Syllabus subtopic: Bilateral, Regional and Global Groupings and Agreements involving India and/or affecting India’s interests.

Prelims and Mains focus: about Trump’s visit and its impact on India-US relations; the possibilities and the areas where bilateral trade could get a boost.

News: A trade deal during US President Donald Trump’s visit is unlikely. But a changing geopolitical landscape, coupled with closer ties with the US, makes a deal that benefits both nations inevitable.

What’s the state of Indo-US trade ties?

- Bilateral trade between the US and India has been increasing, with the US recently surpassing China to become India’s biggest trading partner. The US is also one of the few countries with which India has a trade surplus, which stood at $16.85 billion in 2018-19.

- The trend continued during April-December 2019. Bilateral trade between the two countries was valued at $68 billion during this period in contrast with the $64.96 billion with China for the same duration. China was India’s top trading partner between 2013-14 and 2017-18. Prior to this period, India’s largest trading partner was the United Arab Emirates.

How will a deal impact bilateral trade?

- Historically, India’s trade agreements have not given its exporters the kind of benefits that were expected. Oft-cited reasons include lack of awareness among exporters and the country’s focus on trade deals with developing countries, which have a competitive edge over India in terms of lower wage costs.

- However, this is unlikely to happen with the US as a trade deal will result in a significant expansion of trade, while simultaneously giving Indian firms greater market access to one of the largest economies. A deal can also
be instrumental in resolving problems related to the mobility of Indian professionals.

How is an India-US deal different from the others?

A trade deal with the US could address issues related to tariffs and lead to India being viewed as an alternative for companies implementing a China+1 policy. This could result in sizeable investments in the manufacturing sector and deeper integration of India in global value chains. A deal would of course help expand Indian exports further.

Will it deepen India’s trade with the world?

- World trade has seen a tectonic shift in the last couple of years as production activity has become extremely specialized and globalized. The recent wave of protectionism has led to the emergence of regional trading blocs, where such value chains are shaping up.

- Geopolitics also plays a role. The recent increase in oil purchase from the US and other strategic allies hints at deeper trade ties in the years ahead. A deal with the US may lead to a workable framework for similar deals with the UK and European Union.

So, why does a deal remain elusive?

The deal may be delayed due to limited consensus on its scope, combined with India’s reluctance to offer greater market access in areas such as communications technology, agriculture and medical devices. India’s agricultural sector remains a bottleneck for the signing of a trade deal with most developed nations, so a limited deal without addressing this issue is unlikely. But as the gains from a deal would be significant, it would be signed sooner rather than later.