

US-India FTA: Possibilities and Pitfalls

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Summary

American President Donald Trump's repeated mention about the United States (US) and India looking at a bilateral trade deal has generated attention about its prospects. The US' intention of correcting imbalances with major trade partners through bilateral talks highlights such possibilities with respect to India. Given the lack of convergence between the two sides on trade issues and their different approach to free trade agreement (FTA) negotiations, any bilateral agreement talks would encounter challenges. They could further complicate the US' intention of using its bilateral FTAs to isolate China.

Introduction

Recent allusions by the United States' (US) President Donald Trump to India's keenness on a bilateral trade deal, coupled with both countries being engaged in trade talks for several weeks, point to the possibility of India and the US launching talks on a free trade agreement (FTA) in the foreseeable future. The Trump administration's determination to work out bilateral trade deals with major trade partners increases these prospects. After reworking the North American Free Trade Agreement through parallel bilateral discussions with Mexico and Canada, and redoing the Korea-US FTA, the US has successfully persuaded Japan to start dialogue on a bilateral FTA. It has similar intentions with respect to the European Union. India could well be the next in line.

Correct Imbalance

The US and India are major bilateral trade partners. India is the 9th largest goods trade partner of the US, while the US is the 2nd largest goods trade partner of India. From an Indian perspective, trade relations with the US are particularly significant, not just because of the large size of the trade (US\$126.2 billion in 2017, including both goods and services) [S\$173.7 billion], but also the prominent trade surplus (US\$27.3 billion in 2017, including both goods and services) [S\$37.6 billion] it enjoys. This is one of the rare bilateral trade relations that are a net foreign exchange earner for India.

From a US perspective, trade relations with India need to be 'corrected', given that deficit trade is inimical to America's economic interests. Trump's description of India as 'tariff king' leaves little doubt about his intention of extracting greater access in the Indian market for American products and thereby altering the trade balance in favour of the US. This is a strong motivation on part of the Trump administration to persuade India into talks on a bilateral FTA, much like it has done with Japan.

Rough Ride Ahead

Notwithstanding the large bilateral trade, India and the US hardly have common ground on trade issues. They have locked horns at the World Trade Organization on several occasions.

The US' dissatisfaction with Indian trade policies range from food grain procurement at cheap rates to the demand for local content in solar panels for government consumption. India's latest grievances against the US include tightening H1-B visa rules and the hike in steel and aluminium tariffs. Successive US administrations have had major issues with India's intellectual property (IP) rules and their shoddy enforcement. India's emphasis on data localisation policies run into conflict with the commercial interests of US businesses like Walmart, Amazon, Facebook and Google that have penetrated into the Indian economy. These issues are bound to affect the progress in the FTA talks.

The talks could become more cumbersome due to differences in the approach to FTA negotiations by the two countries. The US's FTAs, [like the latest US-Mexico-Canada-Agreement \(USMCA\)](#), contain several 'new generation' trade issues. These include government procurement, rules for state-owned enterprises, ambitious IP protection conditions, investor-state-dispute rules, e-commerce and digital trade regulations, and labour and environment standards. Indian FTAs do not include these and focus more on traditional trade issues like tariffs, non-tariff barriers, rules of origin and trade facilitation. Even on trade in services, a common interest for both, the US' approach to negotiations is based on the 'negative list', that is, indicating a negative list for only those sectors that are restricted for market access, whereas India is used to dealing with a more restrictive 'positive list' method.

The US' insistence on a wider scope and different approach to negotiations would be a challenge for India. Even in traditional trade areas, the US demand for greater market access in 'sensitive' sectors, like agriculture and automobiles, which are heavily protected by tariffs, would be a political challenge for India.

The China Factor

Coming at a time when the trade war between the US and China does not show any sign of a meltdown, India needs to be cautious about the US' plans to use the FTA talks to curb China's economic influence. This is evident from the recently concluded USMCA, which explicitly provides for termination of the FTA by any of its members if any of the other enters into an agreement with a 'non-market' economy. The purported intention of keeping the other partners of the USMCA away from possible FTAs with non-market countries is clearly an effort to scuttle their trade engagements with China. The possibility of future bilateral US FTAs including such a provision cannot be overlooked. This would add more complications to the already complex India-US FTA talks.

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