



## **How America Benefits from Economic Engagement with India**

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### **Executive Summary**

The continued globalization of the American economy has evoked widely disparate viewpoints within the United States – from a threat to the American way of life to globalization as a panacea for anything and everything. Clearly, neither view presents an accurate account of reality.

This study investigates one specific aspect of globalization of the American economy, namely, the United States-India business relationship. It provides, for the first time, a comprehensive analysis of America's economic engagement with India for the period 2004 to 2009. The analysis covers India's foreign direct investments into the United States and U.S. exports to India, as well as an assessment of their impacts on the American economy. Also included in the study are the economic impacts Indian Americans are having in the United States.

It presents a case for even stronger business ties between the United States and India. Such a relationship will benefit the United States (and India) especially with regard to jobs, the #1 policy issue in Washington and the #1 livelihood issue on Main Street America today.

The study is based on a variety of published information, information from world-class sources such as the Financial Times, Thompson SDC Database, the U.S. Department of Commerce, and Reserve Bank of India, among others. We also conducted our own research and interviews with several Indian companies in the United States to further explore areas of the study. A summary of the study's key findings is presented below.

### **India Inc. Goes Abroad**

Indian companies have been investing abroad for decades, though the pace of foreign investments has accelerated significantly since 1991, and especially in the 2000s. This development is a result of several factors, including Indian companies' ability to arbitrage their cost advantages, access to a large talent pool, success at home – in a huge domestic market with cut-throat competition, reasonably well-developed institutions (compared to many other emerging markets), business acumen arising from an entrepreneurial tradition, business sophistication, financial market sophistication, production efficiency, a long exposure to Western and Japanese multinationals and their management practices, and Government of India's progressive relaxation of foreign investment rules.

While in the 1960s/1970s/1980s, Indian multinationals were investing in other developing countries, the trend in the last decade has been to go “up market” and they now also invest in highly developed economies like the United States. This portends a reversal of roles whereby developing countries like India are now making investments in developed countries, not just the other way around.

### **India’s Greenfield Investments in the United States**

1. During 2004-2009, 90 Indian companies made 127 greenfield investments worth \$5.5 billion, and created 16,576 jobs in the United States. The top three destination states for greenfield investments were Minnesota, Virginia, and Texas, in that order. However, the top three states in terms of jobs created were Ohio, Texas, and California.
2. The five U.S. industrial sectors that received the most greenfield investment were Metals; Software & IT Services; Leisure & Entertainment; industrial machinery, equipment & tools; and financial services, accounting for almost 80% of total greenfield investment in the United States. It is noteworthy that the software and IT services sector received less than 15% of total investment, and the bulk of investments went into mining, manufacturing, and other industries.
3. Ten Indian companies made more than 70% of the total \$5.5 billion dollars of greenfield investments in the United States:
  - Essar Steel (Minnesota): \$1,600 million
  - JSW Steel (N/A): \$1,000 million
  - Tata Consultancy Services (California, Michigan, New York, Ohio): \$273.4 million
  - Welspun Group (Arkansas; Texas): \$246 million
  - Reliance Adlabs (Illinois): \$161 million
  - Indage Group (Virginia): \$160.5 million
  - HCL Group (New Jersey): \$148.7 million
  - Flag Telecom, Reliance (N/A): \$124.1 million
  - Tata Communications (Virginia): \$102.7 million
  - PSL (Mississippi): \$100 million

### **India’s Mergers and Acquisitions in the United States**

1. During 2004-2009, 239 Indian companies made 372 acquisitions in the United States. We were able to obtain the deal value for only 267 of these transactions. The total value of the 267 acquisitions was \$21 billion, or \$78.7 million per acquisition.
2. Of these 267 acquisitions, we were able to obtain the numbers of jobs created/saved for only 85 transactions, which came to over 40,000 jobs. (The total number of jobs created or saved by all 372 transactions must be much higher).

3. Five states that attracted the most M&A investments from Indian companies accounted for 75% of total deal value: Georgia, New Jersey, Michigan, California, and Texas.
4. The five leading U.S. sectors receiving M&A investments from India were: Manufacturing ; IT & IT Enabled Services; Biotech, Chemicals & Pharmaceuticals; Automotive; and Telecom – for a total of 83% of total deal value. The bulk of M&A investments by India Inc. in the United States were in manufacturing and other industrial sectors, rather than in services for which India is well known.

The value of U.S. acquisitions by Indian companies fell in 2008 and then again in 2009 even more steeply, a result of the worldwide recession. It is however interesting to note that greenfield investments rose through 2008, achieving their highest level that year, and then registered a decline in 2009, though the decline was not as steep as for acquisitions. This is possibly because making a greenfield investment is a longer-term decision, while acquisitions are often opportunistic and accomplished relatively more quickly.

### **U.S. Exports to India**

1. The United States-India goods trade tripled during 2004-2008. American merchandise exports to India during the same period grew at a compounded annual growth rate of over 30 percent. As a result of the global recession, U.S. exports to India declined slightly in 2009.
2. For the period 2004-2009, U.S. exports to India grew by a total of 269 percent, while India's exports to the United States grew by 136 percent. U.S. exports to India have grown faster than exports to practically all other countries in the world.
3. U.S. manufactured exports to India were linked to 96,000 manufacturing and non-manufacturing jobs in the U.S. in 2009. Ten states (California, Washington, Texas, Illinois, New York, Utah, Pennsylvania, South Carolina, Florida, and Georgia) accounted for only 62 percent of all U.S. jobs linked to exports to India in 2009, indicating that the benefits of exporting to India are wide spread throughout the nation.

These numbers do not include agricultural, mining, and services exports, which will have their own implications for jobs in the United States. For instance, in 2007 the United States exported services worth \$9.4 billion to India, compared to the goods worth \$15 billion.

### **Immigrant Entrepreneurs, Professionals and Students from India**

The 2.57 million Indian Americans in the United States contribute to the U.S. economy and society in numerous ways. It's hard to measure their economic impact with any precision. Here are some pointers in that direction.

1. A 2007 joint Duke University-UC Berkeley study found that Indian immigrant entrepreneurs had founded more engineering and technology companies during 1995-2005 than immigrants from Britain, China, Japan, and Taiwan combined.

2. A 2007 study by the National Venture Capital Association (NVCA) found that India was the most common place of birth for foreign-born founders of venture capital-backed public companies, followed by Britain, China, Iran, and France.
3. The list of major companies whose founders or co-founders are of Indian heritage include Akamai (1,750 employees), Bose Corporation (8,000 employees), iGate (6,910 employees), Kanbay International (6,900 employees), Sun Microsystems (29,000 employees), and Syntel (13,600 employees). Dozens of such companies in the United States have created tens of thousands of jobs.
4. There are currently almost 10,000 Indian American owners of hotels/motels in the United States, who together own over 21,000 hotels with 1.8 million guest rooms and property valued at \$129 billion. They employ 578,600 workers.
5. There are about 50,000 physicians (and 15,000 medical students) of Indian heritage in the United States, serving in cities, rural, and peripheral areas throughout the country. They continue to make major contributions to their communities, to healthcare, and to the medical profession in the United States.
6. Education is one of America's finest exports. The foreign students who come for higher studies to the United States not only bring talent, but also contribute to the U.S. economy via tuition and living and other expenses. The expenses incurred by foreign students in the United States are treated as "deemed exports," with implications for thousands of jobs linked to such exports.

India has had the largest number of foreign students in the United States among all countries of origin for eight years in a row. In 2008, there were 94,563 students from India whose net contribution to the U.S. economy was \$2.39 billion.

All in all, the study shows how America benefits from economic engagement with India and with people of Indian origin. It has highlighted only the financial and employment benefits of such engagement to the United States, which of course are the biggest issues facing the United States today. However, the non-financial benefits of engaging with India are equally significant – cultural, social, regional security, and political advantages to name just a few.

**This study was prepared in association with:**

**Robert H. Smith School of Business, University of Maryland  
Federation of Indian Chambers of Commerce & Industry**

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