



## Improving India US Trade Ties

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This article is based on **“The Push US-India Trade Needs”** which was published in the Indian Express on 23/11/2021. It talks about the revival of India US Trade Policy Forum and the opportunities for both the countries to cooperate in the field of bilateral trade.

Over the past two decades, the partnership between the world’s oldest and largest democracies; USA and India, has strengthened tremendously. From strategic cooperation to our deepening people-to-people ties, the gains have been impressive.

In the same period, trade and investment volumes between the two have also experienced enormous growth but still lag behind their deepening strategic and cultural alignment.

Recently, India’s Union Minister of Commerce and Industry met his American counterpart for the Trade Policy Forum (TPF) for the first time since 2017.

This meeting marks the first opportunity under the Joe Biden administration for India and the US to try to untangle some of the thorny market access issues that have obstructed their trade relationship.

### Indo-US Trade and Revival of TPF

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- **India-US Trade Ties:** The USA is one of the few countries with which **India has a trade surplus**. For the USA, India was the **sixth largest supplier of services imports**.
  - India's large market, economic growth and progress towards development make it an **essential market for USA exporters**.
  - During the Donald Trump administration, the two sides came close to agreeing to a **“mini trade deal”**, which would have seen India remove tariffs on some products in exchange for reinstatement into the **Generalized System of Preferences (GSP)** programme.

However, the **Joe Biden administration** has been lukewarm to new trade agreements.

- **Efforts for Expansion of Trade:** Prior to the start of the US-India Trade Policy Forum, the US Chamber of Commerce called for urgent action to **lay the groundwork** for an eventual **comprehensive bilateral trade agreement**.
  - In India, too, there is a positive momentum in the economic partnership to build on, including **recent initiatives to raise FDI caps** in key sectors and the **repeal of the retroactive tax law** have boosted investor confidence and stoked optimism on India's liberalisation path.
  - The Indian government has signalled its dedication to reform and has **expressly supported a trade deal with the US**.
- **TPF, a Win-Win Situation for India and US:** Along with other countries, the US is trying to navigate a boom in consumer spending, tame inflationary pressures, and align global supply chains with broader strategic objectives.
  - Expanding trade can reduce consumer prices and **put its economic recovery on a more stable footing**.
  - At the same time, India is also trying to move up value chains and reach ambitious development targets.
- **Significance of Trade Policy Forum (TPF):**
  - Though TPF is not likely to result in any major breakthroughs, it is an **important opportunity to forge a robust bilateral trade relationship** in the Biden years.
    - The US is one of India's most important partners and both countries have grown closer.
    - **Shared concerns about China have translated into a robust defence and strategic relationship**, overshadowing the tensions in the trade relationship.
  - TPF offers an opportunity for India to **put together a market access package** that will **decrease trade tensions with the US**, while giving the Biden administration political cover to remove the Section 232 tariffs, which, ultimately, will benefit Indian firms.
  - India aims to grow to a **\$5 trillion economy by 2025**, become a hub for high-tech manufacturing, and install 500 GW of renewable energy by 2030.
    - These are the **goals that can be achieved better with US capital**, investment and continued access to the American market.

## Challenges Associated

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- **Tariff Imposition:** In 2018, the **US imposed a 25% tariff on certain steel products** and a 10% tariff on certain aluminum products from India.
  - India retaliated** in June, 2019, **by increasing tariffs on 28 products** worth about \$1.2 billion on US imports.
    - However, after the imposition of the Section 232 tariffs, **steel exports to the US declined by 46% year-on-year**.

- **Misunderstanding Self-Reliance as Protectionism:** The **Atmanirbhar Bharat Campaign** has exacerbated the view that India is increasingly becoming a protectionist closed market economy.
- **Exemption from US' Generalised System of Preferences:** Effective since June 2019, the USA decided to withdraw duty-free benefits to Indian exporters under the **GSP programme**.  
Consequently, **special duty treatment on US\$5.6 billion worth of exports to the US was removed, affecting India's export-oriented sectors** such as pharmaceuticals, textiles, agricultural products and automotive parts.

## Way Forward

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- **Pursuing Negotiations:** As the first US-India TPF in over four years begins, neither of these starting points is likely to culminate in the broad trade deal for which India has long advocated. However, both governments can make real progress by pursuing negotiations on two parallel tracks:
  - Dedicatedly **removing and resolving long standing irritants** and disputes.
  - **Building a 21<sup>st</sup>-century trade framework** that can bring together the best of both countries, starting with the key sectors that are driving growth and innovation across the economic corridor.
- **Initiating Tariff Removal:** The first step towards a potential deal is for **India to take the initiative** and consider unilaterally removing its retaliatory tariffs. This will represent India as willing to be a constructive player in trade talks.  
Even though removing the tariffs without a commitment from the US is a leap of faith, it ultimately will be beneficial for the bilateral trade relationship.
- **Together Countering China:** From a strategic point of view, one of the ways that India can counter China is through **deepening trade ties with partners who are committed to supporting India's growth**.  
A deal with the US will be beneficial for India, both strategically and economically.  
As the US companies assess whether to shift some of their manufacturing from China, a vibrant trade strategy can complement the **Production-Linked Incentive (PLI) schemes**, and help to **boost both manufacturing and exports**.
- **Facilitating Digital Growth:** To promote further growth in the digital sphere, which represents over \$100 billion of bilateral trade, the two must address several foundational issues; digital service tax, cross-border data flows and common cellular standards.
  - It's important that on the digital services tax, **India accords with emerging global agreements** that will accelerate trade.
  - Also, India and the US shall come to a common ground on **5G** standards to operate in an integrated telecom ecosystem.

- **Cooperation in the Health Sector:** US-India cooperation in the healthcare sector stands to be one of the most impactful of the global health architecture.
  - As the two countries emerged from the global pandemic, this is a **unique moment to form a health initiative** that **removes barriers to the Indian market** that harm both American workers and Indian patients.
  - To facilitate growth in the sector and drive investment in R&D, it is essential that:
    - The governments embrace **market-based approaches on innovative medical products**
    - Ensure that **public procurement policies do not discriminate against foreign firms**
    - Align regulatory structures to **speed the approval of medical devices and pharmaceuticals** so that critical and life saving therapies can get to the market faster.

## Conclusion

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In this period of geopolitical flux, it is wise for the world's two largest democracies to come together; strengthening trade and investment ties through a reimagined US-India Trade Policy Forum is a great place to start.

Like their growing cultural and strategic alignment, better trade partnership will help the two countries better navigate the post-pandemic landscape.

### ***Drishti Mains Question***

Discuss the issues that India and USA are facing in their bilateral trade ties and the measures that can be taken to boost the trade relationship.