

INDIA – US TRADE- ECONOMY

NEWS: *India and the United States are set to engage in negotiations for a "mutually beneficial, multi-sector" Bilateral Trade Agreement (BTA). This agreement, announced during Prime Minister Narendra Modi's visit to Washington DC, aims to enhance trade relations, expand market access, reduce tariff and non-tariff barriers, and integrate supply chains across various sectors.*

WHAT'S IN THE NEWS?

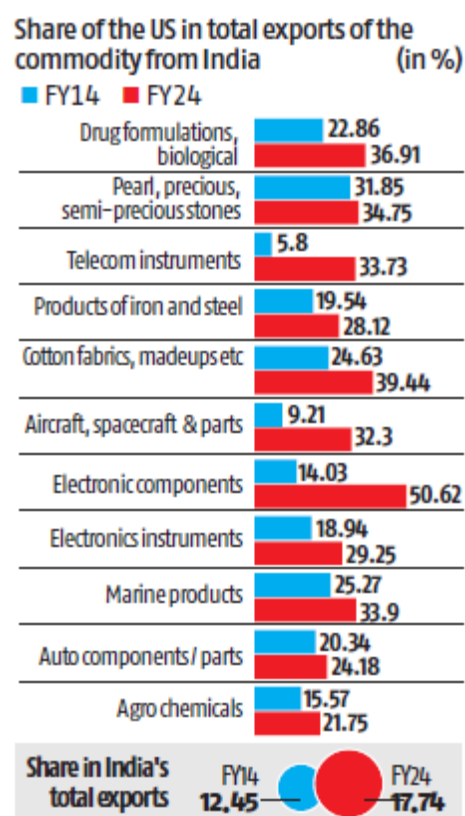
Background: Previous Trade Negotiations and Challenges

- Former United States Trade Representative (USTR) **Robert Lighthizer**, in his 2023 book *No Trade Is Free*, shared insights about the **failed 2020 mini-trade deal negotiations** between India and the US.
- The US had raised multiple trade concerns, including **tariffs on American goods, lack of agricultural market access, restrictions on medical devices, e-commerce regulations, insurance barriers, discrimination in the electronic payment sector, and fishery subsidies.**
- Although some progress was made, a final deal could not be reached due to **India's internal bureaucratic hurdles and opposition from farmers.**
- Lighthizer described Indian Trade Minister **Piyush Goyal** as a "smart and gifted politician" but suggested that domestic challenges hindered the negotiation process.

Objectives of the New BTA

- The proposed **Bilateral Trade Agreement (BTA)** aims to create a **comprehensive framework** for trade in **goods, services, and investment.**
- The joint statement by both countries highlighted their commitment to:
 - Strengthening and expanding **bilateral trade across various sectors.**
 - Increasing **market access** for businesses from both nations.
 - Reducing both **tariff and non-tariff barriers.**

- Enhancing **supply chain integration** to improve economic cooperation.



Key Areas of Concern for the US

The United States is expected to demand key concessions from India in the following areas:

- **Tariff Reductions:** India has already lowered tariffs on some US exports like **high-end motorcycles (Harley-Davidson) and bourbon whiskey**. However, further reductions may be required on **imported electric vehicles (EVs)** to allow Tesla to expand in India.
- **Agriculture Market Access:** The US is likely to push India to reduce restrictions on the import of **dairy products, fruits, and vegetables**. However, tariff cuts in this sector are **politically sensitive** due to the strong influence of Indian farmers. A **phased reduction strategy** might be India's best approach.
- **E-Commerce Regulations:** The US is keen on ensuring that major American companies like **Amazon and Walmart-Flipkart** operate under more favorable regulations in India.
- **Telecommunication Services:** Companies like **Starlink** are interested in expanding into the Indian market, making this sector a potential negotiation point.
- **Investment Protection:** The US might insist on a **Bilateral Investment Treaty (BIT)** to safeguard investments made by companies like Tesla.

India's Trade Strategy and Challenges

- India must balance the need to **reduce the trade deficit with the US** while also **protecting its own domestic industries and economic agenda**.

- The US imposes **5-7% tariffs** on **Indian labor-intensive exports like textiles, leather goods, and gems & jewelry**. India will seek to negotiate **zero-duty access** for these products.
- The Indian government is expected to push for greater **opportunities in services trade**, particularly in **IT services and Global Capability Centres (GCCs)**. Many US companies prefer India as a destination for GCCs, and India could use this advantage to secure **better visa access for Indian professionals**.
- India might **offer gradual tariff reductions on US goods** while negotiating strong concessions for **services and investment-related sectors**.

Threat of Reciprocal Tariffs from the US

- Ahead of the trade negotiations, the US has announced plans to **impose reciprocal tariffs** on major trading partners. This policy aims to reduce the **US trade deficit** by ensuring that tariffs imposed on American exports are matched by equal tariffs on imports from those countries.
- **India, South Korea, and Thailand** are identified as **most vulnerable** to these tariffs, according to a report by **S&P Global**.
- If the US imposes **reciprocal tariffs**, Indian exports (such as **textiles, auto components, and engineering goods**) could become less competitive compared to **Vietnamese and Chinese alternatives**.
- **Indian Strategy to Counter This Threat**: India could **proactively lower tariffs** on select US imports **before reciprocal tariffs are imposed** to maintain favorable trade relations.
- If negotiations fail, India may consider **countermeasures similar to China's approach**, which involved **retaliatory tariffs and antitrust investigations** against US firms like Nvidia and Google.

Opportunities for Domestic Reforms in India

- Commerce Minister **Piyush Goyal** urged Indian businesses to **embrace global competition** and view the BTA as an **opportunity for growth** rather than a threat.
- He emphasized that with India's **lower labor costs**, the country should be able to compete effectively with an economy like the US.
- Critics argue that **India has relied too much on tariff protection** instead of improving the competitiveness of its industries.
- **Example of India's Auto Sector**: India has maintained **100% import duties on foreign automobiles** for over **two decades**. While this has helped domestic manufacturers, it has also **prevented competition, innovation, and cost reduction for consumers**.
- **MSMEs (Micro, Small, and Medium Enterprises)** must **upgrade technology** to remain globally competitive. Many of them have struggled to export products that were once in high demand due to outdated production methods.
- The **US may also demand simplifications in India's complex import regulations and quality control orders**, which it views as **non-tariff trade barriers**.

- India and the US have had multiple trade disputes over the years, with **market access, tariff structures, and non-tariff barriers** being major points of contention.
- The failure of the **2020 India-US mini-trade deal** demonstrated the difficulty in aligning the trade interests of both nations.
- The new BTA is expected to **address and resolve past trade conflicts** while **strengthening economic cooperation** between the two countries.

India - US Relations

- **Trade and Investment:** India-US ties have evolved into a "**global strategic partnership**".
 - In 2024, India's total goods trade with the U.S. reached **USD 129.2 billion**. India's exports to the U.S. stood at **USD 87.4 billion**, while imports from the US were **USD 41.8 billion**. India has a **USD 45.7 billion** trade surplus with the US in 2024.
 - USA is the **3rd largest investor in India** with cumulative **Foreign Direct Investment (FDI)** inflows of USD 65.19 billion from 2000- 2024.
- **International Cooperations:** India and the US collaborate in multilateral forums like the **United Nations, G-20, Association of Southeast Asian Nations, World Trade Organization, I2U2 group and Indo-Pacific Economic Framework for Prosperity (IPEF)**.
- **Defence Cooperation:** India-US defense ties strengthened with the 2005 Defense Framework, renewed in 2015.
 - India is a **Major Defense Partner of the US** with **Strategic Trade Authorization-1 (STA-1)** status (allowing easier access to US defense technologies).
 - **Joint exercises:** Ex **VAJRA PRAHAR** (Army), **SALVEX** (Indian Navy), **Cope India** (Air Force) and **Malabar Exercise** (Quadrilateral naval exercise of India, USA, Japan and Australia).
- **People to people Ties:** The 3.5 million Indian American community plays a key role in US society, strengthening India-US ties.

What are the Key Challenges in India-US Relations?

- **Tariff Disputes:** President Trump criticized India's "**onerous tariffs**" (burdensome and excessively high import duties) and reinforced his policy of "**reciprocal tariffs**" (tariffs imposed in response to similar tariffs by another country), which could increase **costs for Indian exporters**. Further, the absence of a **Free Trade Agreement** increases tariffs, and restricts trade.
 - India's current trade surplus with the US **may shrink as it increases imports** to reach the USD 500 billion trade target, potentially requiring selective **tariff reductions that favor US** interests over broader India's economic efficiency.

- **Immigration Policies:** India agreed to facilitate the return of 2,20,000–7,00,000 undocumented Indians immigrants, a move seen as aligning with **Trump’s stricter immigration stance**.
 - Despite India's reliance on **H-1B visas** for IT professionals, no clear commitments were made, reflecting **ongoing tensions between Silicon Valley and Trump’s nationalist policies**.
- **Technology Transfer:** Despite growing Defence ties, US restrictions on AI, drones, and missile technology hinder India's access to advanced Defence systems.
- **Data Localization:** The US opposes **India’s data sovereignty laws**, arguing they hurt **American tech firms**, while India insists on national security and user privacy protections.
- **Geopolitical and Multilateral Differences:** Despite US support for **India's permanent UNSC membership**, differences in global governance persist, with the US urging India to leverage its ties with Russia to end the war, while India maintains neutrality.
 - India's historical Defence and energy ties with Russia conflict with US efforts to isolate Moscow.

Source: https://www.business-standard.com/economy/news/can-maga-and-miga-co-exist-india-us-trade-tariff-talks-may-hold-the-key-125022500853_1.html