



U.S.-India Trade Relations

Trade and investment ties are a key aspect of U.S.-India relations. Market access and other trade barriers with India are longstanding U.S. trade policy concerns. Some business groups and analysts see potential for the United States and India to enhance trade ties and engage on global and regional trade issues, if they can address bilateral trade barriers. During the Trump Administration, bilateral tensions grew over tariffs and other policies. A trade deal to address some market access issues reportedly neared conclusion in 2020, but did not materialize. During the Biden Administration, the two nations have agreed to resolve certain bilateral trade issues and explore ways to expand trade ties. They revived their bilateral Trade Policy Forum (TPF)—the 2021 TPF ministerial was the first held in four years. India also is a part of the Indo-Pacific Economic Framework for Prosperity (IPEF), an ongoing U.S.-led trade and economic initiative in the region. Bilateral frictions remain, including over tariffs, U.S. termination of India’s eligibility for the U.S. Generalized System of Preferences (GSP), and sometimes diverging U.S. and Indian views in the World Trade Organization (WTO). The 118th Congress may oversee U.S.-India trade relations and seek to shape U.S. trade policy on India.

India’s Economy

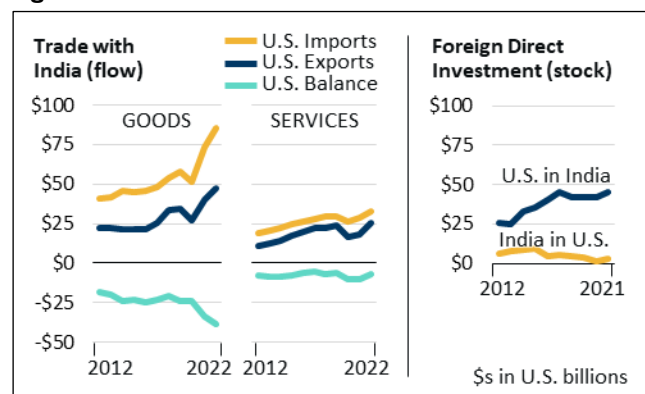
India’s economy was the world’s fifth-largest in 2022 (nominal gross domestic product, GDP). It is projected to grow by 6.1% in 2023. India is touting its 2023 presidency of the G20 as a reflection of its economic rise. Services, especially information technology (IT), are a key part of the economy. Agriculture is the top jobs provider, but its share of India’s GDP is declining. India’s economy has a sizeable middle class, but faces challenges regarding unemployment, poverty, and infrastructure. Prime Minister Narendra Modi’s government has enacted some market-opening reforms and sought to attract foreign direct investment (FDI), including aiming to position India as an alternative for foreign firms seeking to diversify supply chains beyond China. Yet under Modi, India has adopted trade-restrictive measures (e.g., tariff hikes) to promote “self-reliance” and boost domestic manufacturing—leading to questions about the direction of India’s economic reform. In early 2023, a financial research firm accused Indian conglomerate Adani Group of decades of accounting fraud, which it denies. The scandal may affect India’s global standing; some observers see Adani Group as closely linked to Modi.

U.S. Trade and Investment with India

Bilateral trade ties are limited, but have generally grown in the past decade (Figure 1). They are a small share of U.S. trade and more consequential for India. For example, by country, for goods exports, India was the United States’ 10th-largest market (2.3% share), and the United States was India’s largest market (a share of nearly one-fifth). In 2022, top U.S. goods exports to India included oil and gas, miscellaneous manufactured commodities, coal and

petroleum gases, basic chemicals, waste and scrap, and aerospace products and parts. Top U.S. goods imports from India included miscellaneous manufactured commodities, pharmaceuticals and medicines, apparel, basic chemicals, textile furnishings, and petroleum and coal products. For services, travel was the top U.S. export to India, and various business services were the top U.S. import from India. Defense sales also are significant in bilateral trade. A range of U.S. firms operate in India, across sectors. FDI from India in the United States is concentrated in the IT services, software, business services, pharmaceuticals, and industrial equipment sectors.

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



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

Note: Not inflation adjusted; 2021 latest available year for FDI data.

Select U.S.-India Trade Issues

Tariffs. The United States has longstanding concerns over India’s tariff rates, deeming them the highest of any major economy. India can raise its applied rates to bound rates without violating WTO commitments, causing uncertainty for U.S. exporters.

India opposes U.S. “Section 232” tariffs on steel and aluminum (an additional 25% and 10%, respectively), initially applied in 2018. After losing its GSP eligibility (see below), India applied retaliatory tariffs of an additional 10% to 25% affecting about \$1.3 billion of U.S. exports (2022 data), including nuts, apples, chemicals, and steel. The two sides have challenged these tariffs in the WTO. The United States rejected 2022 WTO dispute panel reports that held that its Section 232 measures violated WTO rules. Previously, the United States reached less restrictive arrangements on steel and aluminum with the European Union (EU) and some other trading partners, but not India.

Digital Trade. In 2021, the two nations reached a “political agreement” on treatment of India’s digital services tax (DST), viewed by the U.S. government as discriminatory against U.S. firms under “Section 301.” In exchange for India’s commitment to transition from its DST to the OECD/G20 global tax framework concluded in 2021, the United States terminated Section 301 tariffs against India

(tariffs already suspended by the United States during the global tax talks). In the WTO, India initially opposed extending a moratorium on e-commerce duties, voicing concerns about developing country impacts; at the June 2022 ministerial, WTO members ultimately decided to extend the moratorium and intensify e-commerce discussions. Per the United States, the WTO decision will reduce trade costs, expand opportunities for small and medium businesses, and support supply chain resilience across sectors that rely on information flows. Other related issues of U.S. concern include India's data localization rules and their impacts on cross-border data flows.

GSP. In 2019, the United States removed India from GSP, for failure to meet market access eligibility criteria. India, which seeks reinstatement in GSP, was the largest beneficiary of GSP's duty-free treatment for qualifying goods (e.g., basic chemicals, motor vehicle parts). At the January 2023 TPF, the United States stated reinstatement "could be considered, as warranted, in relation to the eligibility criteria" that Congress may determine in considering whether to renew GSP, which expired in 2020.

Services. The two nations are competitive in some services industries, including IT and professional and business services. 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. U.S. bilateral concerns include sanitary and phytosanitary (SPS) barriers in India that may limit U.S. agricultural exports. The United States questions the scientific and risk-based justifications of such barriers. Further, each sees the other's agricultural support programs as market-distorting; India's view of its programs from a broad, food-security lens complicates matters.

In 2022, the two nations made some market-opening commitments (e.g., for Indian mango exports, U.S. pork exports). In February 2023, India announced plans to implement a 70% cut to tariffs for U.S. pecan exports; the United States attributed India's move to TPF progress. Agricultural market access remains a bilateral trade issue.

Intellectual Property Rights (IPR). The nations differ on how to protect IPR to support innovation and other goals (e.g., access to medicines). In 2022, India remained on the U.S. "Special 301" Priority Watch List, with India's patent treatment, especially for agriculture, biotechnology, and pharmaceutical products; IP theft rates; and trade secret protection among U.S. concerns over India's IPR regime.

Investment. India has made some FDI reforms (e.g., raising foreign equity caps for insurance and streamlining FDI approvals). U.S. concerns about India's investment climate persist, including regarding India's data localization, tariff, SPS, and IPR policies and regulatory transparency.

Supply Chains. India's potential expanded role in supporting secure supply chains for critical sectors has come to the fore in light of supply chain vulnerabilities exposed by COVID-19 and U.S.-China trade frictions. The United States and India aim to cooperate on supply chain

resiliency (e.g., in IPEF) and, in particular, semiconductor supply chains. India also seeks to partner with the United States to develop a secure pharmaceutical base; India is major manufacturer and global supplier of generic drugs.

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. The TPF's revival may be a key way for the two nations to enhance bilateral trade ties, but an open question is whether they can address specific issues. Some stakeholders have called for the partners to revisit past bilateral efforts to pursue an investment treaty or pursue broader trade liberalization.

The United States has emphasized bilateral cooperation in other areas as well. In January 2023, the two nations formally launched a bilateral initiative on Critical and Emerging Technology (iCET) to enhance cooperation on defense production, quantum computing, semiconductor supply chains, space, and other high-tech fields.

Regional Trade. The United States and India view themselves to be key Indo-Pacific partners, including to enhance competitiveness and counter China's economic influence. India is among the 14 countries in the four-pillar IPEF, the Biden Administration's first major trade and economic initiative in the region. Notably, India was the only country to opt out of IPEF's trade pillar, questioning its prospective commitments on areas such as environment and labor. The scope and effectiveness of the trade pillar, which currently excludes tariff reduction, also is of broader policy debate among some stakeholders. India has joined IPEF's other pillars (supply chains, clean energy, infrastructure and decarbonization, and tax and anti-corruption). IPEF outcomes may be forthcoming in 2023.

WTO. The two nations engage in WTO negotiations and use the WTO to enforce trade rules and settle disputes. 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 (e.g., on e-commerce customs duties moratorium and fisheries subsidies disciplines). Ongoing issues include whether to expand an IPR waiver for COVID-19 vaccines, which WTO members adopted in 2022, to apply to diagnostics and treatments. India, an early proponent of a COVID-19 IPR waiver, supports an expansion. The United States, which supported the original waiver, has not taken a public position on the expansion. Congressional views are mixed.

Selected Potential Issues for Congress

- To what extent is India adopting more trade-restrictive policies? What is the impact on U.S. market access, and what are policy options to respond?
- What issues should Congress prioritize in U.S.-India trade talks? What is the outlook for U.S.-India cooperation on regional and global trade issues?

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