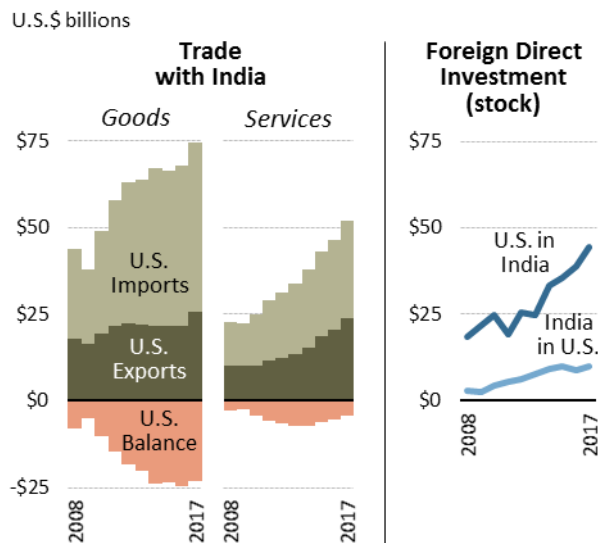




U.S.-India Trade Relations

The United States and India view one another as important strategic partners to advance common interests regionally and globally. Bilateral trade in goods and services is 2% of U.S. world trade, and has grown in recent years (**Figure 1**). The trade relationship is more consequential for India; in 2017, the United States was its second largest export market (16% share) after the European Union (EU, 17%), and third largest import supplier (6%) after China (17%) and the EU (10%). U.S.-India foreign direct investment (FDI) is small, but growing. Defense sales also are significant in bilateral trade. Civilian nuclear commerce, stalled for years over differences on liability protections, has produced major potential U.S. supply contracts. The Trump Administration, which views bilateral trade balances as an indicator of the health of a trading relationship, takes issue with the U.S. trade deficit with India, and has criticized India for a range of “unfair” trading practices. Countering this view, India notes that the U.S. bilateral trade deficit dropped in 2018. The causes and consequences of trade deficits are debated.

Figure 1. U.S. Trade and Investment with India



Source: CRS analysis, Bureau of Economic Analysis (BEA) data.

India’s Economy

India is one of the world’s fastest-growing economies (more than 7% growth projected for 2019), third largest economy on a purchasing power parity basis, and second largest country by population, with an expanding middle class. Economic challenges include poverty, difficulty absorbing millions of young new workers joining the labor force, and infrastructure gaps. India imports about 80% of its oil needs. Rising energy prices and other global factors have led to depreciation of the Indian rupee against the U.S. dollar, leading to inflation concerns. Domestic economic measures include “demonetization” in 2016, which removed 86% of currency by value from circulation in a mostly failed effort to address tax evasion and corruption,

and the roll-out of new national value-added goods and service tax in 2017 to streamline the tax regime.

Selected Issues

Tariffs. Bilateral tensions have increased over each side’s tariff policies. These include the U.S. 25% steel and 10% aluminum tariffs under the national-security based “Section 232” law. India did not receive an initial exception like some trading partners, nor negotiate an alternative quota arrangement. India supplied less than 3% of U.S. steel and aluminum in 2017. India has delayed further imposing its planned retaliatory tariffs until May 2, 2019, in hopes of a bilateral resolution; these tariffs of 10% to 50% would target \$241 million in U.S. goods such as nuts, apples, steel, and motorcycles. India also is challenging the U.S. tariff increases in the World Trade Organization (WTO).

President Trump has called India “a very high-tariff nation” and criticized tariff imbalances, such as on motorcycles (which previously faced 100%, now 50%, Indian tariffs, compared to U.S. tariffs of 0% to 2.4%). India has relatively high average tariff rates, especially in agriculture. It can raise its applied rates to bound rates without violating its commitments under the WTO, causing uncertainty for U.S. exporters. India’s tariff hikes include raising tariffs on cell phones from 0% originally to 15% to 20%, prompting the United States and others to question India’s compliance with the WTO Information Technology Agreement (ITA). India also raised duties on certain “non-essential” consumer and other goods to stem its current account deficit. The EU initiated WTO dispute settlement consultations, claiming that certain tariff hikes by India exceed bound rates. U.S. concerns over Indian market access include price controls on medical devices, and investment and other non-tariff barriers.

U.S. Generalized System of Preferences (GSP). On March 4, 2019, President Trump notified Congress of his intent to terminate India’s GSP eligibility, which gives duty-free tariff treatment to certain U.S. imports from eligible developing countries to support their economic development. The notice followed a U.S. review of India’s market access practices, as well as petitions by the U.S. medical device and dairy industry. By law, the President must notify Congress at least 60 days prior to a GSP change taking effect. India is GSP’s top beneficiary. In 2018, GSP represented 11% (\$6.3 billion) of U.S. merchandise imports from India, such as chemicals, auto parts, and tableware. GSP removal would reinstate U.S. tariffs, which range from 1% to 7% on the top 15 GSP bilateral imports. India sought continuation of its eligibility, but since the President’s announcement, has downplayed the impact of the proposed change. India plans to treat retaliatory tariffs separately.

Services. The United States and India are competitive in certain services industries. Barriers to U.S. firms’ market access include India’s limits on foreign ownership and local

presence requirements. A key issue for India is U.S. temporary visa policies, which affect Indian nationals working in the United States. India is challenging U.S. fees for worker visas in the WTO, and monitoring potential U.S. action to revise the H-1B (specialized worker) visa program. India also continues to seek a “totalization agreement” to coordinate social security protection for workers who split their careers between the two countries.

Agriculture. Sanitary and phytosanitary (SPS) barriers in India limit U.S. agricultural exports. The United States questions the scientific and risk-based justifications of such barriers. An ongoing issue is India’s purported compliance with a WTO decision against its ban on U.S. poultry imports and live swine due to avian influenza concerns; the WTO held that India’s measures violated WTO SPS rules. Each side also sees the other’s agricultural support programs as market-distorting; India’s view of its programs from a broad food security lens complicates matters.

Intellectual Property (IP). The two sides differ on how to balance IP protection to incentivize innovation and support other policy goals, such as access to medicines. India’s IP regime remains a top U.S. concern, and India remains on the “Special 301” Priority Watch List for 2018, based on such concerns as its treatment of patents, infringement rates, and protection of trade secrets.

“Forced” Localization. The United States continues to press India on its “forced” localization practices. Initiatives to grow India’s manufacturing base and support jobs include requirements for in-country data storage, domestic content (such as laws protecting India’s solar sector), and domestic testing in some sectors. Adding to U.S. concerns are India’s new data localization requirements for electronic payment service suppliers (e.g., MasterCard, Visa).

Investment. India aims to attract foreign investment and has made FDI reforms, such as raising foreign equity caps for insurance and defense, and other strides to improve its business environment (World Bank, Doing Business Indicators). U.S. concerns about investment barriers remain nevertheless, heightened by new Indian restrictions on how e-commerce platforms such as Amazon and Walmart-owned Flipkart conduct business. From the U.S. view, India’s weak regulatory transparency and other issues, such as India’s IPR and localization policies (see above), add to concerns about FDI barriers. Two-way U.S.-Indian FDI is linked to U.S. jobs and exports in a range of sectors, yet U.S. FDI in India prompts some offshoring concerns.

Defense Trade. The two nations have signed defense contracts worth more than \$15 billion since 2008, up from \$500 million in all previous years combined. Major anticipated sales include 24 MH-60 *Seahawk* multi-role naval helicopters and a potential commercial sale of AH-64 *Apache* attack helicopters. India is eager for more technology-sharing and co-production; some reports indicate U.S. and Indian interest in producing F-16 combat aircraft there. The United States, meanwhile, urges more reforms in India’s defense offsets policy and higher FDI caps in its defense sector. India’s pursuit of a multibillion-dollar deal to purchase the Russian-made S-400 air defense system may trigger U.S. sanctions on India under the Countering America’s Adversaries Through Sanctions Act (P.L. 115-44).

Current Negotiations and Agreements

Bilateral Engagement. The United States and India have held “intensive” negotiations to address the U.S. steel and aluminum tariffs, India’s GSP status, and other trade issues. Dialogues include the government-to-government Strategic and Commercial Dialogue (S&CD) and Trade Policy Forum, and the private sector-based CEO Forum.

“...after intensive [bilateral] engagement. . . , I have determined that India has not assured the United States that it will provide equitable and reasonable access to the markets of India. . . .”—*President Trump’s GSP notification letter to Congress, March 4, 2019*

“...India was able to offer a very meaningful way forward on almost all the US requests. In a few instances, specific US requests were not found reasonable and doable. . . in light of public welfare concerns reflective of India’s developing country status. . . .”—*Indian Ministry of Commerce statement, March 5, 2019*

The United States and India do not have a bilateral free trade agreement (FTA). In October 2018, President Trump stated that India expressed interest in negotiating an FTA. Some India watchers advocate for an FTA, while others question India’s willingness to open its markets. Past negotiations on a bilateral investment treaty are stalled.

Regional Integration. India is party to negotiations on the Regional Comprehensive Economic Partnership (RCEP) with China and 15 other Asia-Pacific nations. Seven RCEP members (but not India) are among the 11 remaining parties of the proposed Trans-Pacific Partnership (TPP); they concluded a new trade agreement after President Trump ceased U.S. participation in the TPP. Among other issues, India has long sought to join the Asia-Pacific Economic Cooperation (APEC) group of the United States, China, and 19 other economies. The United States stated previously that it welcomes India in APEC. Some question if India is willing to make sufficient economic reforms to join APEC.

WTO. Differing U.S. and Indian views have constrained multilateral negotiations to liberalize trade in the WTO. The Trade Facilitation Agreement (TFA) to remove customs barriers, the first multilateral agreement concluded in over 20 years, entered into force in 2017 after India reversed its prior blocking of the TFA. This change followed a U.S.-Indian understanding not to challenge specific food security programs until the WTO reaches a solution on public stockholding for food security, a top Indian priority. The WTO’s future direction is unclear amid institutional issues.

Congressional Interest

Questions on U.S.-India trade relations may include:

- What are prospects for a bilateral resolution to trade frictions? What role would GSP eligibility termination play? Are multilateral or regional solutions possible?
- Given the Trump Administration’s focus on greater reciprocity in U.S. trade relations, what are ways to strengthen U.S.-Indian trade and investment ties? Is there potential for broader trade agreement negotiations?

Shayerah Ilias Akhtar, siliasakhtar@crs.loc.gov, 7-9253
K. Alan Kronstadt, akronstadt@crs.loc.gov, 7-5415

IF10384