

India-USA Trade Relations

-Oshi Johri (22/22069) | Economics (hons.)

India and the United States share a strong and growing trade relationship, driven by mutual economic interests and strategic cooperation. The US is one of India's largest trading partners, while India is an important market for American goods and services. Over the years, their trade has expanded in various sectors, including technology, pharmaceuticals, energy, and services. Several agreements and dialogues have helped shape this relationship. The Trade Policy Forum (TPF) encourages discussions on trade issues, while the Generalized System of Preferences (GSP) program has influenced market access. Both countries have also explored the possibility of a Free Trade Agreement (FTA) to boost bilateral commerce. Despite progress, there are challenges. Disputes over tariffs, digital trade rules, and intellectual property rights have sometimes strained relations. However, regular negotiations and policy adjustments aim to resolve these issues and promote smoother trade. This research article analyzes the key trends in India-US trade, highlights important agreements, and examines existing challenges. It also discusses opportunities for future growth and collaboration.

LITERATURE REVIEW

The trade relationship between India and the United States has been widely studied, especially in the context of globalization, strategic alliances, and shifting economic power dynamics. Over the years, scholars and analysts have explored various dimensions of this bilateral engagement, ranging from sectoral trade patterns and tariff disputes to foreign direct investment (FDI) trends and the impact of global geopolitical events on trade flows.

India-US Trade Dynamics

Several studies (e.g., World Bank reports, USTR fact sheets) have documented the evolution of trade between India and the U.S., emphasizing the exponential rise in bilateral merchandise and services trade since the liberalization of the Indian economy in 1991. Key sectors such as information technology, pharmaceuticals, and textiles have been highlighted as major contributors to India's export basket, while the U.S. continues to export high-value goods like aerospace parts, machinery, and medical equipment to India.

Strategic Agreements and Frameworks

Academic and policy literature has extensively covered multilateral and bilateral mechanisms such as the **Generalized System of Preferences (GSP)**, the **Trade Policy Forum (TPF)**, and **Defence Technology and Trade Initiative (DTTI)**. These frameworks have been studied for their role in facilitating dialogue and resolving trade disputes. However, the revocation of India's GSP status in 2019 has prompted newer research examining the impact of trade preference loss on MSMEs in India and how bilateral trade mechanisms can be restructured to regain momentum.

Tariff and Non-Tariff Barriers

A substantial body of work has analyzed the asymmetries in tariff structures between India and the U.S. India's relatively higher tariffs on agricultural and motorcycle imports have often been criticized in U.S. trade literature. Simultaneously, Indian studies focus on the protective nature of these tariffs for domestic interests, especially agriculture. WTO disputes and U.S. accusations of tariff abuse have also been explored through the lens of international law and economic sovereignty.

FDI and Economic Cooperation

Foreign investment flows, particularly from the U.S. to India, have garnered academic attention post-1991. The role of policies such as 'Make in India' and the **India-US Investment Incentive Agreement (IIA)** in attracting U.S. investment in sectors like clean energy, technology, and healthcare is a recurring theme. Furthermore, the indirect investment through tax havens adds a nuanced layer to the analysis, which has been touched upon in both policy papers and investigative economic studies.

Gaps in Literature

While much has been written on traditional trade and investment topics, there is relatively less literature on emerging areas of cooperation such as **critical minerals**, **semiconductor supply chains**, and the **Indo-Pacific Economic Framework (IPEF)**. Additionally, existing research often underrepresents the evolving **geopolitical factors** influencing trade—such as the US-China trade war, India's strategic maneuvering between Russia and the U.S., and the recent "Mission 500" initiative.

RESEARCH DESIGN

This study adopts a mixed-methods research design, combining quantitative data analysis with qualitative policy review to explore India–U.S. trade relations. It focuses on identifying long-term trade trends, evaluating trade agreements, and understanding the influence of geopolitical and policy shifts on bilateral trade.

Research Objectives

1. To analyze the trend in India–U.S. trade (exports, imports, and FDI) from 2000 to 2024.
2. To assess the influence of recent geopolitical developments (e.g., Mission 500, IPEF, WTO disputes) on future trade prospects.

Data Collection

This study relies on secondary data sources, including:

- **Trade and FDI Statistics:**
 - Ministry of Commerce and Industry (India)
 - Department for Promotion of Industry and Internal Trade (DPIIT)
 - U.S. Trade Representative (USTR)
 - World Bank and UNCTAD databases
- **Policy Documents & Agreements:**
 - Indo–U.S. bilateral trade policy statements

- WTO reports and dispute summaries
- Official press releases (e.g., PIB, MEA India, USTR)

The data covers the period from 2000 to 2024, allowing for long-term trend analysis and recent policy evaluation.

DATA ANALYSIS

INDIA- US TRADE TRENDS



The graph plotted above indicates a consistent rise in the trade trend between India and the USA. India's merchandise exports to the USA increased by 8.5 times (from 9.3 billion USD to 77.52 billion USD) and merchandise imports increased by 14 times (from 3.3 billion USD to 42.2 billion USD) in the last 24 years. The Y2K event in the year 2000 aptly demonstrated India's IT prowess in front of the whole world which established India's reputation as a reliable IT outsourcing hub. The US remains the largest market for India's IT exports contributing around 62% of India's approx USD 122.5 billion in IT-ITes exports in FY22 with USA and Canada combined importing USD 75 billion worth of software services from India in FY21, USA having the majority chunk of this share.

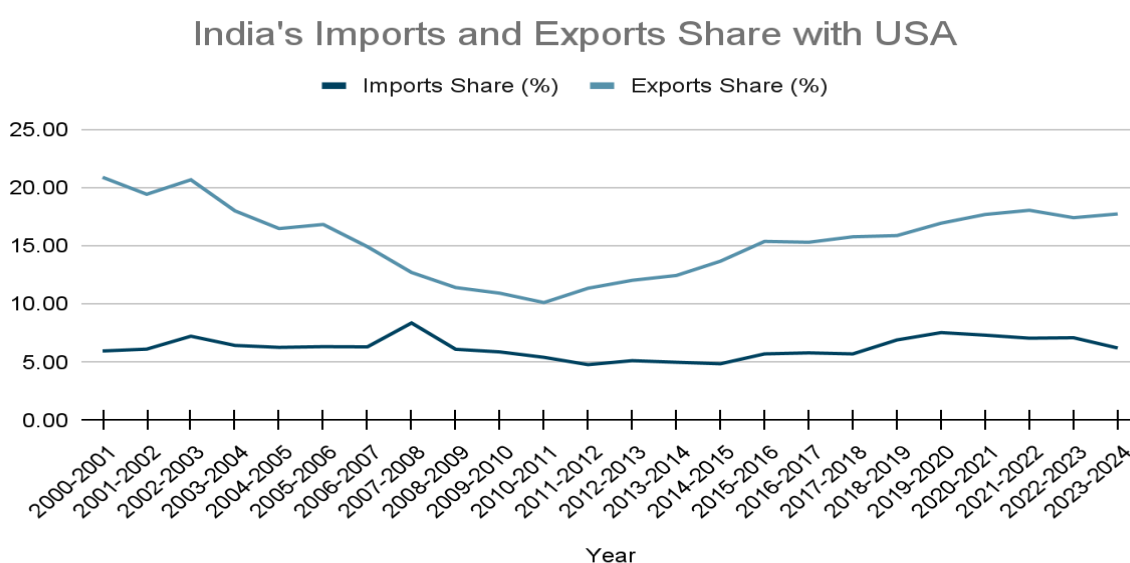
Between 2009 and 2012, and again from 2020 to 2022, India's exports to the U.S. saw sharp increases driven by a combination of economic recovery, trade diversification, and sectoral growth. The post-2008 financial crisis recovery led to rising U.S. demand, benefiting Indian industries such as IT, pharmaceuticals, textiles, and auto components. The U.S. also sought to diversify its supply chains, reducing dependence on China, which created opportunities for Indian goods. A weaker rupee also made Indian products more price competitive. But its impact was relatively insignificant as our costs of production are still highly uncompetitive as compared to China who is proving to be

our main rival in our quest for taking our trade relations with the US to the next level. Even after the “tariff war” initiated by President Trump in his first Presidency upon Chinese imports, our prices were still uncompetitive for most of the sectors.

Similarly, between 2020 and 2022, the COVID-19 pandemic disrupted global trade, prompting the U.S. to shift sourcing away from China and increasing its reliance on India. India's success with attracting Apple to enhance its manufacturing capacity in a sustained manner demonstrates our increasing manufacturing prowess at least in the electronics industry. The Production-Linked Incentive (PLI) scheme, launched by the Indian government in 2020, helped us attract crucial US investments by offering crucial subsidies based on incremental output production which in turn increased domestic production of goods some of which was eventually exported leading to a rise in Indian exports. The IT and digital services sector witnessed a boom as American companies accelerated outsourcing. Engineering goods, auto components, textiles, and home furnishings saw increased demand, while India's role as a major supplier of pharmaceuticals, particularly generic drugs, to the US expanded further. Across both periods, a cocktail of favorable trade policies, currency depreciation, and shifts in global supply chains contributed to India's growing export footprint in the U.S.

Notably, with further deepening of trade relationship between India and USA, trade balance remained mostly in favour of India except for a brief disruption in 2007-2008. In fact, USA is one of the few countries with whom India has had a trade surplus for the past 25 years.

IMPORT - EXPORT SHARES



India's exports share to the US showed a declining trend till 2011 but after that it has been continuously increasing from 10% in 2010-11 to 17.41% in 2023-24 and is thus fairly stable as was the case 20 years ago. In the first Presidency of Donald Trump (2017-21), the export share has increased at a greater pace than in the presidency of Joe Biden (2021-2025) where it became stagnant for most of the period.

But in Donald Trump's second presidency (2025- present), he has announced to levy tariffs on countries US trades the most with. Tariffs on China, Mexico and Canada (US' most important trade partners) have already been announced. China has been taxed at a 245% tariff. This US-China "tariff war" is likely to increase India's smartphone, telecom and engineering goods exports to the US but these are heavily dependent on the imports from China, therefore further widening our trade deficit with the Dragon.

Just three hours before the first Indo-US bilateral meet in his second term, reciprocal tariffs were announced on all countries. Geopolitically analysing, this is an attempt by the US to negotiate a deal of F-35 jets with India who is also considering Russian Su-57 jets, both of them being a fifth-generation AMCA which will greatly enhance India's aerial combat abilities. F-35 are much better than Su-57 jets but the cost of buying the former is also much more than the later. The F-35 also has a high maintenance cost of USD 36000 per flying hour while that of Su-57 is approx half of that. Also the US is not ready to transfer technology to India to maintain its monopoly over the F-35 but Russia is ready for tech transfer. If India accepts the US deal, there will be a major increase in the defence exports to the US, bridging the trade gap for the US even further.

India in its budget for FY26 has already announced to decrease taxes on American goods such as motorcycles, satellite ground installations, scrap metals, etc. which can increase American imports into the country. The highest basic customs duty imposed on any given American good now has fallen from 150% to 70% that too on selected American goods with tariffs generally ranging between 0% to 7.5% for most American goods. This is good news considering India has constantly been accused by Trump of being a "tariff abuser" especially when it comes to his heartthrob Harley-Davidson Motorcycle. Furthermore, India is considering further tariff reductions on luxury vehicles, solar cells, bourbon whiskeys and chemicals as part of its strategy to maintain smooth trade relations. But White House has stated that although India has reduced the custom duties, the Indian tariffs on agricultural items and motorcycles are much higher than those imposed by the US on the imports of Indian goods. The US' weighted average effective applied Most Favoured Nation (MFN) tariff on agricultural goods is 5% while India's applied weighted average effective MFN tariff is 39%. India also imposes a 40% tariff on US motorcycles, whereas the US only charges a 2.4% tariff on Indian motorcycles. There used to exist a Generalised System of Preferences (GSP) in USA wherein they gave unilateral, non-reciprocal and non-discriminatory concessions to least developed countries (LDCs) regarding tariff lines with India being a part of that list which were later revoked from 5th June 2019 for India.

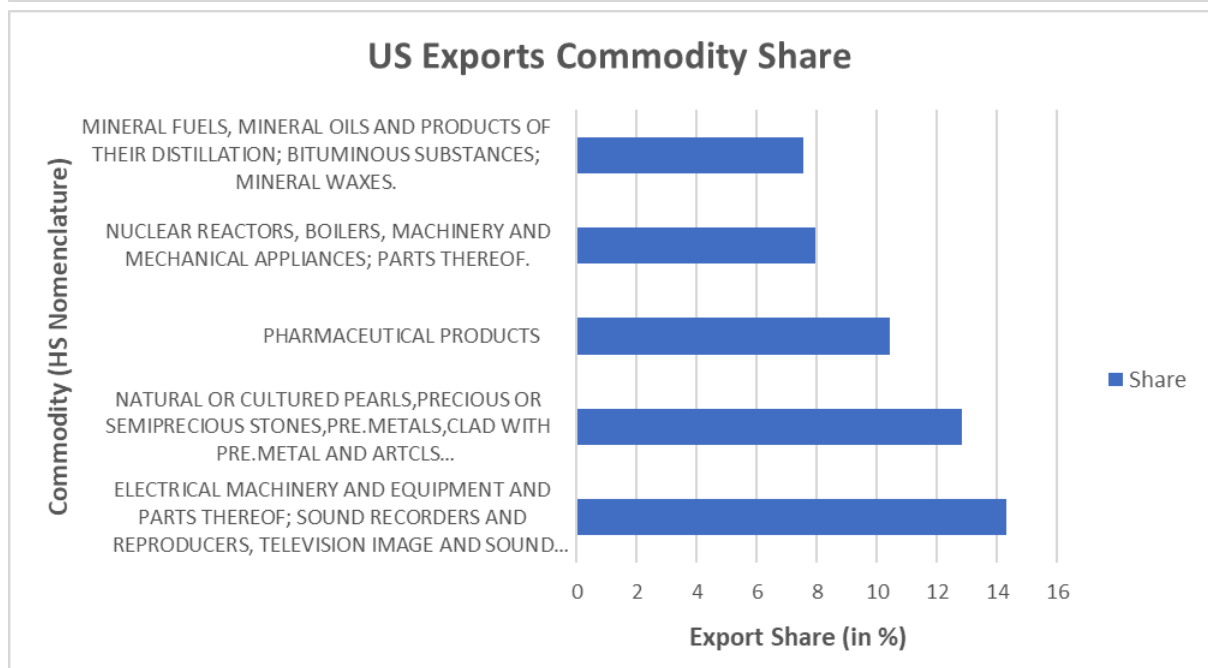
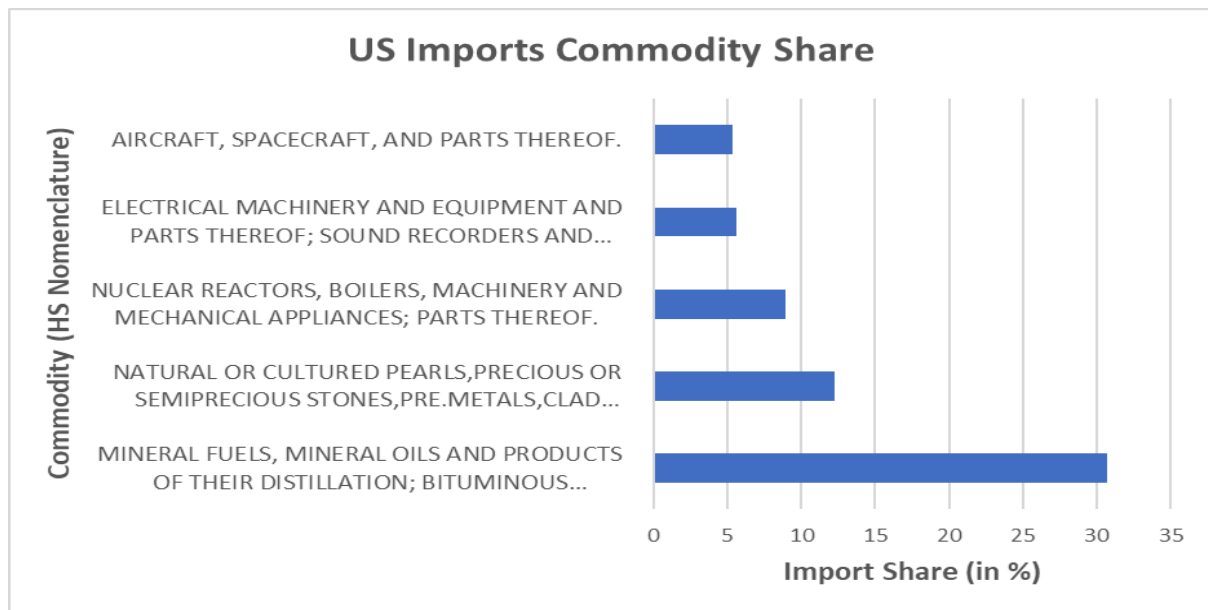
In the first Indo-US 2025 bilateral meet, Leaders of both the countries have announced plans to negotiate the first tranche of mutually beneficial multi sector Bilateral Trade Agreement (BTA) by fall of 2025 and double the bilateral trade to USD 500 billions by 2030 dubbed "Mission 500".

This might reduce the Indian tariffs on US giving it entry to the Indian market instead of US reciprocating tariffs. Both sides also pledged to collaborate to enhance bilateral trade by increasing U.S. exports of industrial goods to India and Indian exports of labor-intensive manufactured products to the United States. The two sides will also work together to increase trade in agricultural goods where India has adopted highly protectionist policies to safeguard the interests of its agriculture sector. Also, plans have been announced to increase LNG, American WTI crude oil, energy and petroleum imports from the US for enhancing energy security and to address Trump's trade deficit concerns and establish the US as leading exporter of these products to India and make India reduce its reliance on cheap Russian crude oil imports. Also the leaders have announced plans to bring together the partners from the India Middle East Economic Corridor (IMEEC) and the I2U2 group to announce initiatives this year. IMEEC which bypasses the Houthi blockade is widely seen as strengthening India-US-Europe supply chain avoiding the Suez Canal. This will further increase the trade between the two nations, cutting down the transportation costs and turnaround time in the coming future and reduce uncertainties due to disruptions caused by the Houthi blockade.

India is constantly having issues at WTO, regarding subsidies provided by the Indian government to farmers on agricultural products (MSP), accused of breaching the 10% subsidy ceiling limit set by the WTO with US being one of the main contenders in every motion forwarded against India at the WTO along with EU using the Agreement on Agriculture signed by the WTO members in 1994 to integrate global agricultural markets and ensure fairness and transparency in trade dealings but is now shrewdly used by developed nations to exploit developing nations like India by preventing them from supporting their domestic farmers through appropriate subsidies and arm-twisting us into ensuring greater market access for their agricultural commodities and threatening us to be thrown in the "Amber Box" category if we don't oblige using the WTO.

Items (imports)	Value (\$bn)	Items (Exports)	Value (\$bn)
Mineral fuels & oils	12.96	Engineering Goods	17.62
Precious, semiprecious stones	5.16	Electronic Goods	10.49
Nuclear reactors, boilers	3.75	Gems And Jewellery	9.9
Electrical Machinery	2.3	Drugs And Pharmaceuticals	8.72
Aircrafts and parts	2.25	Petroleum Products	5.83

Source: Commerce & Industry Ministry

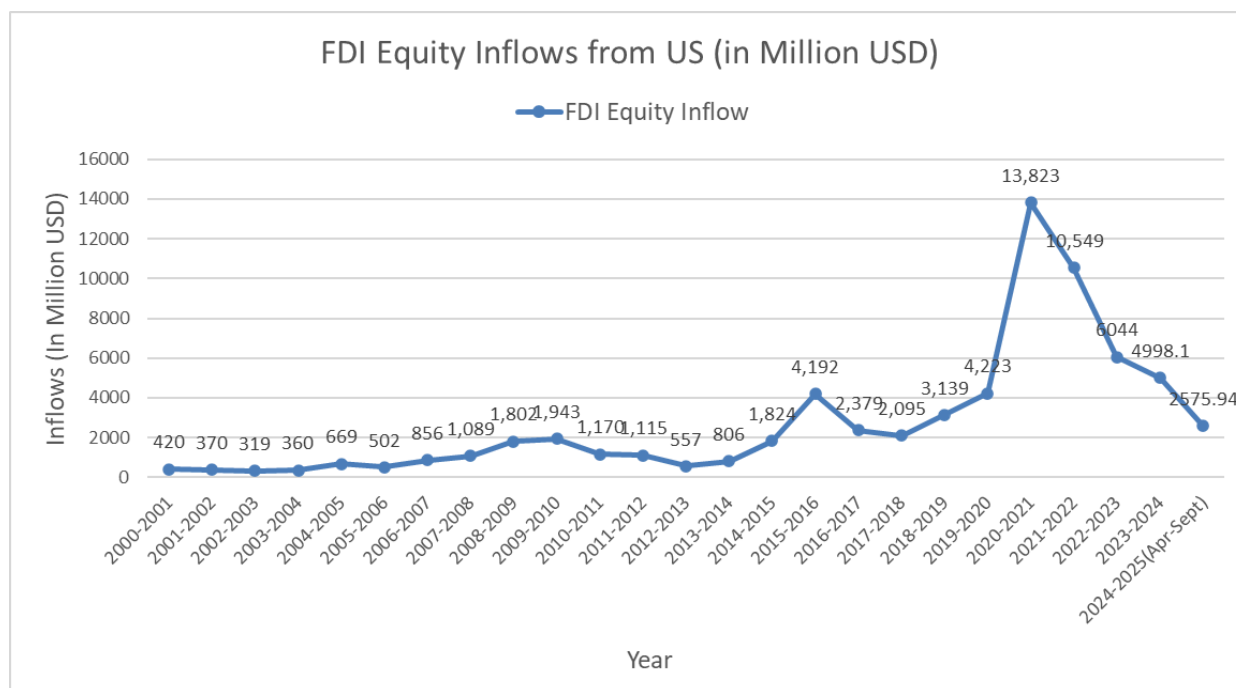


Judging from the data, Top 5 items imported from US comprised about 62% of total imports to US and top 5 items exported to US comprised about 54% of total exports to US.

Top imports from the US seem to be in machinery and electrical equipments (HS Code 85), precious stones (HS Code 71), mineral fuels (HS Code 27), etc for merchandise imports with mineral fuels accounting for over 31% of our imports from the US.

For merchandise exports, we seem to be exporting pharmaceutical products (HS Code 30), electrical machinery and equipment (HS Code 85), precious and semi-precious stones (HS Code 71), etc more often with our exports seemingly more diversified than our imports.

FDI TRENDS AND INVESTMENT PLANS



Now coming to FDI. US is among the top three largest sources of FDI into India. After the LPG reforms and the introduction of the New Economic Policy, FDI inflows to India have steadily increased from USD 0.42 billion in FY01 to USD 49.98 billion in FY 24, increasing by approximately 119 times in the last 24 years. Key sectors attracting U.S. FDI in India include technology, e-commerce, renewable energy, and healthcare. It is worth mentioning that even during the 2007-08 Financial Crisis, FDI inflows have registered an increasing trend and the slowdown impacted us rather gradually as evident from reduced inflows during 2010-2014. There is a local maximum at FY16 reaching USD 4.19 billion around the time the Modi govt introduced the 'Make In India' Policy which may have temporarily attracted some additional FDI from US. There is a huge spike in FDI inflows reaching USD 13.82 billion during FY21 mainly due to huge equity investments undertaken by American Tech giants such as Facebook and Alphabet with Facebook alone investing approximately \$5.7 billion in Reliance Jio. But since then, FDI inflows have shown a downward trend. And also the Biden administration focused on clean energy and renewable energy targets, making investment into India's solar, wind and green hydrogen projects. Although official statistics don't show the complete picture as many US investors prefer to invest in India indirectly by routing their funds through tax havens like Mauritius, Cyprus, Singapore and even Netherlands where tax on capital gains is quite low due to an India-Netherlands Bilateral Investment Treaty signed in 1995. Also, many Indian Companies have also invested in US markets and added value. According to a CII study released in April 2023, 163 Indian companies invested over \$40 billion in the US and created over 425,000 direct jobs.

Investment Plans:

In the bilateral meet, both countries have committed to lay down opportunities for Indian and American companies to make greenfield investment in each other's countries. This will lead to approx USD 7.35 billion investment by Indian companies in the US. The leaders have also committed to increase investment in India's oil and gas infrastructure. The nations have also announced plans to build US designed nuclear reactors in India, maybe through the large-scale localization and technology transfer finally giving the much needed push to fully realize the U.S.-India 123 Civil Nuclear Agreement signed in 2005. US will also invest in next-generation data centers and AI models giving a boost to India's AI capabilities especially with China shocking the world by introducing "Deepseek", an AI model touted to be superior to all of US' AI chat models. The launch of INDUS has also been announced to foster investments in space, energy and other emerging tech. For the emerging tech, there will be acceleration in collaboration in R&D and increased investment in the value chain of critical minerals including lithium, cobalt and rare earth metals currently being dominated by China.

As part of the TRUST initiative, the leaders agreed to create resilient supply chains for semiconductors, critical minerals, sophisticated materials, and pharmaceuticals. As part of this endeavor, the leaders intend to support public and private investments in expanding Indian manufacturing capacity, especially in the United States, for active pharmaceutical ingredients (APIs) for vital medications currently being dominated by China as India imports majority of its API requirements from China. So in the coming years India will see a major rise in FDI by the US if all the plans are implemented in letter and spirit by both the nations.

An Indian Ocean Strategic Venture has been launched to advance investments in Indian Ocean connectivity and Meta has also announced a multi-billion, multi-year undersea cable project which requires cumulative investments worth USD 10 billion (though initially it will invest USD 2 billion only) that will begin from this calendar year and will span over 50,000 kilometres and connect five continents with the project expected to be completed by the end of the decade.

WAY FORWARD AND POLICY RECOMMENDATION

1. **Negotiate a Comprehensive Bilateral Trade Agreement (BTA)**

- Expedite “Mission 500” by finalizing sector-specific trade terms.
- Prioritize mutual reductions in tariff and non-tariff barriers to ensure balanced market access, especially in agriculture and manufacturing.
- Include clauses on digital trade, data localization, and IP rights to future-proof the agreement.

2. **Diversify India’s Export Basket**

- Promote value-added exports beyond traditional sectors like IT and pharma (e.g., renewable tech, defense components, semiconductors).
- Leverage the Production-Linked Incentive (PLI) schemes to scale domestic industries aligned with U.S. demand.

3. **Address Tariff Disparities and WTO Compliance**

- Rationalize India’s high tariffs, particularly on agricultural products and motorcycles, to improve trade perceptions and compliance with WTO norms.
- Engage in WTO reform dialogues to ensure equitable treatment of developing countries’ food security policies.

4. **Boost Strategic & Defense Trade**

- Balance defense procurement between affordability and strategic partnerships (e.g., tech transfer from U.S. vs. cost-efficiency from Russia).
- Push for defense co-production and technology-sharing agreements as part of a broader trade package.

5. Strengthen FDI Ecosystem

- Create fast-track mechanisms for approving American greenfield investments, especially in energy, AI, space, and semiconductor sectors.
- Address concerns related to tax policy and ease of doing business to retain long-term investor confidence.

6. Develop Robust Supply Chains

- Operationalize the TRUST initiative and strengthen India's role in global value chains for pharmaceuticals, critical minerals, and semiconductors.
- Collaborate with U.S. firms to reduce dependency on Chinese raw materials and inputs, especially for high-tech sectors.

7. Promote R&D and Innovation Collaboration

- Launch joint innovation hubs and research grants in AI, quantum tech, clean energy, and biotechnology.
- Encourage private sector cooperation under the INDUS and I2U2 frameworks.

8. Optimize Infrastructure and Logistics

- Invest in port, rail, and digital infrastructure to support trade growth and take advantage of corridors like IMEEC.
- Ensure faster customs clearances and digitalization of trade documentation to reduce turnaround ti

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