

India's Biggest Trade Partner Is Now US, Not China – Is This a Good Development?

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The US surpassed China to become India's top trading partner in 2021-22, reflecting a strengthening of ties between the two economic giants. According to recent data released by the Ministry of Commerce, bilateral trade between the US and India stood at \$119.42 billion against \$80.51 billion in 2020-21. Exports increased to \$76.11 billion in 2021-22 from \$51.62 billion in the previous fiscal year, while imports rose to \$43.41 billion as compared to about \$29 billion in 2020-21.

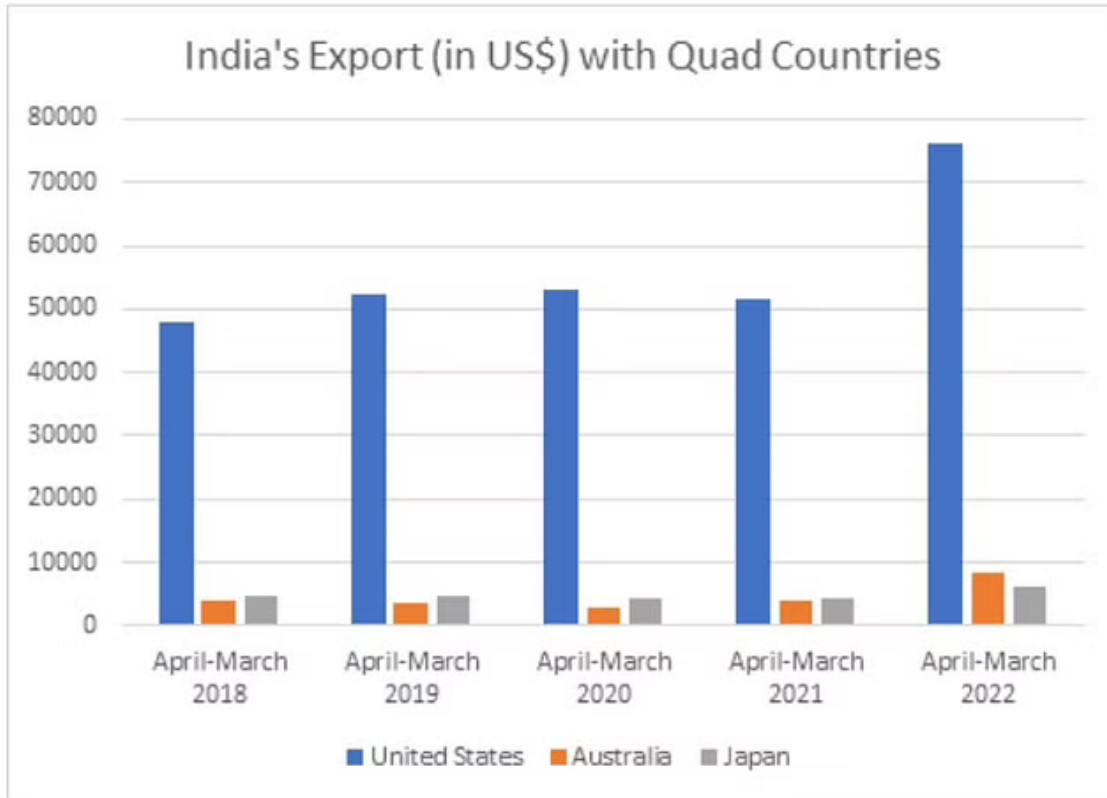
Snapshot

- The United States surpassed China to become India's top trading partner in 2021-22, reflecting a strengthening of ties between the two economic giants.
- However, wrinkles need to be ironed out in six key areas: India's protectionist tariff regime, steel and aluminium tariffs and retaliatory tariffs, digital services tax, services, agriculture and intellectual property rights.
- Many countries are looking to reduce their supply-chain dependence on China in a post-COVID world, while entrusting a more expansive trade partnership with India.
- The hope is that the Indo-Pacific Economic Framework (IPEF) may help both nations back each other's efforts to counter their economic dependence on China.

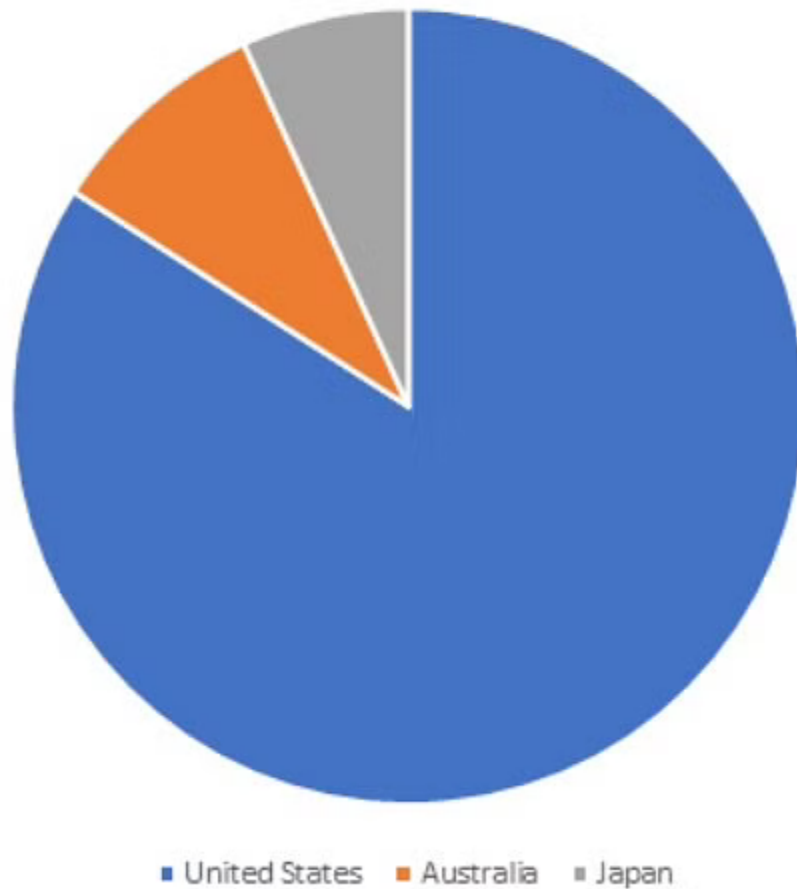
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India-US Trade as Part of the Quad (2018-22)

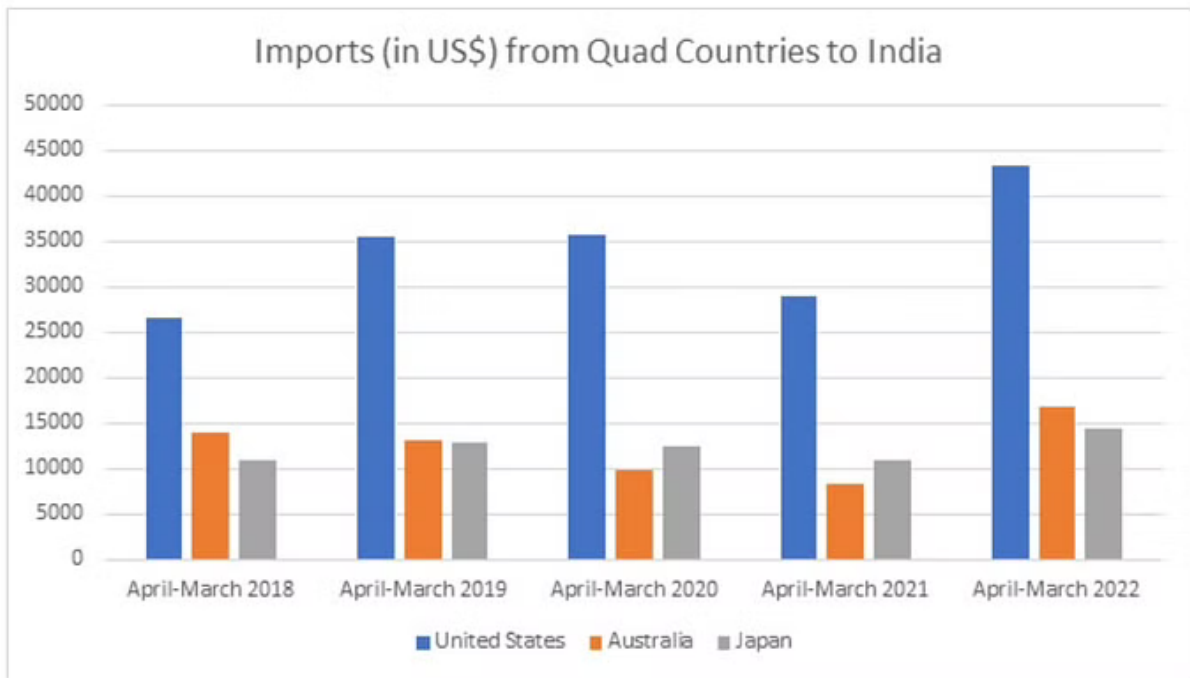
As part of the Quad and beyond, India's dominant export-import partnership is with the US, and the largest percentage share of total trade with the US is estimated to be 18% (the highest).



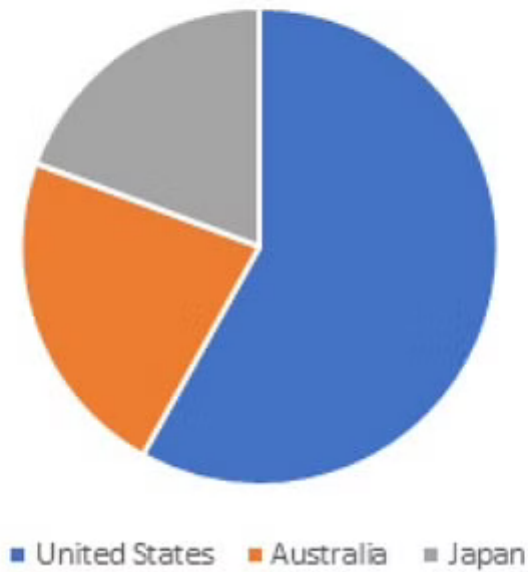
Percentage Share of Indian Exports with Quad (2022)



America is one of the few countries with which India has a trade surplus. In 2021-22, India's trade surplus was \$32.8 billion with the US. Beyond services, major export items from India to the US include petroleum-polished pharmaceutical products, jewellery, light oils, and petroleum, frozen shrimp, whereas major imports from the US include petroleum, rough diamonds, gold, coal, waste and scrap, etc.

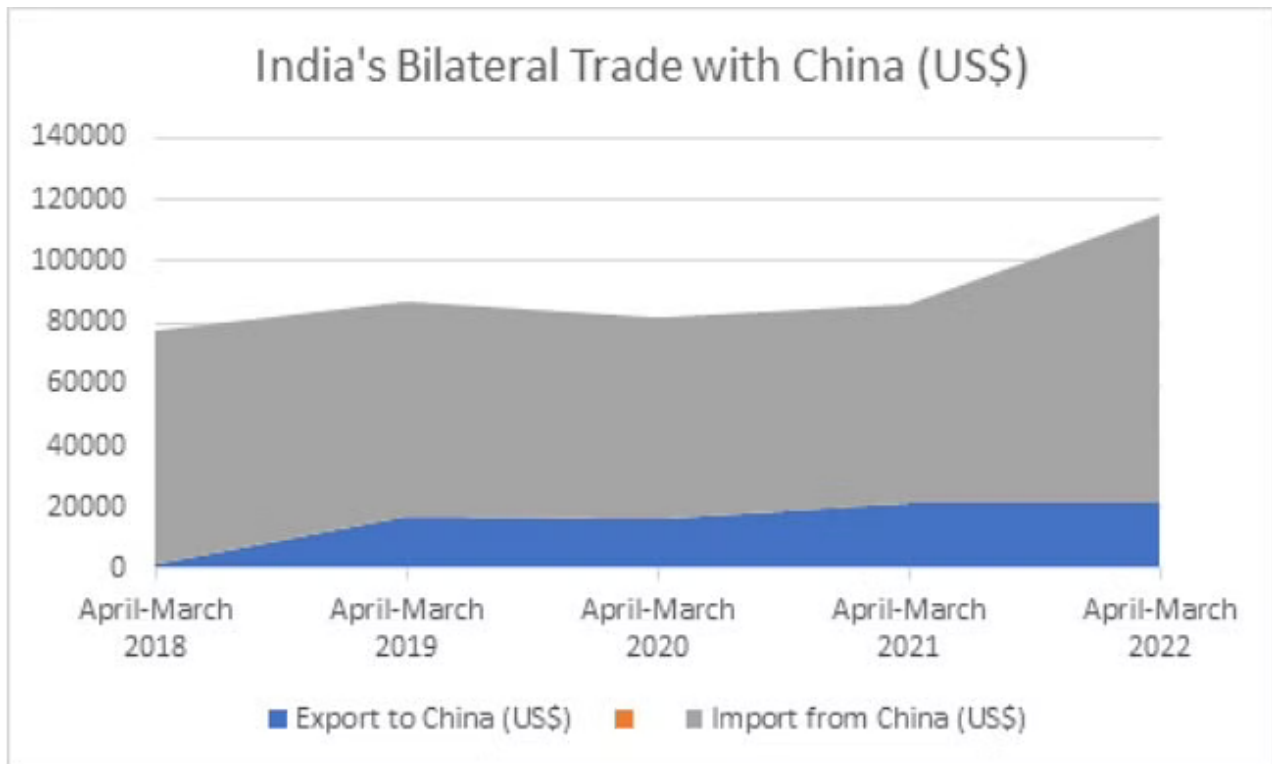


Percentage Share of Imports (in US\$) to India from Quad Countries



As Washington looks to partner more closely with India to pivot its Indo-Pacific strategy after Trump and develop a strong (regional) counter-narrative to China’s economic influence in the region, stronger India-US economic ties are expected to shape the region’s economic landscape in years ahead. Many countries – not just those part of the Quad but also within ASEAN (now members of IPEF) – are looking to reduce their supply-chain dependence on China in a post-COVID world, while entrusting a more expansive trade partnership with India.

During 2021-22, India-China trade aggregated at \$115.42 billion as compared to \$86.4 billion in 2020-21. See the figure below for India's bilateral trade levels with China during the last four years (2018-22).



How Trump's Combative Approach Hurt India-US Ties

During the Trump administration, bilateral trade problems between the US and India grew over tariffs and other policies. Trump wanted a renewed trade deal with India. But even as a trade deal to address certain market access issues reportedly neared its conclusion in 2020, it did not materialise. However, under the Biden administration, the US seems far less combative viz-a-viz India and hopes for greater cooperation.

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In November 2021, the Biden and Modi administrations convened a ministerial-level meeting of the bilateral Trade Policy Forum (TPF), the first in four years. In recent months, they also addressed issues related to agricultural market access and India's digital services tax (DST).

Yet, friction remains between the two nations, including over the termination of India's eligibility for the US Generalized System of Preferences (GSP), and the often-divergent US and Indian views in the World Trade Organization (WTO).

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Six Areas Where Hiccups Remain

There are six areas identified below as critical points of concerns, where India-US would need to cooperate if they are willing to develop a reoriented trade axis for a medium-to-long-term association:

1. India's Protectionist Tariff Regime: The United States has had long-standing issues with India's tariff regime, which has relatively higher average tariff rates, especially in agriculture. On top of this, the wheat export ban and restrictions on exports of sugar (and it seems rice might be next) are only going to adversely impact India's reputation as a credible exporter and trade partner (not just to the US but to other countries, too). India can raise its applied rates to bound rates without violating its commitments under the WTO, causing uncertainty for US exporters, as it did for certain telecommunications goods previously.

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2. Steel & Aluminium Tariffs and Retaliatory Tariffs: India has opposed the continued US "Section 232" steel and aluminium tariffs, applied since 2018. India also then applied retaliatory tariffs against the US after losing its GSP eligibility. These higher tariffs of 10% to 25% affect about \$1.2 billion of US exports (as per 2020 data), such as nuts, apples, chemicals and steel. The two sides have been challenging each other's tariffs in the WTO. Moving forward, both nations will need a more cooperative bilateral trade-tariff structure to work together.

3. Digital Services Tax

(DST): In November 2021, the US announced a “political agreement” with India on its Digital Services Tax (DST) treatment. In exchange for India’s commitment to transition from its DST to a newly-concluded, related global tax framework, the US agreed to terminate additional, already-



suspended duties on certain goods from India. The duties arose from a US “Section 301” investigation, prompted by concerns that India’s DST was unfair to US firms. This is still an area where both countries would need to take steps domestically to implement the global tax framework.

4. Services: The two nations are competitive in some services industries. India supplies skilled workers from areas such as tech, medical care, etc, to the US. Barriers to US firms’ market access include India’s limits on foreign ownership and local presence requirements.

A key issue for India is US’ temporary visa policies, which affect Indian nationals working in the United States. India continues to seek a “totalisation agreement” to coordinate social security protection for workers who split their careers between the two countries.

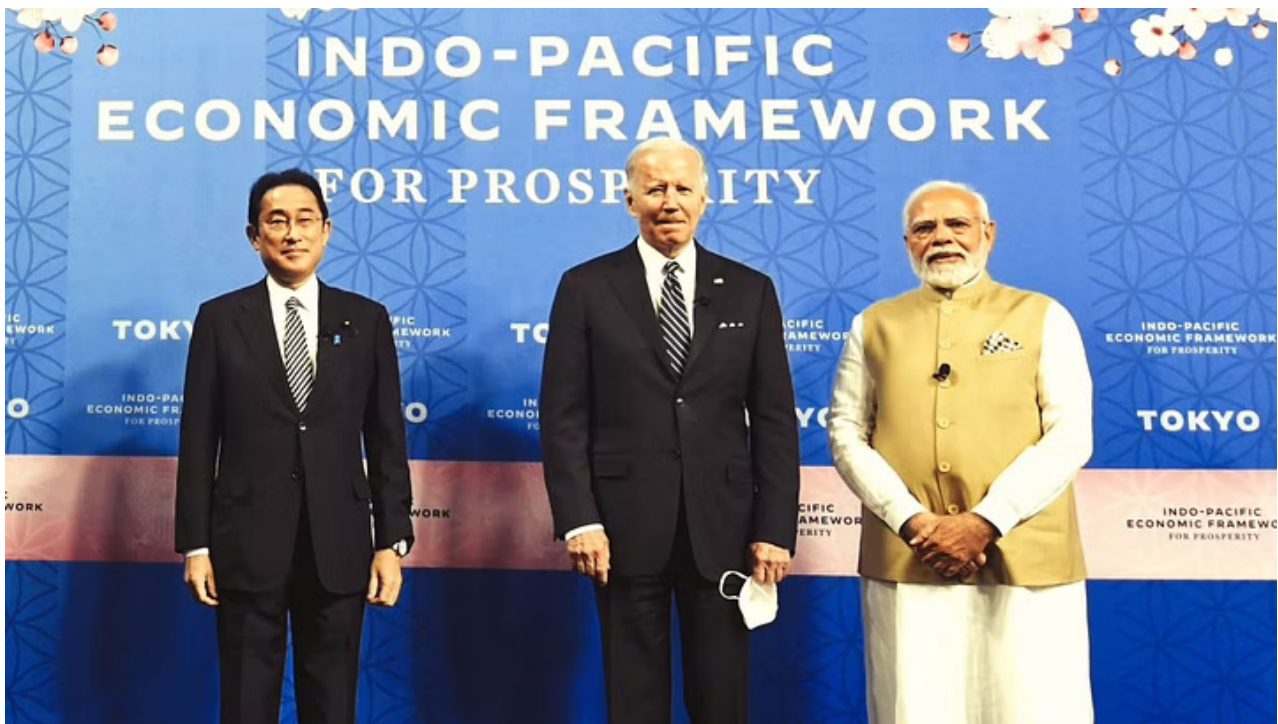
An agreement to ensure easier “skilled worker” mobility between India and US would go a long way in developing a stronger trade in services compact. It would also help drive private remittances to India, which helps improve India’s overall balance of payment position.

5. Agriculture: Sanitary and phytosanitary (SPS) barriers in India limit US agricultural exports. The US questions the scientific and risk-based justifications of such barriers. Each side also sees the other’s agricultural support programmes as market-distorting; India’s view of its programmes from a broad food security lens complicates matters. At the TPF, the two sides agreed to work towards finalising market access for a number of products, including for Indian mango exports to the US and American pork exports to India.

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6. Intellectual Property (IP): The two sides differ on how to protect IP to support innovation and other policy goals, such as access to medicines. Some stakeholders



welcomed steps taken by India for its IPR regime, but they have been disappointed by the pace of reform. India remained on the Priority Watch List of the US 2021 “Special 301” report, which cited such US concerns as India’s patent treatment, high IP theft rates, and lax trade secret protection.

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How Will the IPEF Help?

There are other areas as well that need greater US-India convergence on trade, for example, renewable energy production, semi-conductor chips, telecommunications, etc. Signing a more comprehensive FTA (Free Trade Agreement) with the US may help mitigate some of the above concerns, ensuring better cooperation between the two nations in the medium-to-long term. Still, signing an FTA with the US is fraught with friction most of the time, and in the past, it has been seen to be difficult and time-consuming (particularly for developing nations outside its region of economic and military influence).

The hope is that the Indo-Pacific Economic Framework (IPEF) may help both nations back each other’s efforts to counter their economic dependence on China, and seek a reoriented and more welcoming bilateral trade partnership.

The Framework can also help develop trade-capital market integration in comparative advantage positions, say, in areas of ‘services’ (where India exports most to the US), and also in other less advantageous sectors such as manufacturing and agriculture. The next few years are crucial for ensuring this.

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