



Delhi Policy Group

DPG POLICY BRIEF

India-US Trade: Prospects for an elusive limited trade deal and a looming big deal

Author

Dr. V.S. Seshadri

Volume V, Issue 8

MARCH 6, 2020



Delhi Policy Group

Core 5A, 1st Floor, India Habitat Centre, Lodhi Road, New Delhi- 110003

www.delhipolicygroup.org



DPG Policy Brief, Vol. V, Issue 8 March 6, 2020

ABOUT US

Founded in 1994, the Delhi Policy Group is among India's oldest independent think tanks with its primary focus on international and strategic issues of critical national interest. Over the past decades, the Delhi Policy Group has established itself in both domestic and international circles, particularly in the area of national security.

In keeping with India's increasing global profile as a leading power and the accompanying dynamism of India's foreign and security policy, the Delhi Policy Group has expanded its focus areas to include India's broader regional and global role; India's initiatives to strengthen its strategic periphery; India's political, security and connectivity challenges and policies across the Indo-Pacific; and the strategic partnerships that advance India's rise. To support these goals, the DPG undertakes research, publishes policy reports and organises conferences on strategic and geo-political, geo-economic, and defence and security issues.

Author

Dr. V.S. Seshadri, Senior Consulting Fellow, Delhi Policy Group

The views expressed in this publication are those of the author and should not be attributed to the Delhi Policy Group as an Institution.

Cover Photographs:

(Photographs top to bottom)

US President Donald J. Trump delivers his Press Statement on February 25, 2020 during his State Visit to India. Source: MEA

President Trump interacts with Indian business leaders in New Delhi on February 25, 2020. Source: Rediff

Indian Union Minister for Commerce and Industry Piyush Goyal along with United States Secretary of Commerce Wilbur Ross in New Delhi on October 3, 2019. Source: CII

© 2020 by the Delhi Policy Group

Delhi Policy Group

Core 5A, 1st Floor,
India Habitat Centre,
Lodhi Road, New Delhi- 110003.
www.delhipolicygroup.org

India-US Trade: Prospects for an elusive limited trade deal and a looming big deal

by

Dr. V.S. Seshadri

Pending trade issues between India and the United States have eluded resolution despite several rounds of negotiations in recent months. Discussions have continued on them during the recent high profile state visit by President Donald Trump, when Commerce Secretary Wilbur Ross was part of his accompanying high level team. Will the latest move by the two countries to chart a comprehensive global strategic partnership make a difference?



US President Donald J. Trump delivers his Press Statement on February 25, 2020 during his State Visit to India. Source: MEA

The Joint Statement released following the bilateral summit¹ has called for promptly concluding the ongoing negotiations. Prime Minister Modi has elaborated² that the understanding reached between the two Commerce Ministers will be taken forward and given legal shape. The Joint Statement has also expressed the hope of the two leaders that this limited agreement could

¹ https://www.mea.gov.in/bilateral-documents.htm?dtl/32421/Joint_Statement_Vision_and_Principles_for_IndiaUS_Comprehensive_Global_Strategic_Partnership

² https://www.mea.gov.in/Speeches-Statements.htm?dtl/32420/Translation_of_Press_statement_by_the_Prime_Minister_on_the_State_Visit_of_the_President_of_the_United_States_of_America_to_India

become Phase-1 of a “comprehensive bilateral trade agreement that reflects the true ambition of the bilateral commercial relations, advancing prosperity, investment and job creation in both countries.”

Trade and industry circles will certainly welcome if the limited deal can be clinched quickly while understandings are still fresh. Delays can change circumstances. Earlier rounds too were reported “close to finalisation”, only to be followed by more inconclusive discussions. Trump himself expressed the hope³ in his Press Conference remarks that a deal can be done before the end of this year. Is it only an outer time limit or are there electoral considerations that make it more likely only then? In any case, it is important in the interim for both sides to desist from taking further trade actions impacting each other.



President Trump interacts with Indian business leaders in New Delhi on February 25, 2020. Source: Rediff

The coverage of a possible limited deal has not been revealed; a figure of US\$ 10 bn. has been speculated upon. Limited concessions could be given to the US on dairy and medical devices. These are sectors over which US business, perceiving inadequate access for their products in India, has lobbied for GSP removal to inject pressure. More items, including those on which India has imposed additional duties, could also make the cut. These would be further to

³ The proceedings of the Press Conference can be viewed at <https://www.youtube.com/watch?v=ill9YLbRMXU>

the increased purchases of energy products, defense imports and civilian aircraft deals which are already trimming the roughly \$20 bn trade surplus India has with US.

From the Indian side, apart from the restoration of GSP, some concessions on the steel and aluminium tariffs imposed by US may help redress the impact. More predictability on work visas for Indian companies, even if not explicitly written down, could also be useful.



Indian Union Minister for Commerce and Industry Piyush Goyal along with United States Secretary of Commerce Wilbur Ross in New Delhi on October 3, 2019.

Source: CII

But how has this idea of a subsequent big trade deal emerged? An FTA idea has been mooted in different circles before, including by the present US Ambassador⁴. But has it received detailed internal examination? Or has it now formally come up mainly because the “high tariffs” of India, repeatedly flagged by President Trump, can be brought down for US exports only through an FTA? That it was not just a fleeting idea became evident when Prime Minister Modi

⁴ <https://economictimes.indiatimes.com/news/economy/foreign-trade/us-ambassador-bats-for-fta-with-india/articleshow/62467641.cms?from=mdr>

himself said at the Joint Press briefing⁵ that “we have also agreed to start negotiations for a big trade deal”. Commerce Minister Piyush Goyal too, speaking at a public event on the same day, conveyed⁶ that such a larger deal can be done much faster.

Several elements of complementarity certainly exist between the two widely different economies that can provide the basis for an FTA between them. Further, the US is India’s largest export destination for both goods and services. Moreover, the substantial level of two-way bilateral investments has provided dynamism to this trade, even at a time when both countries face stagnation in their global exports⁷. The large Indian diaspora in US and their high profile presence in a range of economic sectors also works positively in many ways, including enabling Indian businesses to gain a better understanding of the culture of doing business in the US, a factor missing in Korea or Japan with which India’s FTAs have not been very rewarding.

Several other factors, however, can also pose challenges for early FTA conclusion. The Trade Promotion Authority (TPA) is what provides Congressional guidance to the US President on trade policy priorities and negotiating objectives. And any bilateral agreement would require bipartisan support to secure passage in both Houses of the US Congress which keep changing hands between the two major political parties. The latest TPA dates to the year 2015 that sets⁸ very exacting objectives not only in respect of market access to be secured in such agreements for trade in goods, agriculture, services and foreign investment but also in relation to high standards to be obtained in a range of areas including intellectual property (similar to that of IPR protection under US law), digital trade, regulatory practices, state owned enterprises, localisation barriers to trade and labour and environment.

If past FTAs of the US are any indication the levels of market access that may be sought not only in industrial goods but also in agriculture, these could well exceed 95% of tariff lines. Any deep access in agriculture would be difficult for India with over 50% of its rural population dependent on their farms for

⁵ See https://www.mea.gov.in/Speeches-Statements.htm?dtl/32420/Translation_of_Press_statement_by_the_Prime_Minister_on_the_State_Visit_of_the_President_of_the_United_States_of_America_to_India

⁶ https://www.business-standard.com/article/economy-policy/india-and-us-can-do-a-larger-trade-deal-much-faster-says-piyush-goyal-120022501481_1.html

⁷ US share in India’s global imports rose from 4.87% in 2014-15 to 6.91% in 2018-19. And the share of US in India’s exports also rose from 13.68% to 15.87% during this period. Similarly as per US trade figures India’s share in US exports rose from 1.32% in 2014 to 2.09% in 2019 and India’s share in US imports climbed from 1.92% to 2.30% during the same period.

⁸ <https://www.congress.gov/114/plaws/publ26/PLAW-114publ26.pdf>

occupation and livelihood. Secondly, there is the US tendency to export its laws and standards through such FTAs, be it relating to IPRs or data flows, that may be on a WTO plus basis. This was evident when the US was negotiating the TPP. In a large democracy like India, binding such policies will require generating political consensus that would be quite an uphill task. Third, there is the prospect of non-trade issues getting introduced relating to the environment, labour standard or other aspects. These too can be perceived as too intrusive, unless these can be so worked that they are seen to further India's own interests.

While that does not mean an FTA between the two countries may be a non-starter, it will however need extremely careful consideration. An FTA could work for India if its obligations and benefits allow themselves to get integrated as part of much needed reform, inducing or even pressuring the country to move forward in that direction. But the FTA move can also fall apart if the pace and push on India becomes too much for public acceptance.

That said, at a time when India's exports have remained static for several years now, some out of the box thinking is clearly needed to get them back into a growth trajectory. Even as India has not signed FTAs after 2011, that has not stopped other countries from pursuing such arrangements. A concluded RCEP, with India now outside it, can again mean that India can become a target for increased exports from East Asia that will be getting energised by this regional FTA, incentivising supply chains within it. India's need to find the right FTA partners where its exports of goods and services have better prospects is therefore compelling.

Advent of new technologies again imply the need for India to keep up both through indigenous research and development but also through foreign investments in such areas. This will come about only through trusted partnerships. And it will require the economic environment and standards of protection to be reasonably high and also a good deal of stability and predictability in our regulatory policies.

A well negotiated bilateral trade agreement with the US could be a vehicle for building such a long term, mutually beneficial partnership. But if the US views it merely as yet another FTA, with all its trade lobbies pushing for the maximum, it could get trouble ridden. In fact, a good start may be for the US to clearly recognise that India is still a developing country (the World Bank designates it as a lower middle income country) with a nominal GDP per capita of around US\$ 2000. India is not an export led economy; it has in fact a huge merchandise trade deficit to contend with. A simple reckoning that this large country's trade

exceeds 0.5% of world trade cannot in any manner lead to an inference that it is a developed country, even if that sounds flattering. India's trade per capita is only US\$ 396, as per WTO Trade Profiles 2019.

Similarly, it would be very important that the guiding principles that may be used by the two sides, such as the principle of reciprocity that President Trump has underscored,⁹ (the TPA too refers to reciprocity in places) are better understood.

For India, the FTA can be a game changer if its terms and subsequent implementation can be rightly calibrated. A sense of ambition and realism have to both play their part. India's current standing in respect of trade competitiveness, logistics movement, infrastructure and trade facilitation are still significantly low, which will need time and resources to ramp up.

What all this points to, if indeed there is serious political will to pursue this idea of an eventual major trade agreement, is the need for a comprehensive joint study with the US that can evaluate the feasibility of such an agreement and, if that is positive, provide a scoping framework. The US-India Business Council and the Confederation of Indian Industry have already called for such a study since an FTA "would have wide ranging ramifications for the domestic industries and a clear cost benefit analysis would be needed". Such a study could also be tasked to examine if getting the FTA done in a phased manner - moving ahead with services and investment first followed subsequently by goods or through other options¹⁰ - may be more advisable. It may even be advisable to dodge the question of a big trade deal until a few mini deals on trade are done and there is greater confidence and comfort level to move further under the new Comprehensive Global Strategic Partnership.

Internally too, each economic sector in India will have to make its own evaluation of offensive and defensive interests in respect of greater trade and investment exchanges with the US, with a positive and forward looking perspective. Internal co-ordination and arriving at a balanced overall approach will be paramount, since in all such cases there could be winners and some

⁹ President Trump referred to reciprocal trade at his Press conference on 25th February 2020 in New Delhi accessible at <https://www.youtube.com/watch?v=ill9YLbRMXU>

¹⁰ Sumani Dash and Jayanto Roy have recently authored a paper titled "US India Trade Roadmap" which has also provided another three phased option for the negotiations for such an agreement extended over a seven to ten year period. They have in their analysis considered possible demands that could be made by US, based on their examination of the provisions of TPP on which US took a leadership role during its negotiations, even as they withdrew from it later, and the provisions of the recent US-Mexico-Canada agreement which is a renegotiated version of NAFTA.

potentially losing sectors which may need structural assistance and support. The RCEP experience should also provide valuable lessons in terms of preparations and the negotiation capacities that will be needed, should we decide to move forward. An approach that we will cross the bridge when we come to it may not serve us right in this case. Rather than getting overtaken by events, it may be better to plan for them without delay.



Delhi Policy Group
Core 5A, 1st Floor,
India Habitat Centre, Lodhi Road
New Delhi - 110003
India

www.delhipolicygroup.org