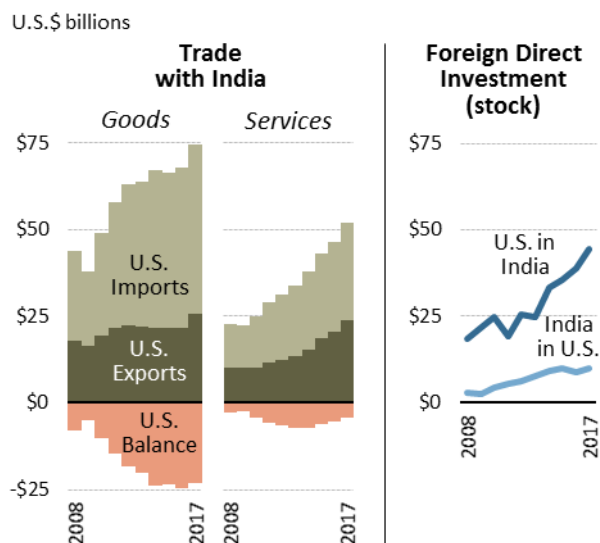


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## U.S.-India Trade Relations

The United States and India view each other as important strategic partners to advance common interests regionally and globally. Bilateral trade in goods and services is about 2% of U.S. world trade, but tripled in value between 2005 and 2017, reaching \$126 billion (**Figure 1**). The trade relationship is more consequential for India, for whom the United States was its second largest export market (16% share) after the European Union (EU, 17%), and third largest source of imports (6%) after China (17%) and the EU (10%) in 2017. U.S.-India foreign direct investment (FDI) is small but growing. Defense sales are significant in bilateral trade as well. Civilian nuclear commerce, stalled for years over differences on liability protections, has produced major potential U.S. supply contracts. Many observers believe bilateral commercial ties could be more extensive if trade and investment barriers were addressed. Bilateral trade frictions exist on numerous fronts, though the two sides are working to resolve some issues.

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



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

### India's Economy

India has one of the world's fastest growing economies and the third largest on a purchasing power parity basis. It is the second most populous country, with a large and growing middle class. It also faces economic challenges, including poverty, difficulty absorbing the millions of young new workers joining the labor force, and infrastructure gaps. Rising world energy prices place pressure on India, which imports about 80% of its oil needs. Energy prices and other global factors have caused India's currency to depreciate against the U.S. dollar, raising concerns about inflation. Still, the economy is projected to grow by 7.3% in 2018, up from 6.7% in 2017 (International Monetary Fund data), as shocks abate from domestic economic measures, e.g.,

"demonetization" in 2016, which removed about 86% of currency by value from circulation in India to address tax evasion and corruption, and the roll-out of a nationwide value-added goods and service tax in 2017 to streamline the tax regime. The effectiveness of both reforms is debated.

### Selected Issues

**Trade Balance.** The Trump Administration, which views bilateral trade balances as an indicator of the health of a trading relationship, has taken issue with the U.S. trade deficit with India (\$27 billion deficit in goods and services trade in 2017), and has criticized India for a range of "unfair" trading practices. India favors taking a broader view of their trade ties beyond the trade balance. The consequences of trade deficits are contested.

**Tariffs.** Bilateral tensions have become heightened over U.S. and Indian tariff policies. On June 1, 2018, the United States began applying 25% steel and 10% aluminum tariffs under Section 232 of the Tariff Expansion Act of 1962. The tariff hikes apply to all countries; India did not receive an initial exception like some trading partners, nor negotiate an alternative quota arrangement. India supplied 2.6% (\$761 million) of U.S. steel and 2.2% (\$382 million) of U.S. aluminum in 2017. It notified the World Trade Organization (WTO) of its plans to retaliate against the United States with tariffs on \$1.4 billion of U.S. goods (e.g., nuts, apples, steel, and motorcycles), but has deferred applying the tariffs until November 2, 2018, in hopes of a bilateral resolution. India also filed a WTO complaint against the U.S. tariff increases, and joined related complaints lodged by other WTO members.

In September, India announced plans to raise duties on "nonessential" goods (e.g., some precious stones, steel, and consumer electronics) from all countries to curb imports in order to support its depreciating rupee. This follows a pattern of tariff hikes by India in recent years (such as on cell phones and solar panels), as well as longstanding U.S. concerns over India's tariff regime. India has relatively high average tariff rates, especially in agriculture, and can raise its applied rates to bound rates without violating its WTO commitments, causing uncertainty for U.S. exporters.

**Generalized System of Preferences (GSP).** In April, the United States launched a review of India's eligibility for GSP, a U.S. program that gives duty-free tariff treatment to certain U.S. imports from eligible developing countries to support their economic development. The review concerns India's compliance with the GSP "market access" criterion and also relates to U.S. medical and dairy industry market access petitions. Continued GSP eligibility is a top priority for India, GSP's top beneficiary. GSP accounted for 12% (\$5.6 billion) of U.S. goods imports from India in 2017.

**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. For India, a key issue 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 (professional 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 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 concern for the United States, which designated India again on its "Special 301" Priority Watch List for 2017, based on such concerns as its treatment of patents, infringement rates, and protection of trade secrets.

**Localization Trade Barriers.** 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 and local content for government procurement in some sectors.

**Investment.** India has made FDI reforms, such as raising foreign equity caps for insurance and defense, but barriers remain in multi-brand retail and other sectors. India's regulatory transparency and judicial infrastructure present challenges for U.S. investors. Two-way U.S.-Indian FDI are associated with U.S. jobs and exports in a range of economic sectors, but U.S. direct investment in India has prompted some concerns about offshoring.

**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 future sales are anticipated, including the potential direct commercial sale of *Apache* attack helicopters, as well as *Guardian* maritime drones and additional C-17 transport aircraft. India is eager for more technology-sharing and co-production; recent 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 apparent intention to spend billions of dollars to purchase the Russian-made S-400 air defense system may yet 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 reportedly are in "intensive" negotiations to address key trade issues, such as on the U.S. steel and aluminum tariffs and India's GSP status. These talks may build on the inaugural 2+2 Dialogue in September 2018. Other bilateral

dialogues include the government-to-government Strategic and Commercial Dialogue (S&CD) and Trade Policy Forum, and the private sector-based CEO Forum.

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. Under the Obama Administration, the two sides sought a bilateral investment treaty (BIT), but negotiations stalled.

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"Both sides committed to further expanding and balancing the trade and economic partnership..., including by facilitating trade, improving market access, and addressing issues of interest to both sides... [They] welcomed [their trade ministries'] ongoing exchanges... and hoped for mutually acceptable outcomes."—2+2 Dialogue Joint Statement (2018)

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**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 part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), concluded by the proposed TPP's 11 remaining parties. President Trump, who prefers bilateral negotiations, ceased U.S. participation in TPP, and recently announced plans to negotiate a bilateral trade agreement with Japan.

India has long sought membership in the Asia-Pacific Economic Cooperation (APEC) forum, a grouping of the United States, China, and 19 other economies. The United States previously stated that it welcomes India in APEC, though some have questioned if India is willing to take on economic liberalization sufficient for APEC membership.

**WTO.** As WTO members, the United States and India negotiate multilaterally to liberalize trade, but their differing views impeded the Doha Round. The recent Trade Facilitation Agreement (TFA) to remove customs barriers (the first multilateral agreement concluded in over 20 years) was initially blocked by India. The TFA entered into force in 2017 after India reversed its position, in light of a U.S.-Indian understanding not to challenge specific food security programs until a permanent WTO solution is reached—a top priority for India. Presently, however, there is no consensus on a future work plan. There also are many institutional questions about the WTO's ongoing relevance.

## Congressional Interest

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

- How do U.S. and Indian tariff and other trade policies affect their shared goal to expand bilateral trade ties?
- What are prospects for current U.S.-India trade talks to negotiate a resolution to trade frictions? Should the United States look to multilateral or regional options?
- Are bilateral FTA negotiations or a revival of BIT negotiations a possibility in the near term?

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