

# U.S.-India Insight

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## These Aren't Your Father's Trade Disputes

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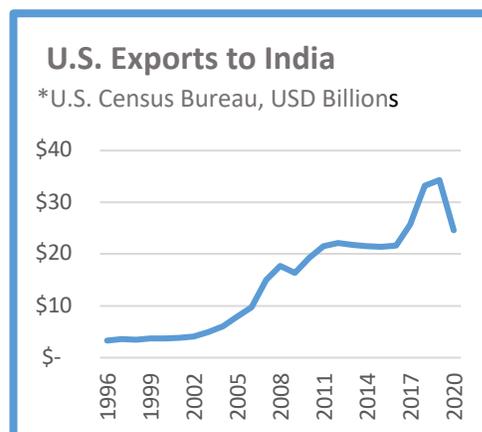


As we start a new era in U.S.-India ties, our economic relationship remains a weak link. There is a palpable sense of resignation and a common refrain that “there have always been trade problems.” However, the nature of our trade problems has evolved. In earlier times, the focus was on India’s not started or incomplete reforms. Today, an overwhelming majority of U.S. commercial concerns focus on India’s backtracking on trade liberalization and resultant trade actions against India taken by the Trump administration. Even as our respective leaders bemoan this truth, they have continued digging the hole deeper.

Since India’s liberalization process began, the process of opening the economy has moved largely in a positive direction, though the pace was quite uneven. Then finance minister Yashwant Sinha articulated a powerful message in his February [1999 Budget Speech](#), stating that India’s customs duties will be phased down to Asian levels. Over the next several years, the world saw steady decreases in India’s most overt form of trade barrier.

India’s high economic growth rates in the mid-2000s drew a wide group of U.S. companies’ interest. While India’s size and fast growth rates could equate to the need to have local production, firms typically prefer to initially gauge market prospects for their products by exporting to that nation. Looking at U.S. exports over the last 25 years, the two fastest five-year periods for accelerating exports were in the periods just after these tariff reductions: 2001–2005 (51 percent growth), and 2006–2010 (190 percent growth).

With growing U.S. corporate interest in India, sectors that were liberalized more slowly have become friction points. India retains very high tariffs on alcoholic beverages. The United States continues to press India to make key changes to its patent laws. India has a mix of old and newer barriers against agriculture trade. And outside of goods trade barriers, India maintains a range of limitations on foreign investment. These barriers include limitations on foreign ownership in sectors like insurance, pensions, retail trade, and e-commerce. Further, the barriers also include challenging business restrictions that apply only to foreign firms.



### KEY DATA

**-15.3%**

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

**+21.6%**

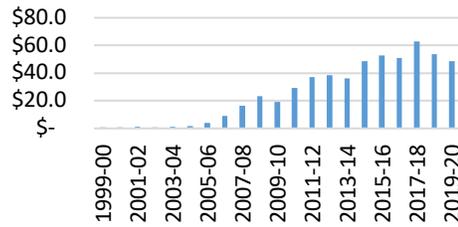
FOREIGN DIRECT INVESTMENT, 12-MONTH  
COMPARISON, PER RBI

**\$14 bn**

FII ASSETS NET FLOWS, LAST 12 MONTHS,  
PER NSDL

## India's Goods Trade Deficit with China

\*Indian Dept of Commerce, USD Billions



At the time, Indian officials privately conveyed concerns that Chinese firms would capitalize first on tariff reductions. Per India's own numbers, this fear has largely been realized. China rocketed up the list of India's top goods trading partners. And this trade was becoming one-sided. In the five-year period through fiscal year 2009-10, the deficit grew nearly 1,300 percent to \$71.9 billion and grew another 164 percent in the five-year period through fiscal year 2014-15.

From 1991 until 2014, there were relatively few instances where India tightened foreign investment restrictions. This list can be counted on one hand. It included reducing the foreign direct investment (FDI) cap for internet service providers from 100 percent down to 75 percent in [August 2007](#), meant to bring parity with other mediums for delivering content like

cable TV and telecommunications. Additionally, in [February 2009](#), the government introduced foreign investment rules for mortgage insurance, adopting a 49 percent FDI cap. This product had previously been loosely classified as a non-banking financial corporation (NBFC); NBFCs did not have a foreign equity cap. Similarly, ownership rules of commodity exchanges established in [September 2009](#) included a 5 percent foreign ownership cap on a single investor. Reportedly, "some of the existing commodity exchanges" had higher foreign ownership.

India's backtracking from trade liberalization began slowly during the second term of the United Progressive Alliance government. Two policies in particular raised concerns in Washington, D.C.—the local content regulations in the National Solar Mission, and the broader Preferential Market Access (PMA) policy. The former covered solar power equipment, while the latter covered information technology, telecommunications, and electronics equipment.

The pace of India's imposition of trade barriers quickened dramatically once the Modi government took office in May 2014. Every federal budget includes dozens of tariff hikes. Local procurement norms have steadily expanded. Other regulatory changes, such as an expansion of local price controls, are also viewed as a type of trade barrier. This laundry list has been articulated many times in the past. These steady hikes in trade barriers have vastly outnumbered the relatively few products that have seen customs duties reductions. This is a mirror image of the previous 13-year period. Understandably, the United States—driven by companies that were concerned about reduced market access—took a series of steps to impose trade barriers against India. Most notably, the United States terminated India's participation in the generalized system of preferences program in [March 2019](#).

It is overly simple to say that trade problems have been ever-present. While technically true, the nature of these issues has evolved over time. Our bilateral trade agenda today is largely dominated by newly created frictions, instead of the incomplete elements of reform. Anti-reforms are particularly dangerous to business sentiments. They can damage the commercial environment faced by U.S. firms with established trade and investment links with India.

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