ECONOMIC RELATIONS

A FAIR TRADE

In 1991, the dramatic "first generation" economic reforms introduced in India led to a far-reaching transformation in how India was perceived by Americans and American businesses. As the country began moving away from a closed, statist economy to an open, market-oriented one, U.S. interest in India increased, particularly in the information technology (IT) and service sectors. Today, the U.S. is India's most important trading partner. According to the American Chamber of Commerce, about 1,000 American companies are doing business in India, a 14-fold increase over 1991.

Clearly, the U.S.-India relationship has found a new and dynamic area of partnership. "There is now a greater recognition of the large intellectual talent pool in India. I no longer have to 'sell' India," says Scott R. Bayman, President and CEO, GE India. As the head of one of the fastest growing U.S. conglomerates in India, Bayman should know. GE India has grown rapidly during the 1990s and has 31 businesses with annual Indian sales of Rs 4,600 crore ($1 billion). But it is also true that the balance of trade remains heavily in India's favor and that U.S. investment and exports to India have been relatively flat. Clearly, more market opportunities for American goods and services are the missing piece in the transformed economic relationship. The growing bilateral economic ties need no statistical proof. Visible on electronic billboards and in TV ads, in glitzy malls and mom-and-pop grocery stores, at multiplexes and on roadside boards, American brands have become household names. Today, McDonald's menu and Domino's pizzas compete with traditional Indian food outlets. Nike and Reebok are working hard to change the way Indians walk and work out. And Hollywood, the ultimate U.S. export, now includes India in the world premieres of its blockbuster movies. The U.S. is now the largest cumulative investor in India, both in foreign direct investment and portfolio investment. "The deepening of economic cooperation between the two countries is a result of the realization, on both sides, of the true value of each others' markets," says Henrique H. Ubrig, President, South Asia, DuPont.

Despite its slow pace, the second generation of economic reforms promises to further strengthen economic ties. In 2002-03, India's Parliament passed more than 35 bills focused on banking sector reforms, bankruptcy laws and equity market regulation. While a Competition Bill seeks to redefine monopoly, the Money Laundering Bill and Consumer Protection Bill aim at making life easier for ethical

About 1,000 U.S. companies are doing business in India.

U.S. companies flourish in a liberalized India

AMIT GUPTA / REUTERS

VIKAS NARULA

U.S. Ambassador David C. Mulford (right) and Aditya Vij, President, General Motors India, open a rally celebrating Chevy's successful return to India

businesses, as well as the consumer. The success of this generation of economic reforms is of great interest to U.S. business representatives, who view the removal of investment caps, lowering of tariffs, elimination of restrictions on retailing and over regulation in many sectors of the economy as a prerequisite to sustained increases in trade, investment and growth of U.S.-India economic relations.

Undoubtedly, the iconic symbol of India's changing character has been its growing prowess and credentials in the IT industry, which has given the relationship a decisive edge. GE's John F. Welch Technology Center in Bangalore is fast becoming a global center for technology enhancement and testing. Similarly, Lucent's pioneering work in third-generation wireless technology has been done entirely in India. The Intel India Development Center was set up in 1999 with 10 employees. Today it has more than 1,000 engineers. The software engineering institute at Carnegie Mellon University gives its top quality ranking to only 48 software companies in the world; nearly two-thirds are based in India.

Over the past five years, the average annual growth rate of India's total export in services has been a strong 21.5%. Outsourcing paced by software and software-enabled services exports, which grew at an average rate of 40%, and the spread of new high-end U.S. research facilities in India, have only hastened the pace. Says Pramod Bhasin, head, GE Capital Services, "India has become critical for giving us the competitive edge in the world market." With many Fortune 500

THE WORD

"Democratic governments create the conditions that empower business and individuals to seize the initiative."

—U.S. Ambassador David Mulford in Mumbai, April 2004

companies opting for a back-office center in India, the service sector is the fastest growing component of India's GDP.

Meanwhile, an increasing number of U.S. financial companies are arriving in India in the form of portfolio investors, venture capital funds and banks. Today, Citibank is the largest clearing bank in India and the largest issuer of credit cards. Similarly, American Express, which started the trend of outsourcing back-office work from India, has registered robust growth and currently has some 3,000 employees in India.

Economic reform has also begun to open up the insurance sector, which was closed to foreign investment until recently. Today at least five large American insurance companies are operating in India through joint ventures. During this period, Principal Financial Group, the top pension provider in North America, has already signed at least 400,000 customers and has approximately $700 million invested in India. The company has a full-fledged mutual fund business, another area that was made accessible to the private sector in the mid-1990s. Now that the pension sector has also been opened to private players, the company will begin selling its pension plans by mid-2004. Says Sanjay Sachdev, Country Manager, Principal Financial Group: "The changing attitude of the government toward facilitating business has helped American companies."

DUPONT

TEFLON-COATED FUTURE

LISTED AS ONE OF THE BEST EMPLOYERS IN THE COUNTRY, DUPONT'S WIDE RANGE OF PRODUCTS ARE TOUCHING THE LIVES OF MILLIONS OF INDIANS

DuPont has experienced quiet but steady growth in India. The company has grown from a liaison office in India 1974 to a wholly-owned subsidiary in 1994. Today the company employs 600 people, has six manufacturing facilities at three locations and a revenue of nearly Rs 1,000 crore ($ 215 million) in India and has met a compounded annual growth rate of 15% over the last five years. The company's 2005 mission is to achieve Rs 1,500 crore ($ 325 million) in sales in the country, as announced by Charles O. Holliday Jr., Chairman and CEO, DuPont, during his visit to the country last year. The company was listed among the best employers in India in a ranking done by human resource firm Hewitt Associates in 2003.

DuPont's product range in India is a reflection of its global portfolio. Its high resistance engineering polymers are used by Indian Railways, its advanced fibers are used to make bullet-resistant jackets, its industrial polymers are being tested on road in the extreme conditions of Jammu and Kashmir. And, of course, its Teflon®-coated non-stick cookware is

One of the six DuPont plants in India

Photo courtesy E.I. DuPont India Private Limited

permeating Indian homes. DuPont also has a range of insecticides, herbicides, agricultural and nutrition products. "DuPont is focusing on emerging economies to drive our worldwide growth and India is key to this plan," says Henrique H. Ubrig, President-South Asia, DuPont. The company is now exploring a potential R&D presence in India. Biotechnology is an area where the company sees a lot of opportunity. DuPont also plans to do patent searching and patent drafting for its inventions and discoveries and is exploring collaborations with large Indian universities and scientific institutions in these areas.

The future looks even brighter. "Future growth for DuPont globally lies in Asia Pacific which is seeing double digit growth. This is where the action is," says Ubrig. The company, which recently rolled out Safety consultancy services in India, sees the agriculture, food and nutrition businesses, along with engineering and industrial polymers and automotive coatings, as the engines to power growth.

SUPPORT-A-SCHOOL PROGRAM

LESSONS IN PROGRESS

U.S. BUSINESSES GEAR UP TO GIVE DEPRIVED SECTIONS A SLICE OF THE IT AGE. AS COMPANIES SPONSOR SCHOOLS, THE DIGITAL DIVIDE IS SLOWLY BRIDGED.

NARENDRA BISHT/INDIA TODAY

U.S. companies with a social conscience open up a new world for children of Govindpuri in Delhi (above) and Filmnagar

It is a rainy Wednesday in Hyderabad. The continuous downpour has created havoc and schools have been closed. But at the Filmnagar slum school, many students have braved the rains to reach the institution. Away from leaking roofs in the dilapidated huts where they reside, the cemented school is a safe haven. But that's just one reason why children flock to Filmnagar school. Good teachers, a hot lunch, drinking water and clean toilets are more powerful incentives. This dramatic change has been powered by a corporate sponsor, the Indian subsidiary of the U.S.-based Portalplayer Pvt. Ltd.

Portalplayer is one of the eight American firms that participate in Naandi Foundation's Support-Our-School (SOS) program where companies sponsor schools. Says J.A. Choudhary, Managing Director, Portalplayer, "We are a knowledge-based industry, and we focus on education-related issues to help bridge the divide in our society." The SOS project, which began with 10 schools in Hyderabad, will soon spread to 882 schools.

U.S. companies with a social commitment are acting as catalysts of social change. At the Govindpuri slum in Delhi, Intel has set up its first youth center in Asia in association with Katha, a local NGO. It is trying to bridge the digital divide, teaching IT programs and languages to deprived children. With computers and web cams, it brings them a slice of the 21st century. Intel India received recognition from the Department of State in 2003 for its good corporate citizenship, active community involvement and exceptional employment practices, traits that embody the finest traditions of American corporate public service.

Additionally, the U.S. has played a strategic role in strengthening regulatory institutions in India. As part of a Rs 667 crore ($145 million) USAID program in India, the Financial Institutions Reform and Expansion (FIRE) project has helped establish India's first securities depository, the National Securities Depository Ltd., and has accelerated the process of raising the country's capital markets to global standards of efficiency. It also helped the Association of Mutual Funds of India standardize reporting on the performance of mutual funds and aided the Securities and Exchange Board of India (SEBI), India's market regulator, to put together a framework for the introduction of futures and options markets.

In keeping with the increasingly globalized economy, this has been a two-way exchange. Indian companies are doing business and raising capital in U.S. equity markets. There are at least 10 Indian firms currently listed on the New York Stock Exchange (NYSE) and Nasdaq. The client list of Infosys Technologies, one of India's top IT and software services providers, includes Boeing, Cisco and Dell. Satyam Computer Services has 280 global clients, including 81 Fortune 500 companies. Recently, it signed a partnership deal with Yahoo! to provide a portal with e-mail solutions and is developing a new Internet search engine called SearchPad.

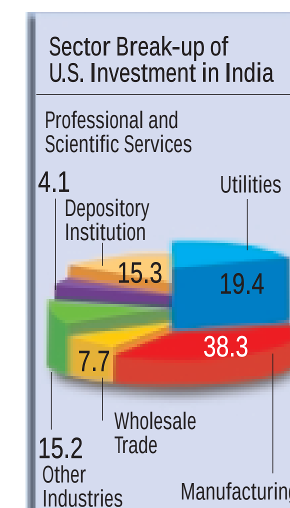
In comparison, the manufacturing sector and the consumer market have moved at a slower pace, though the growth has increased recently. McDonald's, for example, served its first burger in India on October 13, 1996 in Delhi. By 2003, there were 40 McDonald's outlets in India, and the company had sold 4.5 crore (45 million) chicken and vegetarian burgers. The U.S. food chain attracts 150,000 Indian customers daily. Sensitive to local culture, India is the only country in the world where McDonald's does not serve beef products.

By adapting to the Indian market, a large number of American companies, particularly food chains and consumer goods firms like McDonald's, Dominos, Pizza Hut, Pepsi, Coca-Cola, Reebok, Nike, Amway and Avon, have established a major presence in India. Says Rajiv Bakshi, Chairman, PepsiCo India Holdings Pvt. Ltd.: "Pepsi's experience in India has been very, very positive. India is one of the three emerging markets we are betting big on." Cumulative investment in Pepsi's India operations, including agribusiness, is estimated at Rs 4,500 crore ($1 billion).

DuPont's experience has been equally encouraging. What began as a liaison office in 1974, has grown into a wholly-owned subsidiary of

AJIT KUMAR/ A.P. PHOTO

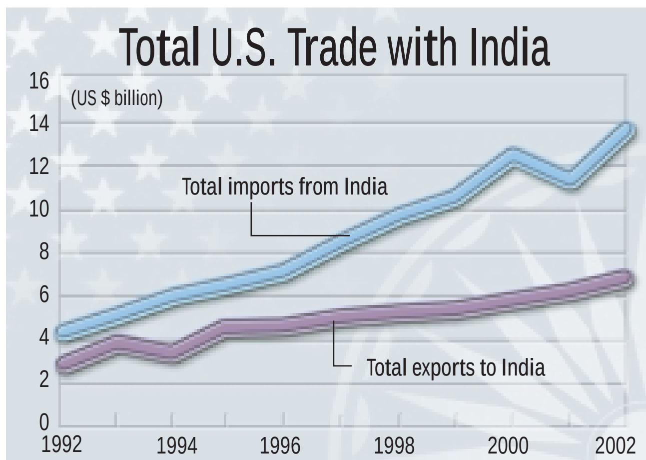
McDonald's has become a household name among Indian youth



Source: U.S. Census Bureau

SIPRA DAS/ INDIA TODAY

USTR Robert Zoellick (right), with the then CII President Sanjeev Goenka



the parent firm with an average annual growth rate of 15%. DuPont markets a wide range of products across various market segments, including nutrition, healthcare and construction. The Rs 1,000 crore ($215 million) Indian subsidiary has six manufacturing facilities in three locations in India. It employs about 600 people and creates indirect employment for another 2,500.

This is in sharp contrast to the early 1990s when prospects for such expansion were negligible. The Indian market has experienced a dramatic change since then. The domestic market is expanding rapidly as income levels rise, attitudes change and lifestyles become more cosmopolitan. India is now one of the fastest growing markets in the world for consumer products like computers, telecom equipment, mobile phones and color televisions. Between 1991 and 2001, the market size for personal computers (PCs) and peripherals jumped 13.5 times from Rs 719 crore ($156 million) to Rs 9,684 crore ($2.1 billion). It is this change that is pushing a large number of American firms to explore India as a manufacturing base. Five years ago, India was not even a blip on Wal-Mart's radar screen. Today it sources products worth Rs 1,840 crore ($400 million) and some estimate this may hit Rs 4,600 crore ($1 billion) in the next three to four years. Says P. Jagannath, General Manager, Wal-Mart: "Today we are heavily dependent on China. India looks like a good option."

Keeping pace with growing commercial ties, official-level exchanges between India and the U.S. have also grown. Since September 2001, over 100 high-level official U.S. visitors, including several cabinet members, have come to India. Many have focused on economic and business issues. In-person meetings and video conferences between government officials in New Delhi and Washington to identify and resolve market access issues and other commercial problems and to develop strong institutional linkages have become routine. "We are talking more than ever before and discussions are happening at the highest level," says Amit Mitra, Secretary-General, Federation of Indian Chambers of Commerce and Industry (FICCI).

AMWAY

WAY AHEAD

A LIBERAL BUSINESS ENVIRONMENT AND AN UNDERSTANDING OF THE INDIAN MARKET HAS HELPED THIS U.S. FIRM SPREAD ITS NETWORK

VIVAN MEHRA

Amway is growing

It took William S. Pinckney, Managing Director and CEO, Amway India, three years to get approval from the Indian Government to begin direct selling his products. Amway markets mostly personal care and household items but import restrictions, high duties and a manufacturing policy reserved only for small-scale industries had made the business environment extremely unfriendly. Undeterred, Pinckney and his team persevered.

Their patience has paid off. Today India is among Amway's top 10 fastest growing markets. Five years since it started business operations here, the company has 350 employees and 350,000 distributors spread over 48 offices and 97 warehouses across the country. "In the next three years, India will be among our top five markets," says an upbeat Pinckney.

As a rule, Amway products are developed by 450 scientists at its R&D center in the U.S. and are manufactured at the state-of-the-art facility to maintain quality standards. In India, they faced a new situation. "We were asked to manufacture our products here and that, too, as a small-scale industry," says Pinckney. But in hindsight it worked to the company's advantage, helping it adapt to the needs and demands of the Indian market.

The changed business environment in India is the icing, duties have come down and there is a liberal Foreign Investment Promotion Board, which is willing to listen. "You feel more welcome here today than ever before. The shift is remarkable, though the perception abroad has not changed much. You need to get here to see the difference," he says.

In November 2001, U.S. President George W. Bush and Indian Prime Minister A.B. Vajpayee revived a bilateral economic dialogue, which was regarded as one of the most ambitious and substantive channels for engagement on economic issues. It focuses on strengthening official interaction between the two countries in four broad areas of trade: environment, finance, energy and commerce.

The U.S.-India relationship has moved beyond a preoccupation with India as a nuclear-proliferation problem and a bilateral relationship always viewed through the India-Pakistan prism. This change in outlook was kick-started during U.S. President Bill Clinton's visit to India in 2000. With President Bush, ties are only getting stronger. Bilateral trade, less than Rs 36,800 crore ($8 billion) in 1994, jumped to over Rs 82,800 crore ($18 billion) in 2003. U.S. exports to India, which remained flat for a long period, increased by 19% in 2003 when they crossed Rs 18,400 crore ($4 billion) for the first time. In 2003, U.S. exports to India increased on a year-on-year basis by over 18% to Rs 20,240 crore ($4.4 billion) while U.S. imports from India rose by 11% to over Rs 59,800 crore ($13 billion). U.S. direct investment, too, has increased to a record high of Rs 16,560 crore ($3.6 billion). U.S. Deputy Secretary of Commerce Samuel W. Bodman was quick to acknowledge

THE WORD

"It is my view that, in the long run, what will define the U.S.-India relationship is its economic dimension."

—Al Larson, U.S. Under Secretary of State for Economic, Business and Agricultural Affairs, March 15, 2004

GURINDER OSAN / AP PHOTO

The Indian economy is no longer supply-led but consumer-driven

U.S. BUSINESS COMPLAINTS

- Excessive Indian Government interference
- High tariffs and excessive indirect taxes
- Differential tax rates for foreign companies
- Restrictions on foreign investment
- Substandard infrastructure
- Questions about “sanctity of contract”
- Weak protection of intellectual property

the change when he came to New Delhi in early 2003 stating, “A year ago I lamented the low levels of U.S. exports and FDI into India. This year I can report some good news.”

The events of 9/11 also gave U.S.-India economic ties an additional sense of urgency. “An India with a strong, vibrant and open economy will be better able to exert its influence in Asia and throughout the world and will be more effective in advancing our shared objectives of promoting peace and stability in Asia and combating terrorism,” said Kenneth Juster, U.S. Under Secretary for Commerce. External factors are only a partial explanation for the growing economic ties between the two countries. Ever since India made a shift toward creating a more hospitable environment for foreign investment and imports, there has been a growing acceptance by India’s leaders of the vital importance of a full engagement with the world economy.

India’s efforts to open its economy are progressing slowly but steadily and are welcomed by both the U.S. Government and business. India eliminated quantitative restrictions on a large number of products in 2000, opening new doors for American manufacturers. The response has been overwhelming. When the U.S. Embassy organized a trade mission of Indian buyers for agricultural equipment to visit American suppliers, the initial goal was to recruit a 12-member delegation. When the mission left in May 2002, it was 36 strong, with 10 on the waiting list.

However, many issues remain to be resolved, including the protection of intellectual property rights. At present India’s patent laws recognize only process patents, not product patents, thus enabling local firms to produce copied versions of drugs. But the Government of India says this will change. Under WTO obligations, India will have to overhaul its patent laws by 2005. When that happens, multinational companies will have a better basis to tap India as a low-cost manufacturing base.

The continuing trade imbalance between the U.S. and India remains to be fully addressed. As noted, the U.S. had a $8.7 billion deficit in 2003, an increase of 7% over 2002, as imports from India have more than doubled since 1995. U.S. Government and industry attribute this to continuing high tariffs, taxes and regulatory restrictions in the Indian market. While by comparison, the U.S. market is open to Indian exporters. “These multiple, onion-like barriers discourage potential exporters,” says Jon M. Huntsman Jr., Deputy United States Trade Representative.

U.S. investors have long complained about India’s restrictive policies on FDI caps, high tariff walls and non-tariff barriers. A “second wave” of reforms, including labor reforms, would help India become more competitive and will encourage more U.S. trade. This area of U.S.-India economic interaction will be an essential element in the transforming relationship.

FORD

THE POWER DRIVE

WITH SALES FLATTENING IN EUROPE AND AMERICA, FORD IS LOOKING TO THE GROWING INDIAN MARKET.

These are exciting times for the automobile industry in India. Ford India, which entered the country in 1995, sold around 43,000 units of cars in 2003, including 24,000 units of exports, and domestic sales are up by 24% from a year ago. Does that spark interest in the boardroom of a global automotive leader which generated revenues worth Rs 747,960 crore ($162.6 billion) and sold 6.9 million vehicles in 2002? “Sure it does,” says David Friedman, President and Managing Director, Ford India. “India is one of the fastest growing auto markets,” he says.

Yes, the numbers aren’t that big. India sells only 700,000 cars a year, a small amount compared to the U.S. market, where the sales figures touch 18 million. But seasoned multinational companies like Ford Motor are looking to the future. With sales growth flattening in Europe and the U.S., Asia holds the key. “China and India will play a major role,” says Friedman. India is already a competitive manufacturing facility of Ford Motor in terms of productivity and costs. The company, which has invested Rs 1,700 crore ($369.5 million) in its manufacturing facility in Chennai, expects to break even soon.

SHOME BASU

The Indian car market bustles with new models

India is more than just a market for Ford. The export potential of its Indian business, spanning cars and auto components, looks equally promising. Ford Motor Company will buy auto components from India this year and will increase that figure gradually. “Auto majors worldwide face a challenge to reduce costs. India is a good option,” says Friedman. That apart, Ford set up its IT arm to design and develop engineering and information applications for its international operations, leveraging India’s IT expertise. Ford has also established a business center to service the accounting requirements of its global operations. Of late, Ford is also using India as a testing ground for products that are to be launched globally, such as the Ford Mondeo.