



U.S.-India Trade Relations

Trade and investment ties are a key aspect of U.S.-India bilateral relations. Market access and other trade barriers with India are longstanding concerns among some Members of Congress, U.S. exporters, and successive U.S. Administrations. Some business groups and analysts see potential for the two nations to enhance their trade ties, and to engage on global and regional trade issues of shared interest, if they can address existing bilateral trade barriers.

During the Trump Administration, bilateral trade tensions grew over tariffs and other policies. A trade deal to address certain market access issues reportedly neared conclusion in 2020, but did not materialize. U.S.-India trade relations appear to be less strained during the Biden Administration; the two countries agreed to resolve outstanding bilateral trade issues and explore ways to expand trade ties. In November 2021, they 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 frictions remain, including over the termination of India’s eligibility for the U.S. Generalized System of Preferences (GSP), and the sometimes diverging U.S. and Indian views in the World Trade Organization (WTO).

India’s Economy

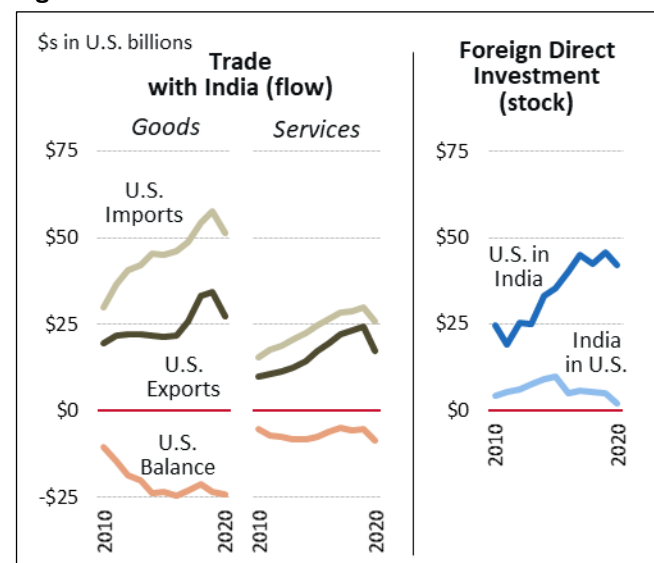
In 2020, India was the world’s third-largest economy by purchasing power parity for gross domestic product. After several years of high growth rates (above 7%), its economy grew more slowly in 2019 (4%) and, for the first time in four decades, contracted in 2020 (-7.3%). The Coronavirus Disease 2019 (COVID-19) pandemic hit India’s economy hard, shrinking incomes for millions in its middle class and worsening poverty. The government’s COVID-19 response mitigated some adverse economic effects, but ongoing COVID-19 concerns may dampen economic recovery in 2022. Rising unemployment, inflationary pressures, and weak infrastructure are ongoing economic challenges. The Modi Administration has enacted some market-opening reforms, while raising tariffs and pursuing other restrictive trade measures. Some moves to boost domestic manufacturing and infrastructure (e.g., a “Make in India” initiative and the “Self-reliant India” campaign) pose concerns to some U.S. firms about trade barriers with India.

Bilateral Trade and Investment Ties

Bilateral trade and investment ties are limited, but have grown in the past decade (Figure 1). They are a small share of U.S. international transactions and more consequential for India. In 2020, total U.S.-India merchandise trade (exports plus imports) accounted for about 2% of U.S. merchandise trade, and about 12% of such trade for India. India was the United States’ 11th-largest overall goods trading partner; and the United States was India’s largest merchandise export destination and third-largest merchandise import supplier (after China and the European Union). (U.S. Census Bureau and WTO data, 2020.)

Top traded goods include mineral fuels, precious metals and stones, machinery, aircraft, organic chemicals, and pharmaceutical products. In bilateral services trade, travel (for business and personal, including for education) was the top U.S. export, and telecommunications, computer, and information services was the top U.S. import. Most major U.S. companies are active in India. Top sectors for Indian FDI in the United States are professional services, depository institutions, and manufacturing. Additionally, defense sales are significant in bilateral trade.

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



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

Select U.S.-India Trade Issues

India’s Tariff Regime. The United States has longstanding concerns over India’s tariff regime, which has relatively high average tariff rates, especially in agriculture. India can raise its applied rates to bound rates without violating its commitments under the WTO, causing uncertainty for U.S. exporters—as it did for certain telecommunications goods.

Steel and Aluminum Tariffs and Retaliatory Tariffs.

India opposes the continued U.S. “Section 232” steel and aluminum tariffs, applied since 2018. India applied retaliatory tariffs against the United States after losing its GSP eligibility (see below); these higher tariffs of 10% to 25% affect about \$1.2 billion of U.S. exports (2020 data), such as nuts, apples, chemicals, and steel. The two sides are challenging each other’s tariffs in the WTO.

Digital Services Tax (DST). In November 2021, the United States announced a “political agreement” with India on its DST treatment. In exchange for India’s commitment to transition from its DST to a newly-concluded, related global tax framework, the United States agreed to terminate additional, already suspended duties on certain goods from India. The duties arose from a U.S. “Section 301”

investigation, prompted by concerns that India's DST was unfair to U.S. firms. Following the investigation, the United States adopted, then immediately suspended, the duties, given the global tax negotiations. Countries would need to take domestic steps to implement the global tax framework.

U.S. Generalized System of Preferences (GSP). In 2019, the United States removed India from GSP, a U.S. trade and development program, due to market access issues. Termination of eligibility reinstated U.S. tariffs for goods from India that previously entered duty-free. India, which was GSP's largest user, seeks to regain eligibility. Congress may consider India's potential reinstatement alongside broader eligibility criteria issues in any legislative debate on the renewal of GSP, which expired on December 31, 2020.

Services. The two nations are competitive in some 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 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. At the TPF, the two sides agreed to work to finalize market access for a number of products, including for Indian mango exports to the United States and U.S. pork exports to India.

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 moves by India to its IPR regime, but they have been disappointed by the pace of reform. India remained on the Priority Watch List of the U.S. 2021 "Special 301" report, which cited such U.S. concerns as India's patent treatment, 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. Adding to U.S. concerns are India's restrictive localization rules for certain financial payment data flows. At the same time, India has moved to ease some local sourcing rules for single-brand retailers.

Investment. India has made some FDI reforms, such as raising foreign equity caps for insurance and launching a new system to streamline FDI approvals. U.S. concerns about investment barriers persist, due to India's restrictive rules for e-commerce platforms and other issues affecting the investment climate, such as India's regulatory transparency, IPR protection, and localization policies.

Supply Chains. India's role in supporting secure supply chains for critical sectors, including for pharmaceuticals, has been of growing policy interest in the wake of supply chain vulnerabilities exposed by COVID-19 and rising U.S.-China and India-China trade frictions. India also has stepped up efforts to attract supply chains from China. U.S.-India engagement on these issues may increase.

Defense Trade. The two nations have signed defense contracts worth more than \$20 billion since 2008. 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.

Bilateral Engagement. Many analysts see the TPF as a key forum to enhance bilateral trade ties, but some question whether the two nations can keep momentum to continue to address specific issues. Some also question whether the two sides may revisit past efforts to pursue a bilateral trade liberalization agreement or investment treaty. Bilateral trade talks between India and such major economies as the EU and the United Kingdom may affect these dynamics.

Regional Integration. For each nation, the other represents a key partner in advancing strategic economic interests in the Indo-Pacific, including to enhance competitiveness and counter China. The United States and India are each absent from the major regional trade agreement that they helped to negotiate: respectively, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). China is an RCEP member and seeks to join CPTPP. It remains to be seen whether the United States and India may revisit their positions on these agreements and/or pursue other regional integration. India has previously expressed interest in joining the Asia-Pacific Economic Cooperation (APEC) group, comprised of the United States, China, and 19 other members, but questions remain about India's willingness to undertake economic reforms to join.

World Trade Organization (WTO). The two nations engage in WTO trade liberalization negotiations and, at times, use the WTO to enforce trade rules and settle trade disputes against each other. India's growing integration in the global economy has prompted some U.S. policymakers to call on India, like China, to be a more responsible stakeholder in the rules-based global trading system. They blame India for impeding progress on certain WTO issues. 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—a view these countries refute.

In 2021, the Biden Administration voiced support for the concept of a waiver of certain WTO IPR obligations for COVID-19 vaccines. India and some other countries seek a broader WTO IPR waiver for COVID-19-related health products and technologies. Differences remain on other WTO issues under negotiation, e.g., e-commerce customs duties and fisheries subsidies. Discussions are ongoing, after the WTO postponed its next ministerial conference from the end of 2021, due to COVID-19 concerns.

Selected Potential Issues for Congress

- What is the status of U.S. market access to India? To what extent is India adopting more restrictive policies?
- What trade issues should the United States and India prioritize in any future talks and through what avenues?
- What opportunities and challenges exist for bilateral engagement on regional and global trade issues?

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