



### US-INDIA TRADE TENSIONS

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With the changing dynamics of the international system, one can witness a change in the policy making and economic interests of the states. On June 5, 2019 US withdrew the Generalized System of Preferences (GSP) status accorded to India in 1976. Under the GSP scheme, duty free access to 1,945 Indian products to US markets was granted. In response to the GSP withdrawal, India increased tariffs on 28 US products.

All this gave birth to trade tensions between US and India, an emerging South Asian economic power.

On August 14, 2019, US President Donald Trump stated that China and India were no longer “developing nations” and are “taking advantage” of the tag assigned by the World Trade Organization (WTO).<sup>1</sup> Trump’s latest comments come at a time when Indian Trade Minister, Piyush Goyal, is all set to visit Washington in September 2019. President Trump is on the mission of making America great again and is pursuing protectionist policies in order to protect the domestic industries. Trump administration is aiming to reduce trade deficits with countries throughout the world and is raising questions over India’s standing trade relations of \$142.1 billion.<sup>2</sup> In 2018, US

<sup>1</sup> Elizabeth Roche, “Donald Trump’s trade tirade targets India”, *Livemint*, August 15, 2019, <https://www.livemint.com/news/india/donald-trump-s-trade-tirade-targets-india-1565804764366.html>

<sup>2</sup> “Trump calls India’s tariff hike ‘unacceptable,’ demands its withdrawal”, *CNBC*, June 27, 2019. <https://www.cnbc.com/2019/06/27/us-india-trade-donald-trump-on-indias-tariff-hike-on-us-goods.html>

exports to India accounted for \$58.9 billion, while the imports stood at \$83.2 billion.<sup>3</sup> Hence, US had to bear a trade deficit of \$24.2 billion with India out of which the goods trade deficit accounted for \$21.3 billion and the service trade deficit was of \$3 billion.<sup>4</sup> The Trump administration has asked India to soften the price caps on US made medical equipment and removal of certification mandatory on exports of dairy products. Therefore, President Donald J. Trump's America first policy came in contradiction with Prime Minister Narendra Modi's protectionist policies and he asked India to withdraw the tariffs on US goods as they were unacceptable.

The withdrawal of GSP status by US to India may affect the exports of plastic products, organic chemicals, leather products, iron and steel articles, cement, and electrical machinery.<sup>5</sup> According to India's Commerce Secretary, Anup Wadhawan, the benefits that India was enjoying under this scheme were up to \$190 million annually and form only 12% of total Indian exports to US.<sup>6</sup> He believes that Indian economy has not much to lose from the removal of the GSP status.

The recent G20 summit meeting held in June 2019 provided grounds for the two states to talk out their new trade strategies. Also, the US Secretary of State, Mike Pompeo made efforts to ease the ongoing tension between the two countries, but did not give any specifications about their plan of dealing with the recent dispute over investment and trade with India.<sup>7</sup> Washington is fully aware of India's role in South Asia where China is already flexing its muscles, and hence, US cannot afford to lose its ally. In pessimistic terms, this is the beginning of trade tensions between India and the US. In optimistic terms, India's tariff retaliation sets the stage for a serious negotiation between Delhi and Washington on trade issues and a new framework to transform the economic partnership and reinforce the security ties.<sup>8</sup>

The loss of GSP status to India is more of a diplomatic setback and would not have much economic repercussions.<sup>9</sup> According to the Trade Promotion Council of India (TPCI), Indian exports to US that

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<sup>3</sup> "U.S.-India Bilateral Trade and Investment", *Office of the United States Trade Representative*, April 8, 2019. <https://ustr.gov/countries-regions/south-central-asia/india#>

<sup>4</sup> Ibid.

<sup>5</sup> Nandini Sarma, "GSP Withdrawal: Likely impact on India", *Observer Research Foundation*, June 19, 2019, <https://www.orfonline.org/expert-speak/gsp-withdrawal-likely-impact-on-india-52177/>

<sup>6</sup> "GSP withdrawal will not have much impact on India's exports: Commerce secy", *Livemint*, March 05, 2019 <https://www.livemint.com/news/india/gsp-withdrawal-will-not-have-much-impact-on-india-s-exports-commerce-secy-1551788173907.html>

<sup>7</sup> Monish Tourangbam and Radhey Tambi, "Modi 2.0 and the India-US Partnership: What Next?", *Diplomat*, June 19, 2019, <https://thediplomat.com/2019/06/modi-2-0-and-the-india-us-partnership-what-next/>

<sup>8</sup> Pratik Chougule, 'The 2020 Politics Behind Trump's Trade War Against India', *Diplomat*, July 12, 2019. <https://thediplomat.com/2019/07/the-2020-politics-behind-trumps-trade-war-against-india/>

<sup>9</sup> Priyanka Pandit, 'India's Loss of GSP Status Is a Diplomatic, Not an Economic, Setback', *Diplomat*, June 15, 2019. <https://thediplomat.com/2019/06/indias-loss-of-gsp-status-is-a-diplomatic-not-an-economic-setback/>

were previously enjoying benefits under the preferential tariff scheme of GSP increased by 32% in June, 2019.<sup>10</sup> India is not only home to 1.3 billion people with a large consumer base, but it is also the 13<sup>th</sup> largest export market for US and has an immense trade potential. Hence, at a time when the US is already engaged in a brutal trade war with China, intensifying trade tensions with India may not be the best option. However, the withdrawal of GSP status gives Indian policy makers a chance to rethink about their dependence on trade preferential schemes. This has provided an opportunity to India to look for new export markets such as Africa, Latin America and CIS states.

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<sup>10</sup> "GSP roll-back: Exports of goods under tariff system to US up 32 pc", *The Economic Times*, August 11, 2019, <https://economictimes.indiatimes.com/news/economy/foreign-trade/gsp-roll-back-exports-of-goods-under-tariff-system-to-us-up-32-pc/articleshow/70630207.cms>