UNIT 16 UNITED STATES OF AMERICA

Structure

16.0 OBJECTIVES

After studying this unit, you should be able to:

- describe the economic structure of USA
- explain the recent economic developments in USA
- describe foreign trade of USA
- explain trends in India-USA trade
- analyse the composition of India-USA trade
- describe India-USA trade prospects.

16.1 INTRODUCTION

The USA is a federal republic. The constitution of 1787 is based on the principle of the separation of powers between the three branches of government - the executive, the legislature and the judiciary. Each of the 50 states of the Union has a separate constitution and tripartite division of power. USA is the world largest exporter and importer. USA is India's largest trading partner accounting for about 22% of India's exports and 8.7% of India's imports. In this unit, you will learn economic structure, recent economic development and foreign trade of USA. You will further learn in detail India's trade with USA, composition of India's exports & imports to USA and Indo-US trade Prospects.

16.2 ECONOMIC STRUCTURE OF USA

The USA has the structure of a typical advanced economy - a manufacturing base which is shrinking relative to the services sector, and a small but very productive agricultural sector. Although its relative size has diminished in recent years, the USA is the leading economic power, and the size of its economy is very big. Gross Domestic Product (GDP) of USA totalled $7.6 trillion in 1996 — this was 2.6 times the size of Japan's, 4.4 times the size of Germany's and 6.9 times the size of the UK's. Although the volume of its exports and imports exceeds that of any other country, the value of the USA's external sector as a percentage of its GDP is comparatively low. Exports and goods and services accounted for just over 11 per cent of GDP in 1996, far less than the European average of about 25 per cent. Main economic indicators during the past years are given in Table 16.1 below:

Table 16.1: Main Economic Indicators of USA

	1997	1998	1999
GDP at market prices ($ billion)	8318.0	8790.0	9299.0
Real GDP Growth (%)	4.4	4.4	4.2
Consumer price inflation (%)	2.3	1.6	2.2
Population (million)	268.0	270.6	273.1
Exports of goods fob (US $ billion)	681.7	672.2	685.3
Imports of goods fob (US $ billion)	876.4	917.2	1030.2

Source: EIU, Aug. 2000.

From the above table it will be observed that the real GDP grew by 4.4 per cent in 1997 and the inflation rate stood at 2.3 per cent. The GDP grew by 4.2% in the year 1999 and the inflation was 2.2% for the same period. It will also be seen that United States has been facing deficit in its foreign trade during the above period.

The USA has an exceptionally diverse economy and is self-sufficient in most raw materials. Leading industries include steel, motor vehicles, aerospace, telecommunications, chemicals, electronics and computers. In addition, the US economy is known for the mobility of its labour and capital.

16.3 RECENT ECONOMIC DEVELOPMENTS IN USA

A combination of high interest rates, credit contraction by the banking system and a slump in business confidence produced a mild recession in 1990-91. In 1992, the economy began to recover largely through rapid growth in exports. The economy has remained strong every since, particularly during the second half of 1996 and the first half of 1997. Consumer demand has remained consistently high since 1992. This is a remarkable achievement given the combination of slow growth in real wages and contraction in narrow money supply by the Federal Reserve since mid-1995. Consumer spending has been sustained by unprecedented levels of consumer lending, in particular via high-interest credit card balances. Record levels of consumer borrowing during 1994 and 1995 have resulted in record rates of personal bankruptcy in 1996 and 1997. Early in 1997, however, the financial sector began to cut back on lending to consumers, although the impact of this on total demand is not yet clear.

Business investment, although characteristically volatile, has also been high during the 1990s, particularly during the mid-1990s. This is impressive given real interest rates in the USA above those in most other industrialised countries.

The US economy has created jobs impressively over the past few years. From 1993 to 1996, non-farm employment grew by 8 per cent. Job growth has by no means been distributed evenly across the economy. From 1993 to 1996 employment in the services sector grew by 8.8 per cent and in construction by 15.7 per cent. Over the same period, long-running stagnation in the manufacturing sector continued as the number of workers stayed roughly constant. Manufacturing industries which have cut significant numbers of jobs during the past three years include tobacco, textiles and printing.

The USA has a number of innovative high-technology industries which remain world leaders, such as pharmaceuticals and aerospace. The USA produces 42 per cent of the pharmaceuticals marketed worldwide and 70 per cent of the world's general aviation aircraft. The computer equipment, software and semi-conductor industries, pre-eminent globally throughout the 1970s and 1980s, have faced growing competition in the 1990s. Despite the declining importance of manufacturing to the US economy, profits in industry remain high. Some of the older heavy industries, such as steel and motor vehicles, have largely recovered from the severe decline of the 1970s and 1980s. The US chemicals industry dominates the global market for chemicals to a greater extent that any other US industry dominates its respective global market; US chemicals producers make nearly 30 per cent of the world's output of chemicals.

Significant deposits of virtually every major mineral are found in the USA. The USA is in the top three world producers of several major minerals, including salt, sulphur, aluminium, copper and gold. In 1995, the USA was the second among the world's producers of gold, behind only South Africa. In terms of dollar value, the minerals most important to the US economy are iron ore, copper, gold, silver, zinc and lead.

Although the farm sector accounts for only about 3 per cent of GDP, its output is immense. Its main products are corn (maize), soyabeans, hay, wheat, tobacco, cotton, sorghum, potatoes, rice, oats and sugar-beet. In 1995, the USA produced 37 per cent of the world's maize, 28% of its sorghum and 50 per cent of its soyabeans. The USA accounts for 35 per cent of world wheat exports, 19 per cent of rice exports and 77 per cent of maize exports. The agricultural sector has become more capital-intensive and concentrated. The traditional small farmer has tended to be replaced by highly efficient agribusiness.

Although construction accounts for only 3.9 per cent of GDP, its cyclical nature makes it very important. Construction spending particularly residential construction, typically leads the economy out of recession. The industry is one of the largest employers in the USA, and one of the highest paid. In 1996, the sector employed 5.4 million people with a further 1.5 million self-employed.

16.4 FOREIGN TRADE OF USA

The United States is the world largest exporter and importer. Details of its foreign trade during the past five years are given in Table 16.2 below:

Table 16.2: Foreign Trade of USA

(Value: $ billion)

	1995	1996	1997	1998
Merchandise exports	575.9	612.1	681.3	673.0
Merchandise imports	749.4	803.2	877.3	919.1
Exports of services	208.6	221.8	258.3	263.7
Imports of services	140.4	148.5	170.5	181.1

Source: EIU Country Profile of USA, Aug 2000.

As will be observed from the above table, exports and imports of United States kept on increasing during the above period. However, USA always faced trade deficit in its merchandise trade. Strong domestic demand and an overvalued dollar together caused the trade deficit to grow from $36.5 billion in 1982 to $160 billion in 1987. The deficit began to come down in the late 1980s and during the 1990-91 recession, but has since risen again. Since the end of the 1990-91 recession, US demand for foreign goods has been stronger than demand for US goods by the USA's major trading partners.

The USA is the world's largest exporter and importer of services also. As will be seen from Table 16.2, Trade in services has yielded the USA a healthy and growing surplus each year. The invisibles surplus increased from $4.5 billion in 1986 to $80.1 billion in 1996. Potentially, the USA is in a strong position to benefit from the liberalisation of services trade. Exports of services are equivalent to almost 40 per cent of merchandise exports. Only about 12 per cent of services exports come from licence fees, with the largest amounts coming from tourism and travel.

US merchandise exports consist primarily of industrial supplies, capital goods and agricultural products. About 12 per cent of manufacturing output is shipped abroad, along with roughly 25 per cent of agricultural output. US merchandise trade accounts for a smaller proportion of GDP than in most other developed economies. In 1996, only 11.3 per cent of nominal US GDP was accounted for by exports of goods and services, and 12.6 per cent by imports of goods and services. However, this is partly because the USA is the world's largest economy, so that its domestic market is much larger than those of other countries, while its available external market is somewhat smaller. Look at Table 16.3 which shows the Principal items of exports & imports of USA. The principal export items are capital goods, industrial supplies, consumer goods, automotive goods and food, feeds & beverages. The principal import items include: capital goods, consumer goods, industrial supplies, automotive good and food, feeds & beverages.

Table 16.3: Principal Commodities of Foreign Trade of USA, 1999

Commodities	Value $ billion
Principal Exports	
Capital goods (excl automotive)	311.4
Industrial Supplies	147.0
Consumer goods (excl automotive)	80.8
Automotive goods	75.8
Food, feeds & beverages	45.5
Principal Imports	
Capital goods (excl automotive)	297.1
Consumer goods (excl automotive)	239.5
Industrial Supplies	222.0
Automotive goods	179.4
Food, feeds & beverages	43.6

Source: EIU, Sept. 2000.

So far as direction of USA exports are concerned, its major destinations according to the figures of 1999, in order of importance are Canada, Mexico, Japan, UK, Germany and EU. They accounted for about 76% of total exports of USA. The main origin of imports to USA are: Canada, Japan, Mexico, China, Germany and EU. They accounted for about 75% of total USA imports. Look at Table 16.4 which shows main trading partners of USA.

Table 16.4: Main Trading Partners of USA, 1999

Country	% of total
Main destinations of exports	
Canada	23.9
Mexico	12.5
Japan	8.3
UK	5.5
Germany	3.9
EU	21.8
Main origins of imports	
Canada	19.3
Japan	12.8
Mexico	10.7
China	8.0
Germany	5.4
EU	19.1

Source: EIU, Sept. 2000.

Check Your Progress A

1) Enumerate major commodities of exports from USA.

....

....

....

....

2) Enumerate major trading partners of USA.

....

....

....

....

3) State whether the following statements are **True** or **False.**
   i) USA is the world's largest exporter and importer.
   ii) Japan is the largest trading partner of USA.
   iii) USA is having trade surplus in its merchandise trade.
   iv) The real GDP growth of USA was 4.2% in 1999.
   v) USA is the second largest exporter of services in the world.

16.5 INDIA'S ECONOMIC REFORMS

Despite the fact that India is far better placed than a number of countries in the world in terms of a large domestic market, a broad-based industrial infrastructure, a large pool of training manpower, impressive entrepreneurial and managerial skills, abundant supply of cheap labour, and adequate natural resources, etc., it could not play the role of a global marketer because of its inward-looking economic management policies pursued for decades. At a time when world trade expanded fast, India missed its export opportunities because of its excessive emphasis on import substitution, sheltered markets and a controlled economy. The situation did not change until 1991 when the Government took a bold decision to integrate the Indian economy with the world economy by following a policy of liberalisation. Faced with a precarious foreign exchange situation, adverse balance of payments and huge external debt, the Government of India adopted a comprehensive programme of macro-economic stabilisation and structural adjustments beginning from June 1991. The programme included far-reaching trade, fiscal, monetary and industrial policy measures with a major thrust on improvement of competitive efficiency of Indian industries by utilising foreign investment and technology to a much greater degree than in the past.

Basically, the objective of reform measures was to dismantle controls on industry, external trade and foreign investments and to establish a climate of trust between the government and business & industry. The focus of the new policy is more on free play of market forces instead of State control in determining the country's future economic growth and development. Further, for the first time, the government has come out in favour of outward-oriented trade and industrial policies where exports assume prime importances.

16.6 INDO-US TRADE

United States is the leading exporter and importer in the world. As against India is a very insignificant trade player in the world market accounting for only around 0.7% of world exports and imports. USA is India's largest trading partner. Look at Table 16.5 which shows India's expo.ts with USA. India's exports to USA have been continuously growing. The exports have gone up from $3994.87 million in 1993-94 to $8544.28 million in 1999-2000. Similarly the imports have increased from $2738.81 million in 1993-94 to $3633.95 million in 1999-2000. The growth in exports have been faster than the growth in imports. India's trade balances with USA have been positive. The favourable trade balance has also increased from $ 1256.06 million in 1993-94 to $ 4910.33 million in 1999-2000.

India is quite insignificant trade partner if one considers from the point of view of United States foreign trade. India's share in United States trade has been very negligible. However when considered from India's point of view the United States is the most important trading partner for her in the world. In the year 1998-99, USA accounted for 21.8% of India total exports and 8.7% of India's total imports. Therefore, USA is a very important market for India.

Table 16.5: India's trade with USA

(Value: US$ million)

Year	Export	Import	Trade Balance
1993-94	3994.87	2738.81	1256.06
1994-95	5022.08	2906.53	2115.55
1995-96	5528.67	3866.98	1661.69
1996-97	6560.95	3689.00	2871.95
1997-98	6809.44	3721.36	3088.08
1998-99	7198.03	3639.37	3558.66
1999-2000	8544.28	3633.95	4910.33

Source: CMIE, July 2000.

16.6.1 Composition of Exports

Look at Table 16.6 which shows composition of India's major exports to USA. The major export items are: gems and Jewellery, RMG of cotton, cotton yarn fabrics, handicrafts, manufacturers of metals, cashew, primary & Semifinal iron & steel, carpet hand made, RMG of man made fibre, marine products etc. The exports of majority of these items have been growing. These commodities accounted for about 73% of India's total exports to USA in 1999-2000.

Table 16.6 Major products exported from India to USA

(Value: US $million)

	Year			
Items	**1996-97**	**1997-98**	**1998-99**	**1999-2000**
Gems & Jewellery	1639.26	1982.63	2291.67	2938.72
RMG of Cotton incld accessories	1002.64	990.29	1082.60	1098.25
Cotton yarn fabrics made ups	442.14	403.11	383.86	463.61
Handicrafts excl. hand made carpets	224.79	231.05	303.99	300.73
Manufacturers of Metals	235.02	219.71	235.69	300.36
Cashew	128.43	144.25	171.22	277.67
Prim. & Semi fin. iron & steel	55.27	84.90	96.19	246.48
Carpet hand made	152.96	153.34	186.20	236.52
RMG of man made fibres	164.38	207.34	251.73	219.26
Marine Products	109.40	138.84	148.52	184.70

Source: CMIE, July 2000.

16.6.2 Composition of Imports

Look at Table 16.7 which shows India's imports from USA. The major items of imports are: electronic goods, fertiliser mfg. non-electrical machinery, organic chemicals, pearls, precious & semi-precious stones, professional inst, optical goods, project goods, artificial resins, plastic materials, inorganical chemicals, etc. These commodities accounted for about 65% of India's total import from USA in the year 1999-2000.

Table 16.7 Major products imported from USA

(Value: US $ million)

Items	Years 1996-97	1997-98	1998-99	1999-2000
Electronic goods	305.88	437.92	454.52	488.31
Fertilizer mfd.	99.17	275.18	278.32	471.34
Non electrical machinery	576.82	608.65	462.66	401.81
Organic chemicals	307.02	311.99	226.61	242.82
Pearls precious & semi precious stones	64.25	67.67	85.53	193.13
Professional inst, optical goods	117.49	190.59	197.39	174.12
Project goods	251.01	220.69	336.32	151.07
Artificial resins, Plastic materials	98.86	95.20	89.67	119.73
Inorganic chemicals	52.65	60.06	108.54	106.94

Source: CMIE, July 2000.

16.7 INDO-US TRADE PROSPECTS

The Indo-US trade and economic cooperation received a significant boost in recent years. A number of factors have contributed to this trend. The economic liberalisation measures initiated by the Government of India in June, 1991 coupled with high level dialogues launched by the two governments offer a wide range of opportunities for US companies in the large and growing market of India. On the other hand, India can increase its exports substantially to the US by adopting a viable export strategy.

It may be worthwhile to mention hssere that the Government of India has eased import controls on several hi-tech items, capital goods and intermediate inputs, lowered certain tax rates and streamlined the rules governing production during the recent past. These policies have helped bearing fruit by ensuring continued growth.

As mentioned earlier, for India, the United States has been the major trade partner accounting for the largest share in the former's exports and imports over the years. The US has also been the foremost investor in India as well as a major source of India's technology imports, though absolute levels of trade and investments have remained relatively modest.

On the other hand, Indis is so far only a marginal partner in the US trade. Intensification of bilateral economic cooperation would require special efforts on both sides in the spirit of true, mutually beneficial partnership. These are needed at both governmental and industry levels. The US and India are large democracies where the media and various lobbies play important roles. Usually, domestic lobbies tend to be protectionist and seek to influence media and politicians. Bilateral interaction should therefore also cover the media and the political class.

The slow growth of India's exports to the US market and the US exports to India can be attributed largely to the past "over protective" trade policies practised in India. Partly, however, they can also be explained by the presence of different forms of explicit and implicit trade restrictions in selected areas in the US. Since the initiation of the present reform process in India, there have been significant policy changes. India's liberalised trade policies have been quite successful and the US market response to these changes has been one of the best amongst all of India's trade partners.

Indeed, the US now reckons India as one of the Big Emerging Markets such as China, South Korea, Indonesia, Turkey, South Africa, Poland, Argentina, Brazil and Mexico. The US press often notes that the total middle class population of India is equal to or even exceeds the population of the United States.

Although India's pace of reform over the last six years has been satisfactory, further reform must be continued to enable India to move to a higher sustained growth path. It is felt that there are still many areas where obstacles have to be overcome. These include power and water shortages, transportation bottlenecks, bureaucratic delays and corruption. The main attraction for foreign traders is the size of the Indian market and its comparatively large and relatively cheap labour. Both have to be sustained by an appropriate human resource development policy and a stable non-inflationary macro-economic management. Though few Americans doubt the commitment of top Indian decision makers to economic reforms, they doubt if these policies have effectively percolated to lower levels, and whether the requisite attitudinal change on the part of those that implement policy has truly begun. They also point out that reform of labour laws, exit of non-viable industries and public sector reform have yet to be addressed and that much more needs to be done for reduction in tariffs and delicensing of consumer goods imports.

While these concerns are understandable, it has to be recognised that a matching reciprocity is also called for India's major trade partner, i.e. United States. It is important to understand that the current reform process assumes a global environment of growing multilateralism and free trade. However, there has been some drifiting away from this scenario towards increasing regionalism. Different forms of non-tariff barriers and non-economic restrictions in the areas of trade, investment and technology have proliferated. In the United States, where average tariff rates on imports are the lowest compared to those in other developed countries, various forms of non-tariff barriers have emerged, especially in areas which hurt India's exports. This is where bilateral negotiations and mutual understanding can play an important role in removing constraints. There may be a substantial potential for growth in Indo-US trade in services, an areas where market forces operate only partially. Here again, multilateral and bilateral negotiations between the US and India may prove useful.

Regional agreements which promote free trade within a trading block are not necessarily deterrents to multilateralism. These can be regarded as transitional arrangements towards an open, worldwide trading regime provided they do not raise barriers against nations outside the region and are trade creating rather than trade diverting. These observations would apply to North American Free Trade Agreement (NAFTA), which has been formed and includes United States, Canada and Mexico as its members. India's textiles exports to US may be adversely affected because of the formation of NAFTA.

As mentioned above, the main contraints identified by Indian exporters to the US are non-tariff barriers such as health and Federal regulations in the US, which are mostly of non-price nature. From the supply side, i.e., at the Indian end, the identified bottlenecks that inhibit exports to the US are inadequacy of export finance and transport and baking facilities, insurance costs, bureaucratic delays, reservations for small scale industry, inefficient quality control mechanisms, high import tariffs on raw materials and strict foreign travel rules. Fortunately, most of these supply constraints are being addressed by India's present reform policies. From the US exporters' point of view, i.e. the US exports to India, the main constraints cited are high tariffs and non-tariff barriers, cumbersome procedures, allegedly non-transparent government procurement policies, deficiency of effective intellectual property right protection, the absence of an exit policy for industries, alleged uncertainties regarding socio-political stability and exchange rate risk. Most of these again are within the purview of ongoing Indian economic reforms.

There is a large potential for expanding the Indo-US trade relations. To realise the potential, government to government dialogue as well as growing contracts and business relationships between Indian and US business are essential.

Check Your Progress B

1) Enumerate 6 major commodities of India's export to USA.

....

....

....

....

2) Enumerate 6 major commodities of India's imports from USA.

....

....

....

....

3) State whether the following statements are **True** or **False**.

   i) USA accounts for about 21.8 per cent of India's exports in 1998-99.

   ii) Non-tariff barriers are the major constraints for India's exports to USA.

   iii) In 1997-98 India faced trade deficit in its trade with US.

   iv) Gems & Jewellery is the leading item of India's export to USA.

   v) Electronic goods are the largest items of import from USA to India.

16.8 LET US SUM UP

United States is the world's largest exporter and importer. United States is a very important trading partner for India mainly because of the fact that currently it accounts for about 22 per cent of India's exports and supplies about 9 per cent of India's total imports. On the other hand India is quite insignificant for United States trade because India accounts for around 0.7 per cent of United States total trade.

Gems & jewellery; RMG cotton including accessories; cotton yarn, fabrics, madeups and handicrafts are the major items of India's exports to United States. Electronic goods fertilizer mfd, non-electrical machinery and organic chemicals are the major items of India's imports from USA.

Main contraints identified by Indian exporters to the US are non-tariff barriers such as health and Federal regulations in the US, which are mostly of non-price nature. From the US exporters' point of view, i.e. the US exports to India, the main constraints cited are high tariffs and non-tariff barriers, cumbersome procedures, allegedly non-transparent government procurement policies, deficiency of effective intellectual property right protection, the absence of an exit policy for industries, alleged uncertainties regarding socio-political stability and exchange rate risk.

There is a large potential for expanding the Indo-US trade relations. To realise the potential, government to government dialogue as well as growing contracts and business relationships between Indian and US business are essential.

16.9 KEY WORDS

Merchandise Exports: Exports of only goods is included in merchandise exports.

Merchandise Imports: Imports of only goods is included in merchandise imports.

Capital Intensive: Capital intensive means where more capital and machinery than labour is involved.

16.10 ANSWERS TO CHECK YOUR PROGRESS

A3 (i) True (ii) False (iii) False (iv) True (v) False

B3 (i) True (ii) True (iii) False (iv) True (v) True

16.11 TERMINAL QUESTIONS

1. Describe the economic structure and foreign trade of USA.
2. Describe the composition and direction of USA's trade with the world.
3. Describe the trends in Indo-US trade. Explain the composition of India's exports and imports with USA.
4. Why do you think US is an important trading partner for India, but India is not an important trading partner for the US. Discuss with the help of India's trade with USA.
5. What are the major constraints in Indo-US Trade and how can they be overcome.
6. Do you think that the Economic Reforms initiated by Government of India have helped in strengthening India-US trade relations. Discuss.