The United States is India’s single largest partner in trade; EU is not a single entity and is comprised of several countries. Statistics indicate it constitutes almost 30 percent of the world market. Although India's exports to the US are approximately 18 percent of its total exports, US exports to India have increased by 20 percent in 2005. The annual bilateral trade between the two countries stands at 21 to 22 billion dollars. The US is the largest foreign investor in India accounting for nearly 20 percent of Foreign Direct Investments (FDI) in the country. David Simpson, the former Deputy Secretary of Commerce, recently declared that the volume of trade between India and the United States have the potential to increase from 22 to 231 billion dollars which is comparable to the level of trade that India and China have with the US. Therefore, it becomes imperative to examine the scope for future cooperation between India and the US and identify ways to strengthen it.

The scope for greater Indo-US cooperation is high in the services sector, specifically in Information Technology (IT) as many Indian expatriates are making important contribution in this field. The demand for Indian technical personnel is so high in the US that many IT industries are setting up offices in India. Bangalore and the Delhi-Gurgaon area are fast becoming the latest hubs for outsourcing. India is an attractive business destination for the US due to the availability of cheap labour and the cost advantage that it provides to America. US companies recruit Indians; domestically and on foreign shores, for both high and low end jobs as they provide quality expertise cheaply. India does not enjoy similar labour cost advantage in trade with China as both have similar advantages of a huge population and cheap labour force.

Another important factor is cultural. The Indian diaspora is approximately two million contributing significantly in the fields of medicine (American association of physicians from India is a strong pressure group), information technology, science, academics and law. Many Indian Americans like Ashley Tellis, Bobby Jindal and Fareed Zakaria have grown into prominence and stature in American academia and politics. They play a significant role in influencing the direction of Indo-US relations. Governments in both countries can ill afford to ignore their importance while making foreign policy decisions.

Surprisingly, this latent potential has not translated into any momentum in economic relations. In comparison, the Sino-Indian trade is steadily growing (18.3 billion dollars per annum) and is expected to surpass Indo-US trade in the near future. Hence, addressing the areas of promise for Indo-US economic relations, namely agriculture, textiles and fisheries is critical.

With regards to agriculture, India and other developing countries contend that the US and EU provide huge subsidies to their farmers that undercut the competitive edge of developing countries whose main sources of income is agriculture. Developing countries continue to insist that any commitment made by them to lower trade barriers to goods and services imported from developed countries should be linked to reductions on the farm subsidy front. The Geneva negotiations held as part of the efforts to revive the WTO's Doha round was suspended recently despite last ditch efforts by major trading powers to overcome differences.
Similarly, textiles are a crucial sector for India. Mainly small scale industries are involved in the manufacturing of textile goods and therefore important for economic development of the country. There is large presence of Chinese goods in the US markets. The Indian textile industry has to improve the quality of its products to be able to compete with the Chinese. The US also needs to reduce tariffs on Indian textile goods which are sometimes as high as 50 percent compared to the average US tariffs of 3 percent to 4 percent for other Indian exports. Fisheries which is subject to a separate agreement, is another key area that has got entangled into detention procedures and traceability requirements, thus creating huge problems for Indian fisheries.

Given these constraints, Indo-US interests will be better served if exports of IT services are not affected. In fact, India's current account surplus, barring in 2005, has remained positive only because of this sector. The US and particularly the Republican Government is opposed to any barriers on IT trade. India needs to keep moving up on the value chain and it cannot do this without a strategic technological partnership with the US. Such a partnership will serve the interest of the American companies which are using Indian expertise to improve their productivity and competitiveness vis-à-vis the European countries.