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# India–US Economic Relations: A “Trumped” Challenge

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## Abstract

Trade relations have always been a major factor in international relations. Some of the policy changes like trade embargoes, sanctions, etc. have dominated recent headlines, especially the ongoing trade dispute between the US and China. Amidst the “trade war” between the US and China, India also experienced shocks in its bilateral trade with the US. The revocation of GSP benefit was just a starter of India’s trade woes with the US, and with President Trump vehemently targeting India’s “non-reciprocity”, India’s much valuable trade with the US is surely at stake. Moreover, the economic relations of India with the US have seen a gradual deviation owing to difference in policies. This paper would enunciate the status quo of India-US economic relations and its implications on various important sectors, as well as the strategic derivatives of both the nations.

**Keywords:** Trade War, Tariff, GSP, India-US



## Introduction

From time immemorial, trade and bilateral relationship have gone hand-in-hand in enhancing mutual understanding and resolving issues among states. But gone are the days when trade was an issue to negotiate and leaders came along to cut a deal. India and the United States of America have had cordial relations since post-Cold War. With globalisation and politics taking turns, both the countries have pledged to facilitate better relations in the coming years, thereby accommodating their mutual interests coherently. India is a strategic partner for the US to upkeep its security interests in the Indo-Pacific, and for India, the US is a source of investment and a good market for its goods. It is a cyclical phenomenon being witnessed in the relations linking two nations. Though the US is at a better position, India can use a tactical card to persuade it and keep India's interest in the forefront.

The bilateralism has come to a juncture where trade and economics have dominated the nature of the relationship, which has clearly been noticed in the trade numbers over the years. The US goods and services trade with India totalled an estimated \$142.1 billion in 2018 – exports were \$58.9 billion; imports were \$83.2 billion.<sup>1</sup> The US witnessed a trade deficit of \$21.3 billion in 2018. The US goods exports to India in 2018 were up by 28.9 per cent, seeing a surge of \$7.4 billion from the previous year. The US exports to India accounted for 2.0 per cent of overall US exports in 2018.<sup>2</sup> On the other hand, the US goods imports from India saw a rise of 11.9 per cent (\$5.8 billion) from 2017.<sup>3</sup> India had earlier stated that it will be working on Mission 500<sup>4</sup> to boost trade and strategic relationship hand-in-hand for its global positioning. Even though it is a long way, it can only be achieved through mutual effort and better understanding between both the states, thereby facilitating harmonious bilateral trade.

However, the contrary has been witnessed, especially

as the President of the United States Donald Trump is seen imposing tariffs on states one after another just to "Make America Great Again". With the US-China trade war looming, India became the recent prey to Trump's "done deal" of removing India's status in its Generalized System of Preferences (GSP) programme, forcing India to retaliate with counter tariffs on 29 US products. This act by both the countries rather sunk their relationship to a new low and clearly portrays a serious threat to the foreign policy derivatives of India with Trump's "Tariff Diplomacy" marching forward to make global presence. At this juncture, it is necessary to understand the tenets of the challenges India-US economic ties face, and they are namely, (1) Generalised System of Preferences, (2) Tariffs on Steel and Aluminium Exports, (3) Strategic Collision and (4) Domestic Policies of India.

### 1. Generalized System of Preferences

The GSP programme attracted less developed and developing countries to trade with the US with either a low tariff or none at all. It was a boon for both the exporting and importing countries as both benefitted from the reduction in cost and prices along with managing their trade balances proficiently. The US was one of the countries which provided such a considerate provision to its less privileged trade partners in a large scale spanning more than 3000 products which includes textiles, meat, fisheries, plastics, jewellery, etc. Nevertheless, GSP is dissimilar from the Most Favoured Nation (MFN) principle enunciated by General Agreement on Tariffs and Trade (GATT) under the World Trade Organization (WTO) regime. MFN principle clearly sets that there should not be any discrimination in trade between countries and nulls any idea of favourable treatment to a state. While GATT gives an exemption to developed countries to promote special or preferential treatment in trade to developing or less developed countries, GSP is one

1 U.S.-India bilateral trade and investment. 2019. USTR. <https://ustr.gov/countries-regions/south-central-asia/india>.

2 Ibid.

3 Ibid.

4 Although it is not an official statement or programme, it is perceived as a notion to enhance bilateral trade between the nations to \$500 billion over the coming years. See, Hassan, Gazi. 2018. Mission 500. Centre for Public Policy Research (CPPR). <https://www.cppr.in/article/mission-500>.

such preferential trade agreement.

In 2018, India was the largest beneficiary nation under the GSP and exported goods worth over \$6 billion to the US under the scheme. The main sectors which profited from the exports via the GSP scheme include plastics, rubber articles, leather, iron or steel, organic chemicals and article of stone, plaster, cement, etc. By conserving around \$260 million on tariffs in 2018,<sup>5</sup> India demonstrated that by opting GSP channel of trade it has made a fortune in finding the perfect market for its products. At the end of 2018, India's trade with the US stood at \$142 billion and contributed to 15 per cent of the total trade estimate of India. However, with the crackdown on one of the schemes beneficial to India, it seems that the number will tend to reduce and show signs of trade stagnancy between the countries. Although the trajectory of progress of trade between the countries seems to linger over 6 per cent for the past 5 years, it is necessary that such major shocks need to be avoided and uncalled for. There has been a notion that this setback cannot be proven as a major assault on India's trade with the US, but when we dissect it sector wise, the story is not as we think it is.

## Plastics

India's plastic industry contributed to 2.8 per cent of India's total exports in 2018-19 under a staggering growth rate of 23.1 per cent from the previous fiscal year.<sup>6</sup> The sector has mainly exported plastic raw materials, plastic sheet materials, moulded goods, packaging materials, etc. to countries like China, the US and the UAE. Plastic exports to the US in the fiscal year 2018-19 alone stood over \$1 billion at a

growth rate of 18.7 per cent, contributing to 10 per cent of the total plastic exports as well as comprising oddly about 3 per cent of the total exports from India.<sup>7</sup> Majority of the plastic exports to the US were routed through the GSP scheme. Plastic remains at the top, contributing around 75 per cent of total exports from India to the US in 2018.<sup>8</sup> According to a PLEXCONCIL (Plastic Export Promotion Council) analysis, annually plastic exporters saved around \$30 million in duty cuts and reductions due to the outcome of GSP.<sup>9</sup> The council also stated that the withdrawal of GSP benefits would negatively impact plastic exporters heftily based on competence and increase the cost drastically.

The plastic industry in India has a large manpower and workforce dependant on the industry and any major hindrance will have a direct impact on its beneficiaries, who remain scapegoats to the economic repercussions of such a trade fiasco. Currently, the industry's total workforce is around 4 million<sup>10</sup> and with the current trend, a lot of jobs will be at stake adding to the post-unemployment crisis, if otherwise the efforts of the lobby force the government to chart out a plan for the protection of the industry.

## Leather

India is the second largest producer of footwear and leather products in the world and Indian leather amounts to over 12 per cent of world's leather production.<sup>11</sup> The Indian leather industry is vibrant, especially due to the strong base for raw materials endowed with 20 per cent of the world's cattle and buffalo and 11 per cent of the world's goat and sheep population,<sup>12</sup> and an efficient and

5 Singh, Ritesh. 2019. Now for some emollient: India-US trade frictions are growing, here's how to deal with them. *Times of India*, 25 June. <https://timesofindia.indiatimes.com/blogs/toi-edit-page/now-for-some-emollient-india-us-trade-frictions-are-growing-heres-how-to-deal-with-them/>.

6 Analysis of India's plastics export — 2018-19. 2019. PLEXCONCIL. [https://issuu.com/plexconcil/docs/analysis\\_of\\_india\\_s\\_plastics\\_export\\_4e67cedc010434](https://issuu.com/plexconcil/docs/analysis_of_india_s_plastics_export_4e67cedc010434).

7 Ibid.

8 Sarma, Nandini. 2019. GSP withdrawal: likely impact on India. ORF. <https://www.orfonline.org/expert-speak/gsp-withdrawal-likely-impact-on-india-52177/>.

9 Mishra, Lalatendu. GSP withdrawal by U.S. likely to affect India's plastics exports: Plexconcil. 2019. *The Hindu*, 30 March. <https://www.thehindu.com/business/gsp-withdrawal-by-us-likely-to-affect-indias-plastics-exports-plexconcil/article26689322.ece>.

10 Indian plastic manufacturing & export data, information & reports. IBEF. <https://www.ibef.org/exports/plastic-industry-india.aspx>.

11 Leather industry: Indian leather exports & manufacturers in India. 2018. IBEF. <https://www.ibef.org/exports/leather-industry-india.aspx>.

12 Sengupta, Jayshree. 2017. Big job creation potential in apparel and leather sectors. ORF. <https://www.orfonline.org/expert-speak/big-job-creation-potential-apparel-leather-sectors/>.

effective younger workforce constituting about 55 per cent of the total workforce in the industry.<sup>13</sup> Additionally, the industry renders services from over 3 million people<sup>14</sup> employed across India, majorly concentrated in the states of Tamil Nadu and Uttar Pradesh.<sup>15</sup>

The leather industry has been taken aback due to the removal of the GSP status for India, especially when it contributes a leading chunk of its exports to the US via the scheme. Around 50 per cent of leather exports to the US were forwarded through the GSP scheme in the year 2018-19.<sup>16</sup> In the fiscal year 2018-19, India exported \$893 million<sup>17</sup> worth of leather goods to the US, amounting to 15 per cent of the total leather exports from India. The US was the most preferred and susceptible market for India's leather and its affiliated products. By the end of 2018, it became the number one destination for Indian leather, thanks to the efforts and efficacy of the GSP scheme. But under the looming trade war, the leather industry needs a serious breakthrough either by enhancing domestic measures to protect the beneficiaries or finding a better market than the US.

## Pharmaceuticals

The Indian Pharmaceutical Industry has been the primary supplier of generic drugs in the world, with over 50 per cent of global demand for various

vaccines.<sup>18</sup> India also produces 40-70 per cent of the WHO demand for DPT & BCG and 90 per cent of measles vaccine.<sup>19</sup> In fiscal year 2018-19, Pharma Industry saw the exports soar at \$19.14 billion, registering a significant growth of over 10.72 per cent from 2017.<sup>20</sup> The main merchandise includes Generic Drugs, Herbal Products, Bulk Drugs and Intermediaries, as well as Surgical Paraphernalia. Under these, Generic Drugs remain the largest chunk of the Indian Pharma exports and is growing 2.2 times faster than the market.<sup>21</sup> Following this, the export of Bulk Drugs and Drug Intermediates grew at 10.48 per cent to reach \$3.9 billion as compared to \$3.5 billion last year.<sup>22</sup> The export of vaccines and surgical instruments saw a decent rise, whereas herbal product exports saw a decrease in 2018.<sup>23</sup> The major portion of exports was directed towards North America (\$6 billion), followed by Africa (\$3.4 billion) and Europe (\$3 billion).

The United States remained the top destination for Indian Pharmaceutical exports, with over 38.62 per cent of the total generic exports from India at an aggregate of \$5.24 billion.<sup>24</sup> Indian Pharmaceutical exports were earlier welcomed by the GSP scheme, but with the exclusion of the programme, Pharma exporters have to go through the normal channel of trade with the US. However, PHARMEXCIL (Pharmaceuticals Export Promotion Council) says that the revocation of GSP would be marginal

13 Unnikrishnan, Namritha. 2019. Leather industry in India — investment opportunities. Invest India. <https://www.investindia.gov.in/sector/leather>.

14 Ibid.

15 Tamil Nadu and Uttar Pradesh are the largest states from where India exports leather and recorded a share value of 50 percent and 40 percent respectively. See, Leather exports from India: going strong! 2018. IBEF. <https://www.ibef.org/blogs/leather-exports-from-india-going-strong>.

16 See note 8.

17 Analysis — Export performance of leather and leather products during April–March 2018–19 vis-à-vis April–March 2017–18. 2019. Leatherindia.Org. <http://leatherindia.org/analysis-export-performance-of-leather-and-leather-products-during-april-march-2018-19-vis-a-vis-april-march-2017-18/>.

18 Pharma industry in India: pharma sector overview, market size, analysis. IBEF. <https://www.ibef.org/industry/pharmaceutical-india.aspx>.

19 High growth of the Indian pharma market. 2017. Century Pharmaceuticals White Paper. Century Pharmaceuticals. <https://www.centurypharma.com/wp-content/uploads/2017/06/High-Growth-of-the-Indian-Pharma-Market-v1.2.pdf>.

20 Reddy, Dasarath. Indian pharma exports hit \$19.14 bn, report double-digit growth after 3 yrs. 2019. *Business Standard*, 3 May. [https://www.business-standard.com/article/companies/indian-pharma-exports-hit-19-14-bn-report-double-digit-growth-after-3-yrs-119050201025\\_1.html](https://www.business-standard.com/article/companies/indian-pharma-exports-hit-19-14-bn-report-double-digit-growth-after-3-yrs-119050201025_1.html).

21 Ibid.

22 Ibid.

23 Ibid. Export of vaccines and surgical grew 1.31 per cent and 3.19 per cent at \$661.93 million and \$569.77 million respectively in 2018–19, and exports of herbal products stood at \$299 million as compared to \$312 million in the previous year.

24 See note 20.

and would not impact more than 4-5 per cent.<sup>25</sup> The obvious reason behind this is the pre-existing difference of prices from factory to the consumer in the US. Yet, it is stated that the impact on certain medicines like blood pressure drug Valsartan could be higher.<sup>26</sup> The council also feels that in order to gain control of the situation, companies might resort to either pushing the burden of extra expense on to the consumer or try to minimise their cost of production.

Indian Pharma products have the most reach in the US market and this is the reason behind the optimism among the exporters. Indian exporters are plying on the monopoly they have created over the years. Indian companies on an average enjoy margins of around 35-40 percent in the US, and in some instances, due to low competition or marketing exclusivity, the margins go up as high as 60-65 percent.<sup>27</sup> Another key here is that Indian companies provide certain key drugs related to conditions including diabetes, high cholesterol, high blood pressure, cancer, epilepsy and more, which cannot be blatantly avoided. But due to its involvement in embroiled legal tussles in the U.S.,<sup>28</sup> Indian Pharma companies are not having a good time this year. Additionally, the US lobby played a big role in making Indian exporters out of its 'home-bred' market. A prominent US Pharma Trade lobby named AdvaMed had petitioned United States Trade Representative (USTR) to withdraw GSP benefits, alleging government actions such as price controls

discriminate against the import of high-technology products and force the US producer to sell in India at a loss.<sup>29</sup> India had lately imposed severe price ceiling on coronary stents and knee implants in 2017, causing irk among the US exporters and negatively impacting their merchandise. Even after the negotiations between India and the US, India rejected USTR's plea to reconsider its decision.<sup>30</sup> This chain of events after this added fire to an already existing American feud, resulting in the revocation of GSP benefits to India.

## Organic Chemicals

Indian Chemical Industry has been concentrated in the production of Basic Chemicals, Dyes, Inorganic Chemicals, Organic Chemicals, Dye Intermediates, Agro Chemicals, etc. The Industry accounts for about 3 per cent of the World Chemical Market.<sup>31</sup> In the fiscal year 2018-19, India exported over \$19 billion<sup>32</sup> worth of goods across the globe. The exports from India saw a momentous rise of around 20 per cent from 2017 (\$15 billion). In 2018, Organic Chemicals in excess of \$9 billion<sup>33</sup> were exported, accounting to 47 per cent of the total chemical exports from India. Some of the main products exported which fall under Organic Chemicals are Benzene, Unsaturated Ethylene, Ethylene Glycol (Ethyenediol), etc.<sup>34</sup>

The US remained the second largest buyer of Indian Organic Chemicals, falling behind China.<sup>35</sup> Organic Chemicals worth \$2.4 billion<sup>36</sup> were shipped to America in 2018 and 34 per cent (\$821 million)<sup>37</sup> of

25 GSP withdrawal by US may have marginal impact on Indian pharma exporters. 2019. *Money Control*. <https://www.moneycontrol.com/news/business/companies/gsp-withdrawal-by-us-may-have-marginal-impact-on-indian-pharma-exporters-4059841.html>.

26 Ibid.

27 Ibid.

28 Indian Pharma companies recently faced the fire of the Court, when it was named in a lawsuit for allegedly inflating prices of generic medicines. See, 7 Indian Drug Makers Named in US Lawsuit for Inflating Prices of Generic Medicines. 2019. *Business Today*. <https://www.businesstoday.in/current/corporate/7-indian-drug-makers-named-in-us-lawsuit-for-inflating-prices-of-generic-medicines/story/346354.html>.

29 See note 25.

30 The USTR had expressed 'concerns' regarding India's stance, yet it remained unproductive. See, India rejects US request to remove price caps on stents, knee implants. 2018. *News18*, 2 May. <https://www.news18.com/news/india/india-rejects-us-request-to-remove-price-caps-on-stents-knee-implants-1735461.html>.

31 About chemicals. 2018. Ministry of Chemicals and Fertilizers, Government of India. <https://chemicals.nic.in/chemical>.

32 CHEMEXCIL's export performance for the years 2016-17, 201-18 to 2018-19. 2019. CHEMEXCIL. <https://chemexcil.in/content/chemexcils-export-performance/441/a0da5f0bc9c8c9d2c1d953e6398e8da7>.

33 Ibid.

34 Top item exports. 2019. CHEMEXCIL. <https://chemexcil.in/content/top-item-exports/411/2e0f2569c4f96932e3a35be599a703d3>.

35 Top countries. 2019. CHEMEXCIL. <https://chemexcil.in/content/top-countries/447/90286a5f82f0a4393df9834a0f076eaa>.

36 See note 8.

37 Ibid.

the total Organic Chemical export to the US was directed via the GSP programme. Out of the \$9 billion worth Organic Chemicals exported last year, 26 per cent were exported to the US alone. This is a major portion of a big basket, which means there is a possibility for the sector to take a big hit due to the removal of GSP privileges to India. The impact will also burden America as these products are primarily used as inputs in production. With the privileges out, domestic producers in the US will also be hit hard due to the extra costs they incur. Producers in the US might probably look for alternatives to cut costs, and Indian exports will be alienated from one of its major markets.

### Precious Stones and Jewellery

The Gems and Jewellery sector plays a significant role in the Indian economy, contributing around 7 per cent to the country's GDP and 15 per cent to India's total merchandise exports.<sup>38</sup> It contributes towards 29 per cent of the total jewellery consumption in the world, particularly polished diamonds which amounts to 75 per cent of the jewellery exports.<sup>39</sup> Exports to the US fetched Indian jewellery exporters a whopping sum of \$83 billion in the last fiscal year,<sup>40</sup> mainly by selling cut and polished diamonds. Majority of the exports to the US under this sector were primarily through the GSP scheme, but with the embargo exports seem to shrink more. The trade data for May showed that exports of labour-intensive sectors, including gems and jewellery, were dismal.<sup>41</sup>

After the financial frauds linked to Nirav Modi and Mehul Choksi shocked the Jewel and Gem Industry, it has been a bad state of affairs for the sector. The industry has been looked upon with great caution

due to the scandals involving one of its major industrialists, and there has been a credit crunch adding to the woes. Banks have been reluctant to provide financial assistance after the scandal and due to which the industry has suffered immensely. Recent RBI monthly data suggests that there has been a significant decline in the fund allocation for the industry by over 6 per cent.<sup>42</sup> Moreover, the industry mainly comprises unorganised establishments, employing around 4 million workers furthering the worries of the sector. The industry has been one of the worst affected due to the withdrawal of the GSP scheme, especially when the US is a profitable market. Nonetheless, the current scenario would force exporters to pay 7-8 per cent more tariffs,<sup>43</sup> extending the plight of the employees and thereby creating a lot of economic tensions.

We have seen the impact of GSP on the aforementioned sectors and the pertinent cause for an economic slowdown in the coming fiscal year. India's retaliatory tariffs on 29 US originated goods have been disproportionate compared to the length and veracity of the trajectory of what the US has exploited. India was also dragged by the US to the WTO for imposing tariffs on 29 US products under the notion that India's retaliatory tariffs are inconsistent with the provisions of the WTO's GATT by unfairly discriminating against US imports vis-à-vis those from other WTO members and by according less favourable treatment to US goods than that provided for in India's schedule of concessions.<sup>44</sup> Among the 29 goods, probably the most one can count on would be apples and some array of dry fruits which India primarily imports from the US. The US Apple Industry will see a negative impact on their products, and India being one of the largest

38 Gems and Jewellery Industry in India. Indian Diamond, Gold, Sector. 2019. IBEF. <https://www.ibef.org/industry/gems-jewellery-india.aspx>.

39 Ibid.

40 Limited impact of GSP withdrawal by the US, moderate hit for Gems & Jewellery exports. 2019. CRISIL. <https://www.crisil.com/en/home/newsroom/press-releases/2019/06/limited-impact-of-gsp-withdrawal-by-the-us-moderate-hit-for-gems-and-jewellery-exports.html>.

41 Trump's trade slap will send India's Gems and Jewellery Sector reeling. 2019. *Livemint*. <https://www.livemint.com/market/mark-to-market/trump-s-trade-slap-will-send-india-s-gems-and-jewellery-sector-reeling-1561306282968.html/page-2>.

42 Industry-wise deployment of gross bank credit. 2019. Current Statistics, Monthly Data. RBI. [https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/16T\\_110720198B79E499A42B4FE4A1F7EC494BB8C980.PDF](https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/16T_110720198B79E499A42B4FE4A1F7EC494BB8C980.PDF).

43 See note 40.

44 US drags India to WTO for imposing additional tariffs on 28 goods. 2019. *Business Line*, 4 July. <https://www.thehindubusinessline.com/news/world/us-drags-india-to-wto-over-duty-hike-on-28-american-goods/article28287341.ece>.

exporters of US Apples, Apple Producers would take a big blow.<sup>45</sup> The apple industry would be deeply affected particularly when imports from India had already decreased last year—shipping only 2.6 million boxes compared to 7.8 million in 2017;<sup>46</sup> but India is not very much affected by this. It is stated that tariffs on US apples would come as a positive development for the domestic growers.<sup>47</sup> This will be a boon for domestic apple producers in Jammu and Kashmir and Himachal Pradesh, who expect a good season due to good weather, unlike last year. In addition, the revocation of GSP would also affect American industries that use Indian products as inputs. It was found that 46 per cent of the exports from India which were channelled through GSP in 2018 lie under the category of “Industrial Supplies”—which implies that the withdrawal of GSP benefit to India can potentially raise the cost of production of domestic industries in the US.<sup>48</sup> These industries will surely look for alternatives, due to which there would be a price rise on certain products and it would be ultimately the American consumer who would suffer.

This cannot be punitive as it is intended to be, because its effects are minimal and there was no reciprocity of action here. Even though the US exporters are playing foul and accusing Trump of driving their business away,<sup>49</sup> it is still a consolation for the US as only some of the products have been restricted. The US still continues to enjoy low tariffs on majority of the capital goods as well as machineries. Therefore, the US has nothing big to

lose with respect to India being removed from its trade preference scheme.

## 2. Tariffs on Aluminium and Steel

### Iron and Steel

Iron and Steel industry has been an industry which has promoted the aura of industrialisation in the country since the late 19<sup>th</sup> century and has proved equally competent since 1950s. Presently, India is the world’s second-largest steel producer with the annual production standing over 106.5 Metric Tonnes.<sup>50</sup> India is also the largest producer of Sponge Iron in the world.<sup>51</sup> Due to India’s domestic needs, a major portion of the produce goes for the development of infrastructure and civil architecture in the country. The rest is exported to countries like Nepal, Italy, Belgium, etc. The US stands at the eighth position in Indian steel exports and encompasses 3 per cent of the total steel exports from India.

Iron and Steel products have been lately subjected to tariffs of about 25 per cent imposed by the US government through the proclamation of a Section 232<sup>52</sup> last year. An Independent Congressional Research Report suggested that last year steel imports from India reduced by a huge margin of 49 per cent (\$372 million)<sup>53</sup> due to the impact of the proclamation. Consequently, the only way to get exemption was through GSP, through which 44 per cent<sup>54</sup> of certain steel products to the US were exported. Thus, with the recent revocation

45 India hiking duty upsets US’ apple cart. 2019. *Business Line*, 19 June. <https://www.thehindubusinessline.com/economy/agri-business/india-hiking-duty-upsets-us-apple-cart/article28077517.ece>.

46 Ibid.

47 Krar, Parshant. Hike in import duty on US apples to strengthen domestic prices. 2019. *The Economic Times*, 21 June. <https://economictimes.indiatimes.com/news/economy/agriculture/hike-in-import-duty-on-us-apples-to-strengthen-domestic-prices/articleshow/69887157.cms>.

48 Update on United States’ intention to withdraw GSP benefit to India. 2019. Economic Laws Practice (ELP). <https://elplaw.in/wp-content/uploads/2019/03/GSP-Impact-Options-for-India.pdf>.

49 This is referred with respect to the deliberations which happened between the Washington Apple Lobby and the Trump Administration. See note 39.

50 India replaces Japan as second top steel producer: Worldsteel. 2019. *The Economic Times*, 28 January. <https://economictimes.indiatimes.com/industry/indl-goods/svs/steel/india-replaces-japan-as-second-top-steel-producer-worldsteel/articleshow/67721395.cms?from=mdr>.

51 Indian Sponge Industry performance FY-2017. 2018. SteelMint.

52 Section 232 of the Trade Expansion Act of 1962 authorises the President of the United States, through tariffs or other means, to adjust the imports of goods or materials from other countries if it deems to threaten national security. See, Section 232 of the Trade Expansion Act. 2018. Investopedia. <https://www.investopedia.com/terms/s/section-232-trade-expansion-act.asp>.

53 Section 232 investigations: overview and issues for Congress. 2019. Congressional Research Service. <https://fas.org/sgp/crs/misc/R45249.pdf>.

54 See note 8.

a crucial amount of iron and steel products from India slipped away from the radar of the US markets and this needed to be rectified, especially if India needs to be a tough competitor in the iron and steel industry. Nevertheless, the Indian steel industry has not been significantly affected as the exports via the GSP scheme only amounted to a paltry 1 per cent of the total steel exports from the country.

### Aluminium

Aluminium is a profitable metal industry in India. Bauxite, which is the main component from which Aluminium is obtained, is abundant in India. India amounts to 5 per cent of the world's Bauxite reserves or 3 billion tonnes.<sup>55</sup> The global share of India's aluminium industry is 3 per cent<sup>56</sup> and the country is also a major exporter of aluminium and related products. India primarily exports Aluminium to countries like South Korea, Malaysia and the US. In the last fiscal year, the US accounted for 11 per cent of the total Aluminium exports from India. India's imports to the US accounted for 2.9 per cent of its total aluminium imports.<sup>57</sup> Yet, from 2014 onwards, India's exports of aluminium goods to the US saw a significant rise of 322.5 per cent.<sup>58</sup>

Conversely, due to the invocation of Section 232 by President Trump last year, it was promulgated that there will be new tariffs on steel and aluminium excluding certain countries, but Indian exports were not excluded. In spite of that, a Congressional Research Service Report has stated that Indian Aluminium imports in the US increased significantly by 58 per cent (\$221 million)<sup>59</sup> in 2018. Therefore, it is assumed that Indian aluminium exports would

be less affected by the proclamation. But the key here is that GSP gave an additional advantage for India to sell certain Aluminium products like alloys, foils, plates, wires, etc. at a tariff rebate. If India at any time wanted to sell these range of aluminium products in the US, the only option was GSP, but currently it is not at its disposal.

## 3. Strategic Collision

### Energy

Energy is the new currency in a highly globalised world. It is a bargain element on a negotiating table, bringing in the mixture of politics and pure economy. The US is the largest producer of oil in the world,<sup>60</sup> and any divergence in this sector would result in severe economic backlash for the US. In 2018, the US exported about 7.59 MMB/d of petroleum to 190 countries and 4 US territories, of which about 26 per cent was crude oil and 74 per cent was non-crude oil petroleum.<sup>61</sup> From 2012 onwards there has been a surge in the US oil exports to India, rising from just 30 barrels a day to over 200 barrels in 2017—a whopping growth in excess of 566 per cent.<sup>62</sup> In the fiscal year 2018-19, it was observed that the US became India's number one partner in importing oil after Trump ordered sanctions on Iran last year. India bought over 180,000 barrels of oil a day from the US compared to a meagre amount of 40,000 a year earlier.<sup>63</sup> Due to the sanctions on Iran, India significantly reduced its oil purchase from Iran by 48 per cent and turned to non-Middle Eastern partners such as Venezuela and the US.<sup>64</sup>

Iran has been India's trade partner from ancient times

55 Aluminium Sector Analysis Report. 2019. Equitymaster, 12 February. <https://www.equitymaster.com/research-it/sector-info/aluminium/Aluminium-Sector-Analysis-Report.asp>.

56 Ibid.

57 Workman, Daniel. 2019. US Aluminium imports by supplying country. World's Top Exports. <http://www.worldstopexports.com/us-aluminum-imports-by-supplying-country/>.

58 Ibid. Indian Aluminium exports were the fastest to grow in the US since 2014, followed by Australia (262 per cent).

59 See note 53.

60 The United States is now the largest global crude oil producer. 2019. EIA. <https://www.eia.gov/todayinenergy/detail.php?id=37053>.

61 How much petroleum does the United States import and export? FAQ — U.S. Energy Information Administration (EIA). 2019. EIA. <https://www.eia.gov/tools/faqs/faq.php?id=727&t=6>.

62 Total crude oil and products exports by destination. 2019. EIA. [https://www.eia.gov/dnav/pet/PET\\_MOVE\\_EXPC\\_A\\_EP00\\_EEX\\_MBBLPD\\_A.htm](https://www.eia.gov/dnav/pet/PET_MOVE_EXPC_A_EP00_EEX_MBBLPD_A.htm).

63 Verma, Nidhi. 2019. Filling Iran oil gap in India: US supplies outshine Middle East crude. BBC, 24 June. <https://economictimes.indiatimes.com/industry/energy/oil-gas/filling-iran-oil-gap-in-india-us-supplies-outshine-middle-east-crude/articleshow/69933320.cms>.

64 Ibid.

and due to the current intricacies in international politics, India has looked at Iran as a prospective strategic partner too. The Chabahar Port in Iran was just a beginning of India's external capability to counter Pakistan and China in South Asia. Through bilateral understandings and agreements, India had secured an important position in Iran's foreign affairs and advanced it through bilateral trade by being a major recipient of Iran's petroleum resources. But after Trump's ascent as President of the US, the US-Iran relations have been choppy with bitter or rather ugly politics between the two nations. The US warned all nations trading with Iran to restrict their trade and boycott Iranian oil, and instead promoted Saudi and Iraqi oil as an alternative (Allies Nexus). The US even threatened to impose sanctions on countries those trade with Iran, which made India beleaguered and found peace with the US by buying oil from it. Yet, this move by the US on Iran was premeditated, as it was an effort to constrain China, who was the primary buyer of Iranian oil, but unfortunately India came in the middle of things and became a victim of an already vindictive trade war.

## Defence Trade

India is world's second largest arms importer<sup>65</sup> and this implies better relations with its importers namely Russia, Israel and the US. Indian defence imports accounted for over 9 per cent of the total defence imports across the globe. Russia was the largest exporter of arms and other defence equipment to India and accounted for 58 per cent of Indian arms imports in 2014-18<sup>66</sup>. Yet, Israel and the US defence imports saw a significant growth during the

period, hinting that India was finding an alternative for Russian defence imports. In 2005, after signing the New Defence Framework Agreement between India and the US, defence trade with the US was opened up, and India joined the club of countries where defence trade was not restricted by the US. After the renewal of the agreement in 2015, India and the US extended cooperation in defence technology through the Defence Technology and Trade Initiative (DTTI). This plan mainly focussed on elevating dialogue on cooperative research and development and defence trade to the highest levels of government.<sup>67</sup> Since then, the defence trade with the US has increased manifold and has comfortably secured its position in India's defence capabilities.

The US defence imports to India rose significantly from 2008 onwards and crossed a whopping \$10 billion mark by 2018. The imports saw a considerable rise, recording over 550 per cent growth in 2013-17 compared to the previous five years.<sup>68</sup> By the end of 2019, the US expects over \$15 billion trade with India which includes aircraft, electronics and gas turbine engines.<sup>69</sup> India's crucial defence acquisitions from the US includes 13 C-130 Hercules aircraft, 10 C-17 Globemaster aircraft, 12 P-8 Poseidon aircraft, 22 AH-64 Apache helicopters, 15 CH-47 Chinook helicopters and 145 M777 Howitzer guns<sup>70</sup>—comforting its efficiency in defence prowess and capabilities. In addition, these defence procurements have been extensively used for the country's Humanitarian Assistance and Disaster Relief (HADR) operations as well as in delivering assistance to Nepal after earthquakes, and to evacuate civilians from civil war-torn Yemen,<sup>71</sup> indicating its distinguishable presence in

65 India is world's second-largest arms importer. 2019. *The Hindu*, 11 March. Accessed on 10 July 2019 at <https://www.thehindu.com/news/national/india-is-worlds-second-largest-arms-importer/article26502417.ece>.

66 D. Wezeman, Pieter, Aude Fleurant, Alexandra Kuimova, Nan Tian, and Siemon T. Wezeman. 2019. Trends in international arms transfers, 2018. Stockholm: SIPRI. [https://www.sipri.org/sites/default/files/2019-03/fs\\_1903\\_at\\_2018.pdf](https://www.sipri.org/sites/default/files/2019-03/fs_1903_at_2018.pdf).

67 Fact Sheet: U.S.–India defense relationship. 2015. Department of Defense, The United States of America. <https://dod.defense.gov/Portals/1/Documents/pubs/US-IND-Fact-Sheet.pdf>.

68 India's arms imports from U.S. up by 550 per cent: report. 2018. *The Hindu*, 13 March. <https://www.thehindu.com/news/national/indias-arms-imports-from-us-up-by-550-report/article23166097.ece>.

69 US agrees to expand defence trade cooperation with India. 2019. *Business Standard*, 5 June. Accessed on 10 July 2019 at [https://www.business-standard.com/article/news-ani/us-agrees-to-expand-defence-trade-cooperation-with-india-119060501122\\_1.html](https://www.business-standard.com/article/news-ani/us-agrees-to-expand-defence-trade-cooperation-with-india-119060501122_1.html).

70 U.S. Embassy and Consulates in India. U.S.–India Defense Relations Fact Sheet, December 8, 2016. Department of State. The United States of America. Accessed on 10 July 2019 at <https://in.usembassy.gov/u-s-india-defense-relations-fact-sheet-december-8-2016/>.

71 Parpiani, Kashish. 2019. Institutionalising India-US defence ties in American legislative precedents. ORF. [https://www.orfonline.org/research/institutionalising-india-us-defence-ties-in-american-legislative-precedents-48539/#\\_ednref25](https://www.orfonline.org/research/institutionalising-india-us-defence-ties-in-american-legislative-precedents-48539/#_ednref25).

India's security interests.

However, India seeks to move forward with the US, provided there is a Russian element vindictively stuck amidst it. Russia being a historic defence partner of India, currently agrees to provide S-400 missile systems to India, but as the American sanctions looming in due to the alleged promotion and procurement of Russian defence equipment, India's relationship with both the nations is at uncertain paths. Countering America's Adversaries Through Sanctions Act (CAATSA) is a mechanism which the US threatens to impose if any of its trade partners has relationship with Russia, Iran and North Korea. Through CAATSA, America is trying to arm flex India in avoiding Russian-made S-400 and instead facilitate its own Terminal High Altitude Area Defense (THAAD) system.<sup>72</sup> Notably, out of the top 100 arms-producing companies, 42 are from the US<sup>73</sup> and includes big players like Lockheed Martin, Boeing, Raytheon, BAE Systems, Northrop Grumman, etc.<sup>74</sup> This makes America's colossal figure of 57 per cent total arms exports in the world stand out before Russia, which only accounts to over 9 per cent with just 10 companies out of 100.<sup>75</sup> As suggested, the US is banking on Indian defence procurements as a way to enhance better defence ties as well as a good market for its well-known defence industries. The US is trying to bully Russia to make way for American companies and their produce to deliver par excellence, and position itself as a monopolising power in global defence trade.

#### 4. Domestic Policies of India

India might have also crossed the line by making American companies outsourced in India suffer by

imposing 'unfair' rules and regulations. This is in light of the recent decision by the Indian Government to localise data of all foreign companies operating in India. The USTR had already raised alarms regarding the same and has stated with much discontent that such an act was the "most discriminatory and trade-distortive"<sup>76</sup> measure towards foreign companies with special regards to American companies. They believe that with the current data localisation and e-commerce policy in effect, American companies functional in India would incur additional costs which "would serve as a significant barrier to digital trade between the U.S. and India." Tech and e-commerce giants like Amazon and Walmart might be the main victims of the policy, making India-US trade relations worse.<sup>77</sup> In apropos, this was repeatedly reiterated by the US government, yet the Indian authorities did not pay heed to it and hence faced all the trouble in its trade quotient. It is also to be noted that the US approach of reciprocity need to be understood clearly. While the US firms faced restrictions in India, Indian firms were not facing anything of such kind, and with the late removal of caps for H1B Visas, Indian firms were capitalising on the US market and on the contrary, making the US firms struggle here. Though the US firms do not literally struggle for their survival, such restrictions put much pressure on them as well as create a lot of scope for their employees (who are Indians) to face the brunt.

By analysing the reasons that could have possibly led to such an approach by Trump, we can see that he has brought out the American Dream perfectly; bringing the class and expertise of a seasoned American businessman striving to make his products

72 US offers to sell THAAD defence system to India as alternative to Russian S-400s. 2019. *Hindustan Times*, 12 May. <https://www.hindustantimes.com/india-news/us-proposes-to-sell-thaad-to-india-as-alternative-to-russian-s-400s/story-EqzAqK47PkfXx-w1Cl1NGDJ.html>.

73 Guy, Jack. 2018. Russia now second-largest global arms producer, overtaking UK. CNN. <https://edition.cnn.com/2018/12/10/europe/russia-arms-production-seli-intl/index.html>.

74 D. Wezeman, Pieter, Aude Fleurant, Alexandra Kuimova, Nan Tian, and Siemon T. Wezeman. 2018. The SIPRI top 100 arms producing and military services companies, 2017. SIPRI. [https://www.sipri.org/sites/default/files/2018-12/fs\\_arms\\_industry\\_2017\\_0.pdf](https://www.sipri.org/sites/default/files/2018-12/fs_arms_industry_2017_0.pdf).

75 Ibid.

76 India, US to explore 'suitable solutions' to outstanding trade issues: govt. 2019. *The Indian Express*, 7 May. <https://indianexpress.com/article/business/india-us-to-explore-suitable-solutions-to-outstanding-trade-issues-govt-5713927/>.

77 US criticises India's data localisation norms, draft e-commerce policy. 2019. *The Economic Times*, 9 April. <https://economic-times.indiatimes.com/news/economy/foreign-trade/us-criticises-indias-data-localisation-norms-draft-e-commerce-policy/article-show/68794927.cms?from=mdr>.

stand out and letting others to rot. Trump's main worry was about India using the GSP programme to exploit America and in return American products were given less importance back home. The trade deficit with India was one of the major concerns for him as US products did not soar well and the US economy needs to be handled tightly, provided China is kept at bay. In 2018, the US trade deficit with India was over \$24 billion, where India exported goods worth over \$83 billion and in return imported US goods worth \$59 billion, making the USTR to think twice about encouraging Indian products. Trump had earlier raised concerns over India's high tariffs on Harley Davidson Motorcycles as well as on American Whiskey, after which India partially reduced the tariffs on HD Motorcycles but could not do so for American Whiskey. This made the American lobby to act on its President, and like everybody who is under fire, Trump just commenced it with light starters. He believed that India did not follow American trade demands reciprocally and revoked the GSP affiliation to India.

### Lone Hope: Foreign Investment

India has promoted foreign investment since the inception of Liberalisation, Privatisation and Globalisation in 1991. In 2018-19, Foreign Direct Investment (FDI) inflows to India stood at \$44.37 billion.<sup>78</sup> The service sector attracted most of the FDI transferred to India during the fiscal year 2018-19, totalling \$9.16 billion, followed by computer software and hardware \$6.42 billion, trading \$4.46 billion and telecommunications \$2.67 billion.<sup>79</sup> India received maximum FDI from Singapore (\$16.23 billion), followed by Mauritius, Netherlands and the US. FDI inflow from the US stood at \$3.14 billion<sup>80</sup> in

2018. US-based companies found India as a location to outsource labour and enhance production, leading many US tech giants like Microsoft, Google, etc. to invest and setup offices in India. There are more than 50 US companies which are actively operational in India. Not to forget the companies whose stake is partly held by the US companies or individuals. As of 2017, the USFDI in India (stock) stood at \$44.5 billion.<sup>81</sup> The US companies are also profiteering big in India, especially in the retail sector. McDonalds, KFC, Burger King, Walmart, Amazon, etc are some of the American companies making it a colossal affair in Indian market. In 2018, Walmart announced the landmark takeover of Indian e-commerce giant Flipkart for a huge sum of \$16 billion, making American presence felt in the e-commerce sector along with Amazon.

On the other hand, India's FDI in the United States (stock) was \$9.8 billion in 2017.<sup>82</sup> Some of the major Indian Companies functional and operating in the US are Infosys, TCS, Sify, Dr Reddy's Laboratories, etc. It is to be noted that stocks of 10 Indian companies<sup>83</sup> are also listed in NYSE and NASDAQ. Moreover, these Indian companies also offer employment opportunities to thousands of Americans and Indian Non-Residents. As of 2017, over 100 Indian companies employ 113,423 people across America, adding a total value of tangible investments made by these companies exceeding \$ 17.9 billion.<sup>84</sup> The State of New York remained the largest receiver of FDI from India by adding \$1.57 billion, followed by New Jersey (\$1.56 billion) and Massachusetts (\$931 million).<sup>85</sup> Being this the case, any drifts in Indian investment would seriously hamper both American and Indian jobs, at the cost of serious contraction of their valuable coffers.

78 FDI in India: foreign direct investment opportunities. 2019. IBEF. <https://www.ibef.org/economy/foreign-direct-investment.aspx>.

79 Ibid.

80 Ibid.

81 See note 1.

82 Ibid.

83 Hayes, Adam. 2019. Top Indian stocks traded in the US. Investopedia. <https://www.investopedia.com/articles/investing/120914/top-indian-stocks-traded-us.asp>.

84 Dissecting further, the top five states in which Indian companies have generated maximum employment are New Jersey (8572 jobs), Texas (7271 jobs), California (6749 jobs), New York (5135 jobs) and Georgia (4554 jobs). See, Indian companies create 113,000 jobs in US: CII report. 2017. *Business Line*, 15 November. <https://www.thehindubusinessline.com/news/indian-companies-create-113000-jobs-in-us-cii-report/article9961654.ece>.

85 Ibid.

## Conclusion

As uncertainties unravel amidst the bilateral relations between the two nations, India needs to convince the US to allow Indian interests to stand out and deliver in a multipolar global system. The US considers India as a strategic partner in South Asia, and with things moving as expected, both the countries need to resolve their policy differences in order to move further. Trump and Modi need to find solutions for the economic backlashes their countries face and seal a deal to abrogate misunderstandings and broaden pertinent bilateral ties. Trade has been a significant contributor to India's economic growth, sponsoring around 18-19 per cent<sup>86</sup> of India's GDP in 2017. With hopes to counter high trade deficits, better exports would be the only way to boost India's economic progress. Therefore, trade with the US needs to improve via consultation and deliberation.

It was stated that with the US-China tariff war building up, Indian exports would see a rise in both the countries.<sup>87</sup> India needs to export more to compete and place its goods in the global market. As of the latest data (June 2019), Indian exports shrank 9.71 per cent and imports declined by 9.06 per cent;<sup>88</sup> alarming India about the seriousness of the tariff war. Indian exports to China also saw a decrease of 14.1 per cent, making trade difficult during a period of sluggish global demand.<sup>89</sup> Yet, it is hoped that over the coming months there will be a significant rise in Indian exports. Again, Indian products might not face struggle elsewhere, but in

the US, it surely does, as GSP benefits have been revoked. India's chance of becoming a competitor to China in the US would just be a whimsical dream if trade has not been normalised.

India needs to demonstrate its inherent capability in a more adroit fashion. It cannot be like ever before, where it has been a reactionary approach from India, making things take a turn after an event has occurred. The current world needs a new phase which is pre-emptive and tactical, pushing India to the right position. Now what India needs to do is to come up with domestic policy measures to steer away the prevalent economic tensions temporarily. Subsequently, it needs to negotiate with the US but not by compromising its policy. India should keep up with its domestic motives and still try to keep the hopes with the US high by conditionally agreeing to certain workable demands and eliminating the rest. It should make the US authorities understand the reality in a cliff-hanging Indian economy and compare it with that of a well accomplished US economy. If reciprocity is the line, then both the countries should talk over and deal with it. Disproportionate line of action cannot be welcomed unilaterally. Hence, Trump needs to seriously understand the consequences in a developing country like India. He should stop being a 'Gatekeeper' for American industrialists, rather should take care of his prospective 'defence partners' wholeheartedly, especially if he wants to take down China.

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86 Govt working on raising share of exports in GDP to 20%: Suresh Prabhu. 2018. *The Economic Times*, 4 February. <https://economictimes.indiatimes.com/news/economy/indicators/govt-working-on-raising-share-of-exports-in-gdp-to-20-suresh-prabhu/articleshow/62779798.cms>.

87 If Chinese products see a price rise in US markets and vice versa (tariff war), Indian exports could surge in both these markets as an alternative for the highly expensive Chinese and American products respectively. Even many experts like Arvind Panagariya had a valuable take on this. See, US-China trade war 'opportune time' for India to attract multinationals: Arvind Panagariya. 2019. *Moneycontrol*, 26 June. <https://www.moneycontrol.com/news/trade-2/us-china-trade-war-opportune-time-for-india-to-attract-multinationals-arvind-panagariya-4139871.html>.

88 Exports shrink as global tariff war takes toll on Indian trade. 2019. *The Economic Times*, 16 July. <https://economictimes.india-times.com/news/economy/foreign-trade/exports-shrink-as-global-tariff-war-takes-toll-on-indian-trade/articleshow/70237460.cms>.

89 Ibid. Trade war and the Iran fiasco have left the world uncertain about its merchandise needs, leading to a sluggish demand, especially in China, the US and the Middle East (exports to UAE sunk by 15.31 per cent).

