

## India - US Trade Relations: RSTV – Big Picture

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### What's in the News?

- This edition of Big Picture speaks about India US Trade Relationship.
- The India-US relationship is progressing from strength to strength and that trade has been growing at more than 10 percent per annum for the past two years.
- The US is India's largest trading partner in goods and services, and there has been a consistent growth in trade between the two countries over the last few years.

### Status of India and the United States Trade ties:

The overall status of the trade ties between the two countries has strengthened.

- The bilateral trade between the US and India is approximately 62 per cent in goods and 38 per cent in services, the bilateral trade between India and China is dominated by goods.
- **Politically-** the two countries are proactively engaged on multiple fora together.
- **Strategically-** high level of convergence, specifically in the Indo-Pacific region.
- **Defence Cooperation-** There has been tremendous progress in the past few years, as, until 2008, India hardly bought any defence supplies from the US.
  - However, in recent times, India has signed a deal for buying defence supplies worth almost 18 billion dollars from the US and another three billion dollars worth of defence supply in the pipeline.
- **Trade relationship-** Trade has increased 10 times in the last 15 years. The US is India's largest trading partner, with trade between the two countries standing at 160 billion dollars with an increase of almost 10 percent every year.
- **Significance:** India is a trade deficit country in most cases, however, it has a trade surplus with the US. The trade surplus was about 26 billion dollars in 2018, and currently stands at 21 billion dollars.
  - The IT sector in India contributes to almost 9% of the country's GDP, and the bulk of India's production is exported to the US.
  - In the last two years, India has had another contract with the US to buy oil and gas worth seven billion dollars.
- The US remains an important growing partner for India in terms of trade.

### US Concerns regarding trade with India:

- The US has been raising concerns over its trade ties with India, as India is one of the top countries with which the US has a huge trade deficit.
- The current policy of President Trump is that he's looking at the trade relations with each country in the bilateral context and thus would want every surplus or deficit to be addressed and a balance to be brought about. This is in contrast to the earlier norms where only the global picture was considered.
- Thus the US is engaged in extensive debates to reduce the trade imbalance.

### How much progress can India get out of this visit?

- The trade deal is a long term issue and could be decided after the US elections.

- There are multiple issues which might pose a problem such as trade, tariffs, subsidies, data localization and intellectual property.
- The dairy sector is extremely vulnerable in the present condition. Intellectual property would always present a hurdle between both countries.
- However, the entire gamut of the agreements does not cover labour. **H1B visas** are a very important issue which needs to be discussed.
- Hence, the issues associated with the trade ties between India and the US is going to take time and things would not be changing overnight.

### **What does the US want from India with respect to the issue of trade surplus?**

- The US wants India to lower its tariffs and work towards balancing the trade surplus.
- However, India has a view that a bilateral trade relationship shouldn't be evaluated with the balance of trade as a parameter. This would cause the overlooking of the actual value-added due to the trade between the countries.

### **Issues:**

- India is aggrieved that the US has imposed tariffs on Aluminum and steel supplies from India to the US ostensibly on the grounds of National Security.
  - National Security cannot be used to invoke trade measures against India, as India is a strategic trade partner of the US.
- The US has revoked India's developing country status
- The US continues to take a hard line in terms of trade and is trying to push and get the maximum advantage that it can get from India.

### **Would the lack of a major trade deal affect the US-India relationship?**

- No, the discussions regarding the trade deal are open-ended until both countries find a suitable middle ground.
- However, the absence of a trade deal would not be an indication of a disturbance in the relationship between the two countries, as there are other important aspects for maintaining the bilateral relationships between the two countries.
- All bilateral relationships have both positive elements and bilateral challenges as each bureaucracy is dealing with its own challenges and priorities.
- The strategic, political and defence relations of India with the US have very much strengthened over time, thus, both the countries would have to negotiate and find a suitable agreement for their trade deals with time.

### **Why is there so much confusion in President Trump's visit regarding the possibility of making a deal?**

- During a high-level visit such as this, both the countries concentrate on the issues which are relevant to both the countries and extract the maximum benefits for themselves by putting the maximum pressure on each other.
  - Eg. During President Bush's visit in 2006, the efforts were directed towards making some progress in the **Civil Nuclear Cooperation Agreement**.
- And the US was highly disappointed when India did not oblige to their demands regarding the Dairy sector during President Obama's visit in 2010, which still continues to be a source of friction between both the countries.
- Hence, confusions regarding the trade deals aren't unique to President Trump's visit alone but are characteristic of most of the high-level visits.

### What points does India need to focus on and would Harley Davidson still be an issue?

- India had slashed the customs duty on imported motorcycles like Harley-Davidson to 50 percent after Trump called it unfair and threatened to increase the tariff on import of Indian bikes to the US. The two countries are still in talks to resolve the issue of import tariffs on American motorcycles.
- The area of cooperation between the two countries would be technology, eg. artificial intelligence, robotics and machine learning. There are a lot of investments that India gets for its technology sector from the US.

### Is the coronavirus epidemic in China an opportunity for India and the US going forward?

- China's current situation is a genuine problem, but it has caused the value chains to be disrupted.
- The US has put forth a clear signal that it wants to address and conquer the technological challenge that China is posing to the US.
  - This is a self-created problem to a certain extent, as it was the US who initiated the process of bringing China into the WTO during the 1990s.
  - China had utilized the **Rules and Regulations of the WTO**, upon entering the WTO, to enhance the market access for itself and regulate the manufacturing process in China.
- The business which moved out of China relocated largely back to the US, Vietnam and other countries. Very few moved into India. Thus, India must decide its role in the new value chain arrangements.
- India also needs to focus on the development of newer technology as the new value chains would be centred around 5g technology, quantum computing, machine learning etc.
- India has to look for opportunities within the integrated global value-chain, and in the decoupling process between the US and China in terms of the production processes. However, to do so, India must focus on its own development first, in order to ensure that it can take advantage of the events occurring internationally.

### Way Forward:

- The Wuhan crisis has taught us that every nation will have to play a role in the global value chain. India would have to stop its dependence on China for its Active Pharmaceutical Ingredients (API). It would have to revive the API manufacturing capacity of the country. India would have to work on its manufacturing capacity and quality.
- India would also have to create a suitable environment for private investments, as it's currently an issue.
- India would also have to work on its own development in order to be able to take advantage of international events and not become vulnerable in the face of a crisis.

