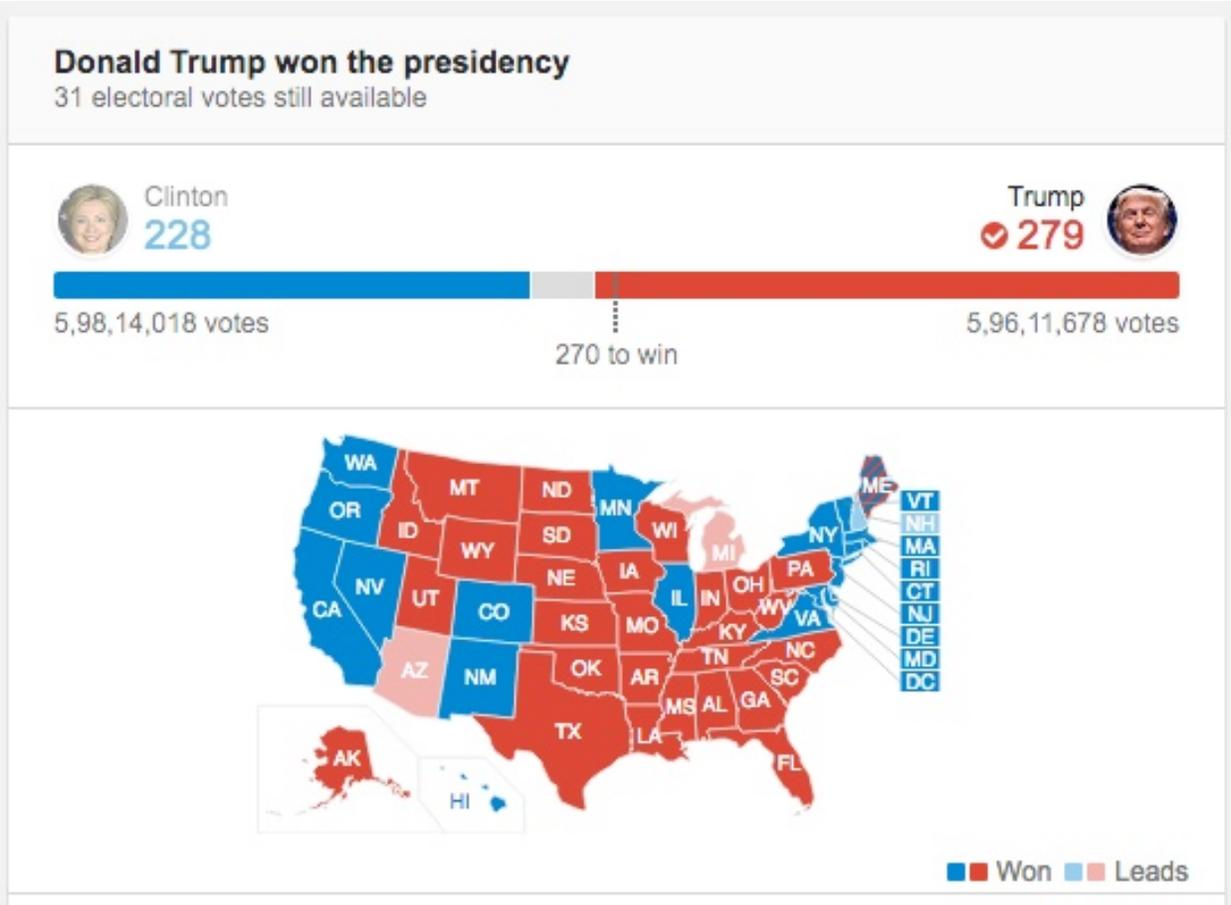
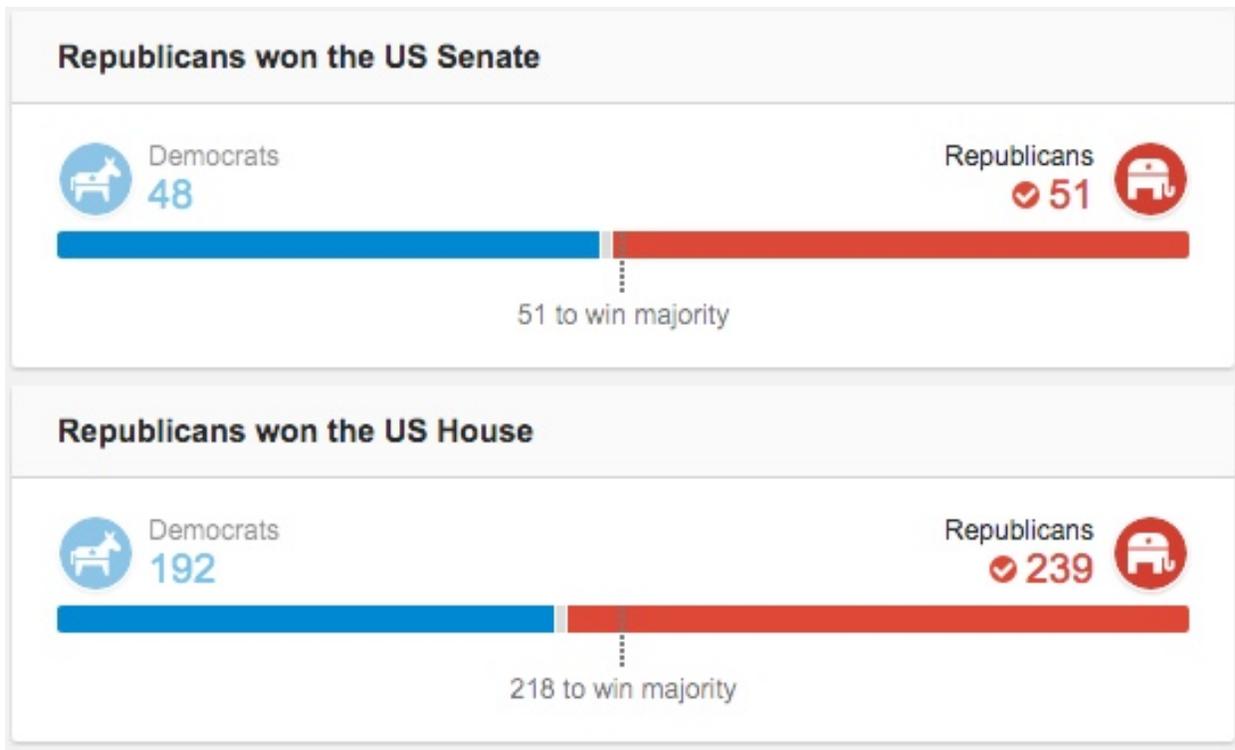


US Presidential Elections: Impact on India

Background

With Republican candidate Donald Trump winning the US Presidential Election over the Democrat candidate Hillary Clinton as their new President by a significant margin today, the world is now bracing itself for the significant changes anticipated by this turn of events. For most Indians, the top of the mind question is – What does this then mean for Indo-US ties?





Much will depend upon which version of Trump will be running the US Presidency: Trump version 1.0 that ran the campaign or the post-election Trump version 2.0. It is early days yet and Trump won't be taking over until January next year, but there was a world of difference between the two versions on various counts that we needn't go into in this analysis. However, there was a Trump who mimicked an Indian call centre worker in one of his campaign speeches. And there was another who famously declared his love for "Hindu" during the campaign itself.

Not only is the USA India's second-largest supplier of defence equipment, it is also one of India's most important trading partner (the Indo-US trade figures exceed \$100 billion). India's bid for a permanent seat on the UN Security Council also makes its relationship with USA vital in strategic terms.

Overall, however, owing to India's strategic position in the world economy, growth prospects, and availability of cheap skilled labour, and also greater domestic demand momentum, it would be less vulnerable to long-term impact. Also, traditionally, Indo-US ties have received a bipartisan support, and this is expected to continue even through Trump's tenure.

Impact on India: Short-term

- **Weakening of stock market and Indian currency:** Trump's victory will result in short-term volatility in the Indian stock market, as other in stock markets globally. It is expected that

investors would anticipate US protectionism and dump emerging market bets and that would impact the Indian bonds. Similarly, the US Dollar will strengthen on the increased inflow in US assets, leading to a sharp depreciation of the Rupee. However, this is expected to be a temporary or a knee-jerk reaction as the sharp fall in the market would provide an investment opportunity to long-term investors.

Possible Impact on India: Long-term

- **Make in India:** With Trump promising to reduce US corporate tax from 35 to 15 per cent, several American corporations might be tempted to head back to the US, which may result in a huge blow to Modi's Make in India initiative and resulting in repatriation of funds and jobs. At the same time, US competitiveness would need to improve dramatically in the manufacturing sector for this scenario to play out. US investors in India would make a rational choice looking at the progress and constraints within India rather than immediately reverse course. It would therefore be vital for PM Modi to step up reform process and assuage investor sentiment.
- **India-China race:** To revive the US industry, Trump would try to encourage the domestic manufacturing and service industry. However, since it is easier to reduce product imports (currently mostly from China) rather than service imports (mostly from India), China stands to lose more compared to India. Also, China has a huge trade surplus with US (to the extent of \$366 billion in 2015) and it is only rational that the US will try to close this gap. This could hamper China's industries greatly and result in India achieving a larger lead over China in terms of economic growth. Of course, China is well equipped to deal with this, being a major investor in US T-Bonds. So this will be a battle of near equals.
- **Outsourcing jobs:** Over the past 15 years, US has lost as many as five million manufacturing jobs to Asian countries, especially India and China. Since Trump has mentioned that he will bring back a material number of jobs to the US, India could find a cut-back in the number of jobs coming its way. However, given the lack of equivalent human capital in the US at equivalent wage levels, this will at best be a medium-term impact.
- **Tariff/Non-tariff trade barriers:** To strengthen the US manufacturing industry, the labour cost advantage that Asian countries offer will need to be offset. One of the possible ways to achieve this would be to set up tariff and non-tariff barriers to discourage import of goods and services, including from India. However, this would be negotiated bilaterally, and barriers may or may not be imposed depending on how the talks pan out.
- **India-Pakistan relations:** Pakistan has been receiving aid from US (more than \$30 billion since 2002) for fighting radical Islam. Trump has indicated that he might try to keep Pakistan in check. It is likely that he would leverage the aid given to Pakistan to influence its policies and curb

radical Islamic groups or cut down on this aid. Both scenarios would make Pakistan less of a threat to India. Trump's win is bad news for Pakistan.

- **Visas and immigration:** This is an issue that directly affects Indians since there are 3.3 million of them residing in the United States, this is an issue that directly affects the Indian community in America. According to official US data, Indian citizens are the top recipients of temporary high-skilled worker H-1B visas (more than 60% of whom are immigrants). India is also the second largest source of international students to the US after China. Trump has been very vocal about his anti-immigrant sentiments, having infamously characterized entire groups of immigrants as job-thieves and criminals. He had also announced that his administration would initiate a tough immigration policy and hike the minimum wage paid to H1B visa holders, reducing the prospect of job opportunities for Indian professionals.
- **Opportunities to invest in US:** Lower tax rates in US and their focus on creating jobs will encourage businesses to invest in US. The EB-5 visa programme is likely to further gain traction in India if Trump were to follow through with his agenda of cutting federal spending while at the same time easing regulation for businesses. Under the programme, foreign businesses (including Indian) would require to invest a minimum of \$1 million and create at least 10 jobs for American workers. This is already in place in most states in the US (the rates being USD 250k to 0.5 million and minimum 7 new jobs for US citizens. If any entrepreneur can do this in the U.S, they are eligible for a green card within 6 months.
- **Energy:** Trump has promised to unleash America's shale oil, natural gas and coal reserves to make U.S energy self-sufficient. He had also promised to open onshore and offshore leasing on federal lands and lift the moratorium on coal leasing. Opening of the US oil sector could lead to price stability globally. It could also throw open massive business opportunities for Indian oil companies including the state owned Oil and Natural Gas Corporation of India (ONGC) whose foreign arm ONGC Vides Limited (OVL) has been expanding its operations globally.
- **IT and service industry:** Trump, in most of his campaign speeches, has railed against outsourcing, and has vowed to right trade imbalances of the sort that India currently enjoys with the US. Since India's burgeoning IT and related services' industry gets a major chunk of its revenues from the US, Indian IT industries stand to lose millions of dollars in contracts if they cannot send their Indian staff to the US on work. However, the US does not have an overabundance of skillsets in the IT industry nor does the rest of the English speaking world. So like it or not, one way or the other Indians will be involved in this whether in the US or sitting here in Bangalore, Hyderabad or Gurgaon.
- **Pharmaceutical industry:** Trump is committed to scrap Obamacare, the scheme aimed at providing affordable healthcare to the US citizens. Pharmaceuticals constitute India's second biggest exports to the U.S. India's strength in manufacturing affordable generic drugs

complemented the objectives of Obamacare. Indian generic drug companies had gained massively with a sub-legislation under Obamacare that allowed the use of 'biosimilars'. The last five years more than doubled pharma exports from India to the U.S to \$66 billion. If Trump implements his promise to repeal Obamacare and the increased insurance coverage (20 million new beneficiaries have been added over the past 3 years), is reduced, Indian drug companies could be affected. A bigger challenge would be US protectionism, if it happens.

- **US Foreign Policy:** Trump has been claimed to have an “unabashedly noninterventionist approach to world affairs,” including a plan to “significantly diminish” US involvement in NATO, and he questioned “the value of massive military investments in Asia”. This could adversely impact strategic partnerships with India and also make it more difficult for India to get on-board on new councils and global platforms as US had traditionally been supportive of India. However, the other side of this coin has some good portents for India. Basically Trump believes that for far too long has the U.S had to bear the “burden” of “protecting others and fighting the bad guys.” He believes that the Saudis, for example, who are making more than enough money on the oil business need to either pay the US for protecting them from extremists or better still do it themselves. He is in favour of Japan and South Korea going nuclear as a counter balance to China and North Korea.

To summarize, while Trump’s coming to power may not be great news for India’s manufacturing industry in the short term, due to our historically strong relationship with the US and also their American economy’s dependence on skilled service workers from India, the overall effect on the economy might not be considerable. In relation to China, India’s growth can be expected to pick up, but this will be more from the point of a fall in China’s manufacturing industry than with a real, tangible growth in the Indian industry. In terms of India’s political positioning, with the anti-Pakistan stance Trump has demonstrated so far, India can expect its neighbor to be more docile and curtail cross-border terrorism unless it wishes to bear the brunt of Uncle Sam’s drastic cut-down of financial aid.