Nehru's vision of the alliance. Over the period of time, primarily after the opening of both economies, the diplomatic and trade relationship of India and china have improved. The two countries signed the most favoured nation agreement in 1984 & later in 1994; an agreement was signed to avoid double taxation. After the double taxation agreement, the size of Sino-Indian trade has rose from 1094 million \$ in 1995 to 53160 million \$ in 2008. Proportion of Indian trade with china to the total Indian trade rose from 2% to 10 % from 1995 to 2008, whereas the proportion of Chinese trade with India to the total Chinese trade rose from 0.38% to 2.07% for the same time period. However India is continuously facing significant trade deficit from china.

**Table II. Bilateral trade between India and China from 2009-10 to 2018-19**

Year	Export to China ( In Million USD)	Growth (%)	Imports from China ( In Million USD)	Growth (%)	Trade Deficit (In Million USD)
2009-2010	11.61	24.21	30.82	-5.15	19.21
2010-2011	15.5	33.27	43.5	41.06	28
2011-2012	18.1	16.75	54.7	27.22	36.57
2012-2013	13.57	-25.12	52.24	-5.54	38.66
2013-2014	14.82	9.53	51.03	-2.32	36.21
2014-2015	11.93	-19.5	60.41	18.38	48.48
2015-2016	9.01	-24.49	61.7	2.14	52.69
2016-2017	10.17	12.88	61.28	-0.69	51.03
2017-2018	13.33	31.08	76.38	24.64	63.05
2018-2019	16.75	25.64	70.31	-7.94	53.56

(Source: Directorate General of Commercial Intelligence and Statistics)

As clear from the table, India’s trade deficit with china was 19.21million\$ 2009-2010 which has increased to 36.21million\$ by 2013-2014 .Thus it is clear that despite of the increase in the volume of trade , India is lagging behind in Trade balance with china. The primary reason for this trade deficit lies in the trade basket of the two countries. The major export items of India to china are primary products, which are used by china as raw materials to create manufactured goods. India is already witnessing a major influx of manufactured goods made in china. Therefore the present Indian exports to china are benefitting china to a greater extent than India, as it is increasing their already strong manufacturing sector, adding to its cost-Advantage.

Apart from trade front, China is also considered as a political and security threat and there are several areas of disputes, the reason of which primary lies in the political and economic ideological differences of both countries. The strategic and military nexus between china and Pakistan is a surmounting threat to India. Also china is suspected to create internal disturbances in India by providing training and support to the naxalites insurgency. Also, it has not refrained from claiming the parts of north east as its own territory.

The dynamics of USA and Chinese relationship have also changed drastically. Over the period of time, China has emerged as a rising superpower and has even shaken the strength of the United States’ dollar. The success story of the china lies in its cost advantage and as a result it’s a trade threat to both India and U.S.A. Apart from the trade front, china is also considered to be a security threat .It is suspected that china is responsible for funding and guiding the nuclear technology programme of North Korea. Also, China spent heavily on military purchase and technological up gradation which coupled with its aggressive border campaigns has resulted into a sense of geo-political threat for both India and U.S.A. Therefore it is found to be imperative for U.S.A. and India to promote strategic alliance so that the advancement of the china can be neutralized. India’s act east policy is a part of that strategy.

**IV. “ACT-EAST” AND ITS IMPLICATIONS ON TRADE AND ECONOMY**

To balance the power structure of Asia, it is very important for India to engage into trade partnership with the East Asian countries which falls in the proximity of the Chinese border. It has been found that partnership with East Asian countries, especially, with ASEAN, Japan and South Korea is vital for India in minimizing the Chinese advantage.

Also, since China is investing heavily in trade with the south Asian countries, Neighboring India and gaining political mileage in traditionally pro-Indian countries such as Nepal and Sri Lanka, It is vital for India to have better diplomatic, political and economic relationship with East Asia to maintain geo-political significance.

Keeping these objectives in mind Indian government has adopted “Act East” policy in 2014 which has further expanded the definition of “East” and has included countries such as Australia also.

To understand the importance of “Act east “, it is needed to analyze the present trend in the Indian trade with East Asian countries.

**V. INDIA AND ASEAN**

Ever since its origin, India and ASEAN have been significant trade partners and ASEAN constitutes major share in the Indian foreign trade. India is also a dialogue partner of ASEAN which clarifies the weight age and importance of Indian and ASEAN relations.

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**Table III. India's trade with ASEAN, recent trends**

Year	Indian Export to ASEAN ( In Billion USD)	Indian Imports from ASEAN ( In Billion USD )
2012-13	33.01	42.87
2013-14	33.13	41.28
2014-15	31.81	44.71
2015-16	25.15	39.91
2016-17	30.96	40.61

2017-18	34.20	47.13
2018-19	37.47	59.32

Although, the recent trend indicates a trade deficit for India, the strategic advantages of partnership with ASEAN surpass the B.O.T. status.

### VI. INDIA AND JAPAN

The trade and political relationship between India and Japan has risen sharply after the comprehensive economic partnership act of 2011. This can be analyzed by examining the recent Indo-Japanese Trade data.

**Table IV. India's trade with Japan since 2010-2011**

Year	Indian export to Japan ( in Million USD )	Indian Import from Japan ( In Million USD )
2010-11	5091.24	8632.03
2011-12	6328.54	11999.43
2012-13	6100.06	12412.29
2013-14	6814.07	9480.75
2014-15	5385.57	10131.36
2015-16	4662.85	9850.22
2016-17	3845.73	9754.64
2017-18	4734.22	10973.35
2018-19	4861.73	12772.67

(Source- dept. of commerce, EXIM data bank, India)

It is evident that India is having a huge trade deficit with Japan and Japan has benefitted more by the act, however, it is to be noticed that the Indian export will grow as Japan has decided to eliminate the tariffs for Indian exports completely by 2021.

Other than trade, the political and diplomatic relationship between India and Japan are also on an all-time peak. Japan International cooperation agency is funding various infrastructure projects; also Japan is assisting India in its ambitious smart city project. The depth of Indo-Japan

relationship can also be understood considering the recent frequent political visits from both sides of the borders.

### VII. INDIA AND SOUTH KOREA

India has always been a huge market for South Korean electronic Appliances' firms ever since the economic reforms of 1991.

**Table V. India's trade with South Korea since 2010-2011**

Year	India's export to South Korea ( In rupees Lacs)	India's Import from South Korea ( In rupees lacs)
2010-11	1,695,280.67	4,771,247.70



2011-12	2,076,775.91	6,157,031.43
2012-13	2,287,024.72	7,133,725.25
2013-14	2,547,092.30	7,528,258.41
2014-15	2,808,473.91	8,272,008.53
2015-16	2,304,348.38	8,536,310.91
2016-17	2,843,671.65	8,440,432.93
2017-18	2,875,143.99	10,542,283.54
2018-19	3,287,796.88	11,725,531.27

(Source- dept. of commerce, EXIM data bank, India)

As clear from the table, Indo Korean Trade relations are on an upswing. The total trade between these two countries has rose from 6,466,528.38 lacs in 2010-11 to 11,080,482.44 lacs. The trade relation indicates the proximity of political and diplomatic relations between India and South Korea as better political and diplomatically relationship are precursors of trade improvement.

**VIII. RESULT AND DISCUSSION**

India is planning to engage heavily with eastern countries therefore in balancing the regional structure. Also Indian government is investing heavily in projects such as “Make in India” and “Smart cities”. The advantage which china is having is low cost manufacturing and India is planning to be a manufacturing hub and thereby increasing its balance of trade. Make in India will result in production surplus and therefore new markets will be required for Indian manufactured goods and the eastern countries can turn out to be that market for India. Therefore trade and economic partnership with East Asian countries will play a very important role in the success of Make in India and similarly in “Smart Cities” as well.

Also, as evident from the recent global crisis of Middle East, the world power structure is again started to be divided in two poles with one favouring democracies and the other in maintaining status quo. Therefore, being the two largest democracies, India and United states along with the eastern countries, more importantly, Japan and South Korea will turn out to be natural ally. The failed state of Pakistan will also assist in Bridging gap between India, USA and East Asia.

**IX. CONCLUSION**

India is now engaged in greater economic ties with United States of America to decrease the global impact of China and Act east policy is part of that broader economic Vision. However it should be kept in mind that ideologically India has been Non-aligned and has generated great economic and political advantage by following that path. In fact, it will not be hyperbolic to say that India was able to adapt its policy of LPG because, despite being inclined towards Russia, it kept on maintaining its non -aligned credentials. Therefore India should continue that path.

The negative impact of the inclination towards USA was visible when, despite announced in 2007, India was not able to start the Gas pipeline project negotiation until recently when USA lifted its trade sanctions on Iran.

Also, in building its relations with East Asian countries, India should also keep its engagement with south Asian countries, especially Afghanistan, Nepal, and Sri Lanka compact and the region should not be treated as an opportunity cost for gaining momentum in east.

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