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ELECTION WATCH

Global Political Drivers

US ELECTION: INDIA AND TRUMP VS HARRIS

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- US-China tensions mean there is strong bipartisan support for cooperation with India
- US-India trade deficit is a pressure point while Trump tariffs will lead to retaliation
- Harris could complicate India's balancing act between NATO and Russia

There has long been a bipartisan consensus in the US regarding stronger ties with India. The fundamental drivers are strategic competition with China, the influential and prosperous Indian diaspora, and strong economic and educational connections between the two nations. Likewise, successive Indian governments have worked to enhance economic and strategic partnerships with the US. During their times in office, both Presidents Trump and Biden had successful summit meetings with Prime Minister Narendra Modi, while India and the US closely coordinate their policies towards China via the four-nation Quad grouping.

For a summary of our views, please see our India Election Risk Grid at the end of this report.

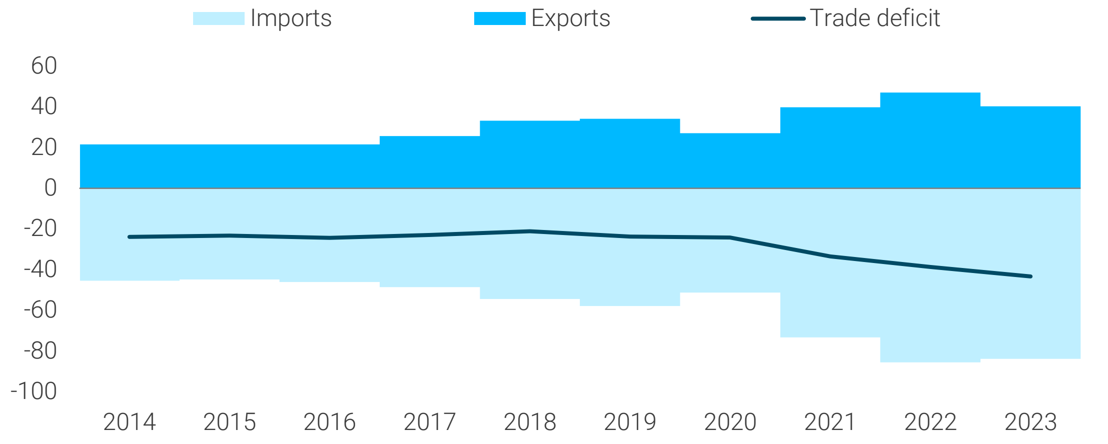
Geopolitical tensions

There are mutual frustrations including Russia, trade, and migration. The US is unhappy with India's continuing closeness to Russia – driven considerably by India's quest for cheap oil – what it considers barriers to trade and foreign investment and, more recently, alleged assassination attempts on Sikh separatists based in the US and Canada by agents linked to India. In November 2023, the US announced that it had arrested an Indian national who had attempted to hire a hitman to kill a US-based Sikh separatist and alleged that an Indian official had coordinated the effort. Indian frustrations include US restrictions on labour migration, persistent efforts to open Indian markets, and a perceived disregard for Indian interests in its neighbourhood, such as the US withdrawal from Afghanistan, ongoing ties with Pakistan, and support for opponents of the pro-India Sheikh Hasina regime in Bangladesh that was recently overthrown.

Trade tensions

One ongoing source of tension is the US trade deficit with India. The US is India's largest export destination. The US is the only major trading partner with whom India maintains a material trade surplus. Furthermore, the US deficit with India has increased under the Biden administration, amounting to $43 billion in 2023, or 6% of the overall U.S. trade deficit (see Chart 1). It will likely widen further in 2024.

Chart 1: The US has run consistent trade deficits with India (US$ bn)



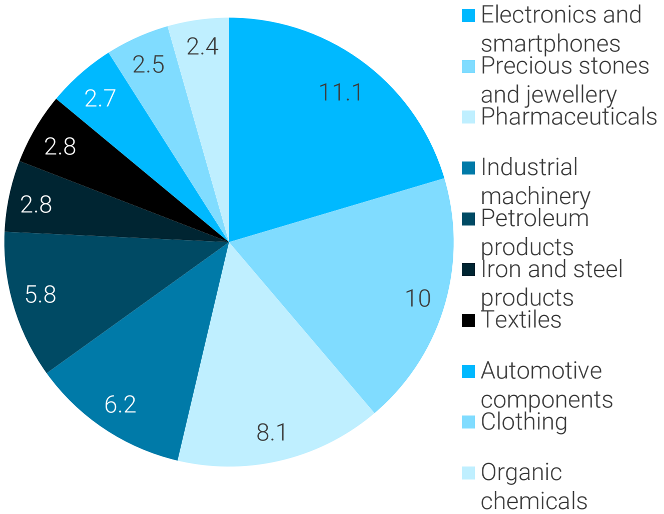
Source: US Census Bureau

The US is India's largest single export partner, receiving 18% of Indian exports in FY24, up from 12% a decade ago. One contribution to India's growing exports to the US is the efforts of international manufacturers to diversify supply chains away from China which has led to India becoming a supplier of smartphones (e.g. Samsung and Apple), electronics, photovoltaic cells and industrial machinery. Another is the tariffs imposed by India from FY18, aimed at incentivising large-scale domestic electronics production (see my colleague Shumita Deveshwar's 7 August 2023 note Winning a piece of the new world order for more on China + 1 and India's emergence as a manufacturing power). The US however ranks only as the fourth largest source of India's imports (6%), trailing behind China, Russia, and the UAE.

Russia surpassed both the US and the UAE as a key source of Indian imports in FY24, with India importing $54 billion worth of crude oil, petroleum products, and coal from Russia — more than its total imports from the US. Russia's vital role in India's energy economy underscores India's reluctance to abandon its policy of nonalignment, even as the US tightened sanctions on Russia after the death of Russian opposition leader Alexei Navalny in February 2024. India surpassed China as the biggest importer of Russian oil in July 2024. There is a twist, however, in that US officials have stated on the record that the US has not actually asked India to halt these imports because doing so could cause a destabilising spike in global oil prices.

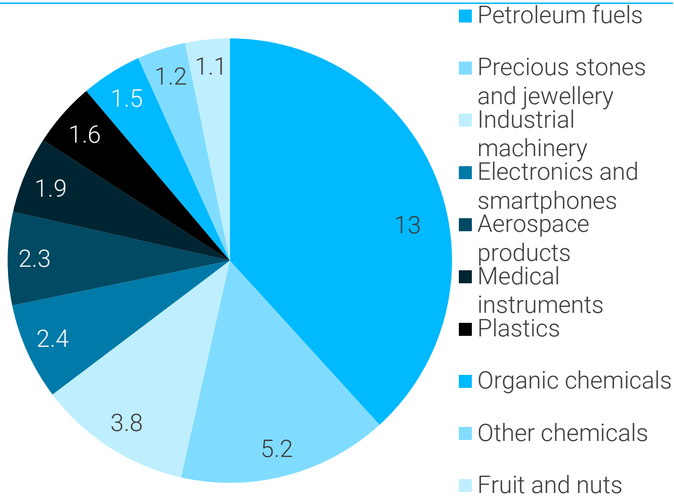
While it accounts for a smaller share of overall US trade, **India remains the US's 10th largest trading partner** as of January to July 2024. The US trade deficit with India is significantly smaller than its deficits with China, Mexico, and Vietnam.

Chart 2: Top Indian exports (US$ bn)



Source: Ministry of Commerce and Industry, Government of India

Chart 3: Top Indian imports (US$ bn)



Source: Ministry of Commerce and Industry, Government of India

A Trump Presidency

Trump 1.0 was already adversarial with India on trade, and Trump 2.0 proposals will likely further escalate trade tensions.

Trade

Trump referred to India as a "very big abuser" of US-India trade relations on 17 September at a campaign event in Flint, Michigan, signalling that a second Trump administration would maintain the first administration's tough stance on trade with India. Trump's 2017 "Buy American, Hire American" executive order made it harder for foreigners to obtain H-1B work visas, which had largely been issued to Indian citizens. In June 2019, his administration also removed India from the Generalised System of Preferences (GSP), which had allowed preferential tariffs.

India will likely retaliate against any punitive actions. In response to Trump's 2018 tariffs on steel and aluminium, India imposed 10-25% tariffs on 28 US products, affecting $1.3 billion worth of imports, including nuts, apples, and chemicals. These tariffs were only lifted in 2023 following negotiations with the Biden administration. Under Prime Minister Narendra Modi, India has adopted a more protectionist stance, raising tariff walls to protect emerging industries. Economist Shoumitro Chatterjee and India's former Chief Economic Advisor Arvind Subramaniam have calculated that there have been 3,200 tariff increases since 2015. The average Indian tariff jumped from 13% to 18% in a single year, 2018, aimed at curtailing imports from China. Chinese exports to India nevertheless hit a record high in FY24. These tariffs are considerably higher than competitors China, Vietnam and Bangladesh.

A second Trump term could be far more damaging for Indian trade. A proposed global tariff of 10-20% under a second Trump administration could significantly hurt Indian exports. However, Trump will also have an interest in making it easier for India to benefit from US firms' China + 1 strategies, limiting the impact of a potential trade war.

Additionally, a proposed 60% tariff on Chinese imports to the US under Trump 2.0 proposals could complicate India's position. While it might boost demand for Indian goods including smartphones, garments, toys, chemicals, and automotive parts, India may be forced to increase its tariffs on Chinese products to prevent an influx of cheap imports, which could exacerbate inflation in this potentially inflationary scenario.

Macroeconomics

The macro impact of a Trump 2.0 administration could lead to tighter monetary policy and slower growth in India. If Trump's policies result in higher inflation in the US and greater exchange rate volatility, the Reserve Bank of India (RBI) may be forced to tighten policy. This could hinder India's nascent investment recovery and reduce economic growth in FY26. Currently, we expect CPI inflation to rise to 5%, which is higher than the RBI's stated aim to keep inflation at around 4%. Any unexpected inflation in the US could further fuel inflationary pressures in India. Our GDP growth forecast for FY25 stands at 7%.

Geopolitics

Trump could make it easier for India to maintain its reliance on Russian energy imports were he to reduce US support for Ukraine. Russia, which wasn't even among India's top 25 trading partners until FY22, is now the fourth largest owing to cheap oil. This would enhance India's energy security under a Trump administration. However, it's worth noting that Biden also refrained from taking significant action against India's ties with Russia.

Technology

Strategic technology cooperation will continue. Trump would likely support India's pursuit of defence technologies such as fighter engines, and research into areas like telecoms, machine learning, autonomous vehicles, quantum computing, and earth and space sciences through the US-India Initiative on Critical and Emerging Technology (iCET), agreed upon by Biden and Modi in May 2022. Although Trump may reconsider these policies if he believes they could empower a future competitor to the US, we anticipate broad continuity, given the strategic competition with China. India's recent entry into the 14-nation Mineral Security Partnership on September 23, 2024, aimed at developing supply chains in ten critical minerals independent of China, is likely to align with US goals. While Trump 1.0 focused on domestic mineral security, Trump 2.0 could continue the multilateral approach started under Biden.

Energy transition

There could be a shift away from the clean energy cooperation emphasised by the Biden administration. India has ambitious clean energy targets, seeking US financial support to make Indian Railways carbon-neutral by 2030, expanding electric public transport, and developing green hydrogen and energy storage. Despite Trump's withdrawal from the Paris Agreement, his administration approved a $600 million financing facility for renewable energy in 2020 through the US International Development Finance Corporation. If Trump 2.0 takes a harder stance on green transitions, cooperation could be limited. However, a rollback of green incentives from the Inflation Reduction Act could push clean energy investments toward India from the US.

A Harris Presidency

Harris represents continuity with Biden's policies toward India. While her Indian heritage and liberal politics may make her more sensitive to concerns over human rights and democratic backsliding in India, it could also lead her to focus more on India than previous presidents. A Harris presidency would likely be more predictable than Trump 1.0 and significantly more amicable for India than Trump 2.0, except on the issue of Russia-India relations.

Trade

Disputes will be resolved quietly. Although India's trade surplus vis-à-vis the US increased during the Biden administration, the two countries successfully resolved 7 longstanding WTO disputes in 2023, covering issues such as agricultural products, steel and aluminium, and solar panels. Additionally, Biden made it easier for Indian and Canadian H-1B visa holders to renew their visas without leaving the US. In January 2023, the US announced that India would once again be considered for GSP tariffs, which had been withdrawn in 2019. From India's perspective, the Biden administration's approach to trade issues was more measured and restrained compared to the Trump administration.

Geopolitics

A tougher US stance toward Russia under a Harris administration could present challenges for India. While India has largely avoided repercussions for its significant purchases of Russian energy, stricter sanctions could raise India's energy costs and contribute to inflationary pressures.

Technology

The Biden administration's focus on strategic technology transfer to India will continue and potentially accelerate, focusing on areas like semiconductor investment, access to critical minerals, and the development of defence technologies. This will complement the Indian government's effort to make the country a major semiconductor and electronics hub.

Energy transition

A Harris administration would maintain Biden's commitment to the green transition and support India's clean energy and climate goals. This would involve continued backing for decarbonization, green hydrogen, battery storage, and the electrification of transportation.

Conclusion

On balance, a second Trump administration would likely be a greater risk to India than a Harris administration. The chances of a global trade war and specific US-India trade tensions would be much higher, while a generalised tariff of 10-20% would be very damaging for Indian trade. Any disruption of global trade flows could feed inflation, which is always politically sensitive in India. The need to defend the rupee from depreciation pressures would endanger the RBI's plan to reduce interest rates by 50bp in the next six months and would in turn contribute to lower GDP growth. On the plus side, a reduction of clean energy incentives in the US could drive companies to invest in alternative large markets including India, while a faster end to the Ukraine war would help India maintain its long standing relationship with Russia.

A Harris administration represents continuity and stability for India on trade, investment, clean energy and on monetary and fiscal policy. However, there could be trade tensions if the trade surplus in favour of India continues to grow. In addition, India's relationship with Russia could come under pressure if the Harris administration steps up Russia sanctions, forcing India to make difficult choices.

In either a Trump or Harris presidency, however, the fundamental underpinnings of the US-India relationship will remain strong, and the economic and strategic rise of China will continue to drive the two countries closer.

India Election Risk Grid below

India

	Trump		Harris
	Trump 1.0 rerun	Trump 2.0 additions*	
Trade	● Trade tensions are higher than under Biden. ● Trump 1.0 made it harder to get H-1B work visas which go predominantly to Indians ● He ended favourable tariffs under the Generalised System of Preferences for India ● India retaliated by putting 10-25% tariffs on 28 US products	● A generalised tariff of 10-20% would seriously damage Indian exports; the US is India's largest export market and the only one in its Top 10 with whom it has a material trade surplus ● Indian retaliation will be broad and proportional. ● India could benefit from higher tariffs on China on some industries like toys, garments, electronics ● But India will also have to raise tariffs against China, which is inflationary	● Expect broad continuity with Biden and a low profile approach to trade disputes ● However India's rising trade surplus with the US may contribute to tension
Investment and energy transition	● US investments in India's green transition will reduce, India will slow transition pace ● Ending of EV incentives in the US could drive investment to India	● Higher inflation and slower GDP growth will damage domestic investment	● Continuing support for India's energy transition goals ● Mineral Security Partnership improves strategic and technological cooperation
Fiscal policy	● Higher inflation will reduce the real value of the stock of debt in the economy	● Disruption of global trade will reduce the volume of trade and therefore customs revenues, even though tariffs on the US and China will rise	● Status quo - India remains on the path to gradual fiscal consolidation including a FY25 fiscal deficit target of 4.9% of GDP
Monetary policy	● The RBI's rate cuts – which we expect to be up to 50 bp by April 2025 – are endangered by FX volatility and inflation ● A hoped for private investment cycle becomes less likely	● RBI is forced to raise rates to defend INR and combat inflation ● Investment recovery fizzles out	● RBI modestly cuts rates up to 50 bp by April 2025
Geopolitics	● Favourable environment for India's balancing act between NATO and Russia ● India and US will continue to coordinate against China	● Same as Trump 1.0	● India will find it more difficult to navigate the conflict between NATO and Russia ● India and US will continue to coordinate against China

Source: GlobalData TS Lombard

*Includes most commonly repeated Trump 2.0 proposals; does not include key Project 2025 policy ideas.

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