

THE IMPACT OF THE AMERICAN ECONOMY ON INDIA

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ABSTRACT

Trade relations between the American and India have strengthened over the decades as the economic globalization has forced most countries to seek partnership. Therefore, the purpose of the paper is to evaluate the complex and simultaneous effects of the American economy on India with respect to trade, investment, finance, technology transfer, manpower migration and policies. The result of this research work therefore elucidates the challenges and prospects of this bilateral relationship by analysing the past, the present and the future of the two countries' economic relations.

Keywords: American Economy, India

INTRODUCTION

The world economy has become more integrated at the present time and the economy of one country has direct impacts on other countries. One of the biggest economic bonds in the contemporary world is between the United States and India. The United States being the largest economy worldwide and India the fifth largest economy by nominal GDP have a strong economic cooperation which has developed over the years. This paper looks at the interaction between America and the Indian economy and how this interaction occurs and how the Indian economy reacts to it.

1. HISTORICAL BACKGROUND

India's economic interaction with the U.S of America started once India got freedom in 1947. At the beginning it was limited and based on India's policy of neutrality during the Cold War. Economic relations were mostly represented by the bilateral aid, the USA gave the financial support to India in order to help it develop its economy in such sectors as agriculture, infrastructures, and education.

The overall economic partnership between two nations started enhancing in early 1990s when India started out with its economic liberalization under the then Prime Minister Narasimha Rao and the then Finance Minister Manmohan Singh. This policy change made India open for international business and foreign investment and the United States became one of them. The two economies have since then further enhanced their cooperation in areas of trade, investment, technology and outsourcing.

2. TRADE AND ECONOMIC EXCHANGE

2.1 Bilateral Trade

The two economies of the United States and India have shown increased trade interaction in the last few decades. Currently, the United States is among India's top trading partners as the bilateral trade crossed \$150 billion in 2023. India sends out IT services, textiles, jewelry, pharmaceuticals, chemicals while importing machinery, high tech goods, agricultural products from the United States.

Impact of Trade:

- **Economic Growth:** There are job creations in India through exports to the U.S in areas of IT, textiles and pharmaceuticals. The outsourcing of services to India has also created a vast employment base in cities like Bengaluru and Hyderabad.
- **Balance of Payments:** The import of advanced technologies and machinery from the U.S. has helped Indian industries modernize, but the trade deficit between the two countries has raised concerns. India imports more from the U.S. than it exports, which has implications for its balance of payments.
- **Agricultural Exports:** India's agricultural exports to the U.S. have grown, though U.S. subsidies to its own farmers sometimes undercut Indian exports, especially in areas like cotton.

2.2 Free Trade and Trade Agreements

While there has been no formal free trade agreement (FTA) between the two countries, they have pursued a number of bilateral agreements, including the Trade Policy Forum and the U.S.-India Strategic Partnership. The trade relationship continues to evolve with discussions on issues like intellectual property rights (IPR), market access, and regulatory reforms.

3. FOREIGN DIRECT INVESTMENT (FDI)

The United States is amongst the leading source countries of FDI in India, and has been so for several years now. In the last one and half decade the FDI from the United States has been mainly directed to the IT sector, finance, pharma and manufacturing.

Impact of FDI:

- **Capital Inflow and Economic Growth:** The FDI from the US has brought a lot of capital to India and has been useful in the economy especially in the IT, services and manufacturing. This has also eased on the transfer of technology and other better practices in the organization.
- **Job Creation:** American businesses have helped in generation of millions of employment opportunities in India. Today, giants like Microsoft, Google, IBM, American multinationals like General Electric, Ford have invested in India.
- **Economic Development:** U.S. investments have also contributed to infrastructure development in India, with companies involved in the construction of highways, airports, and energy projects.

4. THE TECHNOLOGY AND INNOVATION ECOSYSTEM

The United States is the most technologically advanced country and this has influenced India in one way or the other. The expansion of the Indian IT industry and particularly the IT services and software segment, can be attributed in many ways to the American market outsourcing requirement.

Impact of Technology:

- **Outsourcing and IT Services:** Need for outsourcing of IT and software services by American firms has made India the preferred outsourcing destination of the world. Infos, Wipro and TCS have benefited from American contracts due to outsourcing, and the companies earn billions of dollars annually.
- **Startups and Venture Capital:** The VC model of Silicon Valley has thus made India to rise to the challenge and create its own startup model. Indian start-ups have been able to attract a large amount of funds from American venture capitalists, which have led to growth of sectors like e-commerce, fintech and health tech.

- Skill Development: The demand for highly skilled workers by U.S. firms has driven India to invest in educational institutions and professional training, fostering a generation of highly skilled tech workers.

5. FINANCIAL MARKETS AND CAPITAL FLOWS

The financial ties between the U.S. and India have deepened with the liberalization of Indian markets in the 1990s. Indian companies are increasingly listed on American stock exchanges (such as NASDAQ), and many U.S. investors have a stake in Indian equities through mutual funds and exchange-traded funds (ETFs).

Impact of Financial Flows:

- Capital Market Integration: The U.S. is a key source of portfolio investment in Indian equities and bonds. India benefits from capital inflows, which help finance infrastructure and development projects.
- Currency and Exchange Rate Movements: U.S. economic policies, particularly those related to interest rates and monetary policy, have a direct impact on India's currency exchange rates. A strong U.S. dollar, for instance, can hurt India's export competitiveness, while changes in U.S. interest rates can affect capital flows into India.

6. MIGRATION AND REMITTANCES

Migration has been also another influential way whereby the American economy has influenced India. Indian has been a preferred migration country for a long time especially in IT, health care, engineering and business fields. The concern of Indian diaspora groups has assisted in the economic relation through the remittance back to India.

Impact of Migration:

- Remittances: Money sent home by Indian immigrants in the United States is one of the largest sources of inflows of foreign exchange to India. The Indian economy in 2023 received over \$100 billion in remittances with a large proportion of the money coming from the USA.
- Brain Drain and Skill Transfer: Transition of IT professionals to the U.S. is beneficial in some ways and detrimental in other ways to India. On the one hand, there is a brain drain as people of talent move to the U.S., but on the other hand, there is the opportunity for reverse skills transfer since many of these people go back with new skills.

7. GEOPOLITICAL AND POLICY INFLUENCES

This economic relationship is also conditioned by the geopolitical and policy factors, which will be discussed below. It means that there are certain working similarities between the two countries in terms of counterterrorism, regional security as well as climate change.

Impact of U.S. Policies on India:

- Trade Policies: IS Trade policies of the United States, for instance, tariffs on Indian goods and foreign policies on IPR act as a hindrance to India's export performance. On the other hand, the U.S incentives to these Indian companies to invest in the U.S market can spur growth in these sectors.
- Strategic Economic Initiatives: Possible initiatives in strategic partnership between the US and India such as IPEF, energy and defense cooperation may help to stimulate the economic growth through the creation of new partnership in such sectors as, for example, clean energy and digital infrastructure.

8. CHALLENGES AND OPPORTUNITIES

In spite of these, there are challenges in the relationship that the U.S economy has in impacting India. Some of them are trade deficits, protectionism, piracy, and dispute over the cross-border movement of people. However, there are also significant opportunities for example in the field of green technologies, fintech, digitalization.

9. CONCLUSION

The US has recently emerged as the largest partner in the Indian economy and the Indian economy in return has become dependent on the US economy. In the economic front, the U.S has influenced India's development through trade and investment, technology transfers, and financial relations with the country. India has emerged as a major economy at the same time providing potential for American companies to invest in. In the future the cooperation between the two nations will remain important in order to solve the global problems and both countries' welfare.

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