



## Prospects and Obstacles in Bilateral Ties between India and the United States: A Research Analysis

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### Abstract

India is a potential market for other countries because it has the world's second-largest population. Examining the export, import, and composition patterns of India's foreign trade with various countries is essential because of the variety of items and countries participating in the trade. At the same time, learning about the obstacles and possibilities of doing business with these nations is crucial. The current research examines India's trading ties with China and the United States.

China and the United States have long been India's most important trading partners. More than twenty percent of India's total exports and more than twenty-one percent of India's total imports came from these two nations in 2017–18. In 2017-18, the United States was India's top export partner, accounting for 15.77 percent of India's total exports, while China was the country's largest import partner, accounting for 16.41 percent of India's total imports. In addition to this, China and the United States account for the bulk of the country's trade imbalance and surplus, respectively. Since 1991, India's bilateral commercial relations with China and the United States will be the subject of this investigation.

### Introduction:

In common parlance, "Trade" refers to the buying and selling of goods and services for money or the equivalent in kind. Trade between countries occurs as a natural progression from commerce within a country. Trade within a country's borders or between a country's two regions is considered domestic, whereas trade with another country or countries is considered international.

No nation on Earth today produces what it needs, both in terms of commodities and services, entirely within its borders. The availability of natural resources, the expertise of the people, the availability of specialized machinery, etc., all have a role. Therefore, governments can take advantage of foreign commerce to export products whose production uses comparatively heavy use of locally abundant resources and import products whose production uses heavy use of locally scarce resources. One of the most significant drivers of economic integration is trade. International trade is essential for a rapid expansion of the economy. The growth of a nation's economy is directly tied to its ability to trade internationally. When a country's GDP rises steadily over time, it is considered to be economically developed. Trade with other countries is crucial to the growth of the economy. Foreign commerce has been called a "engine of growth" by both classical and non-classical economists because it generates jobs, boosts investment, lessens poverty, and raises people's living standards. In the past, countries like Britain and Japan, whose economy grew rapidly in the 19th and 20th centuries, used this method as a "engine of growth."

### Review of literature:

As a result of global trade. Many economists, like **Adam Smith** (1776), David Ricardo (1817), **Heckscher - Ohline** (1919), etc., have theorized that international commerce is beneficial to national economic progress.

Since ancient times, trade and commerce have supported India's economy. Despite repeated governmental upheavals between the 12th and 18th centuries, India was still affluent, as seen by its commercial history. India's exports back then were far higher than its imports. Spices, hardwood furniture, tea, embroideries with inlay work, etc., were among the most sought-after exports from India throughout the course of trade history. Expensive furniture carving, carpets, linens, pearls, ornamental work, precious stones, carpet weaving, etc. all came from India and were much sought after. When India was still under British dominion, before its independence, it imported manufactured commodities from the West and exported food and raw materials to



the United Kingdom. Because of this, India had to rely on other countries to provide its manufacturing needs.

After India's independence in 1947, the country's commercial landscape changed gradually. From the 1950s until the 1980s, India's government enforced protectionist policies by imposing tariff and non-tariff obstacles on imports. These included quotas, licensing requirements, bans, import levies, and more. The country's small domestic sectors are shielded from foreign competition thanks to the implementation of such protectionist legislation. During this time, the country enacted a variety of trade policies, including those aimed at reducing reliance on imports and increasing the country's ability to trade internationally. This attitude, known as "Export Pessimism," meant that the Indian government did not view exports as a key driver of economic expansion.

India's trade status has improved and garnered attention from global markets since the government structured trade policy under the banner of free trade and decreased protectionist measures with the implementation of the New Economic Policy in 1991. The new Liberalization, Privatization, and Globalization (LPG) economic policy has had a good effect on the Indian economy, according to a number of studies. The rate of employment, national income, per capita income, and FDI all rose as a result of the new economic policy, according to studies. As a result of these measures, as well as the elimination of trade obstacles, India has seen a dramatic shift in the make-up of its exports and imports and a gradual growth in the value of both.

## Objectives of the Study:

- 1) To take a comparative picture of the economy's of India, USA in world economy
- 2) To assess the trends of India, and USA's Foreign Trade in world Trade
- 3) To examine the trends and performance of India's export, import and Balance of Trade (BOT) with USA economies
- 4) To analyse the composition of India's Foreign trade with the nations under study
- 5) To suggest some policy measure to improve India's trade relations with two nations by reducing trade deficit and increasing trade surplus

## Research Methodology

This research was conducted only via the use of secondary resources. Information will be collected from a wide range of sources, both domestic and international, including the International Monetary Fund (IMF), the World Bank, the World Trade Organization (WTO), the World Trade map, the United Nations Comtrade Database (UN comtrade), the United Nations Trade and Development Database (UN TACD), the Reserve Bank of India (RBI), the Ministry of Commerce and Industry, etc. In addition, information will be culled from a wide range of print sources, including books, magazines, scholarly journals, and dissertations at all levels of study.

In this research, basic statistical methods including averaging, percentage, ratios, table, and graph will be utilized to analyze the data. In addition to the RAC, Trade Intensity Index, Trade Similarity and Complementarity Index, Export Diversification Index, Trade Openness Index, etc., the present study will use these and other indices to evaluate the superiority of the trade relationship between India and the United States.

## COMPARATIVE ANALYSIS:

### Economy of India

In terms of nominal gross domestic product (GDP), India's economy ranked sixth in the world in 2022. In 2023, its expansion is predicted to reach 6.1%. India is highlighting its upcoming leadership of the G20 in 2023 as evidence of its economic ascendancy. The economy relies heavily on services, particularly those related to information technology (IT). Although agriculture is the largest employer in India, its contribution to the country's GDP is falling. Although India's economy has a sizable middle class, it is struggling with high unemployment, extreme poverty, and inadequate infrastructure. In an effort to lure foreign direct investment

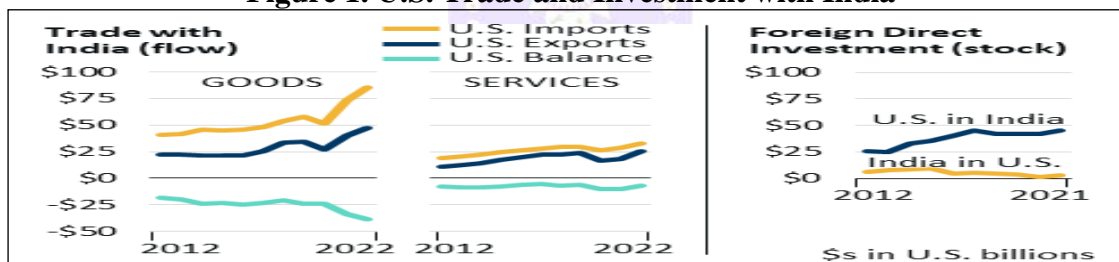
(FDI), the administration of Prime Minister Narendra Modi has adopted several market-opening changes. One of the goals of these reforms is to make India a viable option for multinational corporations that are looking to diversify their supply chains away from China. Questions have been raised concerning the future course of India's economic reform as, under Modi's leadership, the country has adopted trade-restrictive measures (such as tariff hikes) to encourage "self-reliance" and stimulate domestic manufacturing. Adani Group, an Indian conglomerate, has been accused of accounting fraud dating back decades by a financial research firm. Some people believe that Adani Group is very connected to Modi, which means that the controversy could hurt India's international standing.

## U.S. Investment and Trade with India

While commerce between the two countries is low, it has increased in general over the previous decade (Figure 1). They make up a negligible portion of total U.S. trade but are of much greater importance to India. Oil and gas, miscellaneous manufactured commodities, coal and petroleum gases, basic chemicals, waste and scrap, and aerospace products and parts were among the top U.S. exports to India in 2022; the country ranked as the United States' tenth-largest market for goods exports, with a 2.3% share. Various manufactured items, pharmaceuticals and medications, clothing, basic chemicals, textile furnishings, and petroleum and coal products were the top Indian imports to the United States. The United States' top service export to India was vacation packages, while the United States' top service import from India was corporate outsourcing.

The sale of military equipment is also a major factor in bilateral trade. Many different kinds of American businesses are present in India. The areas of information technology (IT) services, software, business services, pharmaceuticals, and industrial equipment receive the majority of Indian foreign direct investment (FDI) in the United States.

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



## US –INDIA TRADE ISSUES

Tariffs are being placed on some U.S. exports to India. India's tariff rates have long been a source of concern for the United States, which considers them to be the highest of any major economy. Without breaking its WTO commitments, India can raise its applied rates to bound rates, creating uncertainty for American exporters.

India is opposed to the "Section 232" tariffs that the United States implemented on steel and aluminum in January of this year (an additional 25% and 10%, respectively). India imposed retaliatory duties of 10% to 25% on around \$1.3 billion worth of U.S. exports (2022 data), including almonds, apples, chemicals, and steel, in response to losing its GSP status (see below).

Both countries have challenged the levies in the World Trade Organization. In 2022, a WTO dispute panel found that the United States' Section 232 measures were in violation of WTO regulations, but the United States disputed those findings. Prior to this, the United States had bilateral trade agreements with the European Union (EU) and a few other trading partners, but not India that imposed fewer restrictions on steel and aluminum.

Online Business. The United States and India came to a "political agreement" in 2021 over how to handle India's digital services tax (DST), which was previously seen as unfairly targeting American businesses in violation of "Section 301." The United States lifted Section 301 sanctions against India in exchange for the country's promise to adopt the OECD/G20 global tax system by 2021.



(The United States has already halted tariffs during international tax negotiations). India opposed a WTO moratorium extension on e-commerce duties out of concern for the impact on developing countries, but the WTO resolved to prolong the moratorium and ramp up e-commerce discussions at its ministerial meeting in June 2022. The United States claims that the World Trade Organization's judgment will lower trade barriers, increase opportunities for small and medium-sized firms, and strengthen supply chain resilience across industries dependent on information flows. The effects of India's data localization policies on international data transfers are another related subject of U.S. concern.

**GSP.** Due to India's inability to satisfy the United States' market access qualifying standards, India lost GSP status in 2019. The main recipient of GSP's duty-free treatment for eligible items (such as basic chemicals and motor vehicle parts) was India, which now seeks reinstatement in GSP. After GSP was set to expire in 2020, the United States indicated at the January 2023 TPF that restoration "could be considered, as warranted, in relation to the eligibility criteria" that Congress may designate.

**Services.** Some service sectors, including as information technology (IT) and professional and commercial services, are competitive between the two countries. India's restrictions on foreign ownership and local presence requirements create hurdles for U.S. corporations to enter the Indian market. U.S. temporary visa regulations that affect Indian people working in the United States are a major concern for India. India is still hoping to reach a "totalization agreement" with the United States to harmonize social security benefits for dual-nationals.

**Agriculture.** Agricultural export restrictions resulting from sanitary and phytosanitary (SPS) barriers in India are a source of bilateral tension between the United States and India. The United States casts doubt on the theoretical and empirical bases for such restrictions.

In addition, both countries perceive the other's agricultural support initiatives as distorting their own markets. The fact that India evaluates its programs through the prism of global food security further muddies the waters.

For example, in 2022, both countries agreed to allow the export of mangoes from India and pork from the United States. The United States ascribed India's move to TPF development when the country stated in February 2023 that it planned to execute a 70% decrease to tariffs on U.S. pecan exports.

There is still a bilateral trade problem with access to agricultural markets.

IPR stands for "intellectual property rights." National approaches to intellectual property rights (IPR) protection for advancing innovation and other objectives (e.g., healthcare access) vary. In 2022, the United States continued to monitor India's intellectual property rights (IPR) regime with "Special 301" Priority Watch List status, citing concerns over patent treatment (particularly for agriculture, biotechnology, and pharmaceutical sectors), IP theft rates, and trade secret protection.

**Investment.** Increases in foreign equity caps for insurance and simplification of FDI permits are just two examples of India's FDI reforms. U.S. complaints about India's investment climate include the country's data localization, tariff, SPS, and intellectual property rights laws as well as the lack of regulatory clarity surrounding these issues.

**Chains of Supply.** The supply chain vulnerabilities brought to light by COVID-19 and U.S.-China trade frictions have highlighted India's potential for a more prominent role in maintaining safe supply chains for important sectors. Supply chain resilience is an area where the US and India hope to work together (e.g., through IPEF), with a focus on the semiconductor industry. India is a significant manufacturer and global supplier of generic medications, and the country wants to work with the United States to establish a stable pharmaceutical basis.

**Defence trade.** Since 2008, the two countries have signed defense contracts totaling more than \$20 billion. The United States has been pushing for revisions in India's defense offsets policy and higher FDI quotas in its defense sector, while India has been anxious for more technology-sharing and co-production projects.





**Bilateral Engagement.** The possibility that the two countries can address specific issues remains open, but the TPF's reactivation may be an important method to improve bilateral trade ties. Some interested parties have urged the partners to try again at negotiating an investment pact or at liberalizing trade more generally.

The United States also places a premium on cooperation between the two countries in other arenas. In order to increase their collaboration in areas such as defense manufacturing, quantum computing, semiconductor supply chains, space exploration, and more, the two countries formally launched a bilateral initiative on Critical and Emerging Technology (iCET) in January 2023.

**In-Region Commerce.** To increase their competitiveness and challenge China's economic impact, the United States and India see themselves as vital partners in the Indo-Pacific. The IPEF is the first significant trade and economic initiative of the Biden Administration in the area, and includes 14 countries, including India. India was the sole member country to withdraw from IPEF's trade pillar, citing concerns over the organization's potential future commitments in areas including the environment and labor. Some stakeholders are concerned about the reach and efficacy of the trade pillar, which does not include tariff reduction at the present time. India is now one of IPEF's supporting structures alongside its supply chain, clean energy, infrastructure and decarbonization, and tax and anti-corruption initiatives. Results from the IPEF might be released in 2023.

**WTO.** Both countries use the World Trade Organization for trade negotiations and dispute resolution. Some in the U.S. government have responded to India's increasing role in the global economy by urging it to follow the same rules-based global trading system as China. They hold India responsible for slowing down resolutions to WTO concerns including a freeze on e-commerce customs taxes and stricter regulations on fishery subsidies. An IPR waiver for COVID-19 vaccines was agreed by WTO members in 2022, but whether or not it should also extend to diagnostics and therapies remains an open question. India has been a strong advocate for the COVID-19 IPR waiver and enlargement since its inception. The United States, which agreed with the initial waiver, has not yet commented on the extension. The opinions in Congress are divided.

## Obstacles and challenges:

In this analysis, we can only scratch the surface of the complexity that is India's trade relationship with the United States. Therefore, this study analyzes the export, import, and BOT trends of India with the United States, as well as the commodity composition of India's trade with these two countries, the trade obstacles and opportunities faced by India, and finally, some policy measures that could be taken to strengthen India's ties with the United States.

## Policy Recommendations:

Present study has the following limitations,

- 1) Study purely based on the secondary source of data collection not include primary data
- 2) Study mainly focuses on bilateral trade relation of India with USA. In other words, study only focus the trade relation of India with USA.
- 3) In commodity composition, mainly focuses on major commodities of export and import

## CONCLUSION:

The current research aims to analyze the commodity composition of India's foreign commerce with the countries of focus, as well as the comparative examination of the economies of India, China, and the United States. The potential and threats that these two countries present to India are also explored in this study. In the end, the research will recommend certain governmental measures to enhance India's commercial ties with the two nations.

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