



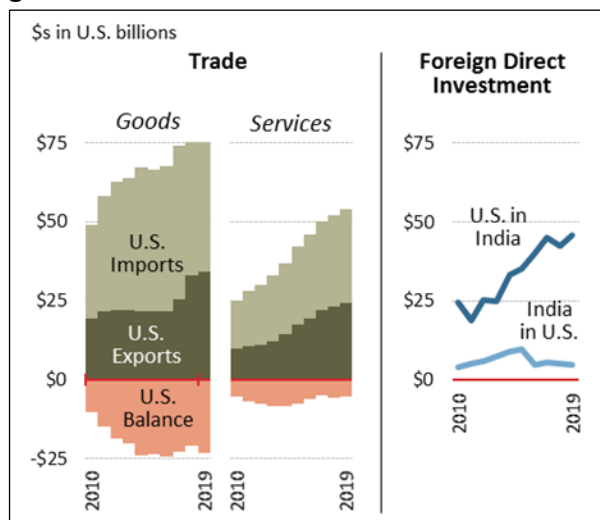
# U.S.-India Trade Relations

## Background

The United States and India view one another as important strategic partners to advance common interests regionally is considered to be a key aspect of strategic ties with potential for more growth.

Bilateral trade is about 3% of U.S. world trade (**Figure 1**). It is more consequential for India; in 2019, the United States was India’s largest goods export market (17% share), and third-largest goods import supplier (7%), after China (14%) and the European Union (9%). U.S.-India foreign direct investment (FDI) is limited, 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, dating to the second Obama Administration.

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



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

Market access and other barriers to trade with India have been long-standing concerns among some Members of Congress and U.S. exporters, and successive U.S. Administrations. Efforts under the Trump Administration to reach a limited bilateral trade deal to address certain frictions did not conclude. President-Elect Joe Biden has expressed interest in cooperating with Indian Prime Minister Narendra Modi on global challenges, but it is uncertain what priority the new Administration will place on bilateral trade issues. Some analysts expect that U.S.-India trade relations may be less strained, but that Congress and the new Administration will continue to seek resolution to ongoing trade frictions in the bilateral relationship.

Prime Minister Modi’s first term (2014-2019) fell short of many observers’ expectations, as India did not move forward with many anticipated market-opening reforms, and instead increased tariffs and trade restrictions. Modi’s strong re-electoral mandate in May 2019 may embolden the

Indian government to press ahead with its reform agenda with greater vigor, although the project is mostly on hold due to a pandemic-related recession.

After several years with the world’s fastest economic growth rate (above 7%), India grew more slowly in 2019, and was hit hard economically by Coronavirus Disease 2019 (COVID-19). The Reserve Bank of India revised upward its estimate for India’s growth rate from -9.5% to -7.5% for 2020/2021, subject, in part, to future COVID-19 responses. Amid the COVID-19 pandemic, India has stepped up efforts to attract supply chains from China, with some encouragement from the Trump Administration.

## Selected Issues

**Tariffs.** Under the Trump Administration, bilateral tensions increased over each side’s tariff policies. In general, 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 recent tariff hikes, including on cell phones and other telecommunication goods, went from 0% originally to 15-20%. The United States and several other countries requested to join various WTO dispute consultations against India related to its technology tariffs, also questioning its compliance with the WTO Information Technology Agreement (ITA).

India opposes the 25% steel and 10% aluminum national-security-based “Section 232” tariffs that the Trump Administration imposed in 2018. India repeatedly delayed applying planned retaliatory tariffs against the United States, in hopes of resolving the issues bilaterally. After India lost its eligibility for a U.S. trade preference program (see below), India imposed higher tariffs of 10% to 25%, affecting about \$1.32 billion of U.S. exports (2019 data), such as nuts, apples, chemicals, and steel. The two sides are challenging each other’s tariffs in the WTO.

**U.S. Generalized System of Preferences (GSP).** Effective June 2019, President Donald Trump removed India from GSP, a U.S. trade and development program, for failure to provide “equitable and reasonable” market access. GSP provides nonreciprocal, duty-free tariff treatment to certain products imported from qualifying developing countries. The termination followed an U.S. investigation into India’s market access practices based on petitions by U.S. dairy and medical technology industries. In 2018, India was the largest beneficiary of GSP; over one-tenth (\$6.3 billion) of U.S. goods imports from India entered duty-free under the program (e.g., chemicals, auto parts, and tableware). GSP removal reinstated U.S. tariffs, which ranged 1-7% on the top 15 GSP bilateral imports.

**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 was monitoring potential U.S. action to revise the H-1B (specialized worker) visa program under the Trump Administration. Additionally, India 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. 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, including for COVID-19 treatments and vaccines. India remained on the Priority Watch List of the U.S. 2020 Special 301 report, which cited India’s insufficient progress in addressing IP challenges and noted concerns over India’s treatment of patents, high IP theft rates, and lax trade secret protection.

**“Forced” Localization.** The United States continues to press India to address its “forced” localization practices, such as in-country data storage, domestic content, and domestic testing requirements—viewed by the United States as presenting barriers to trade with India. Adding to U.S. concerns are India’s restrictive localization rules for certain financial data flows, which affect companies such as Visa and MasterCard. At the same time, India has moved to ease some local sourcing rules for single-brand retailers, which would affect companies such as Apple.

**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. U.S. concerns about investment barriers persist 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 IPR and localization policies, 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 \$20 billion since 2008, up from \$500 million in all previous years combined. Major anticipated deals include an Integrated Air Defense Weapon System valued at nearly \$2 billion and 30 MQ-9B *SkyGuardian* drones worth more than \$3 billion. India is eager for more technology-sharing and co-production initiatives, while the United States urges more reforms in India’s defense offsets policy and higher FDI caps in its defense sector. India’s 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.** Under the Trump Administration, the United States and India held concerted negotiations to address trade frictions. A potential trade deal could include partial restoration by the United States of India’s GSP

benefits in exchange for certain market access commitments, according to press accounts. Yet, the long-expected limited trade deal has not materialized to date.

Negotiations under prior Administrations on a bilateral investment treaty (BIT) are stalled due to differences on approaches on investor protections. The government-to-government Trade Policy Forum has not met regularly in recent years amid trade frictions. The private sector-based CEO Forum has met periodically.

**Regional Integration.** Both India and the United States are absent from the Indo-Pacific region’s two major trade pacts.

- India negotiated, but opted not to join, the Regional Comprehensive Economic Partnership (RCEP), signed by China and 14 other countries in November 2020. India cited concerns about RCEP’s fairness and balance, and reportedly also was concerned about the effects of opening its markets to Chinese exports.
- The United States withdrew from the proposed Trans-Pacific Partnership (TPP) in 2017. The 11 remaining TPP parties (including 7 RCEP members, but not India or China) signed the new Comprehensive and Progressive Agreement for TPP (CPTPP or TPP-11), which entered into force on December 2018.

India also has long sought to join the Asia-Pacific Economic Cooperation (APEC), composed of the United States, China, and 19 other economies, but its willingness to make sufficient economic reforms to join is uncertain.

**WTO.** The United States and India often have opposing stances in the WTO, whose future direction is unclear amid debate over institutional reforms and negotiations. With India’s growing integration in the global economy, some policymakers have called on India, like China, to be a more responsible stakeholder in the rules-based global trading system. They blame India for impeding WTO progress on issues such as e-commerce customs duties and fisheries subsidies. India previously blocked the Trade Facilitation Agreement (TFA), which ultimately entered into force in 2017, until a compromise was reached on treatment of certain food security programs. The United States and some developed countries also are critical of India, China, and others for self-designating as developing countries to claim special and differential treatment under WTO rules—criticisms that these countries refute.

## Selected Potential Issues for Congress

- What aspects of bilateral trade relations would change or remain the same in a Biden Administration?
- What trade issues should the United States and India prioritize in any future talks? Is there potential for broader trade agreement negotiations?
- Will India and the United States renegotiate reentry into RCEP and CPTPP, respectively, or potentially seek other ways to engage on regional issues?
- Are there opportunities for the United States and India to bridge differences on multilateral trade issues?

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