

India – US Trade Ties – A Study

Dr. J. P. Sreeja

Assistant Professor, Department of Economics, Sree Devi Kumari Women's College, Kuzhithurai,
Kanniyakumari District, Tamil Nadu

ABSTRACT

India is growing steadfastly in its trade when the world economy is sluggish. The global trade is facing challenges in the increased form of protectionism and tariff wars. In this scenario India's trade with the United States of America is a noteworthy one. Their relationship is conspicuous in the world trade for their strong and strategic bilateral trade. With the current US- China tariff war, Indian markets do matter to the US significantly and it is not known whether India will be able to capitalize on it. The objective of this paper is to grasp the trade relations between India and the U.S in the last five years and to find out how the exports and imports and their respective trade balances have evolved. The trade policies of US and India is also attempted to be studied and there is an initiative to delve into the future trade prospects by locating the reconciliation measures.

Keywords: bilateral trade, exports, imports, trade balance, tariff, trade policies,

India-US bilateral cooperation is multi-sectoral, covering diverse areas in trade and investment. The areas of trade between them include investment, defense and security, education, science and technology, cyber security, high-technology, civil nuclear energy, space technology and applications, clean energy, environment, agriculture and health. Vibrant people-to-people interaction and support across the political spectrum in both countries facilitate in nurturing the bilateral relationship between the two countries.

The bilateral relations between the two countries have developed so much that they are almost into a "global strategic partnership", based on shared democratic values and increasing convergence of interests on bilateral, regional and global issues.

The U.S.-India relationship is at its highest point currently with both economies witnessing positive growths in their bilateral trade engagement. The trade relationship appears to be pacing towards a relatively balanced trade trajectory.

The US was India's top export destination in 2017-18 with shipments worth \$47.88 billion. India's imports from the country were worth \$26.61 billion.

At present, the US economy is in a challenge over its benign recession and loss of jobs in the country. The US administration has used tariff as a tool to improve its terms of trade with its trading countries especially China, more recently with India as well.

The US has imposed 25 per cent tariffs on \$50 billion worth of Chinese technology goods including machinery, semiconductors, autos, aircraft parts and intermediate electronics components.

Exemptions were granted to Argentina, Australia, Brazil and South Korea in exchange for quotas. Recently, Canada and Mexico were exempted from the tariffs. In response, both countries lifted their retaliatory tariffs on the US.

It has imposed 20 per cent to 50 per cent tariffs on imported washing machines as a "global safeguard" action to protect US producers Whirlpool Corp against GE Appliances, a unit of China's Haier Electronics Group Co Ltd. It also imposed 30 per cent tariffs on imported solar panels, as a "global safeguard" action to protect US producers Solar World, based in Germany, and Suniva, owned by China's Shunfeng International Clean Energy Ltd.

INDIA – US TRADE – EXPORTS AND IMPORTS

India has not been spared from the conflict in trade with the United States. The United States of America initiated the levy of tariffs when it imposed a tariff of 25 percent on \$761 million of steel and 10 percent on \$382 million of aluminum imported from India. India is the world’s third largest steel producer after China and Japan. Like China, India’s steel exports to the United States were small because they had already been curtailed prior to the 2018 tariffs through a series of antidumping cases. India has been a beneficiary of the US–GSP (Generalized System of Preferences) since 1975. The US removed India from the GSP after which India retaliated by filing a notification with the WTO to impose a tariff rate covering \$ 1.4 billion of US exports.

This paper attempts to analyze the trade scenario of the two countries by exploring into the actual trade patterns in the last five years.

Table-1: Exports from the US to India:

Year	Export of Goods to India (US\$ billion)	Percentage Change
2014	21.5	
2015	21.5	0.00
2016	21.6	0.47
2017	25.7	18.98
2018	33.1	28.79

Source: <https://ustr.gov/countries-regions/south-central-asia/india#>

It is evident from the table above that exports of goods to India have increased substantially from US \$21.5 billion in 2014 to US \$33.1 billion in 2018.

Fig-1.1: Percentage Change in Imports



Source: Created from the database from <https://ustr.gov/countries-regions/south-central-asia/india#>

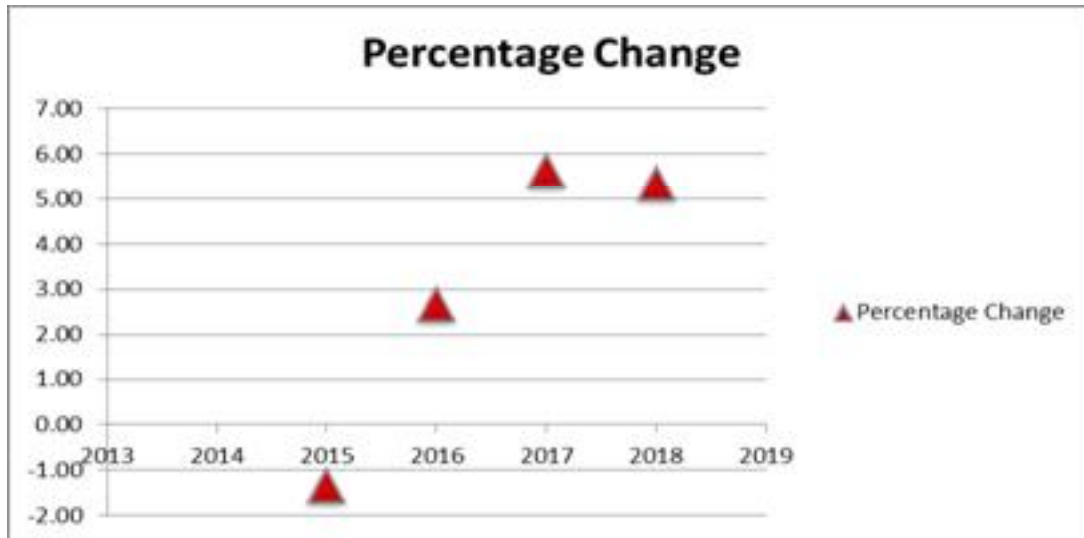
The percentage increase in the US exports to India in the last two years has been 18.98 and 28.79 percent respectively. The export products included the ones like Dairy produce, natural honey, edible vegetables, fruits, coffee, cereals, animal or vegetable fats and oils, sugar and sugar confectionery, beverages, plastering materials, lime and cement. Ships and boats, optical, photographic and cinematic apparatus, copper and aluminium articles, precious stones, jewellery, iron and steel, vehicles and spare parts of vehicles also contributed to huge earnings from India through exports.

Table-2: Imports by the USA from India:

Year	Import of Goods from India (US\$ billion)	Percentage Change
2014	45.4	
2015	44.8	-1.32
2016	46	2.68
2017	48.6	5.65
2018	54.4	5.35

Source: <https://ustr.gov/countries-regions/south-central-asia/india#>

Fig-2.1: Import of Goods from India (US\$ billion)



Source: Created from the database from <https://ustr.gov/countries-regions/south-central-asia/india#>

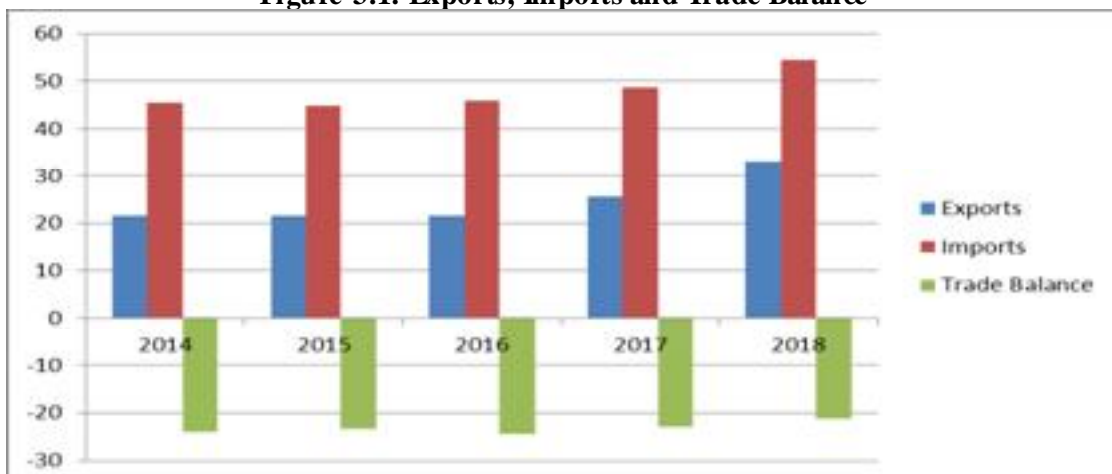
The imports by the US from India show a decline initially but then the imports have increased significantly. The percentage change has been negative in 2015 whereas it has been positively trending from 2016 onwards. The percentage change has notably increased by 2.68 and then sizably by 5.65 percentage with a small fall by 5.35 percentage in 2018. Imports mainly included sea food, aquatic invertebrates, coffee, spices, pharmaceutical products, textiles, clothing and apparels, precious metals, gems, jewelleryes, iron and steel, mineral fuels, mineral oils, bituminous substances and mineral waxes comprised a chunk of the imports by the US from India.

Table-3: Trade Balance :

Year	Exports	Imports	Trade Deficit
2014	21.5	45.4	-23.9
2015	21.5	44.8	-23.3
2016	21.6	46	-24.4
2017	25.7	48.6	-22.9
2018	33.1	54.4	-21.3

Source: <https://ustr.gov/countries-regions/south-central-asia/india#>

Figure-3.1: Exports, Imports and Trade Balance



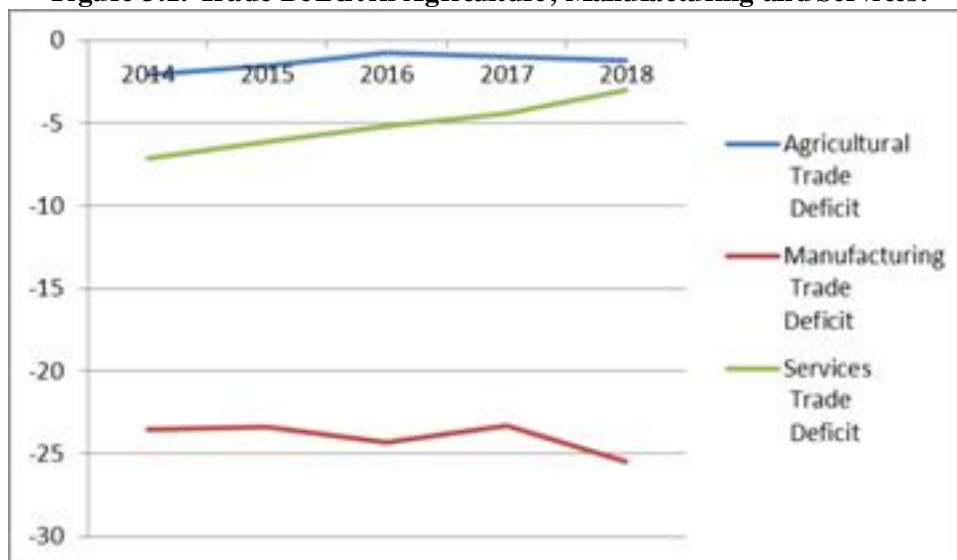
Source: Created from the database from <https://ustr.gov/countries-regions/south-central-asia/india#>

The trade balance for the US has been on the negative with India.

Over the years the trade deficit has been reducing, more so in the last two years. The reduction is attributed mainly to reduction in imports of iron and steel, lead, zinc and tin. Other goods include umbrellas, walking sticks, staple fibres, ship, boats and floating structures, arms and ammunition

A separate analysis of agricultural trade balance, manufacturing trade balance and services trade balance reveals that the trade deficit is contributed foremost by the manufacturing rather than the agricultural sector or the services sector.

Figure 3.1: Trade Deficit in Agriculture, Manufacturing and Services.



Source: Created from the database from <https://ustr.gov/countries-regions/south-central-asia/india#>

As pointed out earlier, the US administration has primarily laid its hands on the steel by levying tariff on the imports of the steel and aluminium which contributed to a chunk of imports from India. This has led to a reduction in the trade deficit in the previous year. A table showing the percentage change in imports of agricultural, manufacturing and services sectors during the years has been framed below:

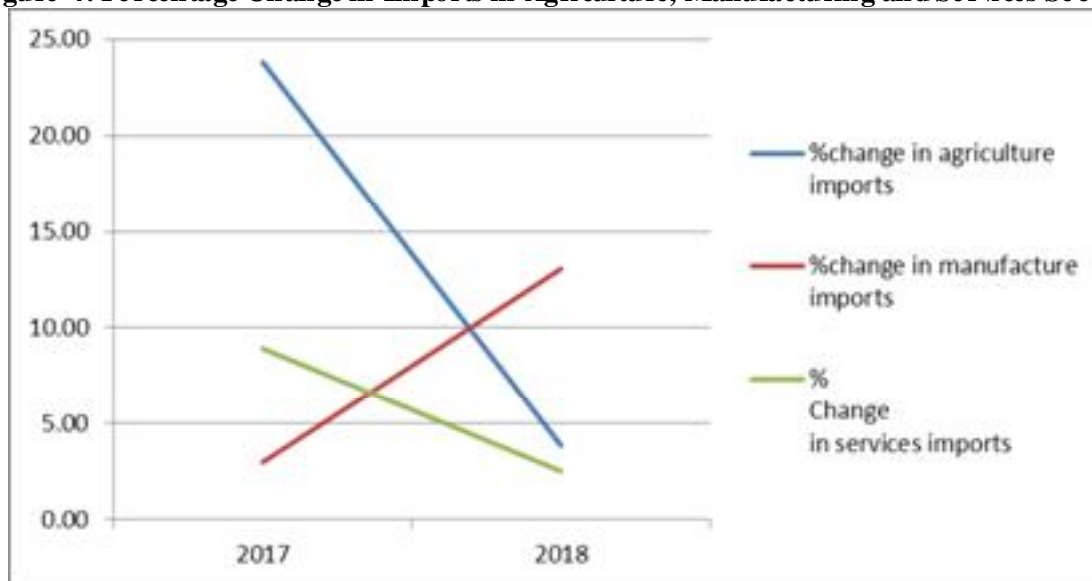
Table-4: Imports and Percentage Change in Imports in Agriculture, Manufacturing and Services Sector.

	Agriculture		Manufacturing		Services	
	Imports	%change in agricultural imports	Imports	%change in manufacturing imports	Imports	% Change in services imports
2014	3.2		42.5		22.4	
2015	2.7	-15.63	41.9	-1.41	24.7	10.27
2016	2.1	-22.22	43.1	2.86	25.8	4.45
2017	2.6	23.81	44.4	3.02	28.1	8.91
2018	2.7	3.85	50.2	13.06	28.8	2.49

Source: <https://ustr.gov/countries-regions/south-central-asia/india#>

As a cross-cut view of the trade deficit is taken, the trade deficit has been reduced in the year 2018 (Table 4). The change is calculated from 2016 onwards. It is interesting to note that inspite of the US government imposing tariff on the manufacturing sector; there has been a drastic fall in imports of agricultural sector. The fall in agricultural imports is steeper than the fall in services sector. The change signifies that the imports of manufacturing sector have increased from US \$42.5 billion in 2014 to US \$50.2 billion in 2018. The agricultural sector imports have, on the other hand declined from US \$3.2 billion in 2014 to US \$2.7 billion in 2018.

Figure-4: Percentage Change in Imports in Agriculture, Manufacturing and Services Sector.



Source: Created from the database from <https://ustr.gov/countries-regions/south-central-asia/india#>

The percentage change in agricultural imports shows a steep decline as in the Figure 4. It can be found that the reduction in trade deficit is contributed primarily by the reduction of agricultural imports, secondly by the services imports. The manufacturing imports have rather increased by 13.06% in 2018.

THE TARIFF FACTOR

The average tariff increases levied by India were much small. For the products covered by GSP, removing India from the program meant the United States increased the tariff facing Indian exporters from zero to the most-favored-nation (MFN) rate paid by members of the WTO that do not have special trade agreements with the United States. For chemicals, for example, the average tariff facing Indian exporters increased from 3.3 to 4.1 percent. India’s retaliation list included other products like chickpeas, lentils, steel, and chemicals exported from a number of American states. India’s tariff increase ranged from 1 to 20 percentage points, depending on the product. Steel was hit with a 15 percentage point increase, walnuts and apples faced tariff increases of 10 to 20 percentage points, and almonds faced tariff increases of 1 to 2 percentage points. India’s new tariffs of June 16, 2019, covered \$1.3 billion of exports, or roughly 5.5 percent of US exports to India in 2017.

Fruits and nuts were some of the top products affected by India’s retaliation. Almonds and walnuts from California and apples from Washington were the biggest targets. Overall, 54 percent of the exports subject to retaliation were from California and 9 percent were from Washington.

Overall, these tariff increases will make it more difficult for Indian exporters to compete in the US market and will likely raise costs for any American consumers. Nevertheless, the duty hikes are not as large as the massive increases that the US administration has imposed on China—from 3.1 to 18.3 percent—during this same period.

RECENT AND FUTURE PROSPECTS OF TRADE - THE INDIAN PERSPECTIVE

India’s exports to the USA were 16.06% of its total exports whereas imports 5.47%. The Trade Policy Forum of the two countries has been mutually persuading each other in various aspects of trade. While the US has been convincing India to provide market access in its dairy and export of pork, India has been trying to seek easing of procedures for export in Indian mangoes, pomegranates and market access for table grapes.

According to the Engineering Exports Promotion Council of India, the U.S. has, reportedly, remained the topmost importer of the Indian auto components in the current fiscal year despite trade war conditions since August 2018. According to the Seafood Exporters Association of India, with seafood shipments to the U.S. increasing to 33% of the total seafood exports, India has become the largest seafood supplier to the U.S. The seafood exports to the U.S. are expected to go up further in the coming years according to the Seafood

Exporters Association of India. With a series of government initiatives and policy support, The Marine Products Exports Development Authority (MPEDA), forecasts that India will achieve an export target of \$10 billion by 2022.

India's pharmaceutical industry is emerging as very competitive with low cost production capacity, and it will likely increase its share in the U.S. import market as bilateral economic cooperation increases. These make India a top destination of trade in these sectors for the USA. India is seeking the removal of price cap on bioresorbable stents. India is a large market for stent makers and it imported medical instruments, including stents, worth around \$1.6 billion from the US in the last fiscal, up 10% from a year earlier. India still hopes to clinch a mutually-acceptable trade package.

Considering the current trends and huge impending deals in aerospace and petroleum & gas sectors between the two economies, the volume of bilateral trade is likely to increase in the short to medium terms. India's ever-expanding need for commercial planes presents huge business opportunities to the U.S. industry. Boeing estimates a total of \$290 billion sales to India over the next two decades for 2100 planes.

As far as the oil sector is concerned, according to industry observers, Indian refiners are now turning to the U.S. supplies for mini deal arrangements to keep a regular flow to meet monthly demand. China imposed a 25 per cent tariff on imports of U.S. coal in August 2018, as retaliation against tariffs on its exports implemented by the US. India is world's second largest steel producer. India imported 15.6 million tons (mt) of coal from the U.S in 2018, 10.2 mt in 2017 and 5 mt in 2016.

India currently meets about 85% of its coking coal demand through imports. India's medical devices industry is sized at \$5.2 billion, according to the sector snap shot by Invest India, and it is estimated to reach \$50 billion by 2025.

On the services front, the U.S. remains a big attraction for Indian tourists and the Indian students and the average 17% annual growth of travel service exports to India is likely to continue go steadily up. Insurance services are a bit restrictive in India

Tourism is India's 3rd largest foreign exchange earner and contributes nearly nine percent to the GDP; with increasing investments in the hotel and travel infrastructure and its emergence as a significant business player in the world, India expects to attract more and more travelers from the US and other developed countries.

Education is another area where there are immense opportunities for the two countries to foray into and help in building more quality and excellence.

The two countries precisely are inter-reliant and need to come to terms with each other at the earliest, at a point where they can settle. Indian exports have their impediments wherein the exporters also lack in comprehensive knowledge about the alien markets. Responsible authorities need to conduct capacity-building programmes which would undoubtedly improve the quality of trade from Indian side. As far as the US side is concerned, its trade with China is hampered, at least in the interim phase, as long as there is tariff war between the two. In the mean time, India is creating an environment of accessible and ease of trade policy will diligently provide for a greater market for the US goods and services. The recessionary phase underlying beneath the development of the two countries can be eliminated more by the duo being complementary in removing barriers rather than competitive.

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