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● INDO-US RELATIONS

Time to step up on trade, investment

The US has shown extraordinary skills in 'putting America first' in negotiating with the rest of the world; now it is India's turn to prove that it is capable of effectively negotiating with the world's largest economy, 'putting India first'

AFTER US PRESIDENT Donald Trump's visit to India, the attention has shifted to the enormous bilateral defence deal worth \$3 billion from the 'deficits and tariffs' debate in the India-US economic diplomacy discourse. His reiteration of India as a 'tariff king' was striking, especially as he was worried about the retaliatory high tariffs and the worsening US trade balance with India. Unsurprisingly, there were no conclusive trade pacts signed between India and the US during his visit.

The single most significant outcome of Trump's visit is perceived as the defence deal worth \$3 billion on state-of-the-art helicopters. The point to be borne in mind is that this deal is not a 'Trump visit specific major outcome', as these discussions were long term as one can see from the time series data of the Ministry of External Affairs proceedings. Accord-

ing to the Stockholm International Peace Research Institute (SIPRI), the volume of international transfers of major arms in 2014-18 was 7.8% higher than in 2009-13, and 23% higher than in 2004-08. The US is the biggest arms exporter, accounting for 36% of the global arms trade of \$100 billion. Among importing countries, India, with a share of 9.5%, is second only to Saudi Arabia, which accounts for 12% of global arms import.

Against this backdrop, can India think of 'strategising' its defence purchases by linking it with other areas of potential collaboration? It would be desirable as the critical issues related to trade and investment remain largely unaddressed.

Beyond the rhetoric of the defence deal, the US and India should refocus on trade and investment pacts. The best strategy for India is to be brutally honest in its forthcoming trade and investment negotiations with the US. India is about a

\$3-trillion economy, while the US is a \$20-trillion economy. Instead of staking claim on recognition as a superpower, India should press for recognition as an emerging economy.

The trade between the two countries has grown from about \$16 billion in 1999 to \$142 billion in 2018. Today, the US is India's biggest export destination, accounting for about 17% of Indian exports. According to the US Bureau of Economic Analysis, India is its eighth largest trading partner. The political as well as economic relationship between the US and India has improved significantly during the past two decades. Nevertheless, along with the growth in trade between the US and India, tensions, too, have mounted with respect to trade deficits and tariffs.

The long-standing disagreements exist in areas ranging from dairy products to intellectual property rights (IPR) protections. Alyssa Ayres, in her recent article 'A Field Guide to US-India Trade Tensions', has flagged deficits and high tariffs as the main bone of contention between the two countries.

The trade deficit of about \$23 billion is raised as a worrying issue by the US. In

reality, it is minuscule compared to the \$346-billion trade deficit of the US with China. Moreover, it is only the 11th largest deficit of the US. Better access and lower tariffs for agricultural and dairy products have been a long-standing demand of the US. The American exports to India include fruits, nuts, legumes, cotton and dairy products, which are important to the economies of California, Montana and Washington. New Delhi's tariffs on apples, cashews, walnuts and almonds have been termed retaliatory by the US. Finance minister Nirmala Sitharaman has raised the customs duty on shelled walnuts to 100% from the current 30%. She has also imposed a health cess of 5% on import of medical devices. On dairy products, India requires that they are derived from dairy cow that has been fed a vegetarian diet for its entire life. Do these recent Budget announcements reflect a protectionist wave in India, quite contrary to the 'economic diplomacy' projected by Prime Minister Narendra Modi in the World Economic Forums that there is no retreat from globalisation?

According to the Directorate General of Commercial Intelligence and Statistics

(DGCIS) data, the US has emerged as a major supplier of crude oil to India post 2017. From the 10th position in value terms as a supplier in 2017, it has become the sixth major supplier with an export value of \$4.1 billion. And India is now the fourth largest export destination of US crude. In fact, US oil exports to India more than double the value of defence exports!

India has been piqued by its removal from the list of countries that are eligible to avail the Generalized System of Preferences (GSP) benefits, on grounds that India has failed to provide equitable and reasonable market access. On the eve of Trump's visit, on February 10, the Office of the United States Trade Representative removed India from the list of countries eligible for special *de minimis* counter-vailable subsidy and negligible import volume standards under the counter-vailing duty (CVD) law. The new list of countries replaces the list prepared in 1998. This new list is based on the criteria of: (1) Per capita GNI, (2) share of world trade and (3) other factors such as membership of OECD, the EU or G20. India is dropped from the list on the basis of the new revised threshold share of world trade of 0.5% (it was 2% as per the 1998 law) and membership of G20. Interestingly, as per the World Bank designation, India falls in the category of lower middle-income economies, where the GNI per capita is between \$1,026 and \$3,995. The World Bank threshold for separating high income countries for low income countries is \$12,376, which is almost six times that of India's per capita income! This move also makes the restoration of GSP benefits for India unlikely, under which India was exporting goods worth more than \$6 billion.

The American establishment expects India to look for opportunities to improve bilateral trade in the context of it not joining the Regional Comprehensive Economic Partnership (RCEP). Similarly, India hopes to benefit from the ongoing trade tussles between the US and China. But so far India has not been able to attract any reasonable amount of FDI or firms leaving China. How the China factor will influence Indo-US relations is a pressing concern, although a democratic India should get leverage over a communist China in the negotiations.

The US economy has been doing exceptionally well for the last one decade. Nominal wages rose by more than 3% in the US in 2018 and 2019. According to the *Economist*, this could be due to a fall in immigration. Although this keeps the labour markets tight, it is not going to be sustainable. This can turn out to be a factor behind the imminent slowdown of the US economy predicted by many. The growth in the US is good for India. But how much India can benefit will depend mostly on the quantum of trade and investment.

The US seems to be bent on bridging the trade deficit using defence exports to

India. Other areas of contention include trade-related intellectual property regime, investment barriers, data-related issues and issues related to the import of medical devices. The US is seeking reduction in customs duty on medical devices and removal of price controls on coronary stents and knee implants. Removal of the dividend distribution tax and 100% tax exemption for sovereign wealth funds of foreign governments for three

years on their investment in infrastructure and other notified sectors, announced in the latest Budget, can attract more investment and financial inflows from the US.

More clarity is required on the 'nature' of trade as well. One can get cues on this from the India-US joint statement post the Trump visit where there is divergence in the terminology between the two countries. While the US emphasised upon 'fair and equal' trade, India has underlined a 'fair and balanced trade'. The US has shown extraordinary skills in 'putting America first' in negotiating with the rest of the world; now it is India's turn to prove that it is capable of effectively negotiating with the world's largest economy, 'putting India first'.

