

# U.S.-India Insight

VOLUME 10 | ISSUE 2 | MARCH 2020

## Gravity Hits U.S.-India Goods Trade



During President Donald Trump’s visit to India last month, the failure to produce a long-awaited agreement to resolve a set of trade irritants was notable. The fact that goods trade between the two countries hit a record \$92 billion in 2019 eased concerns—real trade flows also seemed to be doing fine. However, a closer look into the numbers reveals a worrying trend: a steep drop in trade in the second half of the year. Some potential reasons for this drop are outside the direct control of either nation, but the imposition of trade barriers is worsening. And this can be controlled.

There are strong global headwinds against expanded international trade flows. Globally, economic growth remains relatively depressed; the International Monetary Fund (IMF) [pegged global growth in 2019 at 2.9 percent](#), with a slight recovery expected in 2020. The COVID-19 virus is starting to impact travel and some aspects of the commercial environment. For example, India has just [banned the export of certain active pharmaceutical ingredients](#) (APIs) used in production of medicines that can treat COVID-19; [Germany has banned export](#) of some types of medical gear for the same reason. And U.S.-China trade tension has firms on edge as they ponder future supply chains. India does hope to benefit from changing supply chains through the “Make in India” program, but so far, this has not happened.

India’s domestic political unrest over recent policy choices such as the Citizenship Amendment Act (CAA) and the imposition of communications and political controls following the lifting of the special status of Jammu and Kashmir have also raised questions about India’s direction. At the very least, violence in the national capital has occasionally caused some business leaders to consider postponing—or cancelling—visits to India that could drive new business.

In 2018-19, United States replaced China as India’s top goods trade partner, a position it had lost over a decade earlier. India remains the United States’ ninth-largest goods trade partner. But the two nations have a growing range of trade disputes driven by their respective trade deficits. The U.S. deficit in goods trade in 2019 was \$866 billion. India’s deficit in goods trade was \$150 billion. While there seems to be a massive difference in scale, the narrative changes when comparing these trade balances to the nation’s GDP. The U.S. deficit was 4.5 percent of GDP, while India’s was 5.8 percent of GDP. The steps both nations have taken to reduce imports and improve their respective trade balances are well-documented in Dr. Alyssa Ayres’ recent article, [“A Field Guide to U.S.-India Trade Tensions.”](#)

Despite global headwinds and a range of trade barriers imposed by both nations, the real story on goods trade remained remarkably positive during most of 2019. In March 2019, bilateral goods trade crossed the \$90 billion mark for the first time during any 12-month period. While the United States still had a \$21 billion trade deficit during that 12-month period, U.S. exports grew by an astounding 26 percent, while imports from India grew by a solid 13 percent.

### KEY DATA

# +5%

U.S.-INDIA GOODS TRADE, 12-MONTH  
COMPARISON, PER U.S. CENSUS BUREAU

# +12%

FOREIGN DIRECT INVESTMENT, 12-MONTH  
COMPARISON, PER RBI

# \$19.6 bn

FII ASSETS NET FLOWS, LAST 12 MONTHS,  
PER NSDL

The bilateral trade story began to change around mid-year. While bilateral trade grew 5.2 percent during the year to \$92 billion, growth was not equitably sustained throughout. During the first six months of 2019, bilateral trade was \$47 billion. But this contracted to \$44 billion for the last six months of 2019, a reduction of nearly 8 percent. The U.S. trade balance with India also worsened during the year. The total trade deficit with India in 2018 was \$18.5 billion but grew to \$23.2 billion in 2019. While that number obviously pales in comparison to the \$346 billion goods trade deficit with China or the \$100 billion trade deficit with Mexico, it is the 11th-largest deficit with any trade partner.

It is difficult to determine which of the factors outlined above have contributed most to the decline in trade. But for policymakers in both nations, there is a clear delineation between those issues that can be controlled—like the establishment of trade barriers—and those which cannot.

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