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DOMINATION

INDIA'S RUN OF VICTORIES AS PAKISTAN COLLAPSE ENDS CRICKET'S FIERCEST RIVALRY

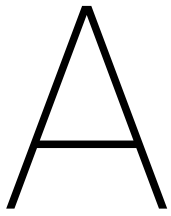
Prime Minister Narendra Modi
and US President Donald Trump
at the White House,
February 13, 2025



Trade-off Times

The US is a major destination for Indian exports and a vital supplier of essential resources. Complicating this partnership with tariffs would undermine bilateral collaboration in other critical areas

By AMIT KAPOOR and ANKITA NIGHAM



SIGNIFICANT SHIFT IN US trade policy was announced with the return of Donald Trump to the White House. President Trump revealed plans to impose reciprocal tariffs on countries that maintain higher tariffs on American goods, including major trading partners like India and China.

On February 1, as part of this new approach, the Trump administration implemented a 25 per cent tariff, a 10 per cent duty on energy products imported from Canada and Mexico, and a 10 per cent tariff on Chinese goods. This policy shift aims to create a more balanced trading environment, ensuring the US is not disadvantaged in its trade relationships.

Trump's latest policy decision aligns with his 'America First' agenda, addressing what he perceives as unfair trade practices that disadvantage American businesses. By imposing higher tariffs on imports from countries like India and China, which have long maintained steep trade barriers on American goods such as agricultural products, automobiles and technology, the strategy seeks to level the playing field. The goal is to pressure these nations to reduce their tariffs to avoid retaliatory measures from the US. While this could raise costs for India and China and reduce their competitiveness in the American market, it reflects a protectionist approach aimed at safeguarding US industries and jobs, although it could also lead to a more fragmented global trade system.

This evolving trade policy redefines America's global economic stance and impacts the robust and dynamic trade relationship between India and the US. The bilateral trade relationship is significant, serving as a cornerstone for the economic growth of both countries. As the largest economy globally, the US is a critical market for Indian exports, providing access to a vast consumer base and offering opportunities for India's diverse industries, from technology to pharmaceuticals. At the

same time, India represents one of the fastest-growing markets for American goods and services, with expanding demand for everything from energy products to advanced machinery and technology. This mutually beneficial partnership strengthens trade and fosters innovation, investment, and collaboration.

Over the years, bilateral trade between the US and India has witnessed remarkable growth, making America India's largest trading partner. In the fiscal year 2023-24, the US accounted for 17.7 per cent of India's total export share, valued at \$77.5 billion, further solidifying the US' position as the largest market for Indian goods. While Indian exports to America experienced a modest decline of 1.3 per cent compared to the previous year, when exports were valued at \$78.5 billion, the trade relationship remains crucial for India's export growth.

The US remains a crucial import partner, contributing 6.2 per cent to India's total import share and ranking as the fourth-largest source of Indian imports. This highlights the significant role the US plays in supplying a wide range of essential goods and services to the Indian market. The robust trade in both directions strengthens economic ties and ensures a steady flow of critical goods integral to India's development.

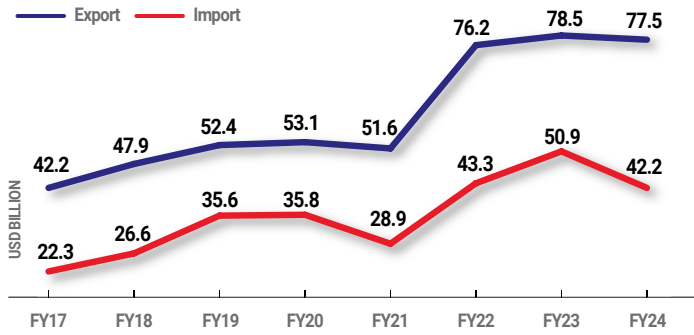
India is currently experiencing a significant trade surplus with the US. In the fiscal year 2023-24, total bilateral trade amounted to \$119.7 billion. Indian exports were valued at \$77.5 billion, while imports stood at \$42.2 billion. This resulted

in a trade surplus of \$35.3 billion for India. Over the years, India has consistently maintained a trade surplus with the US, which has increased from \$19.9 billion in FY17 to \$35.3 billion in FY24.

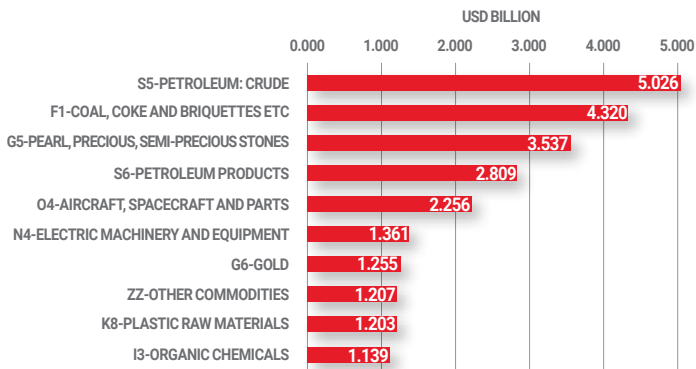
India's exports to the US have experienced significant growth, rising from \$42.2 billion in FY17 to \$77.5 billion in FY24, at an average annual growth rate of 9.1 per cent. Meanwhile, imports from the US have also increased, growing from \$22.3 billion in FY17 to \$50.9 billion in FY23 before slightly declining to \$42.2 billion in

The tariff announcement signals a shift from globalisation towards increasing trade protectionism. This move could create uncertainty for economies like India which depend on open global markets for growth

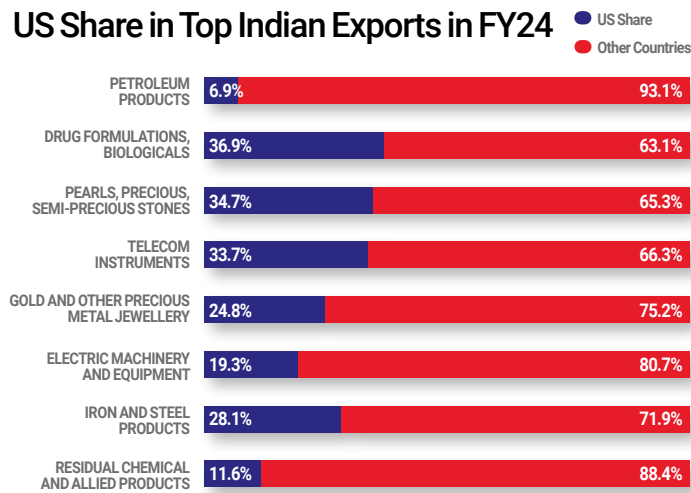
India-US Merchandise Trade Trends



Import of Top 10 Principal Commodities from US in FY24



US Share in Top Indian Exports in FY24



Graphics by SAURABH SINGH

Source DGCIIS, M/o Commerce & Industry

FY24. Over the FY17-24 period, imports from America grew at an average annual rate of 9.5 per cent. This upward trend in exports and imports underscores the strengthening trade partnership between these two economies, highlighting growing interconnectedness and economic cooperation.

During FY24, the US emerged as the largest destination for India's drug formulations, accounting for 36.9 per cent of total Indian exports in this category, valued at \$8.0 billion. This underscores the critical role the US plays in India's pharmaceutical industry

which has become a key global supplier of generic medicines, vaccines and biologics. India's pharmaceutical exports to the US have been driven by substantial regulatory compliance, cost-effective manufacturing, and a rising demand for affordable healthcare solutions. As a result, India remains one of the primary suppliers of essential medicines to the US, further cementing the robust trade ties between the two nations in the healthcare sector.

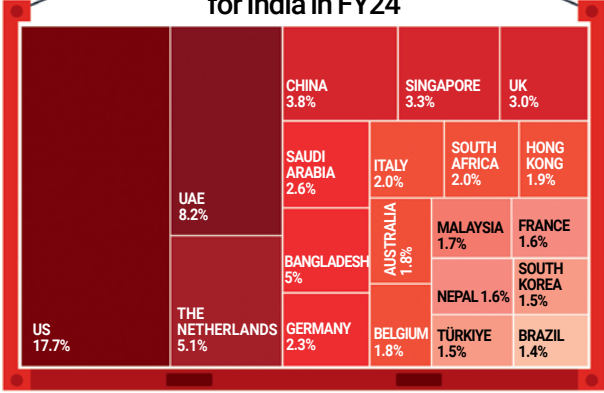
Beyond pharmaceuticals, the US also significantly influences India's high-tech and industrial exports. America accounted for 33.7 per cent of India's telecom instrument exports, valued at \$5.8 billion, reflecting the growing demand for telecommunication and electronic products. Additionally, the US imported 34.7 per cent of India's pearl exports (\$6.6 billion), 28.1 per cent of iron and steel products (\$2.8 billion), and 24.8 per cent of gold jewellery exports (\$3.3 billion). These figures highlight the US' strategic importance to India's diverse export portfolio, spanning critical sectors such as technology, industrial manufacturing and luxury goods. The consistent demand for Indian gems, metals and telecom equipment showcases the increasing diversification of the country's export base, reinforcing long-term economic engagement with the US market. This diversified trade relationship ensures sustained growth and solidifies India's position as a key global supplier in various high-value sectors.

Bilateral trade is not limited to exports. India relies heavily on US imports to meet its growing industrial and energy demands. In FY24, India imported \$5.0 billion worth of crude petroleum from the US, positioning it as a key supplier of energy resources crucial for India's expanding economy. Additionally, the US accounted for 11.1 per cent of India's total coal imports, valued at \$4.3 billion, highlighting its significant role in bolstering India's energy security. India also imported \$2.8 billion worth of petroleum products from the US, making up 7.1 per cent of its total imports in this category. These figures underscore the importance of American energy exports to India, ensuring a reliable fuel and raw materials supply to support key

sectors like industrial production and transportation.

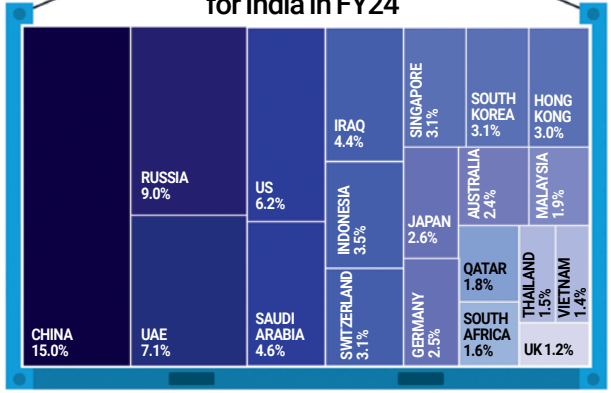
Beyond energy, the US is critical to India's import of high-value industrial and luxury commodities. India sourced \$3.5 billion worth of pearls and precious and semi-precious stones from the US, accounting for 14.8 per cent of its total imports in this category, reinforcing America's importance for the Indian gem and jewellery industry. Moreover, the US supplied \$1.2 billion (7.3 per cent) of India's plastic raw materials, essential for manufacturing and packaging industries. Additionally, India imported \$2.2 billion

Major Export Destinations for India in FY24



Source: DGCIIS, M/o Commerce & Industry

Major Import Sources for India in FY24



worth of aircraft, further strengthening bilateral economic ties. This interdependence in trade underscores how the US is not only a major destination for Indian exports but also a vital supplier of essential resources. This makes the bilateral trade relationship both mutually beneficial and strategically significant. India and the US are working towards finalising the first phase of a multi-sector bilateral trade agreement (BTA) by the fall of 2025, aiming to increase trade from the current \$200 billion to \$500 billion by 2030.

THE GROWING ECONOMIC cooperation and trade flows have bolstered commercial ties and deepened geopolitical relations. Beyond trade, the two countries are expanding cooperation across multiple sectors. The US has partnered with India on its Semiconductor Mission, which includes plans to establish a multi-material semiconductor unit in India. Additionally, they are advancing a Next Generation Defence Partnership. The launch of the TRUST (Transforming the Relationship Utilizing Strategic Technology) initiative will enhance collaboration in key sectors like lithium, rare earth elements (REEs), advanced materials, and pharmaceuticals, further solidifying their strategic relationship.

Historically, agreements under the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) have allowed developing nations to maintain higher tariffs to protect their farmers and industries from the competitive pressures of industrialised economies. These tariffs prevent industrialised nations from flooding global markets with cheaper goods, which could threaten the livelihoods of poor farmers and emerging businesses in developing countries. These international frameworks recognise that developing nations face unique challenges that could hinder their ability to grow and compete globally.

Trump's tariff announcement signals a shift from globalisation towards increasing trade protectionism, raising uncertainty in international trade relations. This move could disrupt established trade flows and create uncertainty for economies like India which depend on open global markets for growth.

Economic theory suggests no country has an absolute advantage in producing all goods. Even if one country is more efficient in making everything, two countries can benefit from trade by specialising in what they do best and trading for the rest. A trade deficit or surplus reflects the relative strength of a country's exporters versus its importers. But a trade deficit is not inherently harmful. For instance, when the US imports more than it exports, it allows American consumers to access a wider variety of goods, often at lower prices. This is due to the competitive forces in global trade that drive down costs, allowing consumers to purchase products which may not be as efficiently produced domestically.

However, while this theoretical perspective underlines the potential benefits of trade imbalances, the practical implications for individual economies can be significant. Resolving this situation is crucial for India, particularly as it faces a considerable trade deficit. By the end of FY24, India's imports amounted to \$678.2 billion while exports were valued at \$437.1 billion, resulting in a merchandise trade deficit of \$241.1 billion. Instead of penalising a developing economy like India, which is grappling with this substantial trade deficit, industrialised nations like the US should pursue a more sustainable approach. The emphasis should be on strengthening partnerships and increasing participation in global supply chains to promote mutual growth and stability.

Overall, open global trade drives international investment, fuels economic growth, and strengthens global supply chains by providing businesses access to a wider array of goods and services at more competitive prices. India is not only one of the largest markets for US goods and one of the fastest-growing economies but also a crucial strategic partner with similar values on the global stage. The Trump administration must recognise that complicating India-US trade relations would undermine their broader collaboration in other critical global spheres. Both nations must address trade issues constructively; only then can they fully unlock the potential for deeper economic and geopolitical cooperation. ■

Amit Kapoor is chair and Ankita Nigam is researcher, Institute for Competitiveness

BREAKING BREAD



Photographs by RAINEESH LONDHE

The pav, after stamping itself on the culinary heart of Mumbai over hundreds of years, finds itself in a crisis

By LHENDUP G BHUTIA

