



## RSTV Summary: The Big Picture: India, US Trade Talks

### Context

- According to Commerce Minister, India and the United States are closing in on a trade deal, after two years of negotiations.
- India is seeking concessions for generic drugs it exports to the United States.
- The US, on its part, has been seeking more access for its farm goods, like almonds and apples, on which India had raised tariffs last year.
- The two nations have been negotiating a limited trade pact aimed also at restoring zero tariffs on a range of Indian exports to the United States under its Generalized System of Preferences (GSP), from which the Trump administration withdrew last year, citing lack of reciprocal access to Indian markets.

### What are the highlights of India Ideas Summit 2020 with respect to India-US trade relationships?

- Both India and the USA called their bilateral relationship a trusted partnership. US mentioned that India is a natural partner to the US, and one of a few trusted, like-minded countries.
- Both the countries discussed and decided consolidating their partnership in the following areas and domains:
  - Restoring access for Indian workers to the US job market in fields like services, engineering and information technology etc.
  - 5G technology and digital infrastructure of the future.
  - India has demanded exemption from high duties imposed by the US on its steel and aluminium products.
  - India has invited US investments in Indian healthcare, energy, defence, space, civil aviation, infrastructure, finance, agriculture and insurance sectors. India has increased the Foreign Direct Investment cap to 74% for investment in the defence sector to facilitate the investments.
  - US has said that India has a great opportunity to attract global supply chains away from China and reduce its reliance on Chinese companies in areas like telecommunications and medical supplies etc.

### What are the irritants in India-US trade relations?

- USA removed India from list of countries under Generalized System of Preferences (GSP) last year, citing lack of reciprocal access to Indian markets.
- According to US the weak Intellectual property regime in India makes it tough for innovators to receive and maintain patents in India, especially pharmaceuticals.
- US has placed India on its 'Priority Watch List' over the issue of Intellectual Property Rights (IPR)- according to US India is not doing enough to protect IPR.
- According to the office of the US Trade Representative, India's measures to restrict companies from sending personal data of its citizens outside the country is a "key" barrier to digital trade.



- The US, through its Special 301 report, has forced India to remove Section 3 (d) of the Indian Patents Act which regulates patent rights and imposes license controls on drug manufacturing.
- India has demanded concessions for export of generic drugs to the United States and in return offered opening its dairy and agriculture markets by reducing tariffs.
- India is yet to finalize the totalization agreement with the US which aims at doing away with dual social security taxation for Indian workers.
- US is concerned over the high trade deficit with India and wants India to take efforts to reduce the same.
- In response to higher tariffs imposed by the US on Indian products like steel and aluminium, India had hiked customs duties on certain US imports like almonds, pulses and walnuts which also become an issue for US.
- Stringent US patent protection laws and various steps by the Food and Drug Administration (FDA) have dented India's exports of pharmaceutical products. This is among the important non-tariff barriers that India wants the US to remove.
- India has been asking for mandatory certification of imported dairy products specifying that the source animal was not raised on feed made of bovine extracts. It is a religious issue in India but US has objections on this.

#### **GSP vs MFN**

- The Generalized System of Preferences, or GSP, is a preferential tariff system which provides tariff reduction on various products.
- The concept of GSP is very different from the concept of "most favoured nation" (MFN).
- MFN status provides equal treatment in the case of tariff being imposed by a nation but in case of GSP differential tariff could be imposed by a nation on various countries depending upon factors such as whether it is a developed country or a developing country.
- Both the rules comes under the purview of WTO.
- GSP provides tariff reduction for least developed countries but MFN is only for not discriminating among WTO members.

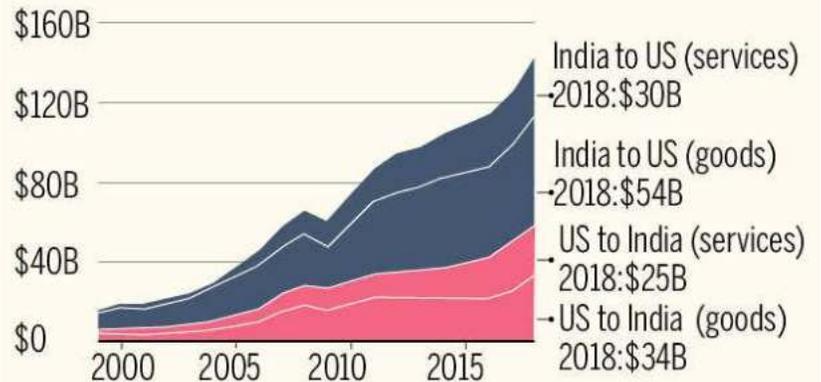
#### **What is the present status of trade and how far the negotiation have reached between India and US to sign a trade deal?**

- The US is India's largest trading partner, and India is US's 9th largest trading partner.
- In year 2019, the US became the sixth-largest supplier of crude oil and the fifth-largest supplier of Liquid Natural Gas to India.
- Bilateral trade has been increasing by about 10 percent per year. There is a target of about 500 billion dollars trade by 2025.



- Both countries have negotiated a limited trade package with the intention of signing a bilateral free trade agreement in the long run.
- The initial deal could include the restoration of the Generalized System of Preferences benefits to India and the creation of reciprocal market access for each country's agricultural products to the other.
- India may consider opening up its dairy and poultry sectors partially if it gets a good deal from the US in textiles and garment and

## The Growth of US-India Trade



Note: Total trade in 2018 was \$142 billion. Proportions add up to \$143 Billion due to rounding.  
Source: U S Bureau of Economic Analysis / Council on Foreign Relations

- pharmaceuticals. In garments, for instance, the US import duties (for India) currently range between 16.5% and 32%.
- This deal is expected to be almost evenly balanced in terms of trading value for both the partners and could be followed by talks on a potential free trade agreement (FTA).
- As part of the limited deal, India will likely reduce tariffs on high-end bikes like Harley Davidson, pledge greater market access in farm products, including cherry, and sweeten its initial offer on easing price caps in medical equipment.
- India is willing to apply trade margin on coronary stents and knee implants at the first point of sale (price to stockiest), instead of imposing it on the landed prices, as was proposed by it initially, to make it more attractive for American companies like Abott.
- India is also willing to resolve certain non-tariff measures such as certification process for some dairy products and market access in alfalfa hay and pork.
- If the US agrees to roll back its extra tariff of 25% on Indian steel and 10% on aluminium, New Delhi will lift retaliatory steps and scrap punitive duties on 29 American goods, including farm items like almond, apple and walnut.
- However, negotiations on the American demand for India to scrap duties on seven ICT products, including high-end phones and smart-watches, are yet to be concluded, the source said.
- New Delhi had earlier expressed its inability to abolish the tariff on such products on grounds that it would only benefit third parties with far greater share in supplies to India (like China) than the US.
- Also, New Delhi had estimated that any such move would mean a potential customs revenue loss of \$3.2 billion or more a year. Instead, India offered to trim tariffs on those ICT products which could potentially benefit the US more, without causing it such a big revenue loss.
- The US has been pressing India to abolish/cut "not justified" tariff on motorcycles (50%), automobiles (60%) and alcoholic beverages (150%). It is seeking better trade balance with India through greater market access in agriculture and dairy products



### What is the way forward for both the countries?

- For making Indian manufacturing and IT sector self-reliant, India is looking forward to a strong Indo-US bilateral trade and strategic partnership.
- Both India and US are taking steps for opening up their markets to each other.
- The Indian Government has highlighted the importance of capital, technology and entrepreneurship from the US for the Indian economy.
- The Indian Government should bring more economic reforms by removing caps on FDI in sectors like insurance, reforms in regulating IPR laws etc. to attract more investors to the India.
- Stronger US-India strategic relationship along with cooperation from other countries can create a counterbalance to Chinese expansionist policy.
- Forums like D-10 are an opportunity to create alternative suppliers of 5G equipment and other technologies to avoid relying on China.

#### Source:

[https://www.youtube.com/watch?time\\_continue=5&v=tMzJCJwgpkA&feature=emb\\_logo](https://www.youtube.com/watch?time_continue=5&v=tMzJCJwgpkA&feature=emb_logo)

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