

Exploring New Frontiers in India-US Bilateral Relations



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Exploring New Frontiers in India-US Bilateral Relations

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CONTENTS

	Page No.
List of Tables	v
List of Charts	vii
List of Boxes	ix
Executive Summary	1
1. Macroeconomic Overview – United States of America	7
2. Foreign Trade and Investment in the US	10
3. Bilateral Trade and Investment Relations between India and the US	26
4. Aligning India's Exports with the US	38
5. India-US: Tariff Analysis	47
6. Policy Recommendations to Enhance India-US Partnership	65

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LIST OF TABLES

Table No.	Title	Page No.
1.1	Macroeconomic Indicators of the US	9
2.1	Leading Global Merchandise Exporters (US\$ billion)	10
2.2	Leading Global Merchandise Importers (US\$ billion)	11
2.3	Leading Global Services Exporters (US\$ billion)	12
2.4	Leading Global Services Importers (US\$ billion)	12
2.5	Major Merchandise Export Commodities of the US (US\$ billion)	14
2.6	Major Merchandise Import Commodities of the US (US\$ billion)	14
2.7	Major Merchandise Export Destinations of the US (US\$ billion)	15
2.8	Major Merchandise Import Sources of the US (US\$ billion)	16
2.9	Merchandise Trade Deficit of the US – Major Traded Items and Partner Countries (US\$ billion)	16
2.10	Merchandise Trade Surplus of the US – Major Traded Items and Partner Countries (US\$ billion)	17
2.11	Services Exports of the US (US\$ billion)	19
2.12	Services Imports of the US (US\$ billion)	20
2.13	Major Services Export Destinations of the US (US\$ billion)	21
2.14	Major Services Import Sources of the US (US\$ billion)	21
3.1	Economic Indicators of India and the US, 2022	28
3.2	Services Exports from the US to India (US\$ million)	31
3.3	Services Imports of the US from India (US\$ million)	33
4.1	List of Top 10 Product Champions from India to the US (HS 6-digit level)	43
4.2	List of Top 10 Winners in Declining Sectors from India to the US (HS 6-digit level)	44
4.3	List of Top 10 Underachievers from India to the US (HS 6-digit level)	44
4.4	Broad Industry Classification of Identified Product Champions from India to the US (HS 6-digit level)	46
5.1	Effectively Applied Tariffs on the US' Imports from India in 2021	49
5.2	Bound Rates on India's Imports from the US in 2021	50
5.3	Effectively Applied Tariff on India's Imports from the US in 2021	52
5.4	Comparison of Effectively Applied Tariffs on US' Imports from India in 2018 and 2021 (2-digit HS Code level)	53
5.5	Effectively Applied Tariffs by the US imposed on Imports from India in 2018	57
5.6	Comparison of Effectively Applied Tariffs Imposed by the US on Imports from India, Mexico and Philippines (2021)	59

LIST OF CHARTS

Chart No.	Title	Page No.
2.1	International Merchandise Trade of the US (US\$ billion)	13
2.2	International Services Trade of the US (US\$ billion)	18
2.3	Foreign Direct Investment Flows of the US (US\$ billion)	23
2.4	Major Sectors Attracting Investment in the US in 2022 (FDI Position)	23
2.5	Major Investors in the US during 2022 (FDI Position)	24
2.6	Major Sectors Attracting Investment from the US in 2022 (FDI Position)	24
2.7	Major Investment Destinations of the US in 2022 (FDI Position)	25
3.1	India's Merchandise Trade with the US (US\$ billion)	29
3.2	India's Major Exports to the US in 2022 (% Share)	29
3.3	India's Major Imports from the US in 2022 (% Share)	30
3.4	The US' Services Trade with India (US\$ billion)	31
3.5	Indian Investments in the US: Summary of Capex and Projects	35
3.6	Major Sectors Attracting FDI from India to the US (2014-2023)	35
3.7	Investments by the US in India: Summary of Capex and Projects	36
3.8	Major Sectors Attracting FDI from the US to India (2014-2023)	37
4.1	India's Export Complementarity with the US	39
4.2	The US' Export Complementarity with India	40
4.3	Product Identification for Exports from India to the US	42

LIST OF BOXES

Box No.	Title	Page No.
1	India, Israel, United Arab Emirates and United States (I2U2) Bloc	27
2	India-Middle East-Europe Economic Corridor	70



Executive Summary

The United States of America is the world's largest economy boasting a significant GDP of around US\$ 25.4 trillion and accounting for 25% of the global Gross Domestic Product in 2022¹. The economy is primarily driven by service sector and its substantial consumer spending. The US economy is predominantly services oriented with the services sector contributing 80.7% of the gross value added in 2022, followed by 18.3% in industrial sector and a meagre 1.1% in agriculture². The US economy functions majorly as a free market system, primarily driven by the private sector that contributed to approximately 88% of the total GDP in 2022.

The US economy has experienced significant growth throughout history, fuelled by inventions, abundant resources, and post-WWII global trade leadership. However, it has also faced recessions, most notably the Great Depression and the 2008 housing crisis. The government has enacted various fiscal and monetary policies to recover from these downturns, including stimulus packages, quantitative easing, and unemployment benefits. Most recently, the US implemented extensive relief measures to address the economic shock of the COVID-19 pandemic.

International Trade of the US

The United States (US) presents a highly attractive market for trade and bilateral economic relations due to several key factors. Firstly, its immense size, boasting the world's largest economy, translates to a vast consumer base with significant purchasing power. This creates a lucrative opportunity for foreign businesses to reach a wide audience and generate substantial sales. Secondly, the US is renowned for its open and transparent business environment, governed by a strong legal system that upholds intellectual property rights and facilitates efficient trade processes. Additionally, Free Trade Agreements (FTAs) with the US often eliminate or significantly reduce trade barriers like tariffs and quotas, making it cheaper and easier for foreign companies to export their goods and services. This fosters a more competitive market and ultimately benefits consumers with a wider variety of products at potentially lower prices.

Trade plays a significant role in the US economy, making up nearly one-quarter (27.4%) of GDP in 2022. Notably, merchandise trade, which involves physical goods, accounts for a share of 21.4% of GDP. The US is a major player in global trade, ranking second in merchandise exports and first in merchandise imports with a global market share of 8.4% and 13.3% respectively, in 2022.

¹ World Development Indicator, World Bank

² UN National Accounts Statistics

Over the past decade, the US has witnessed a significant increase in its merchandise trade volume, which rose from US\$ 3.8 trillion in 2012 to US\$ 5.4 trillion in 2022. This translates to a compound annual growth rate (CAGR) of 3.1% over the period. The US economy reached record highs in 2022, with both exports and imports reaching impressive levels of US\$ 2.1 trillion and US\$ 3.4 trillion, respectively. This significant achievement propelled the nation's total trade volume beyond the remarkable threshold of US\$ 5 trillion.

Merchandise Exports from the US

The US total export of commodities amounted to US\$ 2.1 trillion in 2022 and has witnessed a Y-o-Y growth of 17.6% from 2021 levels. While the US is a leader in global trade, energy products like refined petroleum and crude oil hold a prominent position accounting for 18.4% of total exports in 2022. Manufactured goods like machinery, and electrical equipment are also a significant portion of exports during the same period. The US mainly exports to its North American neighbours, Canada (17.2% of the total exports) and Mexico (15.7%), courtesy to trade agreements like the US-Mexico-Canada Agreement (USMCA) that lowered the trade costs. East Asian countries like China (7.5% of the total exports), Japan (3.9%), and the UK (3.7%) are also major destinations, with exports like machinery and mineral fuels flowing to the region. Though smaller, India's share of US exports is steadily increasing from 1.4% of the total trade in 2012 to 2.3% in 2022.

Merchandise Imports of the US

The US' import basket is characterized by a reliance on both manufactured goods and raw materials. Its total merchandise imports in 2022 amounted to US\$ 3.4 trillion vis-à-vis US\$ 2.9 trillion in 2021. Machinery, particularly electrical machinery, and equipment, constitutes the leading imports category, followed by machinery and mechanical equipment (14.1% of the total imports). The US also imports substantial amounts of fuel, including crude petroleum amounting to US\$ 322.7 billion in 2022, due to domestic demand exceeding production. Consumer goods like pharmaceuticals and pearls and precious stones are also major import commodities. Notably, a large share of these imports come from neighbouring countries like Mexico and Canada, but China remains the US' biggest import partner with 17.6% of the overall imports in 2022. This significant reliance on imports from a single source contributes to the persistent US trade deficit.

Services Trade of the US

The US has transitioned into a service-based economy, solidifying its preeminence in global service exports and imports. Financial services, intellectual property rights, travel, and transportation constitute the most prominent service sectors. Over the past ten years (2012-2022), the US has experienced a sustained growth in total service trade, with a rise from US\$ 1.1 trillion in 2012 to US\$ 1.6 trillion in 2022. It is important to note that this upward trajectory exhibited a temporary deviation in 2020 due to trade limitations implemented in response to the global pandemic. However, this trend quickly reversed in 2021 and 2022 providing strong Y-o-Y growth results of 14.1% and 19.5% respectively.

In 2022, commercial services dominated US exports, with financial services (18.1%), professional consulting (15.5%), and intellectual property fees (13.7%) taking the top spots. Interestingly, the import picture is similar, with commercial services leading the chart, with transportation (22.6%) and financial services (8.6%) having prominent share. Ireland and the UK are the top destinations for US service exports, each receiving over 8% of the total share in 2022.

Foreign Direct Investment in the US

The US is known for its trade openness and participates in numerous trade and investment agreements, reflecting a generally liberalized trade policy. Data from the UNCTAD World Investment Report 2023 indicates that the US attracted a significant portion (22%) of global Foreign Direct Investment (FDI) inflows in 2022. Conversely, US outward FDI outflows constituted one-fourth of the global total during the same period.

FDI Inflows to the US

The envisaged FDI inflows into the US has increased at a compounded annual growth rate of 2% between 2012 at US\$ 199 billion to US\$ 285.1 billion in 2022. FDI inflows into the US fluctuated more significantly than FDI outflows over the eleven-year period. Inflows reached a peak of US\$ 467.6 billion in 2015 and registered a low of US\$ 199.0 billion in 2012. The major sectors that attracted FDI investments into the US include, manufacturing constituting of 42.4% of the total inflows, followed by other sectors with relatively lower shares including finance and insurance (10.6%), wholesale trade (9.7%) and information sector (5.3%), among others. Japan emerged as the leading source of FDI in the US, contributing a significant share of 13.5%. Other notable investors included the Netherlands (11.7%) and Canada (11.2%), among others. Additionally, several European nations, such as the United Kingdom, Germany, and Luxembourg, also played a substantial role in the US FDI inflows.

FDI Outflows from the US

FDI outflows exhibited a steadier pattern vis-à-vis inflows, ranging from US\$ 318.2 billion in 2012 to US\$ 373 billion in 2022. Mirroring the pattern observed in inward FDI, the US' outward FDI primarily targets the manufacturing sector, accounting for 16% of total outflows. Financial and insurance services follow closely behind with a 14.5% share. Other significant sectors for US outward FDI include information technology (4.7%), wholesale trade (4.1%), and real estate (3.4%). Paralleling the composition of major FDI source countries, European nations also dominate the list of major destinations for US outward FDI. The United Kingdom received the largest share of US outward FDI in 2022, accounting for 16.4%. Following the UK are the Netherlands (14.4%), Luxembourg (9.2%), Ireland (8.7%), and Canada (6.7%).

India-US Merchandise Trade

The economic relationship between India and the US remains robust, with bilateral trade in goods exceeding US\$ 132 billion in 2022. The US stands as the primary destination for Indian exports, making it a crucial player in India's ambitious goal of achieving US\$ 2 trillion in combined goods and services exports by 2030. Compared to the US, India relies more heavily on international trade. India's trade makes up a larger portion of its GDP viz. 50% of GDP vis-a-vis 27.4% of GDP of the US and exports contribute 22.8% of India's GDP against 10.9% of the US GDP. Notably, both countries export more goods than services, but this gap is much wider for the US, which boasts a service export contribution to its balance of payments over three times higher than that of India's.

India enjoys a strong trade surplus with the US in merchandise due to consistently faster growing exports compared to imports. This surplus has more than doubled from US\$ 13.1 billion in 2012 to US\$ 28.4 billion in 2022. The US is both India's largest export destination (17.7% of total exports in 2022) and its 3rd largest import source (7.1% of total imports).

India's exports to the US have grown steadily, reaching a peak of US\$ 80.2 billion in 2022. Major exports include pearls, precious stones, and metals (US\$ 13.7 billion), pharmaceuticals (US\$ 6.7 billion), and mineral fuels and oils (US\$ 6.3 billion). On the other hand, India's imports from the US have also risen, reaching US\$ 51.8 billion in 2022. Here, mineral fuels and oils and pearls, precious stones and metals dominate the import basket, making up over half the total imports. Other significant imports include mechanical machinery and electrical equipment.

India-US Services Trade

The US' total service trade with India has seen an uninterrupted rise from US\$ 29.9 billion in 2012 to US\$ 59.1 billion in 2022. In terms of services trade balance with India, the US has seen a consistent deficit while witnessing the largest deficit in 2021 at US\$ 10.5 billion.

While India is a major export destination for US goods, it is also a growing market for US services. US services exports to India have been steadily increasing, reaching a peak of US\$ 25.9 billion in 2022. This growth was particularly impressive considering a pandemic-related dip in 2020. Travel services, especially education-related travel, make up nearly half (47.8%) of US service exports to India. Other significant categories include intellectual property fees (12.6%), personal services (7.4%), financial services (7.4%), and professional consulting services (6.4%), among others.

The US consistently imports more services from India than it exports. This import value has steadily grown from US\$ 18.7 billion in 2012 to US\$ 33.2 billion in 2022. Even during the pandemic, the import decline was less severe than the export decline. In 2022, the US' services imports from India were dominated by computer and information services (36.3%) and professional and management consulting services (17.6% within the broader "other business services" category), among others.

Bilateral Investment Relations of India and the US

The economic relationship between the US and India is characterized by a two-way flow of FDI. The US stands out as the primary source of FDI for India, with an estimated cumulative inflow of US\$ 131.7 billion and 1500 companies from 2014 to 2023. This influx of capital has been directed towards sectors like software and IT services (25.9% of the total FDI), followed by consumer products, communications, financial services and renewable energy among others. Major US companies like Amazon, Walmart, Deloitte, and General Electric have established a presence in India.

Conversely, India has also emerged as a significant investor in the US, with a cumulative investment of US\$ 19.9 billion between 2014 and 2023. Notably, India ranks first in terms of the number of projects and companies it has invested in within the US. Indian capital primarily targets the metals (23.4% of the investments), software, and IT services sectors (21.7%). Leading Indian corporations such as Tata Group, Infosys Technologies and several others have actively participated in the US market.

India's Revealed Comparative Advantage Analysis and Trade Potential

Analysing the key products where India has comparative advantage and match it with US' import demand for these products are necessary for successful bilateral trade relations of the nations. Revealed Comparative Advantage (RCA) is a measure which have been used extensively to help assess a country's export potential/competitiveness. To identify Indian products based on their export competitiveness to the US, the

four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their NRCA and mapping them against the Average Annual Growth Rate (AAGR) of global imports of US of all products. At 6-digit HS Code, with minimum exports of US\$ 1 million from India to the US, 1774 products have been identified, with the total exports from India to the US amounting to US\$ 75.9 billion while the total world imports by the US in the same products stood at US\$ 2,143.5 billion in 2022. Out of the total items at the HS 6-digit level, 787 items fell into the category of the 'product champions'. The combined exports of these items from India to the US were US\$ 53.5 billion in 2022, representing approximately 10.3% of India's exports to the US in 2022. The total number of products in 'winners in declining sectors' category is 283, with India's exports amounting to US\$ 13.6 billion and constitute a share of 15.7% of India's exports to the US in 2022. These are the product items in which India has attained a significant share in US' import basket, but US' import demand for these products has been falling in the last decade. This was followed by 'underachievers' with 556 items, with exports worth US\$ 7.3 billion from India to the US. These are the product items in which import demand in the US market is rising, but India does not have the required competitiveness in the export of these items.

India-US: Tariff Analysis

The US provides trade preference to selected countries based on their eligibility under its Generalized System of Preferences (GSP). The last extension authorized the GSP program to continue until December of 2020. Ever since, there have been debates and attempts to revive the program, but an official reauthorization is yet to be made. In 2019, the US government withdrew all Generalized System of Preferences (GSP) trade benefits that Indian exports to the US received, citing reasons of lack of market access for the US commodities in India. In 2018, India was the biggest beneficiary of the GSP regime with US\$ 6.3 billion of Indian merchandise exports to U.S. covered by GSP.

The tariff structure of the US varies greatly from that of India. The US being a developed economy has effectively applied tariff rates that are less stringent and comparatively lower than that of developing economies like India. In 2021, almost half of all imports into US from India, that is, 1365 product imports with a share of 48.3% worth US\$ 35.8 billion were subjected to zero tariffs.

For simple average, under the effectively applied tariff imposed by India on imports from the US, that is, these are the tariff rates that US exporters are subjected to while exporting to India. At 6-digit HS Code, 120 import products from the US that hold a share of 6% and a value of US\$ 2,456.1 million are subjected to zero tariffs. Further on, around 2732 products of value US\$ 23.5 billion falls under the effectively applied tariff rates of 1-10% accounting for a share of 57% of total imports from the US into India in 2021.

On analyzing the effectively applied tariff rates of all products at 2-digit HS Code level that the US imports from India for the years 2018 (GSP period) and 2021, it can be observed that the effectively applied tariff rates of 11 HS Code categories – HS-88 (aircraft, spacecraft, and parts thereof), HS-25 (salt; sulphur; earths and stone; plastering material), HS-6 (live trees and other plants), HS-67 (prepared feathers and down), HS-78 (lead and articles thereof), HS-75 (nickel and articles thereof), HS-66 (umbrellas, sun umbrellas, walking sticks), HS-80 (tin and articles thereof), HS-37 (photographic or cinematographic goods), HS-89 (ships, boats and floating structures) and HS-45 (cork and articles of cork), have changed from zero in 2018 to a non-zero value in 2021. Thus, implying that these are the products that went from receiving preferential tariff rates of zero under GSP in 2018 to being subjected to non-zero effectively applied tariffs in 2021 once GSP benefits

were removed. A total of 4 HS Code categories of the 11 mentioned here, saw a fall in total import values in 2021 from 2018 possibly due to the removal of tariff benefits along with the pandemic induced disruptions.

The study also delves into the effectively applied tariff rates (AHS) faced by India relative to that of Mexico and Philippines while exporting to the US for the year 2021. The aim of this comparative analysis is to study the difference in tariff rates that the US imposes on products imported from different economies – with and without preferential trade agreements. The year 2021 is taken to include tariff rates India currently faces post the removal of its GSP status by the US in June 2019.

India faces higher tariffs than Mexico and the Philippines on various products in trade with the US. While Mexico enjoys 0% AHS tariffs across all 96 product categories and the Philippines benefits from this rate in 24 categories, India only receives 0% in 7 categories, including mineral fuels. India faces highest tariffs including 175% on tobacco and 12.8% on knitted apparel, much higher than Mexico's 0% and the Philippines' 13.52% for similar goods. For products with tariffs above 10%, India faces up to 12.8%, compared to Mexico's 0%. Additionally, India endures higher tariffs in lower ranges, such as 4.9% on edible fruits, further highlighting the tariff disparities in its trade with the US.

Way Forward and Recommendations

The bilateral relationship between India and the US brims with untapped potential, poised for a new era of enriched trade and investment ties. As two economic powerhouses, both nations boast a rich tapestry of bilateral connections spanning a myriad of sectors, including social, cultural, economic, and diplomatic domains. By leveraging their respective strengths and synergizing strategic objectives, both nations stand to fortify their partnership and chart a course towards shared prosperity and innovation.

Restoration of GSP benefits to India will encourage better flow of merchandise trade especially those which are its top exports to the US. India should also expand bilateral trade with the US in products wherein it has a comparative advantage. With a population of over 4.4 billion in 2023, the Indian diaspora in the US is a vital tool for India to leverage its soft power and thereby boost bilateral trade and investment flows. To enhance overall trade with the US, India could adopt a strategic approach by emphasizing the improvement of marketing efforts for its existing products while concurrently expanding its portfolio of Geographical Indication (GI) certified goods. Other major areas for cooperation include Social Security Agreement (SSA) between India and the US, signing of Mutual Recognition Arrangements (MRAs), collaboration on digital data protection, collaboration in financial technology (Fintech), collaboration in critical emerging technology, energy co-operation and developing secure global supply chains.



Macroeconomic Overview – United States of America

The US economy is currently the world's largest economy contributing more than one-fourth to the world GDP despite having a global population share of less than 5% in 2023. The US is an advanced capitalistic economy that functioned on the principle of laissez faire³ prior to adopting a mixed economy approach in present times. The US being a highly developed global business hub, is the world's largest asset management centre while also being home to one of the major global financial centres – New York. The service sector and its substantial consumer spending primarily drive the economy.

Foundations of the modern industrial US economy is known to have been laid post the Civil War of the 1860s due to the several inventions and discoveries that were made during this time like the overall infrastructure expansion and discovery of abundant coal and mineral reserves across the country. The late 19th century, often called as the “*Gilded Age*”, saw further growth of the economy with the creation of eminent business empires by the likes of Ford, Rockefeller, Morgan, and Carnegie among others who in the long run also went on to establish prominent philanthropic foundations in the country⁴.

The end of the Second World War marked a noteworthy phase for both American and global economic history with the US leading the persistent restructuring of the global trade scenario and aiming to open borders for better inter country trade. The simultaneous restructuring of the international monetary arrangements also resulted in the creation of the International Monetary Fund (IMF) and the World Bank. Such eminent shifts in the economic policy allowing for a more openness in the global trade scene proved to be a major growth stimulus to the US economy that accelerated towards greater economic growth and development.

The US economy has also faced recessionary periods apart from the Great Depression, like that caused by the oil embargo of 1970s, dot-com recession, 2008 recession and recently, that caused by COVID-19 pandemic. The Great Recession of 2008 caused by the bursting of the housing bubble in the US had catastrophic impact on the US economy before eventually turning into a Global Financial Crisis (GFC). With mortgage debt reaching 97% of GDP in 2006, GFC saw US' GDP contracting by over 4%, price levels fall by almost 30%, and unemployment rate increasing from 4.7% at the end of 2007 to 10.0% in 2009⁵. The unemployment rate also remained well above 9% during 2010 and 2011, even when the GDP stopped contracting.

³ An economic philosophy of minimum governmental interference in the economic affairs of individuals and society, developed in the 18th century.

⁴ US Embassy – The US Economy: A Brief History

⁵ Federal Reserve History

Nevertheless, through the implementation of conscious fiscal and monetary policies by the US government, the economy staged a remarkable recovery. Numerous stimulus packages, including heightened government expenditure, tax rebates for households, and tax incentives for investments, were deployed. Additionally, bailout programs and direct financial aid were extended to support the housing market. The monetary policy adopted strategies such as quantitative easing, reduction of Federal Fund rates, and the facilitation of loan facilities to enhance liquidity.

Another pivotal global event, which significantly impacted not only the US but the world at large, was the COVID-19 pandemic. The US confirmed its first case of COVID-19 in January 2020, the subsequent outbreak of the pandemic resulted in the economy witnessing its worst macroeconomic shock, with the US GDP falling by 8.9% in the second quarter of 2020 (largest single-quarter contraction in more than 70 years). Both demand and supply sides of the economy were adversely affected with the early lockdowns resulting in approximately 22.2 million job losses and unemployment rates reaching 8.1% in 2020 from 3.7% in 2019. Swift policy actions from the government, however, helped the economy recover over two-thirds of the GDP lost due to the pandemic in just one quarter⁶.

The US government is known to have provided the most extensive relief packages during the pandemic through various fiscal and monetary measures. The Coronavirus Aid, Relief and Economy Security (CARES) Act allotted around US\$ 2.2 trillion, that is, over 10% of GDP, to unemployment benefits, tax rebates, state government assistance, loan reliefs, while the Paycheck Protection Program and Health Care Enhancement Act gave US\$ 483 billion, specifically as financial assistance to small businesses apart from giving resources to expand virus testing and tracing⁷. Unemployment benefits were also allotted from the Disaster Relief Fund as well as from the Consolidated Appropriations Act of 2021. Thus, overall measures included funds to assist households with various unemployment benefits, deferring employee social security payroll tax collections, tax cuts, protection against evictions resulting from student loan default, aid to state governments, funds for virus testing and vaccination rollouts among others. Another major policy intervention was the American Rescue Plan Act of 2021, a US\$ 1.9 trillion coronavirus rescue package designed to facilitate the US' recovery from the devastating economic and health effects of the COVID-19 pandemic.

Furthermore, another major global event that has affected economies around the globe including that of the US is the ongoing Russia-Ukraine conflict that began in February 2022. Against the backdrop of an already unstable economic scenario due to the pandemic, this crisis affected food and energy prices globally. Despite not having many direct economic ties to both countries in conflict, the associated global rise in energy prices resulted in steady increase of gasoline costs in the US. This by itself has contributed substantially to rising Consumer Price Index (CPI) in the country resulting in inflation higher than that experienced over last several decades, including the record high inflation of 9.1% in June 2022⁸. Consequently, starting from March 2022, the Federal Reserve went on announcing interest rate hikes as measure against controlling rising inflation in the US economy. Till December 2023, the Federal Reserve has raised interest rates 11 times reaching from 0.25% to 5.5%— the fastest pace of tightening since the early 1980s.

The US economy functions majorly as a free market system, primarily driven by the private sector that contributed to approximately 88% of the total GDP in 2022. Within the private sector, the country's finance

⁶ Economic Report of the President (January 2021)

⁷ Policy Responses to COVID-19, IMF

⁸ US Bureau of Labor Statistics: US city average, all urban consumers, not seasonally adjusted

and real estate sector holds the largest contributory share at 22.4% followed by manufacturing at 19.4% while the agricultural sector has the least share at 1.7%⁹. The **Table 1.1** provides an overview of the current macroeconomic scenario of the US economy.

Table 1.1: Macroeconomic Indicators of the US

Indicator	2020	2021	2022	2023e	2024 ^f	2025 ^f
GDP, current prices (US\$ billion)	21,060.5	23,315.1	25,462.7	26,949.6	27,966.6	29,048.9
Real GDP Growth (% change)	-2.8	5.9	2.1	2.1	1.5	1.8
GDP per capita, current prices (US\$)	63,577.3	70,159.8	76,343.2	80,412.4	83,062.6	85,876.6
Inflation (avg, % change)	1.3	4.7	8.0	4.1	2.8	2.4
Population (million)	331.3	332.3	333.5	335.1	336.7	338.3
Current account balance (US\$ billion)	-597.1	-831.4	-971.6	-795.2	-783.2	-778.4
Current account balance (% of GDP)	-2.8	-3.6	-3.8	-3.0	-2.8	-2.7
Merchandise Exports (US\$ billion)	1,430	1,761.1	2,084.2	2,033.0	2,120.0	2,249.0
Merchandise Imports (US\$ billion)	2,331.5	2,830.9	3,251.8	3,098.1	3,209.8	3,408.1

Note: ^f – forecast, ^e – estimate

Source: IMF World Economic Outlook Database, October 2023 & EIU and India Exim Bank Analysis

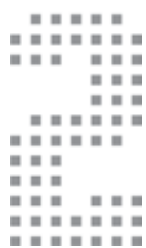
As seen in **Table 1.1**, the nominal GDP has been rising gradually post the coronavirus pandemic. The real GDP contracted at 2.8% in 2020, because of the pandemic induced restrictions and lockdowns. In the subsequent year, with the gradual easing of restrictions and the return to normalcy, the real GDP growth exhibited a robust recovery, at 5.9% in 2021. This positive momentum continued in 2022 and 2023, marked by a steady and uniform growth rate of 2.1% each year. Looking ahead, forecasts indicate a promising trajectory for the years 2024 and 2025, suggesting a further increase in real GDP growth during this period.

Inflation is another variable that has seen a steady rise through the pandemic years. The presence of high inflation worldwide during this time is reflected in the jump in inflation rates from 1.3% in 2020 to 8% in 2022. Such steady rise is seen with COVID-19 restrictions being lifted and the economy reopening. Major contributing factors for this rise in inflation can be the associated base effects, global supply chain disruptions stemming from the pandemic and the Russia-Ukraine conflict and the abrupt rise in consumer spending.

However, going by forecasts for 2024, inflation rate is expected to subside to 2.8%. The negative impact of the pandemic is reflected in the foreign trade indicators as well. Both merchandise exports as well as imports witnessed a slight decrease to US\$ 1.4 trillion and US\$ 2.3 trillion in 2020 respectively owing to fall in global and domestic demand and other pandemic induced restrictions. In 2021, both exports and imports rebounded significantly, reaching US\$ 1.8 trillion and US\$ 2.8 trillion, respectively. Both exports and imports are expected to show continuous growth from 2023 onwards, during the forecast period of 2024-2025.

The US remains as the country with the largest current account deficit. This deficit has seen a steady increase post 2020 and the deficit is estimated to decline to US\$ 783.2 billion in 2023, with forecasts for further decline in the coming years.

⁹ Bureau of Economic Analysis (BEA), US Department of Commerce



Foreign Trade and Investment in the US

The US is a major trading nation with trade partners from around the globe and it is part of several prominent preferential agreements related to trade. According to World Bank's World Development Indicator, international trade accounted for 27.4% of the US GDP in 2022 of which, merchandise trade holds a dominant position of 21.4% of GDP for the same year. Currently, the US holds leading positions in several of the foreign trade indicators. It is the 2nd largest global merchandise exporter, accounting for 8.4% of total global exports in 2022 (**Table 2.1**).

Table 2.1: Leading Global Merchandise Exporters (US\$ billion)

Sr. No.	Country	2012	2017	2022
	World Trade	18,399.9	17,562.5	24,611.1
1	China	2,048.8	2,271.8	3,593.6
2	US	1,544.9	1,547.2	2,062.9
3	Germany	1,410.1	1,444.8	1,658.4
4	Netherland	552.5	527.9	770.3
5	Japan	798.6	698.0	752.1
6	Italy	501.5	507.4	700.3
7	South Korea	547.9	573.7	683.6
8	Belgium	446.6	429.8	636.4
9	Hong Kong	492.9	549.9	611.5
10	France	558.5	524.2	606.9
11	Canada	454.1	421.0	598.6
12	Russia	524.8	357.1	580.1
13	Mexico	370.7	409.5	578.3
14	UK	481.2	441.8	530.5
15	Singapore	415.6	373.1	515.1

Source: ITC Trade Map and India Exim Bank Analysis

The US holds an even more significant position in the context of global imports. It is foremost among the leading merchandise importers worldwide, accounting for 13.3% of total global imports in 2022 (**Table 2.2**). Between 2017 to 2022, the global imports by the US increased at a compounded annual growth rate (CAGR) of 5.8%. On the other hand, India also made a remarkable growth moving up from 12th position in 2012 to 8th position in 2022 registering a CAGR of 3.7% in the past decade.

Table 2.2: Leading Global Merchandise Importers (US\$ billion)

Sr. No.	Country	2012	2017	2022
	World Trade	18,524.4	17,795.0	25,371.2
1	US	2,334.7	2,406.1	3,375.9
2	China	1,818.2	1,841.0	2,716.0
3	Germany	1,161.2	1,164.6	1,571.1
4	Japan	886.0	672.1	905.1
5	UK	689.1	640.9	816.3
6	France	666.7	610.2	811.7
7	Italy	489.1	453.6	743.0
8	India	489.0	443.9	732.6
9	South Korea	519.6	478.4	731.4
10	Netherlands	500.6	461.9	712.8
11	Hong Kong, China	553.5	589.3	669.1
12	Belgium	436.9	409.5	624.3
13	Mexico	370.8	420.4	604.6
14	Canada	462.4	433.3	570.2
15	Spain	331.7	341.4	499.1

Source: ITC Trade Map and India Exim Bank Analysis

Further on, the US service economy (which accounted for 6.1% of the nation's GDP in 2022) was the largest services exporter and services importer globally in 2022 (**Table 2.3 & Table 2.4**). Over the years the US has witnessed a constant rise in its service trade, however its pace had declined since 2020. Before the pandemic, in 2019 international trade in services sector was 6.9% of US' GDP before plunging to 5.6% in 2020. This eventually recovered to 5.8% of the GDP in 2021 due to successful global vaccination system and the indispensable nature of trade services.

India experienced robust growth in global services exports, marking a substantial 28.6% year-on-year increase in global share from 2021 to 2022. Concurrently, there was a notable surge in global services imports share of 27.3% during the same period.

Table 2.3: Leading Global Services Exporters (US\$ billion)

Sr. No.	Country	2012	2017	2021	2022
	Total	4,614.5	5,554.1	6,209.9	7,127.1
1	US	684.8	837.5	801.1	928.5
2	UK	353.2	388.6	454.9	494.4
3	China	201.6	228.1	392.2	424.1
4	Germany	252.5	320.9	387.6	411.8
5	Ireland	104.3	182.8	347.3	355.2
6	France	234.6	274.4	301.3	337.2
7	India	145.5	185.3	240.5	309.4
8	Singapore	129.4	171.8	266.5	291.3
9	Netherlands	168.3	220.7	251.2	272.9
10	Spain	125.3	143.7	119.3	168.3
11	Japan	136.9	186.9	170.0	166.7
12	UAE	16.1	70.5	101.8	154.7
13	Switzerland	119.5	128.6	139.0	148.0
14	Belgium	106.4	117.6	137.6	139.4
15	Luxembourg	76.3	101.3	148.6	134.6

Source: WTO and India Exim Bank Analysis

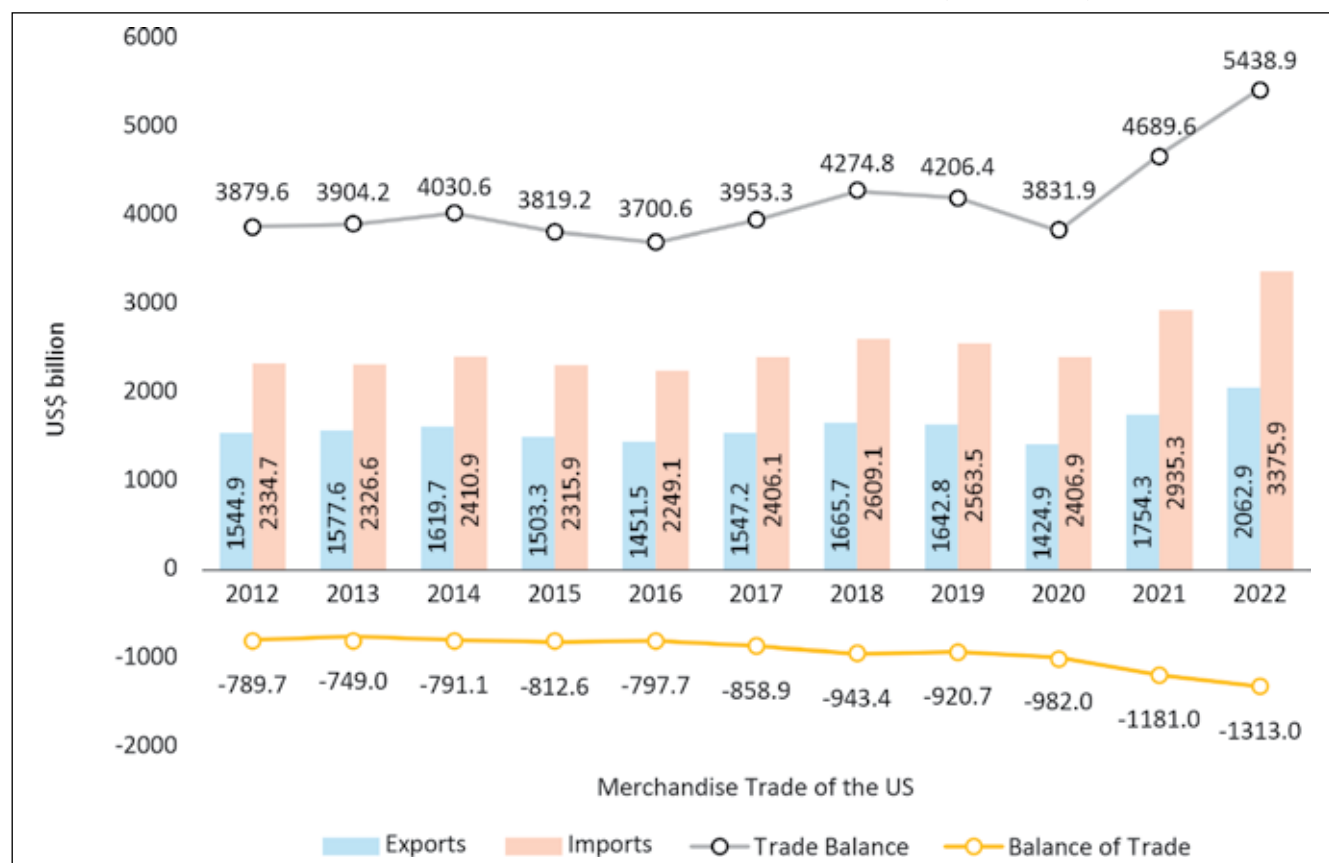
Table 2.4: Leading Global Services Importers (US\$ billion)

Sr. No.	Country	2012	2017	2021	2022
	Total	4,498.3	5,371.7	5,754.7	6,601.5
1	US	469.6	555.1	559.2	696.7
2	China	281.3	467.6	427.0	465.1
3	Germany	294.6	348.0	387.2	459.2
4	Ireland	112.3	232.0	346.6	372.8
5	UK	206.0	245.9	260.7	317.1
6	France	202.7	246.8	258.3	285.8
7	Netherlands	142.8	216.5	249.3	264.0
8	Singapore	132.9	181.2	242.8	258.6
9	India	129.9	154.6	196.0	249.5
10	Japan	184.7	193.0	208.5	209.6
11	Switzerland	111.2	135.2	158.9	157.6
12	Belgium	98.0	115.0	136.2	143.6
13	Canada	114.0	111.9	115.8	136.5
14	South Korea	108.2	126.4	124.3	136.0
15	Italy	109.6	116.5	117.2	134.2

Source: WTO and India Exim Bank Analysis

Over the last decade, total merchandise trade of the US has risen from US\$ 3,879.6 billion in 2012 to US\$ 5,438.9 billion in 2022 registering a compounded annual growth rate of 3.1% during the period **(Chart 2.1)**. The negative impact of the COVID-19 pandemic saw an abrupt fall in merchandise trade by 8.9% (i.e. US\$ 374.5 billion) from 2019 to 2020 which subsequently recovered in 2021, supported by economic policy reforms undertaken by the US. The US economy achieved unprecedented milestones in 2022, reaching an all-time high in both exports and imports at staggering US\$ 2,062.9 billion and US\$ 3,375.9 billion, respectively. This remarkable performance catapulted the nation's total trade volume beyond the remarkable threshold of US\$ 5 trillion. The US has also seen a persistent and stable trade deficit over the years. This deficit has widened post the pandemic, increasing annually by 6.8% from US\$ 920.7 billion in 2019 to US\$ 1,313 billion in 2022, driven mostly by imports of machinery, mineral fuels, and oils.

Chart 2.1: International Merchandise Trade of the US (US\$ billion)



Source: ITC Trade Map and India Exim Bank Analysis

Merchandise Exports of the US: Commodity Analysis

The trend of the major export commodities of the US is listed in **Table 2.5**. At the start of the decade, in 2012, machinery and mechanical appliances was the major exported commodity of the US while in 2022, it was superseded by mineral fuels and oils. In 2022, mineral fuels and mineral oils accounted for 18.4% of the total exports of the US followed by machinery and mechanical appliances (11.1%), electrical machinery and equipment (9.6%), transport vehicles (6.5%) and aircraft, spacecraft, and parts (5%) among others.

Table 2.5: Major Merchandise Export Commodities of the US (US\$ billion)

HS Code	Products	2012	2017	2020	2021	2022	Share in 2022 (%)
	All Products	1,544.9	1,547.2	1,424.9	1,754.3	2,062.9	100.00
27	Mineral fuels and oils	137.3	139.6	151.2	240.3	378.6	18.4
84	Machinery, mechanical appliances	215.2	202.1	182.7	209.4	229.6	11.1
85	Electrical machinery and equipment	162.4	174.5	162.8	185.8	197.7	9.6
87	Vehicles other than railway or tramway	133.1	130.4	105.6	122.8	134.9	6.5
88	Aircraft, spacecraft, and parts	104.4	131.1	81.3	89.5	102.8	5.0
90	Optical, photographic, cinematographic, medical instruments	83.4	83.6	83.2	91.6	99.1	4.8
71	Pearls, precious stones, and metals	72.1	60.3	59.8	82.4	92.5	4.5
30	Pharmaceutical products	40.1	44.9	53.7	77.8	83.5	4.0
39	Plastics and articles	59.0	61.9	60.2	74.3	83.3	4.0
29	Organic Chemicals	46.1	36.3	33.6	43.1	51.1	2.5

Source: ITC Trade Map and India Exim Bank Analysis

Merchandise Imports of the US: Commodity Analysis

Table 2.6 below provides the major import product trends for the US. In 2012, mineral fuels and mineral oils were the US' top import product while in 2022, electrical machinery and equipment was the most imported product, accounting for 14.1% of all imported commodities. Just marginally lower in absolute terms, machinery, and mechanical appliances secured the position of the second most imported product from the US. Other top imported commodities in 2022 included vehicles other than railway or tramway parts (9.8%), mineral fuels and oils (9.6%) and pharmaceutical products (4.9%), among others.

Table 2.6: Major Merchandise Import Commodities of the US (US\$ billion)

HS Code	Products	2012	2017	2020	2021	2022	Share in 2022 (%)
	All Products	2,334.7	2,406.1	2,406.9	2,935.3	3,375.9	100.0
85	Electrical machinery and equipment	296.4	356.0	343.4	415.4	477.1	14.1
84	Machinery, mechanical appliances	315.1	348.6	361.2	427.9	475.9	14.1
87	Vehicles other than railway or tramway parts	244.2	294.2	254.4	282.9	329.6	9.8
27	Mineral fuels and oils	432.7	204.0	130.6	225.1	322.7	9.6
30	Pharmaceutical products	65.0	96.9	139.4	149.4	165.0	4.9
90	Optical, photographic, cinematographic, medical instruments	69.8	86.0	90.6	106.0	115.0	3.4
71	Pearls, precious stones and metals	62.8	59.9	107.0	96.0	97.0	2.9
39	Plastics and articles	44.2	54.7	62.3	82.4	89.9	2.7
94	Furniture	47.9	66.9	65.5	81.3	86.7	2.6
29	Organic Chemicals	54.5	46.1	56.4	64.6	75.9	2.2

Source: ITC Trade Map and India Exim Bank Analysis

Export Destinations

The major export destinations for the US largely remain unchanged over the last decade. The list has been consistently dominated by exports within the North American continent, that is, with US' neighbours Canada, and Mexico. This can be contributed to the signing of the United States-Mexico-Canada Agreement (USMCA) that came into force in 2020 thereby replacing the earlier signed North America Free Trade Agreement (NAFTA). The countries being neighbours allow for reduction in transportation and regulatory costs thus facilitating smoother trade flows. Further in line, are the East Asian countries of China and Japan.

In 2022 also, Canada and Mexico remained the top export destinations of the US, accounting for 17.2% and 15.7% of the economy's total exports respectively. Outside of North America, exports to Asia including countries of China, Japan and UK top the list with a share of 7.5%, 3.9% and 3.7% respectively (**Table 2.7**). Major US export products to this region include mineral fuels and oils, electric machinery, and other types of machinery, among others. While not dominant yet, US' exports to India are steadily growing from 1.4% of the total exports in 2012 to 2.3% in 2022.

Table 2.7: Major Merchandise Export Destinations of the US (US\$ billion)

Country	2012	2017	2020	2021	2022	Share in 2022 (%)
Total Exports	1,544.9	1,547.2	1,424.9	1,754.3	2,062.9	100.0
Canada	292.6	282.8	255.4	307.8	355.0	17.2
Mexico	215.9	243.6	211.5	276.5	324.4	15.7
China	110.5	130.0	124.5	151.4	153.8	7.5
Japan	70.0	67.6	63.8	74.6	80.3	3.9
UK	54.9	56.3	58.4	61.4	77.3	3.7
Germany	48.4	54.0	57.4	65.3	72.9	3.5
Netherlands	40.6	41.5	45.3	53.1	72.9	3.5
South Korea	42.3	48.4	51.0	65.9	71.5	3.5
Brazil	43.8	37.3	34.6	46.9	53.6	2.6
India	22.1	25.6	27.1	40.1	47.3	2.3

Source: ITC Trade Map and India Exim Bank Analysis

Import Partners of the US

Like the top export destinations of the US, the import sources of the US have also remained mostly consistent over the years (**Table 2.8**). Taking over Canada in 2007, China has constantly remained as the largest import source of the US till date, accounting for 17.1% of the total import share in 2022. Other North American countries of Mexico and Canada take the lead thereafter at 13.6% and 13.3% respectively. Among other names, Vietnam also is a major source of US imports of clothing apparel, accessories, footwear, furniture, among other products. India's merchandise exports to the US have also experienced a remarkable surge. In 2012, the US imported US\$ 41.9 billion worth (1.8% of the total imports) of merchandise from India, this has accelerated to US\$ 91 billion in 2022, which is 2.7% of the total imports. This upward trend suggests India is establishing itself as a major source for the US merchandise imports.

Table 2.8: Major Merchandise Import Sources of the US (US\$ billion)

Country	2012	2017	2020	2021	2022	Share in 2022 (%)
Total Imports	2,334.7	2,406.1	2,406.9	2,935.3	3,375.9	100.0
China	444.4	525.7	456.4	540.1	575.7	17.1
Mexico	280.0	315.6	328.7	388.3	459.2	13.6
Canada	327.5	306.2	277.3	366.5	448.3	13.3
Japan	150.4	139.7	122.5	139.1	154.4	4.6
Germany	111.3	120.0	117.4	138.2	150.5	4.5
Vietnam	21.4	48.4	83.2	108.2	135.9	4.0
South Korea	61.0	73.4	78.4	98.8	120.9	3.6
Taiwan	40.2	43.9	62.5	80.7	96.1	2.8
India	41.9	50.5	53.6	76.9	91.0	2.7
Ireland	33.5	49.1	66.3	74.0	82.5	2.4

Source: ITC Trade Map and India Exim Bank Analysis

The US' Trade Balance – Sectors and Trade Partners

As stated earlier, the US has historically been a trade deficit economy over the years, with its deficit increasing from US\$ 789.7 billion in 2012 to US\$ 1313 billion in 2022. **Table 2.9** lists the top ten commodities for which the US has the largest deficit and the corresponding countries of import. The top five commodities with the largest trade deficits include electrical machinery, mechanical appliances, transport vehicles, pharmaceutical products, and furniture. Majority of these products are imported from Asian countries besides Mexico, which is US' immediate neighbour.

Table 2.9: Merchandise Trade Deficit of the US – Major Traded Items and Partner Countries (US\$ billion)

HS Code	Product	2012	2017	2020	2021	2022	Major Import Sources of the US
85	Electrical machinery and equipment	-134.0	-181.5	-180.6	-229.7	-279.4	China, Vietnam, Mexico, Malaysia, Taiwan
84	Machinery, mechanical appliances	-99.9	-146.5	-178.5	-218.5	-246.3	China, Mexico, Japan, Germany, Taiwan
87	Vehicles other than railway or tramway	-111.1	-163.8	-148.8	-160.1	-194.8	Mexico, Japan, South Korea, Germany, China
30	Pharmaceutical products	-24.9	-51.9	-85.7	-71.6	-81.5	Ireland, Germany, Switzerland, India, Belgium
94	Furniture	-37.2	-56.1	-56.9	-72.0	-76.6	China, Vietnam, Malaysia, Mexico, Indonesia
61	Articles of apparel and clothing accessories, knitted	-40.1	-43.1	-35.9	-49.2	-57.3	China, Vietnam, Bangladesh, Cambodia, Indonesia
95	Toys	-26.2	-48.5	-61.5	-71.4	-54.3	China, Vietnam, Taiwan, Indonesia, Thailand

HS Code	Product	2012	2017	2020	2021	2022	Major Import Sources of the US
62	Articles of apparel and clothing accessories, not knitted	-21.3	-25.8	-31.0	-44.9	-47.8	China, Vietnam, Bangladesh, India, Indonesia
73	Articles of iron or steel	-35.7	-35.5	-31.1	-32.9	-41.9	China, Taiwan, South Korea, India, Thailand
64	Footwear	-18.6	-20.7	-20.0	-28.6	-39.2	China, Vietnam, Indonesia, Italy, Cambodia

Source: ITC Trade Map and India Exim Bank Analysis

Table 2.10 shows the top ten products for which the US holds the largest trade surplus and the countries corresponding to which this surplus exists. Some of these products include aircrafts, mineral fuels, oil seeds, cereals, and chemical products. The countries here, that is, the major export destinations for the listed products from the US while overlapping with earlier mentioned import sources in **Table 2.9**, also include other countries like Egypt, Brazil, Türkiye, and Honduras.

Table 2.10: Merchandise Trade Surplus of the US – Major Traded Items and Partner Countries (US\$ billion)

HS Code	Product	2012	2017	2020	2021	2022	Major Export Destinations of the US
88	Aircraft and spacecraft	80.0	100.2	52.9	64.0	75.7	Germany, Singapore, Brazil, China, UK
27	Mineral fuels and oils	-295.4	-64.5	20.5	15.2	55.9	Mexico, Netherlands, UK, South Korea, France
12	Oil seeds and oleaginous fruits	27.3	23.9	28.3	30.1	36.7	China, Mexico, Japan, Egypt, Germany
10	Cereals	17.3	16.1	16.7	28.0	28.2	China, Mexico, Japan, South Korea, Colombia
38	Miscellaneous chemical products	13.9	13.9	12.8	14.9	11.7	Mexico, Canada, Brazil, Netherlands, Singapore
02	Meat and edible meat offal	10.3	8.2	8.7	10.1	10.4	China, Japan, South Korea, Mexico, Taiwan
52	Cotton	7.1	6.7	6.1	6.1	9.7	China, Vietnam, Honduras, Pakistan, Turkey
23	Residues and waste from food industries	7.2	6.6	7.2	8.5	9.1	Mexico, Colombia, South Korea, Philippines, Japan
47	Pulp of wood or of other fibrous cellulosic material	5.8	5.5	4.5	5.4	5.7	China, India, Mexico, Indonesia, Japan
26	Ores, slag and ash	2.9	3.2	4.2	5.2	4.9	Canada, Mexico, China, Japan, Netherlands

Source: ITC Trade Map and India Exim Bank Analysis

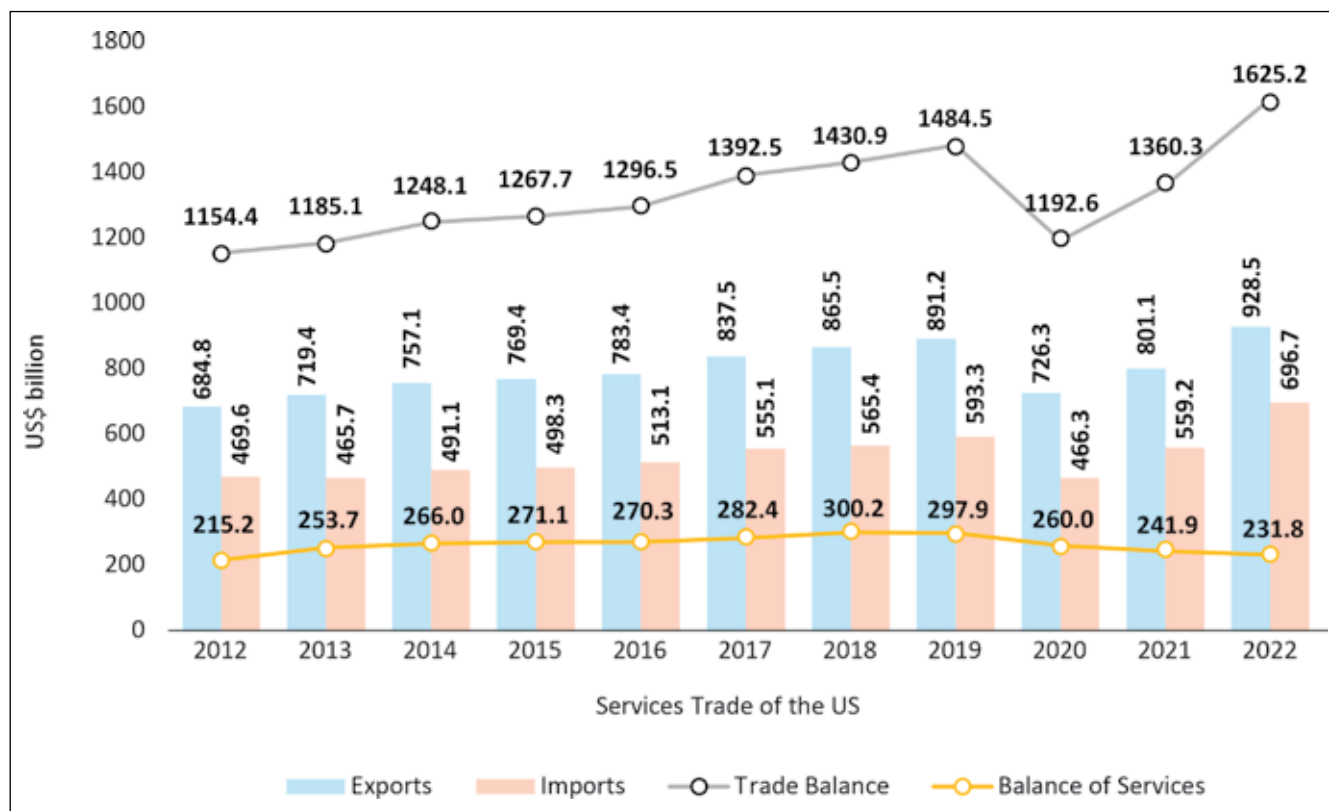
Services Trade

The US has a service driven economy that is also the world's leading service exporter as well as importer. According to the United Nations Statistics Division, services sector accounts for 80.7% of the gross value added of the economy followed by industries, 18.3% and agriculture 1.1% for 2022. The US service economy is dominated by services of travel and transportation, finance, and intellectual property charges, among others.

As shown in **Chart 2.2**, the total service trades of the US have seen a gradual rise over the decade, from US\$ 1,154.4 billion in 2012 reaching to US\$ 1,484.5 billion in 2019. The adverse impact of the pandemic is evident in the stark contraction of total services trade by 19.7% to US\$ 1,192.6 billion in 2020. However, this trend quickly reversed in 2021 and 2022 with strong Y-o-Y growth rates of 14.1% and 19.5% respectively, with total services trade of the US touching US\$ 1625.2 billion in 2022.

Given the immense dependence of the economy on tertiary sector, US services trade balance has recorded a consistent surplus with an increasing trend, except in 2020 due to unprecedented circumstances.

Chart 2.2: International Services Trade of the US (US\$ billion)



Source: WTO and India Exim Bank Analysis

Commercial services dominate the US service exports with other commercial services taking up the largest share at 70.8% in 2022, followed by other business services at 26.4%. For the same year, the major service overall exports within commercial services are financial services (18.1% of total services exports), professional and management consulting services (15.5%) and charges for use of intellectual property (13.7%). (**Table 2.11**).

Table 2.11: Services Exports of the US (US\$ billion)

Product/Sector	2013	2018	2021	2022
Total Services	719.4	865.5	801.1	928.5
Government goods and services	21.9	22.1	23.0	28.5
Commercial services	697.6	843.4	778.2	900.0
Goods-related services	15.7	28.0	12.6	14.5
Transport	90.0	93.1	66.1	91.0
Travel	171.0	200.7	71.4	136.9
Business	42.3	37.9	13.9	28.0
Personal	128.6	162.9	57.5	108.9
Health-related	0.8	1.1	0.2	0.5
Education-related	26.2	47.3	32.9	38.0
Other (Personal)	101.7	114.5	24.4	70.4
Other commercial services	420.9	521.6	628.1	657.7
Construction	2.2	2.8	2.9	1.7
Insurance and pension services	15.7	19.1	22.3	22.7
Direct insurance	3.6	1.8	2.0	2.0
Reinsurance	10.3	15.4	17.5	17.4
Auxiliary insurance services	1.8	1.9	2.8	3.3
Financial services	109.8	136.3	172.0	167.7
Charges for the use of intellectual property	113.8	114.8	128.4	127.4
Telecommunications, computer, and information services	36.3	49.2	58.6	66.2
Telecommunications services	14.8	9.0	7.6	8.1
Computer services	14.6	30.7	43.9	47.4
Information services	6.9	9.5	7.1	10.8
Personal, cultural, and recreational services	20.9	22.7	23.8	26.8
Other business services	122.2	176.5	220.2	245.2
Research and development services	30.1	47.9	49.2	57.8
Professional and management consulting services	57.1	92.6	132.6	143.6
Technical, trade-related, and other business services	35.0	36.1	38.3	43.9

Source: WTO and India Exim Bank Analysis

Among the services import by the US, other commercial services account for 56.4% of the total services imported followed by other business services with 19.8% in the year 2022. Further on, major imported commercial services also included transport (22.6% of total services imports), financial services (8.6%), insurance and pension services (8.5%) and charges on use of intellectual property (7.6%) (**Table 2.12**).

Table 2.12: Services Imports of the US (US\$ billion)

Product/Sector	2013	2018	2021	2022
Total Services	465.7	565.3	559.2	696.7
Government goods and services	25.3	22.9	25.1	25.3
Commercial services	440.3	542.4	534.0	671.3
Goods-related services	6.6	7.3	4.8	5.6
Transport	94.4	110.4	106.7	157.6
Travel	91.1	125.7	56.6	115.3
Business	18.7	19.0	6.4	12.2
Personal	72.3	106.6	50.2	103.0
Health-related	0.4	0.6	0.3	0.6
Education-related	7.6	11.1	4.2	6.0
Other (Personal)	64.2	94.8	45.7	96.4
Other commercial services	248.1	298.9	365.7	392.7
Construction	2.5	3.0	1.1	0.9
Insurance and pension services	52.9	43.7	58.6	59.5
Direct insurance	4.6	3.8	6.5	6.6
Reinsurance	46.9	38.2	49.6	50.5
Auxiliary insurance services	1.2	1.6	2.5	2.2
Financial services	29.2	41.3	51.3	57.7
Charges for the use of intellectual property	35.2	42.7	46.0	53.2
Telecommunications, computer, and information services	35.8	41.7	49.7	53.6
Telecommunications services	7.7	5.6	5.8	5.9
Computer services	26.0	34.0	39.2	43.0
Information services	2.0	1.9	4.5	4.7
Personal, cultural, and recreational services	8.2	18.8	28.4	29.6
Other business services	84.0	107.4	130.2	138.0
Research and development services	31.1	34.2	32.5	33.6
Professional and management consulting services	35.6	52.3	63.7	66.8
Technical, trade-related, and other business services	17.2	20.7	33.9	37.5

Source: WTO and India Exim Bank Analysis

The UK and Ireland, both with over 8% share in the total service export of the US, received majority of the US' services exports in 2022. Other European countries among the top ten service export destinations are Switzerland, Germany, and Netherlands. USCanada accounted for 7.7% while China accounted for 4.5% share

of total service exports of the US in 2022 given weak consumer demand in Chinese Economy. US' service exports to India are booming, recording a healthy 7.6% CAGR for the last decade. India was ranked 11th in US' service export destinations in 2022. (Table 2.13).

Table 2.13: Major Services Export Destinations of the US (US\$ billion)

Country	2013	2018	2021	2022	Share in 2022 (%)
Total	719.4	865.5	801.1	928.5	100.0
Ireland	33.0	52.7	76.1	84.3	9.1
UK	61.9	78.6	68.3	82.0	8.8
Canada	67.5	68.3	57.1	71.3	7.7
Switzerland	28.2	41.9	48.8	55.6	6.0
China	35.2	58.5	39.4	41.5	4.5
Germany	28.2	35.5	32.2	40.9	4.4
Japan	46.5	46.7	76.1	38.3	4.1
Mexico	28.9	32.9	31.1	37.7	4.1
Singapore	11.6	24.5	31.9	34.3	3.7
Netherlands	16.5	19.4	23.5	27.8	3.0
India	12.4	22.6	18.5	25.9	2.8
France	19.4	21.5	17.0	22.4	2.4
South Korea	22.3	23.4	19.2	22.2	2.4
Brazil	27.5	57.1	15.1	21.9	2.4
Australia	21.5	23.0	16.5	21.6	2.3

Source: WTO and India Exim Bank Analysis

The UK apart from being the top service export destination of the US, is also its top source of services imports, followed by Canada and Germany with 6.4% and 6.2% share of US total global imports in 2022. The rest in the top five include Japan, Mexico, and Switzerland. India ranked 6th among US' top service import sources, amounting for US\$ 33.2 billion of imports by the US in 2022 (accounting for a 4.8% share). (Table 2.14).

Table 2.14: Major Services Import Sources of the US (US\$ billion)

Country	2013	2018	2021	2022	Share in 2022 (%)
Total	465.7	565.4	559.2	696.7	100.0
UK	50.0	63.0	62.5	73.5	10.5
Canada	31.6	38.3	37.1	44.6	6.4
Germany	34.2	33.9	34.1	43.0	6.2
Japan	31.1	35.2	31.5	40.8	5.9
Mexico	18.9	28.2	28.3	38.3	5.5

Country	2013	2018	2021	2022	Share in 2022 (%)
Switzerland	22.7	21.7	29.0	34.1	4.9
India	20.6	29.7	29.0	33.2	4.8
Bermuda	25.8	23.7	30.6	32.0	4.6
France	16.6	19.5	18.6	26.7	3.8
China	14.6	18.9	21.4	26.6	3.8
Ireland	13.2	18.5	21.1	22.4	3.2
South Korea	10.1	10.3	12.6	14.7	2.1
Netherlands	9.8	13.4	12.4	14.6	2.1
Taiwan	6.0	7.5	9.9	13.8	2.0
Hong Kong	8.5	11.4	11.9	12.6	1.8

Source: WTO and India Exim Bank Analysis

Foreign Direct Investment (FDI) in the US: Current Trends

The US besides being the largest economy in the world, also stands as one of the most economically liberal nations. It is among the world's leading financial centers, and its innovative business climate along with a large consumer market creates a favorable FDI climate.

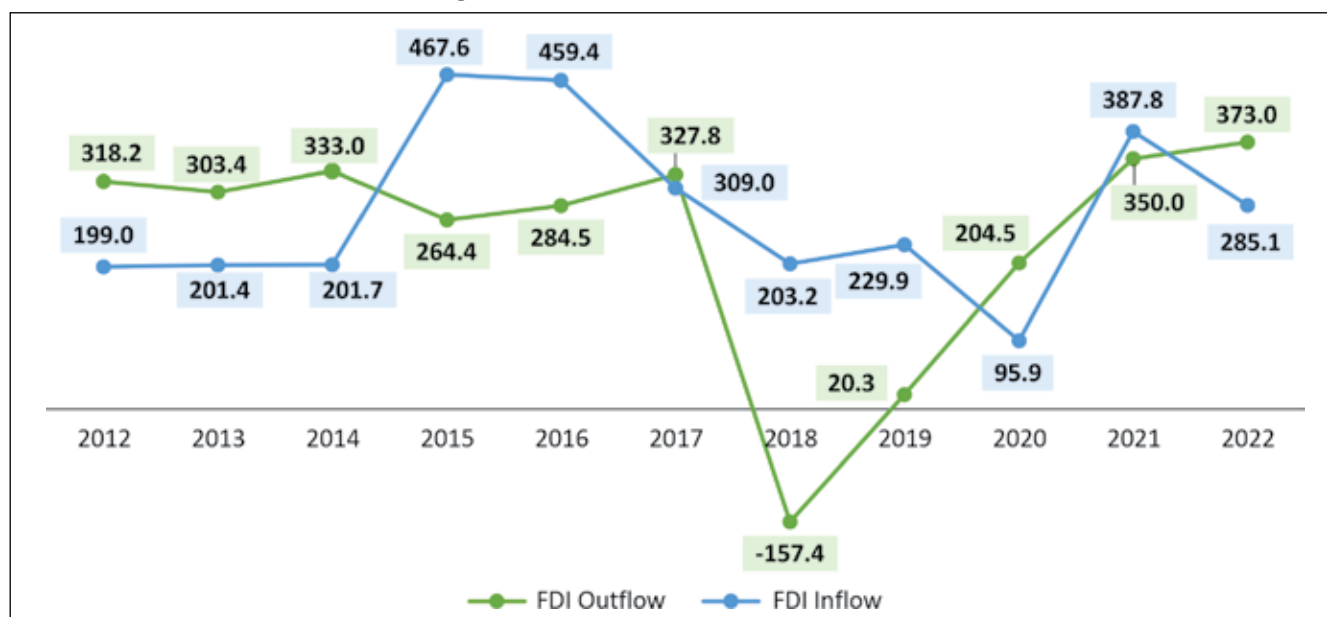
According to the World Investment Report 2023 released by UNCTAD, FDI inflows in the US accounted for 22% of the global inflows whereas a quarter of the outflows originated from the US in 2022. FDI flows into the US plays a crucial role in job creation within the country specially given that a lot of the Research & Development (R&D) is conducted through foreign based companies.

The cyclical slowdowns in FDI flows of the US between 2012 to 2022– both inwards and outwards – can be attributed to factors like certain changes in domestic trade policies, recent economic disputes, and trade disruptions.

Foreign Direct Investment Flows of the US

According to UNCTADStat, the envisaged FDI inflows into the US has increased at a Compounded Annual Growth Rate (CAGR) of 2% from US\$ 199 billion in 2012 to US\$ 285.1 in 2022. The inflows peaked in 2015 at US\$ 467.6 billion before witnessing a decline until 2020. Last few years especially has seen a reduction in mergers and acquisitions (M&A) as well as greenfield investments. The pandemic alone led to FDI inflows dropping to its lowest in the period from US\$ 229.9 billion in 2019 to US\$ 95.9 billion in 2020. Further on, FDI outflows in comparison, has been more stable over the years except for the year 2018 when it saw an abrupt and steady drop to the lowest, that is, a negative of US\$ 157.4 billion. This was primarily due to the corporate tax reforms introduced by the then US government. The various trade disputes and treaty withdrawals had also led to a decrease in general trade openness in the country thus causing a shift in investor sentiment. **(Chart 2.3).**

Chart 2.3: Foreign Direct Investment Flows of the US (US\$ billion)



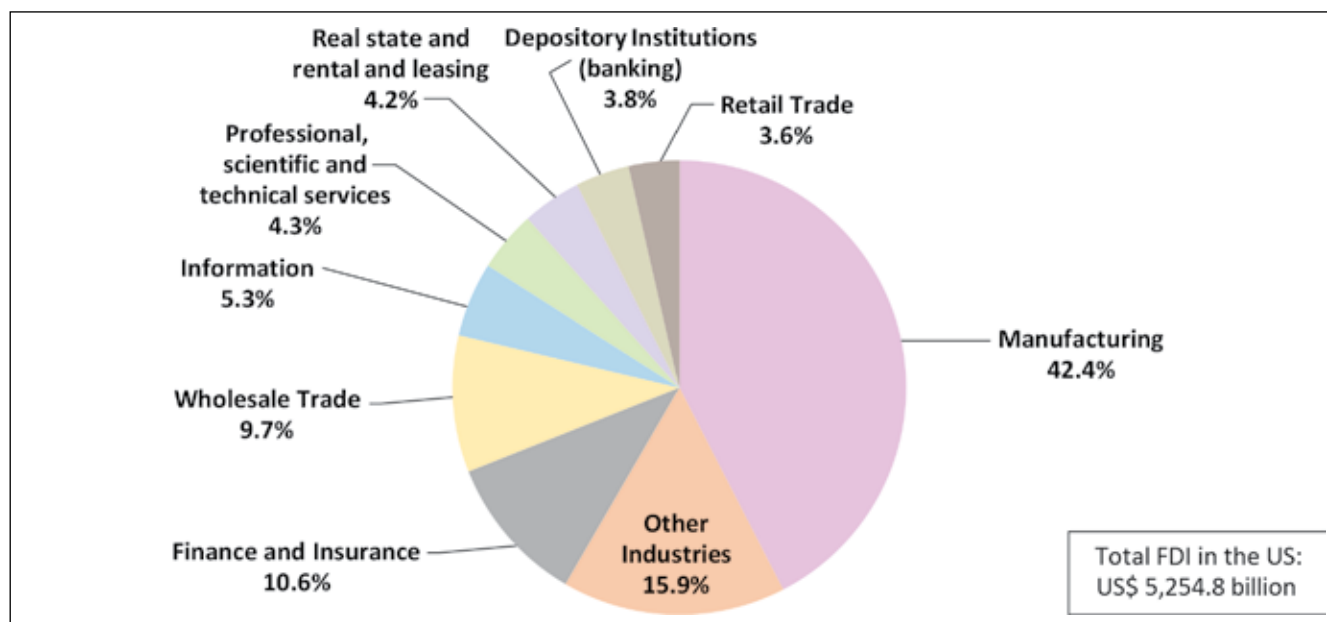
Source: UNCTADStat and India Exim Bank Analysis

Inward Direct Investments to the US

Major Sectors Attracting Investment in the US

Chart 2.4 shows the major sector wise breakup of FDI Position in the United States (on a historical-cost basis) in the year 2022. The manufacturing sector dominates with a share of 42.4% followed by other sectors with relatively lower shares including finance and insurance (10.6%), wholesale trade (9.7%) and information sector (5.3%), among others.

Chart 2.4: Major Sectors Attracting Investment in the US in 2022 (FDI Position)

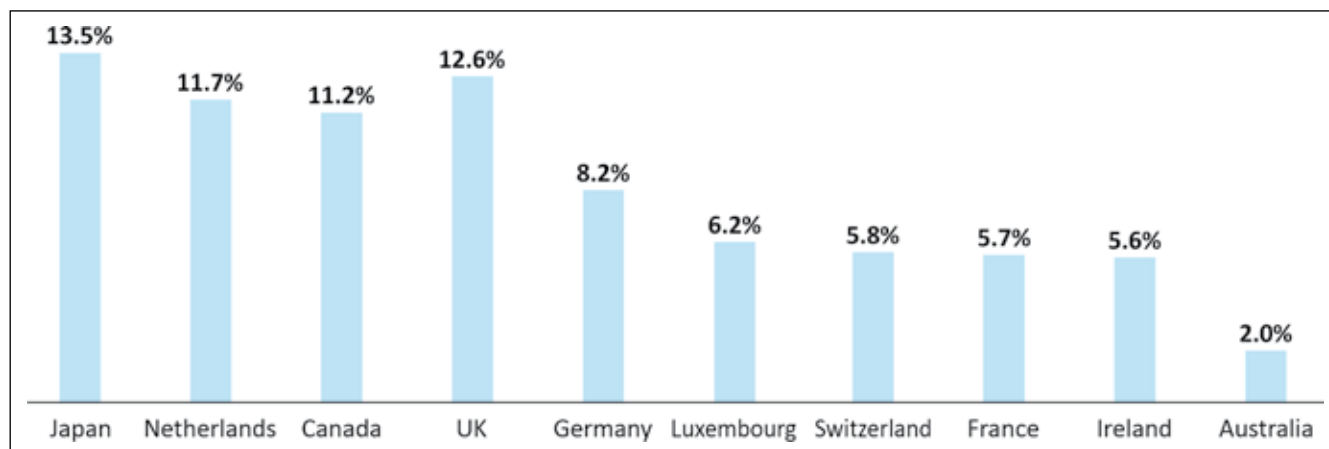


Source: Bureau of Economic Analysis (BEA) and India Exim Bank Analysis

Major Sources of Investments in the US

According to the FDI position in the US (on a historical-cost basis) in 2022, the major investments in the US was led by Japan with a share of 13.5%. Other countries with substantial investments in the US include Netherlands at 11.7%, Canada at 11.2% and other European countries like UK, Germany, Luxembourg among others (Chart 2.5).

Chart 2.5: Major Investors in the US during 2022 (FDI Position)

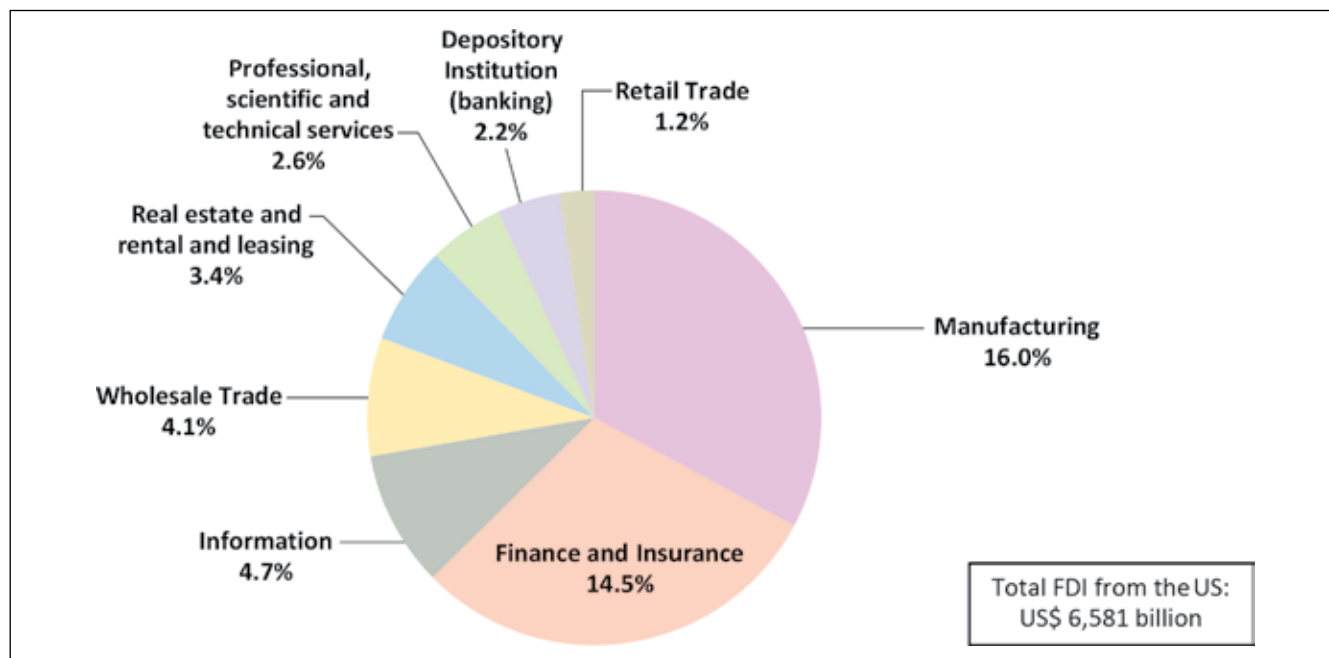


Source: Bureau of Economic Analysis (BEA) and India Exim Bank Analysis

Outward Direct Investments from the US

In terms of sectors, similar to inward investments, the dominating sectors in outward FDI from US include manufacturing with a share of 16% followed by finance and insurance at 14.5%. Other major sectors include informations sector (4.7%), wholesale trade (4.1%), and real estate (3.4%), among others (Chart 2.6).

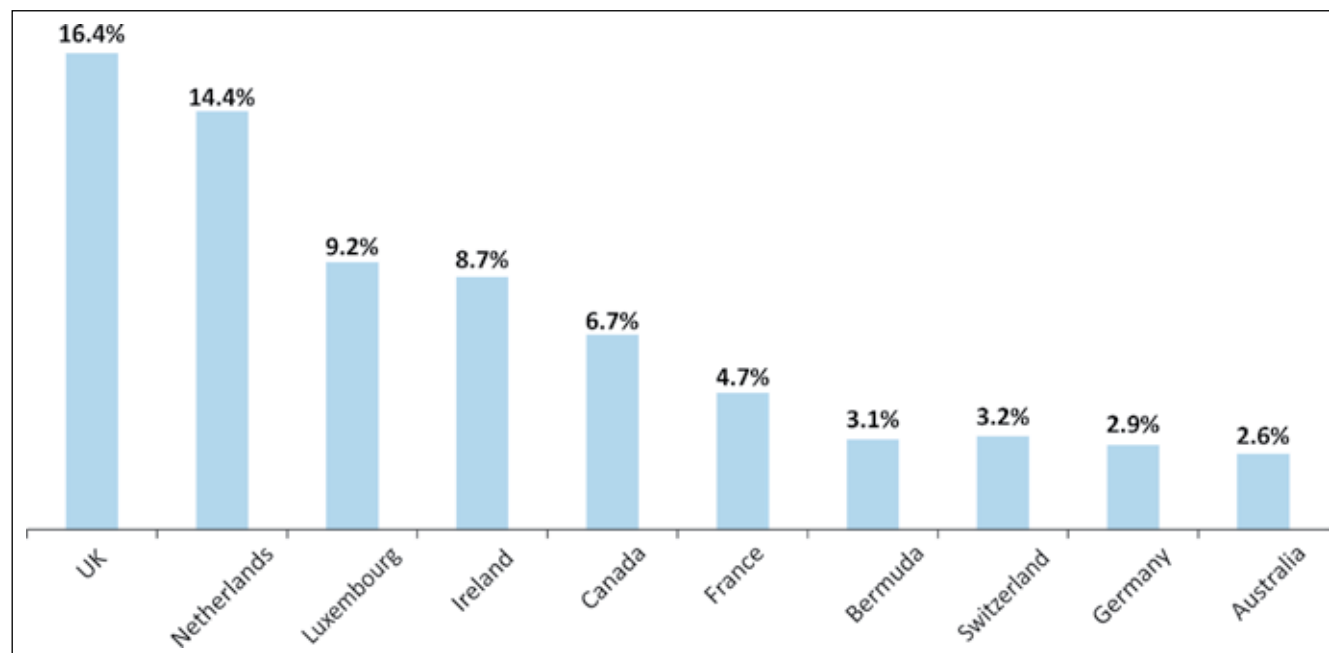
Chart 2.6: Major Sectors Attracting Investment from the US in 2022 (FDI Position)



Source: Bureau of Economic Analysis (BEA) and India Exim Bank Analysis

Similar to the major investment sources of the US, European countries also dominate the list for major investment destinations of the US in terms of FDI position in 2022. The UK was the top destination for the US outward FDI position accounting for a share of 16.4% followed by Netherlands (14.4%), Luxembourg (9.2%), Ireland (8.7%) besides Canada (6.7%). **(Chart 2.7).**

Chart 2.7: Major Investment Destinations of the US in 2022 (FDI Position)



Source: Bureau of Economic Analysis (BEA) and India Exim Bank Analysis



Bilateral Trade and Investment Relations between India and the US

Apart from their shared values of democracy, India and the US are bound by their common interests in areas of global security, economic prosperity, cyber security, nuclear energy, education, clean environment, space technology among several others. Both are global powers and vital partners in promoting peace and prosperity in the Indo-Pacific region.

The US and India have maintained an active and robust engagement through various high-level dialogues and exchanges, reinforcing their bilateral relations. The Trade Policy Forum (TPF), co-chaired by India's Ministry of Commerce and Industry and the United States Trade Representative (USTR), serves as a pivotal instrument in fostering economic ties, trade, and investment between the two nations. Notably, after a hiatus of four years, the TPF resumed in 2021, with the Fourteenth Ministerial meeting taking place in January 2024.

In addition to the TPF, the fifth India-US 2+2 Ministerial Dialogue, held in November 2023, exemplifies the depth of diplomatic engagements. Furthermore, India's participation in the Indo-Pacific Economic Framework for Prosperity (IPEF), initiated by the US and thirteen other Indo-Pacific partner countries in May 2022, underscores their commitment to regional economic collaboration. The IPEF is structured around four key pillars, encompassing Trade (Pillar I), Supply Chains (Pillar II), Clean Economy (Pillar III), and Fair Economy (Pillar IV). India has joined Pillars II to IV and holds observer status in Pillar I. Beyond these significant dialogues, both nations boast a robust framework of many other bilateral dialogue mechanisms spanning diverse sectors. Additionally, they collaborate closely within international organizations, further enhancing their collective impact on global issues.

Economic relations between India and the US have also remained strong, with bilateral trade in 2022 surpassing US\$ 132 billion in goods. As the primary recipient of India's exports, the US assumes a pivotal role in shaping India's trajectory toward attaining the Government of India's formidable export objective of reaching US\$ 2 trillion in goods and services by 2030. The unparalleled position of the US as the largest export destination underscores its critical influence on India's endeavours to meet and exceed its ambitious export targets.

Furthermore, according to the US census data of 2020, the Indian American diaspora has a strong presence of over 4.4 million in the US. In 2017, the diaspora sent US\$ 10.7 billion annual remittances from the US to India thus proving to be not only a great soft power tool but also a significant source of remittances. There were over 2.5 lakh Indian international students in the US during 2022-23, this was a 35% increase as compared to 2021-22. According to the US Department of Commerce, in 2019, Indian students enrolled at American higher education institutions contributed almost US\$ 8 billion to the US economy.

Box 1: India, Israel, United Arab Emirates and United States (I2U2) Bloc

I2U2 stands for the India, Israel, United Arab Emirates, and the United States grouping formed in October 2021 with the aim of working together on joint investments and initiatives in various crucial areas. The bloc aims to address global challenges through collaboration, promote economic co-operation for member nations, and leverage private sector expertise and investment for infrastructure development, clean energy solutions, and advancements in public health and critical technologies. This unique grouping of countries identifies bankable projects and initiatives to tackle some of the greatest challenges confronting our world, with a particular focus on joint investments and new initiatives in water, energy, transportation, space, health, food security, and technology. India sees clear and tangible benefits from the I2U2. The bloc plans to move forward with a hybrid renewable energy project in Gujarat, India. The project will combine 300 megawatts of wind and solar power with battery storage, with a total value of US\$ 330 million. In February 2023, India also joined the Agriculture Innovation Mission for Climate (AIM4C). The United States and the United Arab Emirates launched AIM4C in November 2021. AIM4C seeks to increase investment in and support for climate-smart agriculture and food systems innovation. I2U2 has huge potential, and its composition provides ample opportunities for win-win cooperation. The United States has vast capabilities in every conceivable area; India has massive human resources and talent; Israel has advanced technology in a number of important fields; and the UAE is advancing innovative policies, attracting start-ups and willing to invest substantial resources.

Therefore, the two nations are interconnected through robust bonds across various domains, encompassing socio-economic, cultural, and political realms, among others. This section furnishes a comprehensive overview of the economic landscape of both the US and India, delving into the intricacies of their current trade dynamics and investment relations.

Economic Complementarities between India and the US

The US and India are the world's largest and 5th largest economies respectively with a cumulative market of over 1.7 billion people and a strong demographic dividend considering both countries have over 60% of total populations that is of working age. As of 2022, the GDP at purchasing power parity of the US is more than double of that of India while its GDP per capita (at PPP) is also almost ten times of that of India (**Table 3.1**). On comparing sector wise contributions to the economy, India still has over 16% of agricultural share while the US is majorly service driven holding a share of over 77.6%. However, the industrial sector's contribution to GDP is higher in India (25.7%) relative to that of the US (17.9%).

From international trade perspective, India holds a greater share of trade as part of GDP at approximately 50% as compared to US at 27.4% while also holding a higher share of exports of goods and services as part of GDP at 22.8% and the US at 10.9%. For both countries, the contribution of merchandise exports to BOP is higher than that of service exports with the gap being a lot higher in the case of US. The US has a service export contribution to BOP that is more than three times of that of India.

Under disaggregation of merchandise exports, India has a comparatively higher share in ores and metal exports, food exports, fuels, and manufactured exports while US has a marginally higher share in exports of agricultural raw materials. Further, the US exports more of high technology manufactured products at 17.9% of total manufactured exports, while India's exports for the same stands at 12.5%.

Table 3.1: Economic Indicators of India and the US, 2022

Economic Indicator	India	US
GDP, PPP (current international US\$ trillion)	11.9	25.4
Agriculture, forestry, and fishing, value added (% of GDP)	16.7	1.0*
Industry (including construction), value added (% of GDP)	25.7	17.9*
Services, value added (% of GDP)	48.4	77.6*
Exports of goods and services (% of GDP)	22.8	10.9*
Population, total (in million)	1,417.2	333.3
Population ages 15-64 (% of total population)	67.8	64.9
GDP per capita, PPP (current international US\$)	8,400.4	76,329.6
Trade (% of GDP)	49.2	27.4
Merchandise exports (current US\$ billion)	453.4	2,064.3
Agricultural raw materials exports (% of merchandise exports)	0.9	2.0
Ores and metals exports (% of merchandise exports)	3.7	3.1
Food exports (% of merchandise exports)	11.1	10.3
Fuel exports (% of merchandise exports)	21.8	21.4
Manufactures exports (% of merchandise exports)	62.3	53.5
High-technology exports (% of manufactured exports)	12.5	17.9
Service exports (BoP, current US\$)	309.4	928.5

*Note: 2021 data is included as 2022 data is unavailable

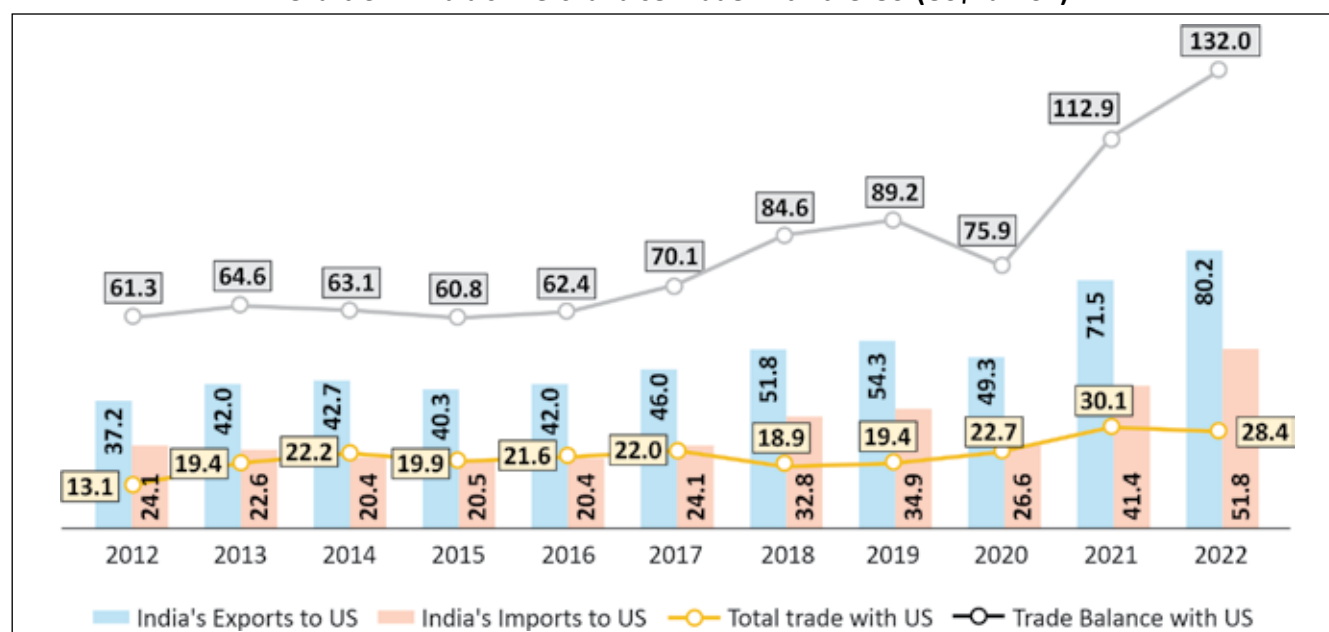
Source: World Development Indicators, February 2024

India's Merchandise Trade with the US

Bilateral trade between the US and India has grown steadily over the years without any major fluctuations except during the onset of the COVID-19 pandemic when it fell from US\$ 89.2 billion in 2019 to US\$ 75.9 billion in 2020, that is, decline of almost 15% (**Chart 3.1**). Following the pandemic, bolstered by constructive policy reforms, bilateral trade between India and the US not only rebounded but surpassed pre-pandemic levels, reaching an impressive US\$ 112.9 billion in 2021. In the year 2022, building upon the significant milestone achieved in 2021, the total bilateral trade between the two nations reached an unprecedented pinnacle, soaring to an all-time high of US\$ 132 billion.

Considering India's merchandise exports to the US have steadily grown over the years, always faster than its merchandise imports from the US, India has consistently maintained a merchandise trade surplus with the US over the decade. The surplus has increased more than two folds from US\$ 13.1 billion in 2012 to US\$ 28.4 billion in 2022. In 2022, India was the US' 10th largest export destination and the 9th largest import source.

Chart 3.1: India's Merchandise Trade with the US (US\$ billion)

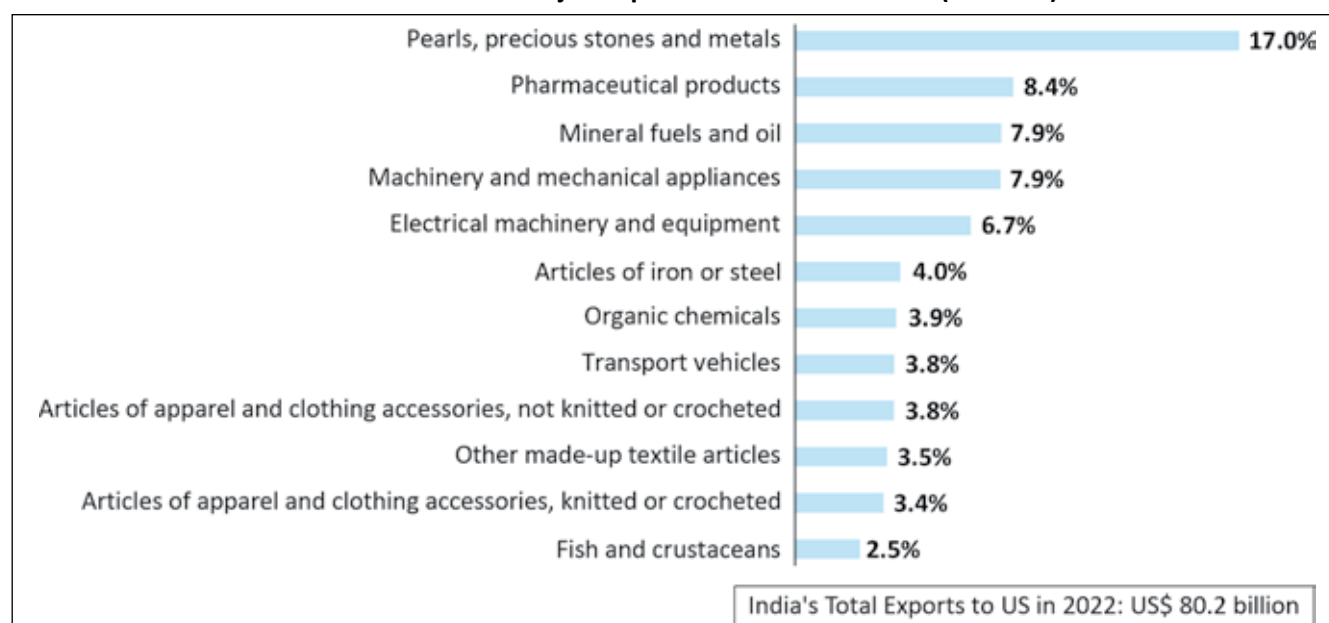


Source: ITC Trade Map and India Exim Bank Analysis

India's Merchandise Exports to the US

The US is India's largest export destination accounting for 17.7% of its total exports for 2022. The exports have steadily increased over the years, from US\$ 37.2 billion in 2012 to a new peak at US\$ 80.2 billion in 2022. India's primary export to the US in 2022 was pearls, precious stones and metals at a value of US\$ 13.7 billion with a share of 17%. Other major exports include pharmaceutical products (8.4%), mineral fuels and oils (7.9%), machinery and mechanical appliances (7.9%), and electrical machinery and equipment (6.7%) (Chart 3.2).

Chart 3.2: India's Major Exports to the US in 2022 (% Share)

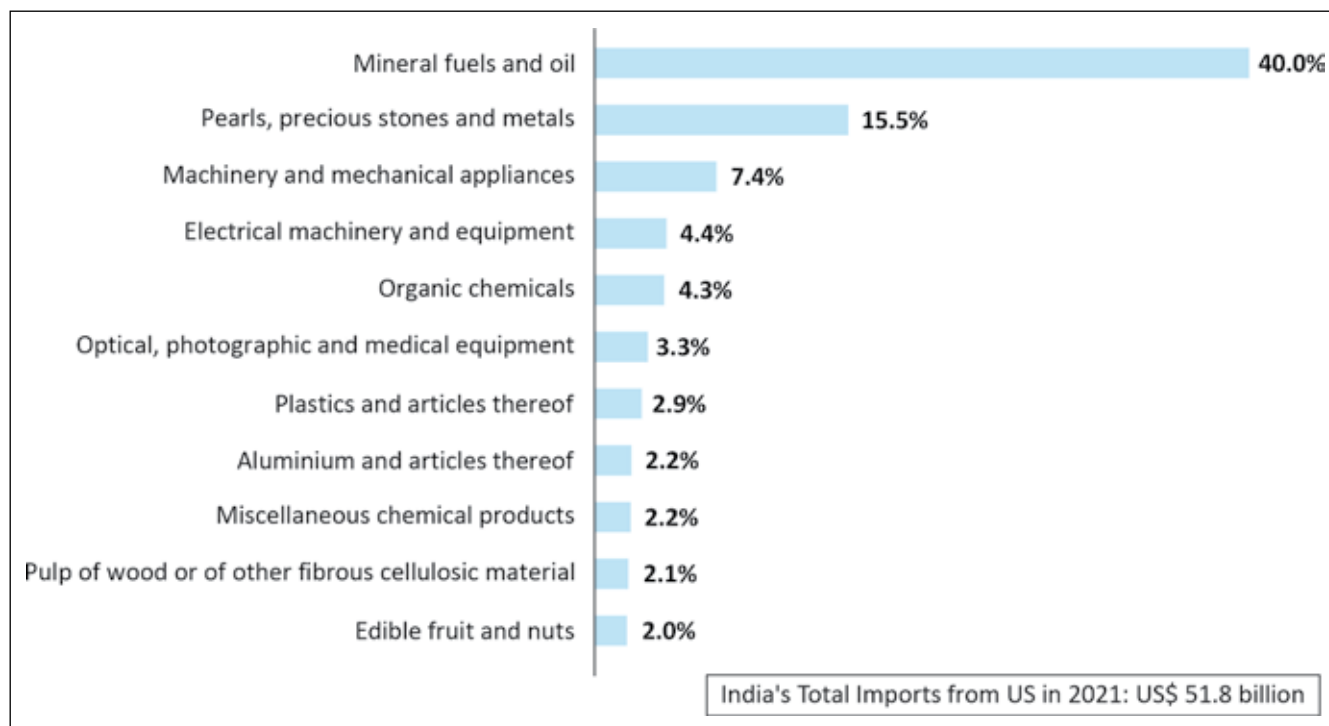


Source: ITC Trade Map and India Exim Bank Analysis

India's Merchandise Imports from the US

The US is India's 3rd largest import source accounting for 7.1% of its total import share in 2022. Despite being significantly lower than the exports to the US, India's imports from the US have steadily risen over the decade and reached a peak in 2022 at US\$ 51.8 billion. In 2022, the top imports from the US were majorly dominated by mineral fuels and oils at a value of US\$ 20.7 billion with a share of 40% followed by pearls, precious stones and metals at a value of US\$ 8 billion with a share of 15.5%. Both these product categories, thus, alone made up 55.5% of the total import basket from the US. Other top imports items include machinery and mechanical appliances (7.4%), electrical machinery and equipment at 4.4%, and organic chemicals (4.3%) (Chart 3.3).

Chart 3.3: India's Major Imports from the US in 2022 (% Share)



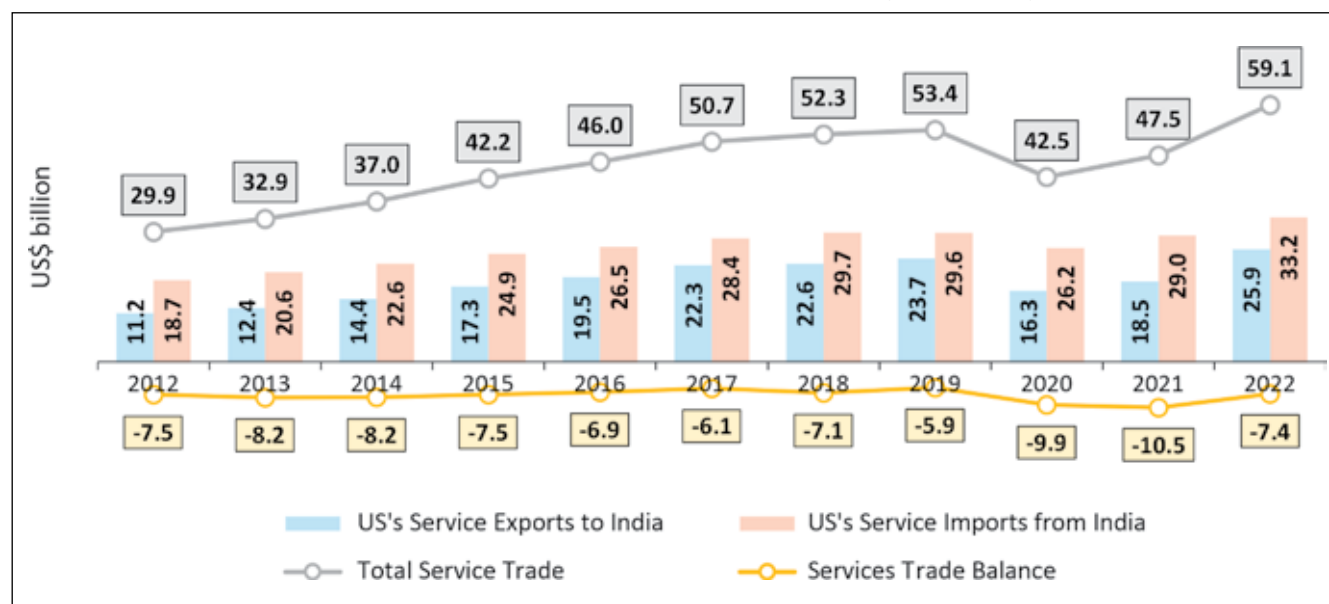
Source: ITC Trade Map and India Exim Bank Analysis

India-US Services Trade Relations

India and the US are both major service trading economies globally. In 2022, the US was the world's largest service exporter while India was the 7th largest. In terms of service imports, the US was still the largest and India stood at the 9th place. Bilaterally, in 2022, India was the 7th largest service import source and the 11th largest service export destination of the US.

As seen in **Chart 3.4**, the US' total service trade with India has seen an uninterrupted rise from US\$ 29.9 billion in 2012 to US\$ 59.1 billion in 2022. However, the pandemic and its restrictions resulted in total service trade falling by over 20% year-on-year reaching US\$ 42.5 billion in 2020. Following the pandemic, services trade witnessed tremendous growth reaching all time high of US\$ 59.1 billion with US' highest ever exports of US\$ 25.9 billion to India and imports of US\$ 33.2 billion from India in 2022. In terms of services trade balance with India, the US has seen a consistent deficit while witnessing the largest deficit in 2021 at US\$ 10.5 billion.

Chart 3.4: The US' Services Trade with India (US\$ billion)



Source: WTO and India Exim Bank Analysis

Services Exports from the US to India

India was among the top 15 service export destinations of the US in 2022. Service exports from the US to India has seen a steady rise from US\$ 11.2 billion in 2012 to reaching a peak in 2022 at US\$ 25.9 billion (**Table 3.2**). The 2019-2020 period saw service exports drop by over 30% since the pandemic broke out, falling to US\$ 16.2 billion in 2020. The services exports of the US to India recorded a remarkable growth, increasing y-o-y by almost 40% in 2022.

In 2022, with a share of 47.8%, travel services dominate US' total service exports to India. Within this category, education-related personal travels have the highest share at 27.6% of total service exports. Other categories that dominate the list are charges for use of intellectual property (12.6% of total service exports), personal, cultural, and recreational services (7.4%), financial services (7.4%). Among other business services (10.4%), professional and management consulting services (6.4%) dominates (**Table 3.2**).

Table 3.2: Services Exports from the US to India (US\$ million)

Product/Sector	2012	2017	2021	2022
Total Exports	11193	22263	18491	25881
Government goods and services	217	358	307	-
Commercial services	10976	21905	18184	-
Goods-related services	273	474	606	588
Transport	973	966	951	1337
Travel	6171	12246	7349	12368
Business	2475	3333	833	2916
Personal	3696	8913	6515	9452

Product/Sector	2012	2017	2021	2022
Health-related	4	10	3	11
Education-related	2917	7230	5931	7137
Other (Personal)	775	1673	581	2304
Other commercial services	3559	8219	9278	-
Construction	49	3	25	-
Insurance and pension services	63	375	265	390
Direct insurance	4	6	6	7
Reinsurance	57	366	257	382
Auxiliary insurance services	2	3	3	1
Financial services	748	1130	1494	1922
Charges for the use of intellectual property	681	2286	2703	3272
Telecommunications, computer, and information services	930	1590	749	983
Telecommunications services	249	132	36	32
Computer services	560	1196	628	733
Information services	120	262	84	218
Personal, cultural, and recreational services	173	1244	1930	1908
Other business services	915	1591	2114	2699
Research and development services	42	222	149	120
Professional and management consulting services	410	801	1249	1649
Technical, trade-related, and other business services	464	569	716	930

Source: WTO and India Exim Bank Analysis

Services Imports of the US from India

The US' service imports from India have consistently exceeded its service exports over the years. It has risen from US\$ 18.7 billion in 2012 to US\$ 33.2 billion in 2022. During 2019-2020, service imports by the US from India fell by almost 13% which is less when compared to the reduction in service exports that fell by over 30%. Post the pandemic, in 2022 the imports by the US from India increased considerably by 14.4% to register an all-time high import figure (**Table 3.3**).

Service imports consist primarily of other commercial services that hold a dominant share of 99% of the total bilateral service imports in 2021. For 2022, in disaggregated terms, computer services under telecommunications, computer, and information services make up 36.3% of all service imports. Other business services are another major service import from India with a 42.9% share and in disaggregated terms, professional and management consulting services (17.6%), research and development services (13.2%), and technical, trade-related, and other business services (12.1%), among others.

Table 3.3: Services Imports of the US from India (US\$ million)

Product/Sector	2012	2017	2021	2022
Total Services	18739	28389	29007	33247
Government goods and services	56	115	49	-
Commercial services	18683	28274	28958	-
Goods-related services	28	5	204	248
Transport	651	425	304	424
Travel	2311	2561	1088	2217
Business	523	401	133	223
Personal	1788	2161	955	1994
Health-related	14	21	8	14
Education-related	67	94	38	49
Other (Personal)	1708	2045	910	1931
Other commercial services	15693	25283	27362	-
Construction	11	7	39	-
Insurance and pension services	42	75	254	192
Direct insurance	2	2	1	1
Reinsurance	7	41	199	111
Auxiliary insurance services	34	33	54	80
Financial services	335	617	507	572
Charges for the use of intellectual property	233	675	1708	2211
Telecommunications, computer, and information services	10474	15382	11825	12703
Telecommunications services	318	289	111	107
Computer services	-	14599	11193	12072
Information services	-	493	521	524
Personal, cultural, and recreational services	127	203	331	353
Other business services	4470	8324	12700	14256
Research and development services	2352	4115	4042	4386
Professional and management consulting services	1527	2758	4812	5851
Technical, trade-related, and other business services	592	1451	3845	4019

Source: WTO and India Exim Bank Analysis

India's Bilateral Investment Relations with the US

India has emerged as a prominent investment hub, attributable to a confluence of factors. These include government-driven initiatives such as Make in India, Production Linked Incentives (PLI), and Digital India, complemented by relaxed Foreign Direct Investment (FDI) norms spanning sectors like telecom, defense, PSU oil refineries, among others. Additional factors contributing to India's appeal as an investment destination encompass comparatively lower wage structures and a spectrum of tax exemptions. Specifically, the Goods and Services Tax (GST), one of the biggest tax reforms of India, paves way for a common national market by integrating various indirect taxes.

India secured the 40th position on the 2023 Global Competitiveness Index released by the International Institute for Management Development. Simultaneously, it made a noteworthy leap, advancing six places to claim the 38th spot in the World Bank's Logistics Performance Index for 2023. Furthermore, in the Global Innovation Index 2023 published by the World Intellectual Property Organization (WIPO), India not only ranked first in the Central & Southern Asia Region but also stood out among Lower Middle-Income Economies. These commendable advancements across diverse competitive benchmarks underscore India's allure as a compelling FDI market on the global stage.

The US economy is distinguished by its expansive and accessible market, marked by minimal regulations that attract substantial FDI. Key elements contributing to this favourable FDI environment include the presence of the world's largest consumer market, enticingly low corporate tax rates, a substantial volume of patent filings, and a highly skilled workforce, among other factors. Additionally, the US consistently secures a place in the top 10 countries in the Ease of Doing Business (EODB) reports published by the World Bank.

The US economy is also characterised by a large and open market with fewer regulations that attracts great amounts of FDI. Factors like the presence of the largest consumer market, low corporate tax rates, huge number of patent filings, skilled workforce, among others such factors that create a favourable FDI environment.

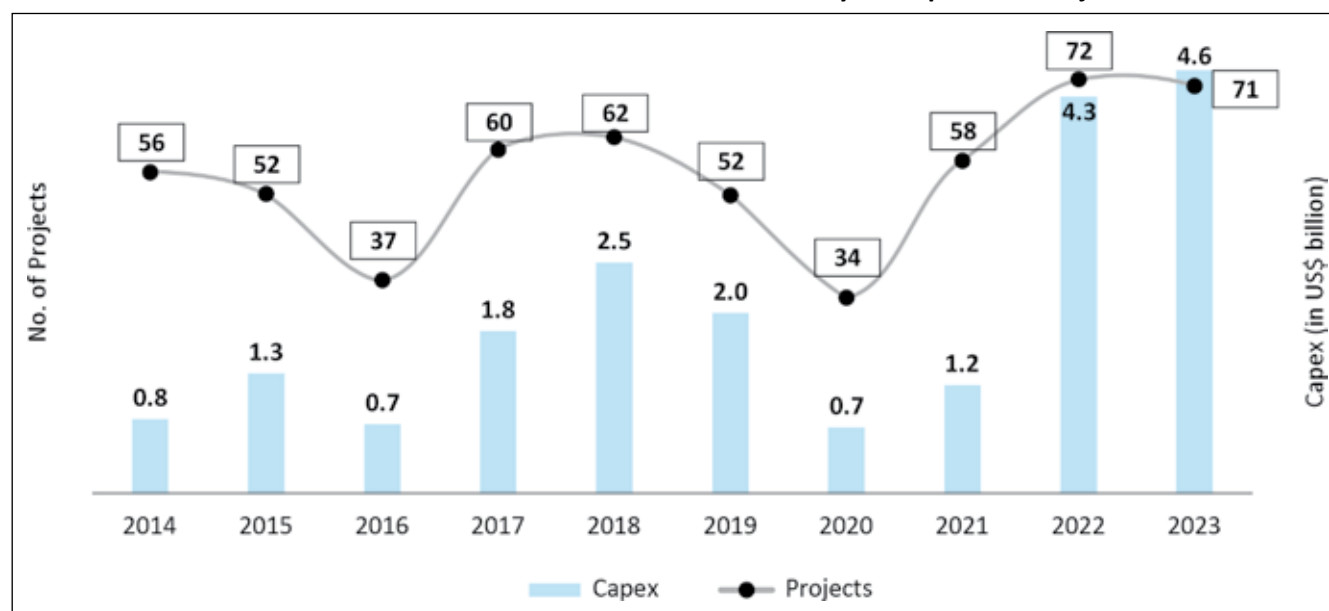
India's Investments in the US

According to the data derived from Ministry of Finance, Government of India and the Reserve Bank of India, India's FDI outflows in terms of equities, JVs and guarantees issued to the US during the period April 1996 – December 2023 amounted to US\$ 47.1 billion. The US has been among the top 5 destinations for India's FDI outflows with large Indian corporations like Reliance Industries Limited, Mahindra, Wipro, SunPharma, among several others, making investments in the US.

To get a more meaningful understanding on the trends in Indian overseas investments, this study has drawn upon the data collated by the Financial Times through its online database tracking cross-border greenfield investment, viz. fDi Markets. For the period 2014-2023, according to fDi Markets, the US has received a cumulative amount of US\$ 19.9 billion while being the largest destination of India's FDI outflows as per number of projects, as well as the number of companies investing there.

As seen in **Chart 3.5**, the variables are seen to fluctuate throughout the time period. The FDI outflow of India to the US recorded the low of US\$ 0.7 billion in 2016, with the statistics repeating in 2020, largely because of the coronavirus pandemic. The year 2018, however, saw landmark changes in the bilateral economic relations with the first 2+2 dialogue as well as the first trilateral meeting with Japan. The same year saw FDI outflows recording an impressive figure of US\$ 2.5 billion in 62 projects in the US. The envisaged investments by India in the US recorded an all-time high of US\$ 4.6 billion in 2023, supported by conducive economic conditions and a recovery period of normalcy post the pandemic.

Chart 3.5: Indian Investments in the US: Summary of Capex and Projects

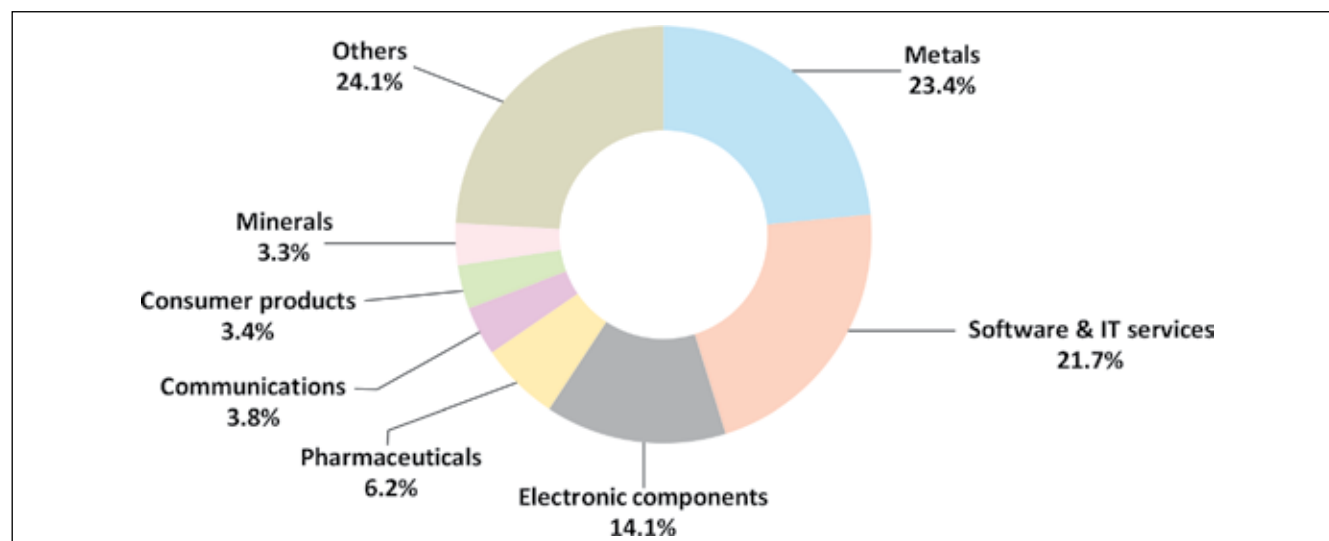


Source: fDi markets online database and India Exim Bank Analysis

Sector-wise Indian Investments in the US

The highest number of projects in the US during the period of 2014-2023 have been in Software & IT service (229), business services (98), pharmaceuticals (29) and industrial equipment (23). **Chart 3.6** gives an overview of India's capital investment shares in different sectors in the US. The largest share has been in the metals (23.4%), software and IT services (21.7%), electronic component (14.1%), pharmaceuticals (6.2%), communications (3.8%), and consumer products (3.4%). Software and IT services, business services, consumer products, electronic components and pharmaceuticals have in fact been the largest employment generating sectors in the US. Major companies investing in the US include Tata Group, Infosys Technologies, Jindal Organisation, Aditya Birla and HCL Group, among others.

Chart 3.6: Major Sectors Attracting FDI from India to the US (2014-2023)



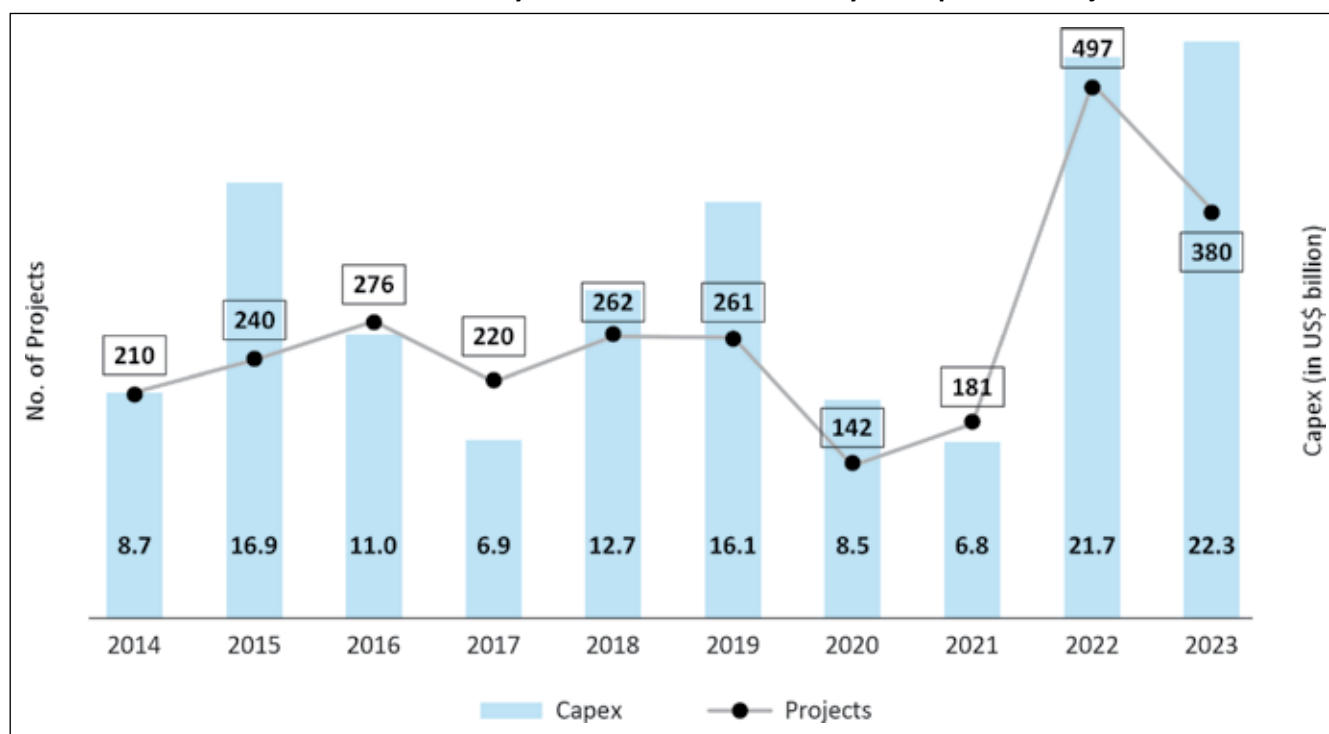
Source: fDi Markets online database and India Exim Bank Analysis

Investments from the US in India

According to the fDi Markets database, the US has been the top source for FDI inflows into India over the 2014-2023 period with an envisaged cumulative amount of US\$ 131.7 billion with over 1500 companies investing in the country. American companies like Amazon, Google, PepsiCo, JP Morgan among several others have made substantial investments in India.

As seen in **Chart 3.7**, the concerned variables are seen to fluctuate throughout the period of study. According to Financial Times' fDi Markets, during 2014-2023, the envisaged investment from the US to India ranged from US\$ 8.7 billion in 2014 before reaching more than double its value at US\$ 22.3 billion in 2023. The lowest figure was recorded in 2021, amounting to US\$ 6.8 billion, however the recovery thereafter has been remarkable. Overall, during this period, there have been 2669 projects by 1583 companies in India.

Chart 3.7: Investments by the US in India: Summary of Capex and Projects



Source: fDi Markets online database and India Exim Bank Analysis

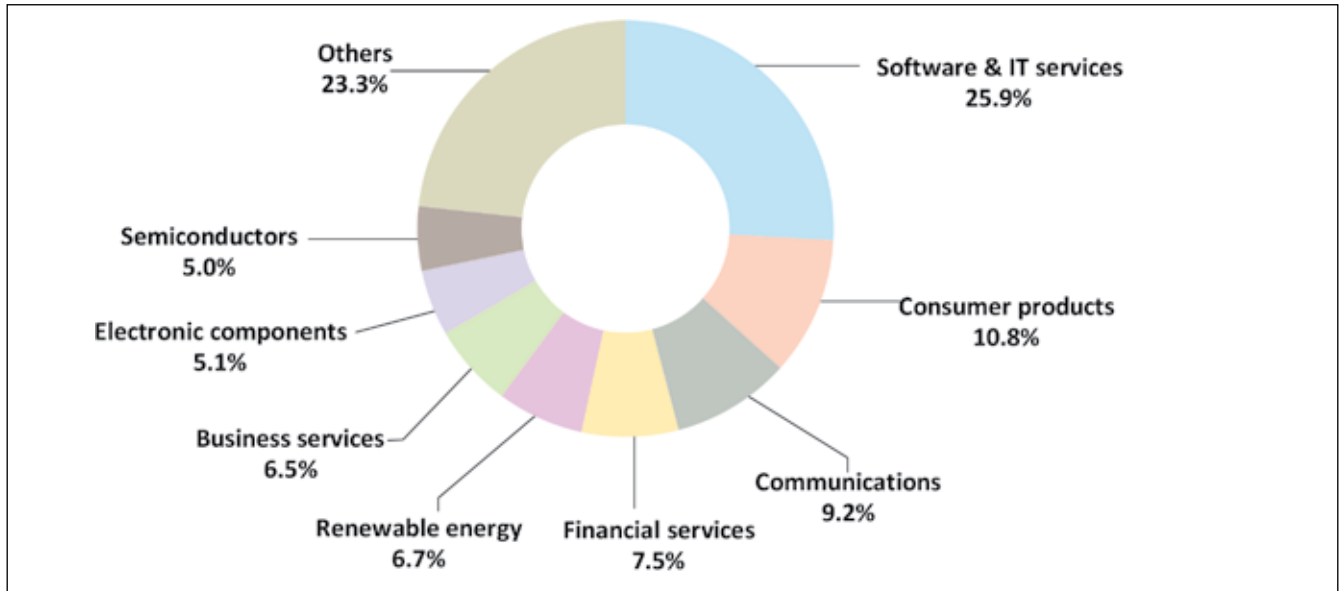
Sector-wise US Investments in India

According to fDi Markets, over the period 2014-2023, the highest number of projects in India with FDI inflows from the US have been in software and IT services (1,236), business services (309), communications (164), consumer products (118) and industrial equipment (89).

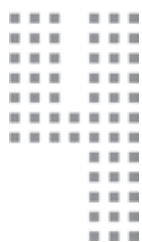
Chart 3.8 gives an overview of the US' capital investment shares in different sectors in India. The largest share has been in the sectors of software and IT services (25.9%), consumer products (10.8%), communications (9.2%), financial services (7.5%) and renewable energy (6.7%), among others. Major companies investing in India include Amazon, SunEdison Inc., Walmart, Deloitte Touche Tohmatsu, and General Electric (GE).

During 2014-2023, in India, Telangana was the largest recipient of envisaged investments from the US amounting to US\$ 22.1 billion, contributing to 16.7% of total inflows during that period in India. Other major states include Karnataka (15.6%), Maharashtra (13.8%), Gujarat (10.1%) and Tamil Nadu (6.3%), among others.

Chart 3.8: Major Sectors Attracting FDI from the US to India (2014-2023)



Source: fDi Markets online database and India Exim Bank Analysis



Aligning India's Exports with the US

Throughout the last decade, the relationship between India and the US has undergone a substantial and multifaceted expansion, transcending various domains. This comprehensive growth encompasses a wide array of sectors, including but not limited to economic ties, political collaboration, military cooperation, and diplomatic engagements. The depth and breadth of this evolving partnership underscore the mutual commitment to fostering robust connections across a spectrum of vital areas, reflecting the dynamic and strategic nature of the India–US relationship.

Bilateral economic relations of trade and investment have grown over time with bilateral trade in 2022 surpassing US\$ 132 billion, driven by consumer demand as well as aims to diversify supply chains. India has also consistently maintained a merchandise trade surplus with the US over the years. Both countries have also been in each other's top five FDI destinations reflecting good bilateral investment relations as well.

However, there still exists vast untapped trade potential between both countries fuelled by increased investments, collaborations on ventures, growing import demand by the US and competitive exports from India.

Thus, to fasten the process of achieving this goal it is essential to analyse the level of trade complementarity between India and the US. The Trade Complementarity Index (TCI) is a useful tool that serves this purpose and provides information on the possible prospects for international trade. The TCI measures the extent to which a country's export profile matches the import profile of the partner country thus implying the extent to which a country's export products overlaps with the partner country's import demands. This provides prospects for increased bilateral trade flows between countries. The index takes values between 0 and 100, with higher values denoting greater trade complementarity.

The TCI between countries 'k' and 'j' is defined as:

$$TCI_{ij} = 100(1 - \text{sum} ([m_{ik} - x_{ij}]/2))$$

Where,

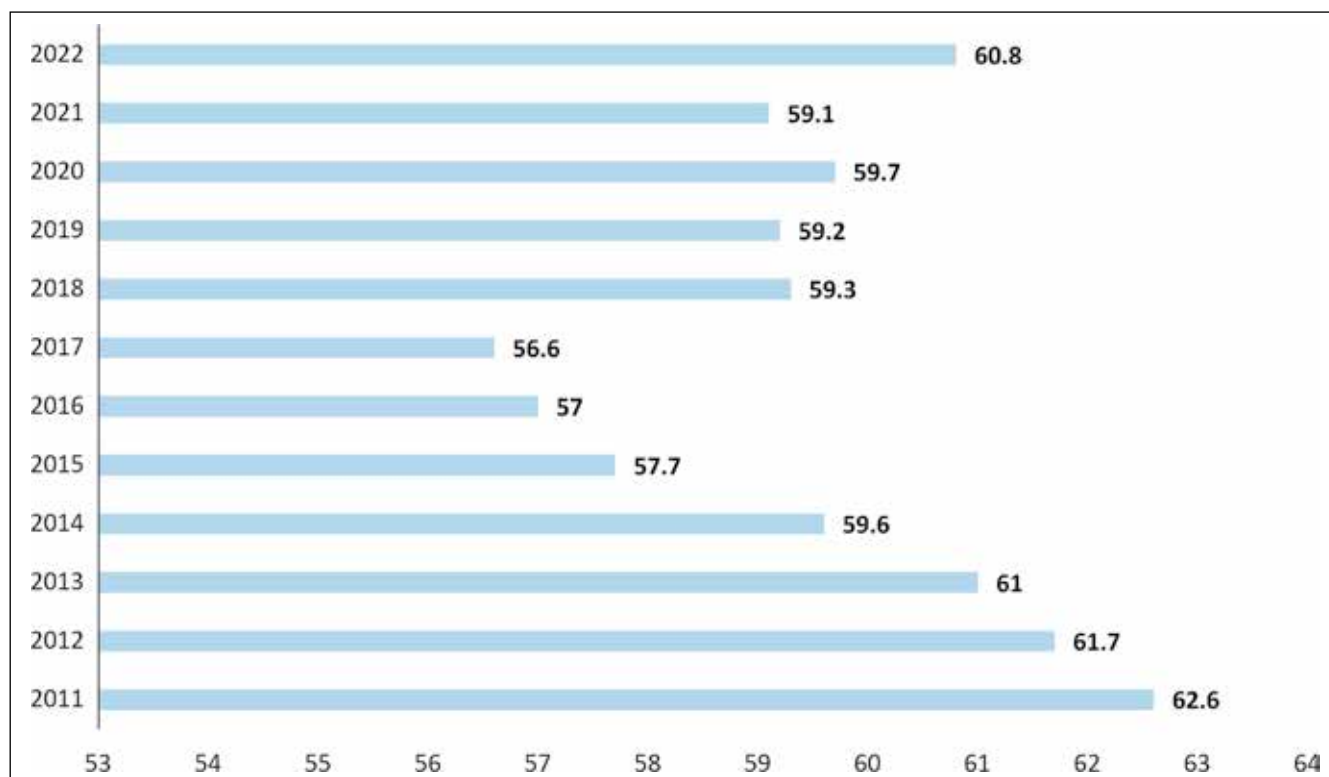
x_{ij} : Share of good 'i' in global exports of country 'j'

m_{ik} : Share of good 'i' in global imports of country 'k'

The index is 0 when no goods are exported by one country or imported by the other and 100 when the export and import shares exactly match.

During the period 2011-2022, the complementarity index for the profile of Indian exports to that of US' import has fluctuated over the range of 56.6 to 62.6. This indicates sizeable complementarity thus implying that there exists substantial import demand for India's export products in the US. The index decreased from its highest value of 62.6 in 2011 to its lowest at 56.6 in 2017 only to start increasing again to reach 60.8 in 2022 (**Chart 4.1**). This shows the somewhat changing nature of US' import demands with respect to India's exports.

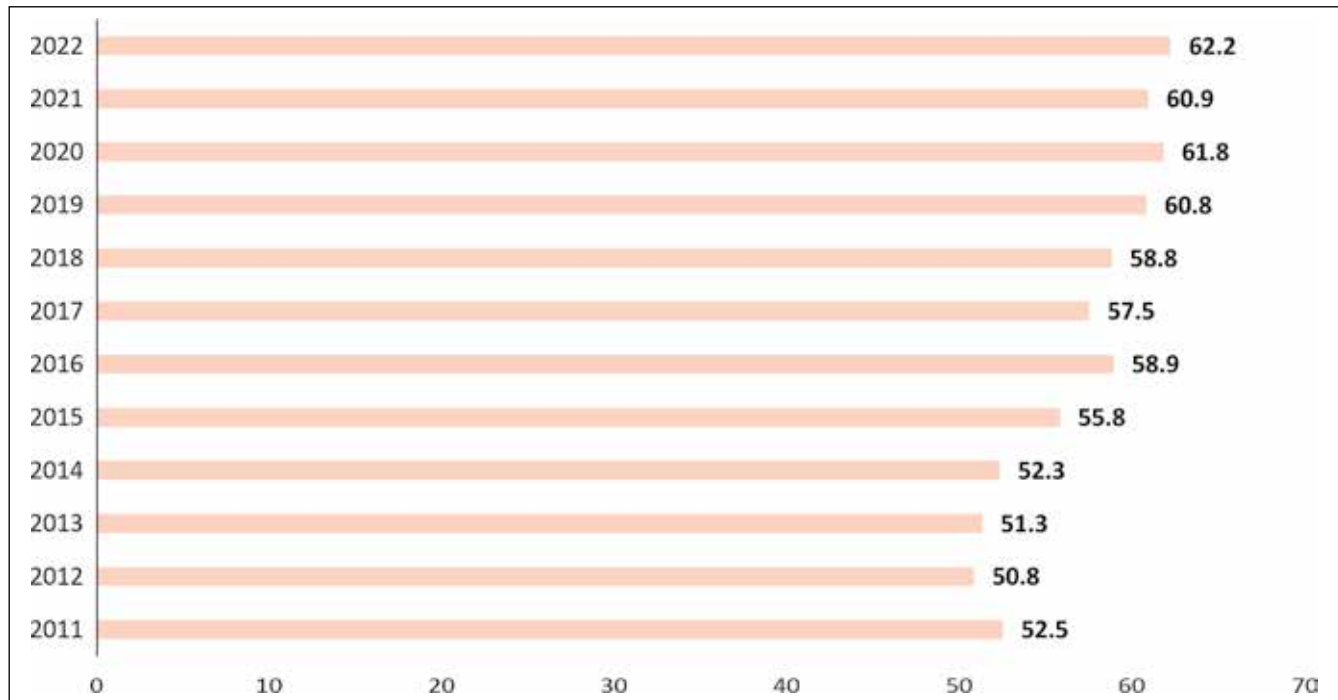
Chart 4.1: India's Export Complementarity with the US



Source: WITS database, World Bank and India Exim Bank Analysis

Further on, during 2011-2022, the complementarity index for US' exports to India's imports ranges from 50.8 to 62.2. This implies that there exists substantial import demand in India for US' exports. The index when compared to that of India's trade complementarity with US, is more stable over the years, that is, US' export profile has more consistently matched with India's import profile and this has remained fairly unchanged over the period under consideration. The highest complementarity was witnessed in 2022 at a value of 62.2 (**Chart 4.2**).

Chart 4.2: The US' Export Complementarity with India



Source: WITS database, World Bank and India Exim Bank Analysis

Revealed Comparative Advantage

Analysing the key products where India has a comparative advantage and match it with US' import demand for these products is necessary for successful trade relations in the future as well. Quantification of comparative advantage will help in identification of products where exports from India have been performing well, as also those where success has been limited, although opportunities are significant.

Revealed Comparative Advantage (RCA) is a measure which have been used extensively to help assess a country's export potential/competitiveness. It helps in identifying categories of exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world scenario. It can also provide useful information about potential trade prospects with new partners. The basic assumption underlying the concept of revealed comparative advantage is that the trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects.

As per Balassa's (1965) measure, RCA index for country *i* for commodity *j* is:

$$RCA_{iju} = (x_{ji}/X_i) / (x_{jw}/X_w)$$

Where,

x_{ji} : Exports of Commodity 'j' from Country 'i'

x_i : Total Exports from Country 'i'

x_{jw} : Total Exports of Commodity 'j' from World

X_w : Total Exports from World

The RCA index ranges from 0 to infinity, with 1 as the break-even point. That is, an RCA value of less than 1 means that the product does not have a comparative advantage, while a value above 1 indicates that the product has a comparative advantage.

Since the RCA analysis is used with respect to one country's exports profile and with reference to the world, the above formula of revealed comparative advantage has been modified to assess India's competitiveness in bilateral trade relations with the US.

Where,

x_{iju} : India's Exports of commodity 'j' to the US

X_{iu} : India's Total Exports to the US

x_{wju} : World's Exports of commodity 'j' to US

X_{wu} : World's Total exports to US

The Normalized Revealed Comparative Advantage (NRCA) index demonstrates the capability of revealing the extent of comparative advantage that a country has in a commodity with more precision and consistency. NRCA can be defined in the following manner.

$$NRCA_{iju} = (RCA_{iju} - 1) / (RCA_{iju} + 1)$$

NRCA ranges from -1 to 1, with 0 as the breakeven point. That is, an NRCA value of less than 0 and greater than -1, means that the product has no export comparative advantage, while a value above 0 and less than 1, indicates that the product has a comparative advantage. The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.

The export competitiveness of India has been mapped with respect to the US' demand. This has been undertaken with a view to outline a market specific approach for exporters. An overarching analysis has been attempted to identify products from the industries for which India has existing capabilities in exporting to US. These products are the potential export growth drivers from India to the US and could be suitably targeted. The section also attempts to identify the products where India could focus on, to realize potentially higher values of exports to the US, especially when considering that India already possesses manufacturing capabilities for these products. The objective of the exercise is to construct a product market matrix for products in demand in the US, so that necessary actions and policies can be formulated in the direction to enhance exports of these potential products from India to the US.

Following are the considerations in the analysis:

- **Time Period:** The period considered for the analysis is 2011-2022
- **Product Limit:** Only those products at 6-digit HS code level with a minimum export value of US\$ 1 million from India to US is considered in the analysis.
- **Parameters in Consideration:** The analysis in this section considers two major determinants of India's performance in the US, namely, the **NRCA for products**, and **Average Annual Growth Rate (AAGR)** of world imports to the US.

Based on these three considerations, a four-quadrant matrix is prepared for product identification. The four quadrants imply the following:

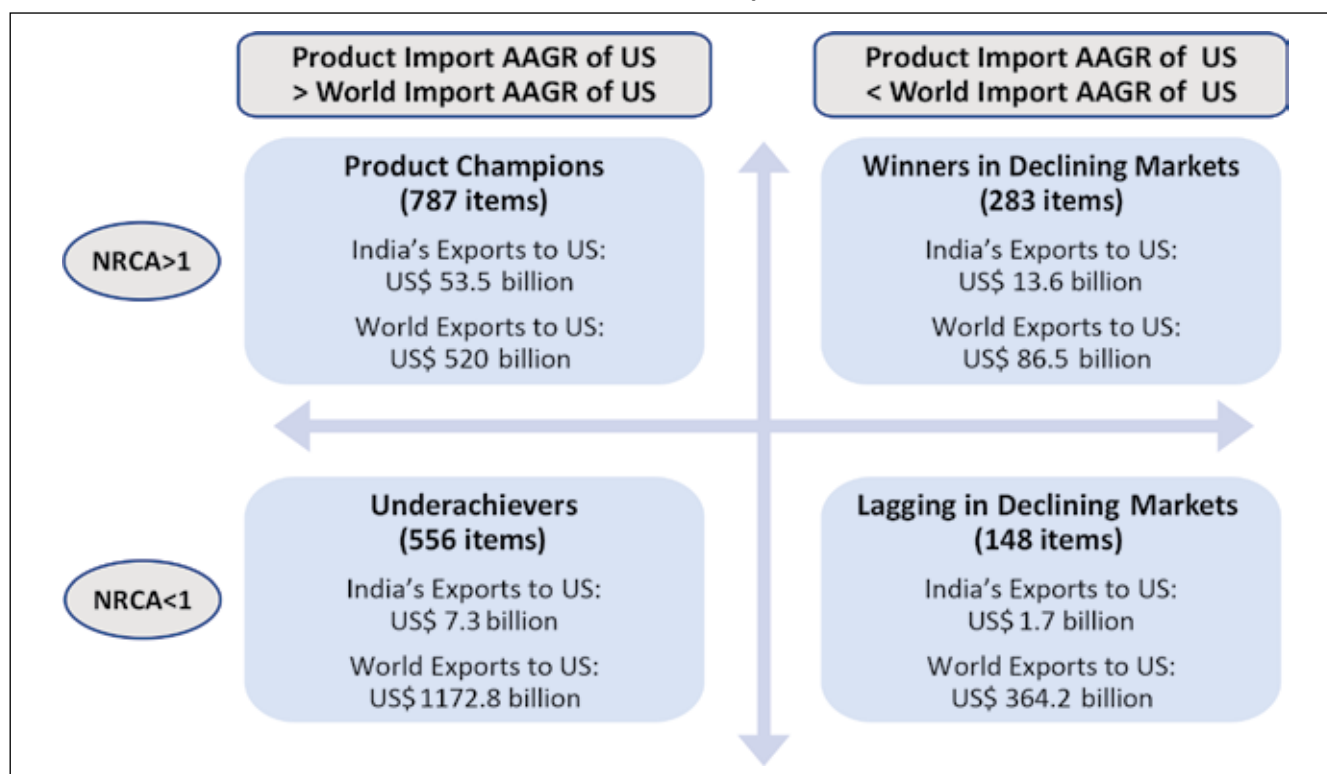
Product Champions (Product Import AAGR of US > World Import AAGR of US; Positive NRCA): These products have maximum potential, as the US' import demand for these products has shown robust AAGR over the period 2011-22, while India's exports of these products to the US are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential to the US and India needs to further expand its exports of these products in order to take to advantage of its competitive position and achieve a greater market share in the US.

Underachievers (Product Import AAGR of US > World Import AAGR of US; Negative NRCA): India does not have competitiveness in these products although their import demand has grown in the US significantly over the period under consideration. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to the US and further expand its bilateral ties with the US.

Winners in Declining Sectors (Product Import AAGR of US < World Import AAGR of US; Positive NRCA): India has competitiveness in these products, even though the US' import AAGR for these products has been declining. These products may not have much demand in the future, and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

Lagging in Declining Sectors (Product Import AAGR of US < World Import AAGR of US; Negative NRCA): India does not have competitiveness in these products, and these sectors have also registered weak import demand in US during the period under consideration.

Chart 4.3: Product Identification for Exports from India to the US



To identify the products based on their export competitiveness in the US, the four-quadrant analysis has been undertaken based on the HS Code classification at 6-digit level, whilst calculating their NRCA and mapping them against the AAGR of global imports of the US for all products (**Chart 4.3**). The quadrants are drawn by comparing the overall AAGR of global imports of the US for all products during 2011-2022 (which was 4.0%), to the NRCA of India's exports to the US of these products during the same period. This exercise aims to identify products whose imports into the US over the 2011-2022 period has performed better than the overall average of the US for imports of all products during this period, implying that the share of such products in the US' import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US\$ 1 million from India to the US, 1774 products have been identified, with total exports from India to the US amounting to US\$ 75.9 billion while the total world imports to the US in the same products stood at US\$ 2,143.5 billion in 2022.

Out of the 1774 items at the HS 6-digit level, 787 items fell into the category of the product champions. The combined exports of these items from India to the US were US\$ 53.5 billion in 2022, representing almost 10.3% of India's total exports to the US in 2022. Major product champions are provided in **Table 4.1**.

Table 4.1: List of Top 10 Product Champions from India to the US (HS 6-digit level)

HS Code	Product Label	India's Exports to the US (US\$ million)	Share in India's total exports to the US (%)	Global Imports of the US (US\$ million)	Share in Global Imports of the US (%)
710239	Diamonds, worked, but not mounted or set	8858.6	11.0	23336.3	0.69
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	5708.0	7.1	72780.7	2.16
271012	Light oils and preparations, of petroleum or bituminous minerals which $\geq 90\%$ by volume	4915.0	6.1	33493.6	0.99
841112	Turbojets of a thrust > 25 kN	1002.7	1.2	6767.4	0.20
380893	Herbicides, anti-sprouting products and plant-growth regulators	965.8	1.2	887.1	0.03
870899	Parts and accessories, for tractors, motor vehicles	862.6	1.1	17333.8	0.51
850440	Static converters	726.4	0.9	16080.9	0.48
270750	Aromatic hydrocarbon mixtures of which $\geq 65\%$ by volume	690.8	0.9	481.1	0.01
160529	Shrimps and prawns, prepared or preserved	549.7	0.7	178.5	0.01
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	507.0	0.6	6565.5	0.19

Source: ITC Trade Map and India Exim Bank Analysis

The total number of products in winners in declining sectors category is 283 items, with India's exports of these items amounting to US\$ 13.6 billion and holds a share of 15.7% of India's exports to the US in 2022. Given in **Table 4.2**, these are product items in which India has attained a significant share in the US' import basket, but the US' import demand for these products has been falling in the last decade.

Table 4.2: List of Top 10 Winners in Declining Sectors from India to the US (HS 6-digit level)

HS Code	Product Label	India's Exports to the US (US\$ million)	Share in India's total exports to the US (%)	Global Imports of the US (US\$ million)	Share in Global Imports of the US (%)
711319	Articles of jewellery and parts thereof, of precious metal	306623.7	3.8	10925.8	0.3
030617	Frozen shrimps and prawns	188848.5	2.4	5988.6	0.2
630260	Toilet linen and kitchen linen	66610.8	0.8	2429.7	0.1
630231	Bedlinen of cotton	49178.2	0.6	1628.3	0.0
630492	Articles for interior furnishing, of cotton	48340.1	0.6	220.1	0.0
848340	Gears and gearing for machinery	41090.9	0.5	3424.5	0.1
711311	Articles of jewellery and parts thereof, of silver	35246.5	0.4	1839.4	0.1
940490	Articles of bedding and similar furnishing	27634.9	0.3	2385.5	0.1
630419	Bedspreads of all types of textile materials	27610.4	0.3	133.3	0.0
681099	Articles of cement, concrete or artificial stone	26447.2	0.3	3125.9	0.1

Source: ITC Trade Map and India Exim Bank Analysis

This is followed by underachievers that have 556 items of India's exports amounting to US\$ 7.3 billion in 2022. **Table 4.3** list these items for which import demand in the US market is rising, but India does not have the required competitiveness in the export of these items.

Table 4.3: List of Top 10 Underachievers from India to the US (HS 6-digit level)

HS Code	Product Label	India's Exports to the US (US\$ million)	Share in India's total exports to the US (%)	Global Imports of the US (US\$ million)	Share in Global Imports of the US (%)
271019	Medium oils and preparations, of petroleum or bituminous minerals	711.4	0.9	48718.2	1.4
870323	Motor cars and other motor vehicles	271.2	0.3	83775.2	2.5
848180	Appliances for pipes, boiler shells, tanks, vats etc	228.9	0.3	10284.5	0.3

HS Code	Product Label	India's Exports to the US (US\$ million)	Share in India's total exports to the US (%)	Global Imports of the US (US\$ million)	Share in Global Imports of the US (%)
851762	Machines for the reception, conversion, and transmission	228.3	0.3	51590.3	1.5
940320	Metal furniture	156.1	0.2	8535.5	0.3
210690	Food preparations	144.7	0.2	8090.7	0.2
401120	New pneumatic tyres, of rubber	142.0	0.2	7790.7	0.2
853710	Boards, cabinets and similar combinations of apparatus for electric control	125.1	0.2	15837.8	0.5
870840	Gear boxes and parts for the transport	124.7	0.2	11383.9	0.3
901890	Instruments and appliances used in medical	112.7	0.1	16940.0	0.5

Source: ITC Trade Map and India Exim Bank Analysis

Lastly, in the product category of lagging in declining sectors, India's exports to US in 2022 amounted to US\$ 1.7 billion consisting of 148 items. These include products such as made-up articles of textile material (HS 630790); brassieres and all types of textile materials (HS 621210), medicaments containing hormones and steroids (HS 300439), among others. The high range of export under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future. If the scarce resources are not diverted, then excess of supply to these sectors facing limited demand in the US market would result in further fall in prices in the future. Thus, a significant shift needs to be made from the declining sectors to the product champions in the short run and underachievers in the medium to the long run, to make efficient utilization of resources and further enhance exports from India to the US.

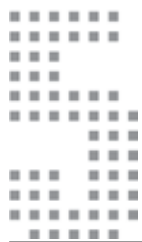
Further, the analysis suggests strengthening the existing products in the category of product champions to harness the full potential of these products which are already showing a robust growth in the US market, whilst India's exports also hold a comparative advantage in them. The 787 product champions identified at 6-digit HS Code level can be further aggregated to product groups at 2-digit HS Code level (**Table 4.4**).

The table below also highlights the share of those sectors in India's exports to the US in 2022. The data presented in **Table 4.4** is an aggregation of India's exports to the US for the identified product champions at HS 6-digit level. The sectors such as pearls and precious stones, medicament and other pharmaceutical products and machinery and electrical equipment are the top sectors holding the largest share in the product champion sectors of India to the US.

**Table 4.4: Broad Industry Classification of Identified Product Champions from India to the US
(HS 6-digit level)**

Broad Industry Category	HS Code	India's Exports to the US in 2022 (US\$ million)	Share in India's Total Exports to the US (%)
Agriculture and Allied	1 to 24	2479.4	3.1
Minerals	25	121.3	0.2
Petroleum products	27	5625.2	7.0
Chemicals and Allied	28-29; 32-28	4700.6	5.9
Medicament and other pharmaceutical products	30	6450.9	8.0
Plastics; rubber and their articles	39-40	1760.3	2.2
Leather articles etc.	41-43	691.3	0.9
Wood; pulp of wood and other articles	44-49	364.5	0.5
Textiles	50-60, 63	1356.0	1.7
Apparels	61-62	4933.0	6.1
Footwear; headgear etc.	64-65	545.3	0.7
Articles of stone, plaster, glass etc.	68-70	1007.7	1.3
Pearls, precious stones and jewellery	71	9049.2	11.3
Iron & steel and their articles	72-73	3417.1	4.3
Other Base metals and their articles	74-83	1524.8	1.9
Parts of machinery and electrical equipment	84-85	6173.0	7.7
Railway locomotives and other vehicles	86-87;89	2210.1	2.8
Other; photographic; medical instruments and clocks	90	396.3	0.5
Arms and Ammunitions	93	6.3	0.01
Furniture, toys and others	94,96	699.0	0.9

Source: ITC Trade Map and India Exim Bank Analysis



India-US: Tariff Analysis

The US provides trade preference to selected countries based on their eligibility under its Generalized System of Preferences (GSP). The GSP is the largest and oldest U.S. trade preference program. GSP is non-reciprocal in nature with the primary objective of promoting economic growth in developing economies through the provision of preferential duty-free treatment. Established by the Trade Act of 1974, GSP promotes economic development by eliminating duties on thousands of products when imported from one of 119 designated beneficiary countries and territories.

GSP was first authorised for a period of 10 years, it was not established with the intent of becoming a permanent program. Thereafter GSP has been renewed 14 times with each reauthorization lasting generally two to three years. The last extension authorized the program to continue until December of 2020. Ever since, there have been debates and attempts to revive the program, but an official reauthorization is yet to be made.

There is bipartisan interest in reauthorizing GSP, though some Members of US Congress have proposed changes to the program. Proposed amendments include adding new eligibility criteria (e.g., human rights, enforcement of environmental laws and international agreements, good governance, and digital trade), increasing reporting of annual review results, and amending the value limits placed on eligible products.

GSP for India

In 2019, the US government withdrew all Generalized System of Preferences (GSP) trade benefits that Indian exports to the US received, citing reasons of lack of market access for the US commodities in India. In 2018, India was the biggest beneficiary of the GSP regime with US\$ 6.3 billion of Indian merchandise exports to U.S. covered by GSP.

During the 14th Ministerial-level meeting of the India-United States Trade Policy Forum (TPF) held in New Delhi in January 2024, the Commerce and Industry Minister of India reiterated India's interest in restoration of its beneficiary status under the US GSP program. The U.S. Trade Representative noted that India's demand could be considered, as warranted, in relation to the eligibility criteria determined by the U.S. Congress.

This chapter conducts a tariff analysis of the rates the US imposes presently (as per the latest available data) post the status termination. After analysing the current tariff structure that exports of both India and the US face in each other's countries, the study is extended to compare tariff rates imposed by the US across economies with different types of preferential trade agreements.

Tariffs and its Terminology¹⁰

Customs duties on merchandise imports are called tariffs. Tariffs give a price advantage to locally produced goods over similar goods which are imported, and they raise revenues for governments. The different types of tariff terminology and data used in the present analysis are as follows.

Most Favoured Nation Tariff

The most favoured nation (MFN) tariffs are what countries promise to impose on imports from other members of the WTO, unless the country is part of a preferential trade agreement (such as a free trade area or customs union). This means that, in practice, MFN rates are the highest (most restrictive) tariffs that WTO members charge one another.

Some countries impose higher tariffs on countries that are not part of the WTO. In some rare cases, WTO members/GATT contracting parties have invoked the “Non-Application Clause” of WTO/GATT agreements and chosen not to extend MFN treatment to certain other countries.

Bound Tariff

Bound tariffs (BND) are specific commitments made by individual WTO member governments. The bound tariff is the maximum MFN tariff level for a given commodity line. When countries join the WTO or when WTO members negotiate tariff levels with each other during trade rounds, they make agreements about bound tariff rates, rather than actually applied rates.

Bound tariffs are not necessarily the rate that a WTO member applies in practice to other WTO members’ products. Members have the flexibility to increase or decrease their tariffs (on a non-discriminatory basis) so long as they don’t raise them above their bound levels. If one WTO member raises applied tariffs above their bound level, other WTO members can take the country to dispute settlement. If the country did not reduce applied tariffs below their bound levels, other countries could request compensation in the form of higher tariffs of their own. In other words, the applied tariff (actual tariff) is less than or equal to the bound tariff in practice for any product.

The gap between the bound (committed and difficult to increase) and applied MFN rates is called the binding overhang. It is argued that a large binding overhang makes a country’s trade policies less predictable. This gap tends to be small on average in industrial countries and often large in developing countries.

Effectively Applied Tariff

Effectively Applied Tariff (AHS) is the actual tariff imposed upon the country. WITS database of the World Bank uses the concept of effectively applied tariff which is defined as the lowest available tariff. If a preferential tariff exists, it will be used as the effectively applied tariff. Otherwise, the MFN applied tariff will be used. The importing country will apply the MFN tariff if the product fails to meet the country’s rules that determine the product’s country of origin.

¹⁰ Types of Tariffs by WITS, World Bank

Preferential Tariff

A preferential tariff (PRF) is one that falls under a preferential trade agreement, where countries make a deal in which they agree to charge a lower rate than the MFN rate. Virtually all countries in the world are part of at least one preferential trade agreement, under which they promise to charge lower tariffs than their MFN rate to another country's products. In a customs union (such as the Southern Africa Customs Union or the European Community) or a free trade area (e.g., NAFTA), the preferential tariff rate is zero on essentially all products. These agreements are reciprocal - all parties agree to give each other the benefits of lower tariffs. Some agreements specify that members will receive a percentage reduction from the MFN tariff, but not necessarily zero tariffs. Preferences therefore differ between partners and agreements.

The US' Tariff on Imports from India

In the current analysis, the tariff on 6-digit HS Code is taken into consideration, using TRAINS based WITS data. The year considered for the analysis is 2021 because prior to this India was a beneficiary of the US' GSP that allows developing countries, satisfying certain criteria to export duty-free goods to the US. This GSP status of India, however, was revoked by the US government in 2019. Considering there presently exists no preferential trade agreement between India and the US, the effectively applied tariff (AHS) imposed on the US imports from India is the same as the MFN tariffs.

The tariff structure of that of the US varies greatly from that of India. The latter has a highly bounded tariff structure, that is, several products have quite high tariff ceilings in order to protect domestic production. Whereas the US being a developed country and a well-known propagator of free trade has much lower binding rates of tariff.

Table 5.1: Effectively Applied Tariffs on the US' Imports from India in 2021

Effectively Applied Tariff	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports (US\$ million)	Share in Total Imports (%)
0	1365	2209	35787.9	48.3
<01	7	16	356.5	2.6
01 to 05	1355	3664	19948.5	24.7
06 to 10	572	1464	11,055.9	13
11 to 15	230	737	3960.6	5.4
16 to 20	52	197	827.2	1.2
21 to 25	12	36	46.9	0.1
26 to 30	7	17	8.2	-
31 to 35	-	-	-	-
36 to 40	1	13	0.8	-
41 to 45	-	-	-	-
46 to 50	-	-	-	-
51 to 55	-	-	-	-
56 to 60	1	9	1.0	-
61 to 65	-	-	-	-

Effectively Applied Tariff	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports (US\$ million)	Share in Total Imports (%)
66 to 70	-	-	-	-
71 to 75	-	-	-	-
76 to 80	2	24	14.7	-
81 to 85	-	-	-	-
86 to 90	-	-	-	-
91 to 95	-	-	-	-
96 to 100	-	-	-	-
>100	2	8	24.1	-
Not defined	162	301	3,774.7	-
Total	3,768	8,695	75,807	100.0

Source: WITS database and India Exim Bank Analysis

Table 5.1 above lists the simple average of the effectively applied tariff imposed by the US on imports from India for the year 2021. The US being a developed economy has effectively applied tariff rates that are less stringent and comparatively lower than that of developing economies like India. In 2021, almost half of all imports into US from India, that is, 1365 product imports with a share of 48.3% worth US\$ 35.8 billion were subjected to zero tariffs. Following this, the next major share of products at 43.1% fall under the effectively applied tariff rates of 1-15% with a value of US\$ 35 billion. At rates greater than 100%, there are 2 products at 350% effectively applied tariff corresponding to HS-24 (tobacco).

India's Tariff on Imports from the US

Table 5.2 below represents the bound rates for India's imports from the US in 2021. Based on table, it can be observed that India being a developing country has a high tariff binding coverage with majority of its imports from the US having significant tariff ceiling rates (40.7% imports with bound tariff ranging from 31% to 40%).

Table 5.2: Bound Rates on India's Imports from the US in 2021

Bound Tariff Rates (%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	India's Imports from the US (US\$ million)	Share in Total Imports (%)
0	97	224	1,675.0	4.1
01 to 10	26	231	236.1	0.6
11 to 20	116	351	1,286.5	3.1
21 to 30	435	972	2,736.6	6.6
31 to 40	1,733	3,561	16,810.8	40.7
41 to 50	9	16	61.9	0.2
51 to 60	12	23	14.7	0.0

Bound Tariff Rates (%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	India's Imports from the US (US\$ million)	Share in Total Imports (%)
61 to 70	5	18	3.7	0.0
71 to 80	6	10	26.9	0.1
81 to 90	6	17	16.7	0.0
91 to 100	88	170	341.9	0.8
101 to 110	2	8	20.1	0.0
111 to 120	2	12	0.8	0.0
121 to 130	5	20	9.4	0.0
131 to 140	-	-	-	-
141 to 150	130	275	458.2	1.1
>150	16	33	3.5	0.0
Bound Duty not specified	1105	1335	17,562.3	42.6
Total	3,793	7,276	41,265.1	100.0

Source: WITS database and India Exim Bank Analysis

As seen in **Table 5.2**, at 6-digit HS Code level, 4.1% of all imports of India from the US have no tariff ceiling that is they correspond to zero bound tariff rates. Over 47.5% of such imports, corresponding to 2177 products, are bounded within the 21-50% bound tariff rates, with 40.7% of products alone falling under the bounded rates of 31-40% corresponding to US\$ 16,810.8 million worth of commodities imported from the US. Further on, another significant share of 42.6% of all US imports into India remain with unspecified bound tariff rates. A total of 130 products has high bound tariff rates of 141-150%. Products falling under this category of very high tariff ceilings are mostly food items like fruits, fish, spices, tea, coffee, other dairy items as well as beverages, spirits, vinegar, tobacco and several chemical products among other items. Products that have tariff ceilings greater than 150% that is 233.3% and 300%, all corresponding to HS-15 (animal or vegetable fats and oils) account for imports by India worth US\$ 3.5 million. All these 16 products correspond to HS 15 i.e. animal or vegetable fats and oil.

While **Table 5.2** presents the bound tariff rates or the tariff ceiling, **Table 5.3** shows the simple average of the effectively applied tariff imposed by India on imports from the US, that is, these are the tariff rates that US exporters are subjected to while exporting to India. At 6-digit HS Code, 120 import products from the US that hold a share of 6% and a value of US\$ 2,456.1 million are subjected to zero tariffs. Further on, around 2732 products of value US\$ 23.5 billion falls under the effectively applied tariff rates of 1-10% accounting for a share of 57% of total imports from the US into India in 2021. Almost 38.3% of such US imports face tariffs ranging from 6-10% effectively applied. Further on, 35 products at 6-digit HS Code have effectively applied tariff rates that are at 100% or above. These are majorly products of HS-22 (beverages, spirits and vinegar), HS-87 (vehicles other than railway or tramway) and HS-09 (coffee, tea, mate and spices) among few others.

Table 5.3: Effectively Applied Tariff on India's Imports from the US in 2021

Effectively Applied Tariff (%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	India's Imports from the US (US\$ million)	Share in Total Imports (%)
0	120	218	2,456.1	6.0
01 to 05	373	811	7,716.7	18.7
06 to 10	2,359	5,866	15,818.6	38.3
11 to 15	170	456	2,812.4	6.8
16 to 20	315	687	478.5	1.2
21 to 25	45	81	61.7	0.1
26 to 30	157	373	399.7	1.0
31 to 35	30	82	7.1	-
36 to 40	10	24	85.3	0.2
41 to 45	7	17	0.7	-
46 to 50	9	17	3.0	-
51 to 55	2	7	0.7	-
56 to 60	3	7	0.2	-
61 to 65	1	8	1.1	-
66 to 70	7	24	2.3	-
71 to 75	-	-	-	-
76 to 80	1	2	-	-
81 to 85	-	-	-	-
86 to 90	-	-	-	-
91 to 95	-	-	-	-
96 to 100	18	68	36.6	0.1
101 to 105	-	-	-	-
106 to 110	-	-	-	-
111 to 115	-	-	-	-
116 to 120	-	-	-	-
121 to 125	5	22	10.5	-
126 to 130	-	-	-	-
131 to 135	-	-	-	-
136 to 140	-	-	-	-
141 to 145	-	-	-	-
146 to 150	12	53	27.1	0.1
>150	-	-	-	-
AHS not defined	149	439	11,347.4	27.5
Total	3,793	9,262	41,265.7	100

Source: WITS database and India Exim Bank Analysis

Generalised System of Preferences (GSP)

For GSP, the President of the US, who is the primary authority holder for GSP, selects beneficiary countries and their products based on certain eligibility criteria - the country's level of economic development, extent of market access it provides to its trading partners, presence of proper workers' rights, protection of intellectual property rights, among others - along with recommendations from the United States Trade Representative (USTR).

According to the GSP Guidebook, the US President may also revoke the GSP status of any country after conducting a review of the same, based on factors like sufficient increase in economic development, obstruction in market access, among other reasons. As noted earlier, the GSP program has expired and awaits decision by the US Congress regarding its reauthorization.

In 2020, products valued at US\$ 16.9 billion (imports for consumption) entered the United States duty-free under the program, out of US\$ 152.0 billion worth of total imports from GSP-eligible countries. Total US imports from all countries amounted to about US\$ 2.4 trillion in 2020¹¹.

India, which was the largest GSP beneficiary in 2017, had its designation as a Beneficiary Developing Country (BDC) under the GSP programme removed by the US government, effective June 5, 2019. Following the eligibility review that was conducted by the then US government in 2018, the removal of India as a GSP beneficiary country was announced citing reasons of lack of adequate market access to several US products as well as its use of price control mechanisms by India.

Table 5.4 provides the effectively applied tariff rates of all products at 2-digit HS Code level that the US imports from India for the years 2018 and 2021. This helps to make comparisons between 2018 –a year when India received GSP benefits in the form of preferential tariff rates with 2021 – a year with no GSP or preferential tariff benefits for Indian commodities.

Table 5.4: Comparison of Effectively Applied Tariffs on US' Imports from India in 2018 and 2021 (2-digit HS Code level)

HS Code (2 digit)	Product name	2018				2021		
		AHS	PRF	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS	Total number of tariff lines	Total Value of Imports (US\$ million)
01	Live animals	1*	-	3*	0.0	-	-	-
02	Meat and edible meat offal	-	-	-	-	-	1	1.5
03	Fish and crustaceans, molluscs	0.08	0	32	2,136.1	0.7	49	2,782.5
04	Dairy produce	11.91	7.09	173	93.9	12.7	179	136.0
05	Products of animal origin	0.07	0.15	14	14.9	0.3	11	12.4
06	Live trees and other plants	0	0	21	18.7	4.3	20	30.5
07	Edible vegetables and certain roots and tubers	1.85	0.85	126	79.1	6.9	114	84.1
08	Edible fruit and nuts	2.53	1.26	63	101.2	4.9	73	47.9
09	Coffee, tea, maté and spices	0.01	0.05	56	289.2	0.3	56	416.4

¹¹ Generalized System of Preferences (GSP): Overview and Issues for Congress: Congressional Research Service

HS Code (2 digit)	Product name	2018				2021		
		AHS	PRF	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS	Total number of tariff lines	Total Value of Imports (US\$ million)
10	Cereals	0.31	0	17	229.2	3.2	19	230.5
11	Products of the milling industry	0.21	0.22	31	66.6	4.2	32	78.5
12	Oil seeds and oleaginous fruits	0.09	0	36	273.6	0.4	41	261.6
13	Lac; gums, resins	0.36	0	12	614.3	0.9	13	495.1
14	Vegetable plaiting materials	0.55	1.1	9	12.3	1.5	8	46.9
15	Animal or vegetable fats and oils	1.24	0	40	134.8	4.0	43	214.5
16	Preparations of meat, of fish or of crustaceans	2.46	2.81	34	297.4	2.8	39	558.3
17	Sugars and sugar confectionery	1.48	1.48	59	22.7	6.1	65	32.6
18	Cocoa and cocoa preparations	0.15	0.22	34	47.6	2.4	33	30.9
19	Preparations of cereals, flour, starch or milk	1.39	1.18	55	138.0	5.7	79	193.6
20	Preparations of vegetables, fruit, nuts	4.97	4.55	128	134.3	10.7	157	179.6
21	Miscellaneous edible preparations	2.46	1.46	90	118.1	5.8	90	164.8
22	Beverages, spirits and vinegar	0.75	1.24	36	9.2	2.2	51	16.2
23	Residues and waste from the food industries	0.96	1.62	21	132.0	1.2	24	236.2
24	Tobacco and manufactured tobacco substitutes	123.81	16.67	53	33.0	175.0	50	35.2
25	Salt; sulphur; earths and stone; plastering material	0	0	45	102.3	0.3	49	87.8
26	Ores, slag and ash	0	0	13	2.6	0.0	5	5.3
27	Mineral fuels, mineral oils	0	0	20	282.2	0.0	21	3,222.3
28	Inorganic chemicals	0.17	0.08	209	118.9	2.1	205	211.2
29	Organic chemicals	1.34	1.19	881	2,513.7	3.7	902	3,896.1
30	Pharmaceutical products	0.14	-	47	6,508.9	0.2	49	9,111.2
31	Fertilisers	0	-	11	7.8	0.0	12	17.9
32	Tanning or dyeing extracts	1.68	0.5	94	298.3	3.9	104	370.2
33	Essential oils	0.21	0	43	303.3	1.6	42	406.2
34	Soap, organic surface-active agents	0.37	0.01	32	97.8	1.8	33	159.7
35	Albuminoidal substances	0.36	0.41	18	36.9	1.5	18	53.6
36	Explosives; pyrotechnic products	0.39	0.98	9	9.3	1.5	8	4.3
37	Photographic or cinematographic goods	0	0	10	0.4	1.5	8	0.1
38	Miscellaneous chemical products	1.81	0.71	106	410.5	3.9	118	502.2
39	Plastics and articles thereof	0.42	0.28	209	655.3	4.8	211	1,102.9
40	Rubber and articles thereof	0.25	0.35	129	551.5	1.7	134	949.2

HS Code (2 digit)	Product name	2018				2021		
		AHS	PRF	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS	Total number of tariff lines	Total Value of Imports (US\$ million)
41	Raw hides and skins (other than furskins)	0.58	0.34	89	10.1	2.4	70	8.6
42	Articles of leather; saddlery and harness	3.47	2	89	553.5	8.0	86	670.2
43	Furskins and artificial fur	1.08	0	12	5.0	3.7	11	6.6
44	Wood and articles of wood; wood charcoal	0.16	0.13	129	122.7	2.0	138	245.3
45	Cork and articles of cork	0	0	15	0.3	0.9	16	0.4
46	Manufactures of straw	0.81	0.81	42	65.6	4.2	45	148.0
47	Pulp of wood	0	-	1	0.0	0.0	2	0.0
48	Paper and paperboard	0	-	177	126.0	0.0	196	285.7
49	Printed books, newspapers, pictures	0	-	27	68.9	0.0	29	95.8
50	Silk	0.56	1.3	11	11.8	0.7	13	14.0
51	Wool, fine or coarse animal hair	8.04	0	65	3.6	8.6	58	5.4
52	Cotton	8.04	6.62	197	104.3	8.0	213	139.4
53	Other vegetable textile fibres	0.87	1.21	26	65.9	1.2	26	137.4
54	Man-made filaments	10.15	3.45	114	206.7	10.2	120	304.1
55	Man-made staple fibres	11.2	-	90	136.3	10.8	97	180.0
56	Wadding, felt and nonwovens	3.56	2.58	50	103.4	3.9	55	268.6
57	Carpets and other textile floor coverings	2.6	2.57	47	959.1	3.0	47	1,398.1
58	Special woven fabrics; tufted textile fabrics	7.83	-	68	47.3	8.5	70	59.7
59	Impregnated, coated, covered or laminated textile	2.73	1.68	58	124.4	3.5	56	231.6
60	Knitted or crocheted fabrics	10.49	-	42	78.5	10.3	43	187.2
61	Articles of apparel and clothing accessories, knitted	12.72	8.31	247	1,879.4	12.8	247	2,347.5
62	Articles of apparel and clothing accessories, not knitted	9.98	5.93	389	2,146.0	10.1	388	2,149.8
63	Other made-up textile articles	6.95	3.16	96	2,633.5	6.9	97	3,744.2
64	Footwear, gaiters and the like	8.61	5.89	140	461.2	9.2	139	486.0
65	Headgear and parts thereof	1.15	1.84	29	8.6	2.8	29	19.0
66	Umbrellas, sun umbrellas, walking sticks	0	0	8	0.6	4.6	8	1.1
67	Prepared feathers and down	0	0	13	16.1	2.6	13	21.9
68	Articles of stone, plaster, cement, asbestos, mica	0.09	0	53	541.1	1.5	56	1,029.5
69	Ceramic products	1.69	2.54	79	87.1	4.0	79	239.5
70	Glass and glassware	2.57	1.58	151	144.1	5.5	150	292.4

HS Code (2 digit)	Product name	2018				2021		
		AHS	PRF	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS	Total number of tariff lines	Total Value of Imports (US\$ million)
71	Natural or cultured pearls, precious or semi-precious	0.25	0.3	86	11,597.5	2.4	92	15,993.9
72	Iron and steel	0.12	0.88	144	309.8	0.2	139	713.5
73	Articles of iron or steel	0.28	0.26	232	1,344.3	1.4	223	2,084.2
74	Copper and articles thereof	0.01	0.01	76	112.3	2.0	82	181.7
75	Nickel and articles thereof	0	0	24	16.6	2.5	18	13.3
76	Aluminium and articles thereof	0.15	0.15	62	718.4	3.6	62	624.2
78	Lead and articles thereof	0	0	7	61.3	1.7	9	2.1
79	Zinc and articles thereof	0.42	0.42	10	30.5	3.3	6	29.8
80	Tin and articles thereof	0	0	8	1.8	1.4	9	7.3
81	Other base metals; cermets; articles thereof	1.03	0.68	31	18.1	3.7	27	30.4
82	Tools, implements, cutlery, spoons and forks	0.1	0.15	131	212.7	2.8	132	328.0
83	Miscellaneous articles of base metal	0.1	0.14	59	289.1	2.7	59	451.1
84	Machinery and mechanical appliances	0.08	0.05	653	3,480.8	1.3	656	4,757.4
85	Electrical machinery and equipment	0.07	0.03	485	1,758.3	1.5	506	3,653.3
86	Railway or tramway locomotives	0.01	0.01	20	64.4	2.2	20	18.8
87	Vehicles other than railway or tramway	1.14	0.69	157	2,911.4	2.3	156	2,702.5
88	Aircraft, spacecraft, and parts thereof	0	0	9	178.7	0.4	8	195.8
89	Ships, boats and floating structures	0	-	4	0.2	0.7	9	0.8
90	Optical, photographic, and medical equipment	0.03	0.06	272	541.8	0.8	265	636.8
91	Clocks and watches and parts thereof	2.23	1.05	72	4.5	4.4	104	7.2
92	Musical instruments	0.17	0	36	3.6	3.3	39	4.6
93	Arms and ammunition	0.1	0.15	25	49.3	1.3	25	76.9
94	Furniture	0.33	0.92	91	973.5	1.8	91	1,708.0
95	Toys, games and sports requisites	0.44	0.42	61	141.3	2.2	70	269.6
96	Miscellaneous manufactured articles	0.57	0.62	116	130.8	4.1	118	170.2
97	Works of art, collectors' pieces and antiques	0	-	7	70.9	0.0	7	42.6

Source: WITS database and India Exim Bank Analysis

*Note – Data of 2017 due to unavailability of 2018 data

According to **Table 5.4**, the effectively applied tariff rates of 11 HS Code categories – HS-88 (aircraft, spacecraft, and parts thereof), HS-25 (salt; sulphur; earths and stone; plastering material), HS-6 (live trees and other plants), HS-67 (prepared feathers and down), HS-78 (lead and articles thereof), HS-75 (nickel and

articles thereof), HS-66 (umbrellas, sun umbrellas, walking sticks), HS-80 (tin and articles thereof), HS-37 (photographic or cinematographic goods), HS-89 (ships, boats and floating structures) and HS-45 (cork and articles of cork), have changed from zero in 2018 to a non-zero value in 2021. Thus, implying that these are the products that went from receiving preferential tariff rates of zero under GSP in 2018 to being subjected to non-zero effectively applied tariffs in 2021 once GSP benefits were removed. A total of 4 HS Code categories of the 11 mentioned here, saw a fall in total import values in 2021 from 2018 possibly due to the removal of tariff benefits along with the pandemic induced disruptions.

Furthermore, at 2-digit HS Code level, there have been several imports by US from India that in 2021 saw a further hike in their effectively applied tariff rates from an already existing non-zero rate in 2018 when GSP benefits were still provided to India. Of these, 11 product categories experienced a decrease in total import value from 2018 to 2021. The tariff hike could be among several other contributing factors that resulted in this fall in total imports from India in 2021. This change is noteworthy as some of these product categories are among India's top 15 exports to the US like HS-87 (vehicles other than railway or tramway). Furthermore, some other products that are among India's top exports to the US like HS-71 (natural or cultural pearls and precious stones), HS-30 (pharmaceutical products), HS-84 (machinery and mechanical appliances), HS-85 (electrical machinery and equipment) and 29 (organic chemicals), as exceptions, have experienced a rise in total imports into the US in 2021 despite having their tariffs hiked from that of 2018.

Table 5.5 shows the effectively applied tariff rates on US imports from India at 6-digit HS Code level in 2018, that is, when GSP benefits in the form of preferential duty-free treatment was still provided to India. Such preferential benefits are reflected in **Table 5.5** where over 2,535 products worth US\$ 35.2 billion accounting for a substantial share of 66.9% of total imports from India in 2018 received duty free benefits in US. This can be compared to **Table 5.3** that shows a reduction in this share of imports that received duty free treatment in 2021 at 48.3%. Following this, the next major share of imports from India in 2018 at 16.1% consisted of 412 items at a value of US\$ 8.5 billion that was subjected to effectively applied tariff rates of 1-5%. The highest tariff rates were at 350% for 2 items both of the HS Code 24 (viz. other manufacture tobacco and its substitutes).

Table 5.5: Effectively Applied Tariffs by the US imposed on Imports from India in 2018

Effectively Applied Tariff (%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports (US\$ million)	Share in Total Imports (%)
0	2,535	4,550	35,189.1	66.9
<01	18	141	320	0.6
01 to 05	412	1,942	8,495.5	16.1
06 to 10	327	839	4,190.6	8
11 to 15	198	583	2,952.3	5.6
16 to 20	49	186	823.3	1.6
21 to 25	11	35	59.3	0.1
26 to 30	6	13	7.7	0
31 to 35	-	-	-	-
36 to 40	1	13	0.5	0
41 to 45	-	-	-	-

Effectively Applied Tariff (%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports (US\$ million)	Share in Total Imports (%)
46 to 50	1	9	2.3	0
51 to 55	-	-	-	-
56 to 60	1	9	5.5	0
61 to 65	-	-	-	-
66 to 70	-	-	-	-
71 to 75	-	-	-	-
76 to 80	1	15	9	0
81 to 85	-	-	-	-
86 to 90	-	-	-	-
91 to 95	-	-	-	-
96 to 100	-	-	-	-
>100	2	8	20.5	0

Source: WITS database and India Exim Bank Analysis

Comparative Study: Effectively Applied Tariffs Across Countries

This section focuses on studying the effectively applied tariff rates (AHS) imposed by the US on imports from India relative to that of Mexico and Philippines. The aim of this comparative analysis is to study the difference in tariff rates that the US imposes on products imported from different economies – with and without preferential trade agreements. For India tariff year is 2021 in order to include tariff rates India currently faces post the removal of its GSP status by the US government in June 2019.

Among the countries that have a FTA with the US, Mexico (tariff year 2021) is selected for this analysis considering its macroeconomic closeness to India and the country's level of economic development relative to that of the other FTA partners of the US. Mexico has been a part of the United States-Mexico-Canada Agreement (USMCA) that came into force in July 2020 thereby replacing the North America Free Trade Agreement (NAFTA) that was signed in 1994. According to the USTR, this FTA aims to create reciprocal trade relations within the continent in order to expand the North American economy and benefit North American workers, farmers, ranchers, and businesses, as well as support high-paying jobs for Americans.

Further on, Philippines is the other country taken with tariff for year 2020 for this study to provide the perspective of a country receiving PRF in accordance with their GSP benefits by the US government. Herein, Philippines is selected due to its place among the top 5 beneficiaries of the GSP programme in 2020, in terms of total claimed US GSP value. According to the Department of Trade and Industry, Government of Philippines, over the years that it has received such GSP benefits, the US GSP utilisation rate of Philippines has ranged from 67-74%. However, the US GSP for Philippines has expired in 2020 and it is yet to receive a renewal from the US government.

Table 5.6: Comparison of Effectively Applied Tariffs Imposed by the US on Imports from India, Mexico and Philippines (2021)

HS Code	Product name	India			Mexico (FTA)				Philippines (GSP as last received in 2020)			
		AHS	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS	PRF	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS*	PRF*	Total number of tariff lines*	Total Value of Imports (US\$ million)*
01	Live animals	-	-	-	0	0	10	767.1	0.6	-	5	0.4
02	Meat and edible meat offal	-	1	1.5	0	0	51	2,102.4	-	-	-	-
03	Fish and crustaceans, molluscs	0.7	49	2,782.5	0	0	108	614.8	0.22	0.27	50	73.4
04	Dairy produce; birds' eggs; natural honey	12.7	179	136.0	0	0	232	135.6	10.64	9.69	119	0.2
05	Products of animal origin	0.3	11	12.4	0	0	11	82.3	0.2	0.6	7	1.0
06	Live trees and other plants	4.3	20	30.5	0	0	23	97.3	0	0	11	2.2
07	Edible vegetables	6.9	114	84.1	0	0	150	8,388.9	1.61	1.61	55	3.0
08	Edible fruit and nuts; peel of citrus fruit	4.9	73	47.9	0	0	101	9,785.7	2.79	1.02	46	120.6
09	Coffee, tea, maté and spices	0.3	56	416.4	0	0	41	388.8	0.06	0.1	16	1.6
10	Cereals	3.2	19	230.5	0	0	14	15.0	0	0	5	0.1
11	Products of the milling industry	4.2	32	78.5	0	0	25	163.4	0.77	0.92	12	3.9
12	Oil seeds and oleaginous fruits	0.4	41	261.6	0	0	42	120.2	0	0	16	13.3
13	Lac, gums, resins and other vegetable saps	0.9	13	495.1	0	0	10	67.6	1.07	0	5	36.1
14	Vegetable plaiting materials	1.5	8	46.9	0	0	6	67.0	0.73	1.1	8	0.9
15	Animal or vegetable fats and oils	4.0	43	214.5	0	0	42	292.9	1.28	0	17	371.7
16	Preparations of meat, of fish or of crustaceans	2.8	39	558.3	0	0	78	158.7	2.26	3.2	51	109.5
17	Sugars and sugar confectionery	6.1	65	32.6	0	0	59	1,629.7	4.59	4.59	46	66.8
18	Cocoa and cocoa preparations	2.4	33	30.9	0	0	76	530.5	0.52	0.69	32	2.2
19	Preparations of cereals, flour, starch or milk	5.7	79	193.6	0	0	74	1,989.1	0.83	1.16	53	42.0
20	Preparations of vegetables, fruit, nuts	10.7	157	179.6	0	0	162	1,666.7	5.33	5.34	120	215.9
21	Miscellaneous edible preparations	5.8	90	164.8	0	0	88	712.3	3.73	2.24	80	44.7
22	Beverages, spirits and vinegar	2.2	51	16.2	0	0	68	9,649.5	1.44	3.25	42	114.6

HS Code	Product name	India			Mexico (FTA)				Philippines (GSP as last received in 2020)			
		AHS	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS	PRF	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS*	PRF*	Total number of tariff lines*	Total Value of Imports (US\$ million)*
23	Residues and waste from the food industries	1.2	24	236.2	0	0	20	81.6	0.23	0.23	6	0.4
24	Tobacco and manufactured tobacco substitutes	175.0	50	35.2	0	0	38	122.5	98.81	56.25	51	11.9
25	Salt; sulphur; earths and stone	0.3	49	87.8	0	0	58	556.0	0	-	4	0.5
26	Ores, slag and ash	0.0	5	5.3	0	0	26	130.4	-	-	-	-
27	Mineral fuels, mineral oils	0.0	21	3,222.3	0	0	28	16,209.7	0	-	2	0.1
28	Inorganic chemicals; organic or inorganic compound	2.1	205	211.2	0	0	158	746.5	0.39	0	28	10.6
29	Organic chemicals	3.7	902	3,896.1	0	0	612	736.5	1.24	0.4	44	40.0
30	Pharmaceutical products	0.2	49	9,111.2	0	0	23	655.9	0	-	12	1.8
31	Fertilisers	0.0	12	17.9	0	-	18	148.0	-	-	-	-
32	Tanning or dyeing extracts	3.9	104	370.2	0	0	100	323.1	0.87	0.22	35	33.9
33	Essential oils and resinoids; perfumery	1.6	42	406.2	0	0	41	1,127.6	0.83	0	29	8.5
34	Soap, organic surface-active agents	1.8	33	159.7	0	0	40	823.2	0	0	20	2.5
35	Aluminoid substances; modified starches; glues	1.5	18	53.6	0	0	16	122.4	2.1	-	1	0.1
36	Explosives; pyrotechnic products; matches	1.5	8	4.3	0	0	11	104.3	0.7	1.4	4	0.7
37	Photographic or cinematographic goods	1.5	8	0.1	0	0	10	21.7	0.14	0	6	1.3
38	Miscellaneous chemical products	3.9	118	502.2	0	0	128	789.3	1.58	0.87	16	19.2
39	Plastics and articles thereof	4.8	211	1,102.9	0	0	227	7,242.2	0.99	0.42	111	45.8
40	Rubber and articles thereof	1.7	134	949.2	0	0	130	3,419.5	0.79	0.52	49	153.9
41	Raw hides and skins (other than furskins) and leat	2.4	70	8.6	0	0	104	95.1	0	0	5	0.0
42	Articles of leather; saddlery and harness	8.0	86	670.2	0	0	89	264.8	3.72	2.2	86	373.3
43	Furskins and artificial fur	3.7	11	6.6	0	0	10	0.1	2	-	2	1.0
44	Wood and articles of wood	2.0	138	245.3	0	0	196	782.9	0.57	0.52	81	13.6

HS Code	Product name	India			Mexico (FTA)				Philippines (GSP as last received in 2020)			
		AHS	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS	PRF	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS*	PRF*	Total number of tariff lines*	Total Value of Imports (US\$ million)*
45	Cork and articles of cork	0.9	16	0.4	0	-	13	2.9	-	-	-	-
46	Manufactures of straw	4.2	45	148.0	0	0	45	37.4	0.8	0.8	46	39.0
47	Pulp of wood or of other fibrous cellulosic material	0.0	2	0.0	0	-	4	3.4	0	-	4	17.0
48	Paper and paperboard; articles of paper pulp	0.0	196	285.7	0	-	207	1,295.2	0	-	40	20.7
49	Printed books, newspapers, pictures and other products	0.0	29	95.8	0	-	27	284.8	0	-	17	1.6
50	Silk	0.7	13	14.0	0	-	3	2.5	1.3	1.95	5	0.1
51	Wool, fine or coarse animal hair	8.6	58	5.4	0	0	47	25.4	-	-	-	-
52	Cotton	8.0	213	139.4	0	0	126	63.6	8.05	-	2	0.1
53	Other vegetable textile fibres	1.2	26	137.4	0	0	15	1.1	0.91	3.63	7	0.1
54	Man-made filaments	10.2	120	304.1	0	0	79	145.6	9.47	-	6	0.1
55	Man-made staple fibres	10.8	97	180.0	0	0	78	51.0	-	-	-	-
56	Wadding, felt and nonwovens; special yarns; twine	3.9	55	268.6	0	0	54	186.9	3.85	1.77	30	14.2
57	Carpets and other textile floor coverings	3.0	47	1,398.1	0	0	43	70.2	1.29	1.73	13	0.3
58	Special woven fabrics; tufted textile fabrics	8.5	70	59.7	0	0	57	44.3	4.65	-	28	1.5
59	Impregnated, coated, covered or laminated textile	3.5	56	231.6	0	0	53	398.9	1.7	1.52	14	1.5
60	Knitted or crocheted fabrics	10.3	43	187.2	0	0	44	25.9	10.79	-	6	0.0
61	Articles of apparel and clothing accessories, knit	12.8	247	2,347.5	0	0	237	1,072.9	13.52	7.88	180	304.1
62	Articles of apparel and clothing accessories, not knitted	10.1	388	2,149.8	0	0	381	1,929.3	10.38	5.93	315	181.9
63	Other made-up textile articles	6.9	97	3,744.2	0	0	97	1,261.3	7.81	3.16	74	18.1
64	Footwear, gaiters and the like	9.2	139	486.0	0	0	145	578.6	9.22	4.41	114	55.6

HS Code	Product name	India			Mexico (FTA)				Philippines (GSP as last received in 2020)			
		AHS	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS	PRF	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS*	PRF*	Total number of tariff lines*	Total Value of Imports (US\$ million)*
65	Headgear and parts	2.8	29	19.0	0	0	29	309.1	1.53	2.3	25	13.0
66	Umbrellas, sun umbrellas, walking sticks	4.6	8	1.1	0	0	8	3.0	0	0	4	1.8
67	Prepared feathers and down	2.6	13	21.9	0	0	12	3.9	0	0	13	1.7
68	Articles of stone, plaster, cement, asbestos, mica	1.5	56	1,029.5	0	0	51	916.6	0.46	0	23	61.0
69	Ceramic products	4.0	79	239.5	0	0	81	1,248.7	3.18	1.94	36	6.2
70	Glass and glassware	5.5	150	292.4	0	0	156	1,732.6	1.7	1.7	26	10.3
71	Natural or cultured pearls	2.4	92	15,993.9	0	0	86	6,038.1	0.16	0.23	51	10.0
72	Iron and steel	0.2	139	713.5	0	0	226	4,669.6	0	-	3	0.0
73	Articles of iron or steel	1.4	223	2,084.2	0	0	229	6,562.7	0.44	0.36	71	26.7
74	Copper and articles	2.0	82	181.7	0	0	82	1,501.8	0.29	0.05	27	1.6
75	Nickel and articles	2.5	18	13.3	0	0	19	92.5	0	-	1	0.2
76	Aluminium and articles	3.6	62	624.2	0	0	63	1,820.9	0.63	0.2	26	10.5
78	Lead and articles	1.7	9	2.1	0	0	8	163.6	0	0	1	0.0
79	Zinc and articles	3.3	6	29.8	0	0	12	333.4	0	0	3	0.8
80	Tin and articles	1.4	9	7.3	0	0	10	39.0	0	0	6	0.1
81	Other base metals; cermets	3.7	27	30.4	0	0	42	48.6	0	-	2	0.1
82	Tools, implements, cutlery, spoons and forks	2.8	132	328.0	0	0	117	649.9	0.34	0.23	47	2.5
83	Miscellaneous articles of base metal	2.7	59	451.1	0	0	58	2,441.9	0.08	0.1	38	68.3
84	Nuclear reactors, boilers, machinery	1.3	656	4,757.4	0	0	668	71,481.9	0.24	0.22	331	2870.4
85	Electrical machinery and equipment	1.5	506	3,653.3	0	0	545	70,644.9	0.15	0.08	431	4510.1
86	Railway or tramway locomotives, rolling stock	2.2	20	18.8	0	0	22	154.8	0	-	1	0.0
87	Vehicles other than railway or tramway rolling	2.3	156	2,702.5	0	0	181	94,184.1	0.95	0.78	100	52.9

HS Code	Product name	India			Mexico (FTA)				Philippines (GSP as last received in 2020)			
		AHS	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS	PRF	Total number of tariff lines	Total Value of Imports (US\$ million)	AHS*	PRF*	Total number of tariff lines*	Total Value of Imports (US\$ million)*
88	Aircraft, spacecraft	0.4	8	195.8	0	0	10	855.3	0	-	2	21.1
89	Ships, boats and floating structures	0.7	9	0.8	0	0	10	650.4	0	0	4	0.1
90	Optical, photographic, cinematographic	0.8	265	636.8	0	0	266	17,143.0	0.04	0.13	230	375.3
91	Clocks and watches	4.4	104	7.2	0	0	86	42.2	0.2	0.33	43	38.3
92	Musical instruments	3.3	39	4.6	0	0	37	127.5	0	0	13	0.1
93	Arms and ammunition	1.3	25	76.9	0	0	20	94.3	0.13	0.21	17	48.5
94	Furniture; bedding, mattresses, mattress supports	1.8	91	1,708.0	0	0	91	11,555.1	0.2	0.53	86	303.4
95	Toys, games and sports requisites	2.2	70	269.6	0	0	66	1,234.8	0.47	0.4	47	77.1
96	Miscellaneous manufactured articles	4.1	118	170.2	0	0	115	702.8	0.98	0.89	36	21.3
97	Works of art, collectors' pieces and antiques	0.0	7	42.6	0	-	7	73.0	0	-	4	1.8

Note: “*”- Data for 2020 is used to understand the relative advantage in form of lower tariffs, for countries receiving GSP benefits

Source: WITS database and India Exim Bank Analysis

As an FTA beneficiary, Mexico receives 0% AHS in all 96 product categories while Philippines receives this rate for 24 product categories pertaining to their GSP status as seen in **Table 5.6**. India, on the other hand, receives 0% AHS for 7 product categories. This includes India's 3rd largest export to the US – mineral fuels and oils (HS-27). There are 5 product categories wherein all three countries enjoy 0% AHS simultaneously.

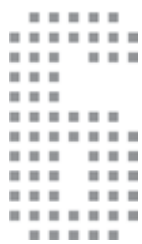
Both India and Philippines face their highest tariff rates of 175% and 98.81% respectively for tobacco (HS-24). Apart from this, India's highest AHS is 12.8% for knitted articles of apparels and clothing (HS-61) while Philippines highest AHS is also for the same product category at 13.52%. Among the products wherein both Mexico and Philippines receive 0% AHS, India receives the lowest AHS of 0.17% for iron and steel (HS-72) while the highest AHS is 4.6% for umbrellas (HS-66).

Further on, India faces AHS that is greater than 0% but less than 5% for 68 product categories, the highest in this range for edible fruits and nuts (HS-8) at 4.9%. This tariff range includes 6 of India's top 10 major exports to the US – organic chemicals (3.7%, effectively applied tariff rate), natural pearls (2.4%), vehicles other than railway or tramway rolling (2.3%), electrical machinery and equipment (1.5%), machinery and mechanical appliances (1.3%) and pharmaceutical products (0.2%). For the same products, Mexico enjoys a consistent 0% while Philippines has the highest rate of 1.24%. Further on, corresponding to this entire tariff range of 0% to 5%, Mexico continues to have 0% tariff while the highest Philippines faces is 3.85% for special yarns (HS-56).

As for AHS rates that start from 5% but are less than 10%, India has 11 product categories. Herein, India's highest AHS is at 9.2% for footwear (HS-64). Corresponding to this tariff range of India, Philippines also faces the highest AHS of 9.2% for the same product that is, footwear (HS-64). Also, there exists several products for which the AHS between India and GSP receiving Philippines is significantly different, at times with a difference of almost 5%. This includes preparations of cereals (HS-19), edible vegetables (HS-7), umbrellas (HS-66) among others. These products are also among those that saw a tariff hike post the removal of GSP in 2019 with umbrellas in particular seeing a jump in AHS from 0% in 2018 to 4.6% in 2021.

Furthermore, for India's highest range of AHS, that is, for 10% and higher (other than HS-24), there are 7 product categories with the highest rate at 12.8% for knitted articles of apparel and clothing (HS-61), as mentioned earlier. In comparison, knitted clothing face an AHS of 0% in Mexico. India's 11th largest export to the US – articles of apparel (knitted) (HS-61) fall in this range at 12.8%. Other textile related items like knitted or crocheted fabrics (HS-60) and articles of apparel (not knitted) (HS-62) also fall within this category subjected to AHS of 10.3% and 10.1% respectively. Within this tariff range too, for the product HS-20 (preparations of vegetables, fruit, nuts), India is subjected to AHS of 10.7% that is significantly higher to that of Philippines' 5.33% and Mexico's 0%.

Lastly, there also exists as exceptional cases, 9 product categories wherein the AHS Philippines faces is higher than that of India, albeit with small differences. These products are silk (HS-50), HS-13, HS-63, cotton (HS-52), knitted or crocheted fabrics (HS-60), both knitted and not knitted apparel articles (HS-61 and 62), footwear (HS-64), and albuminoidal substances (HS-35).



Policy Recommendations to Enhance India-US Partnership

The earlier chapters have established the global and bilateral significance of the India-US trade relations. The following section gives policy suggestions to further strengthen these ties in the future.

Restoration of India's GSP Status

It's noteworthy that the last US GSP authorization ended in December 2020 and is pending since then. Consequently, the upward trajectory in India's bilateral trade with the US could partially be explained by the establishment of a more level playing field stemming from the removal of GSP benefits for eligible beneficiary countries in terms of reduced tariffs.

India who was its largest beneficiary country in 2018, lost out on preferential duty treatment on exports of approximately US\$ 5.6 billion. Several of India's top exports to the US are among commodities that lost duty free treatment following the removal of such GSP programme benefits. At 6-digit level, among them are HS-84 (164 items with 0% AHS), HS-85 (133 items), HS-29 (103 items) and HS-71 (16 items). Most of these commodities now face tariffs above 0% AHS. 66.9% of US' imports from India faced 0% AHS in 2018 (when India was eligible for GSP) but for 2021 after the removal of India from the GSP beneficiaries, the imports under 0% AHS decreased to 48.3%, exposing larger imports to increased tariff rates.

Thus, restoration of GSP benefits to India will encourage better flow of merchandise trade especially those which are its top exports to the US. The comparative study of tariffs conducted in Chapter 5 shows the differences in AHS of India with that of countries with preferential arrangements— Mexico and Philippines. The relatively higher tariffs - specially on those goods that already faced non-zero tariffs prior to the removal of GSP status - imposed on imports from India along with other factors could as consequence obstruct greater flow of goods from India to the US. Thus, restoration of India's GSP benefits would thereby also contribute to achieving the mutual goal of taking bilateral trade to US\$ 500 billion.

Expanding Trade Based on its Potential

India should expand bilateral trade with the US in products wherein it has a comparative advantage. As per the analysis conducted in Chapter 4, India should, in the short run, focus on products in the category of Product Champions that is, products that apart from having a comparative advantage in their exports also show robust growth in the US market. Further on, in the medium to long run, India's focus and resources

should also be directed towards the product category of the Underachievers. These are commodities that lack relative competitiveness currently but possess significantly growing demand in the US market.

The various initiatives undertaken by the Indian government to create a favourable environment for economic growth are poised to serve as catalysts in fostering the expansion of trade. The Production Linked Incentive (PLI) Schemes for 14 key including mobile manufacturing and specified electronic components, critical key starting materials/drug intermediaries & Active Pharmaceutical Ingredients (API) and manufacturing of medical devices, among 11 other sectors have been announced with an outlay of Rs. 1.97 lakh crore (over US\$ 26 billion) with an aim to enhance India's Manufacturing capabilities and Exports¹². Subsequently, initiatives like Make in India, Digital India and Startup India have given the much-needed thrust to the domestic manufacturing. Thus, India supported by necessary policy initiatives can for the long run diversify into products of its comparative advantage through capacity building.

Soft Power of the Indian Diaspora

With a population of over 4.4 million in 2023, the Indian diaspora in the US is a vital tool for India to leverage off its soft power and thereby boost bilateral trade and investment flows. This population is beneficial to the US considering its substantial contributions to the US economy and to India for being a major source of remittances to India. As of 2021, the Indian tech industry has made a significant impact on the US economy, contributing a substantial revenue of US\$ 103 billion. This sector has directly employed 207,000 individuals in the US, experiencing a remarkable 22% growth in employment since 2017. The average wage in this industry stands at an impressive US\$ 106,360, showcasing its economic significance and providing well-paying opportunities for a growing workforce.

The presence of a strong diaspora with proficiency in both English and Indian languages promotes greater socio-economic linkages between the resident country and the native country. This community helps to increase demand for products of Indian origin in the US thereby resulting in the expansion of trade in such commodities like textile and apparel, food items, media content among others. Due to their transnational networks and possession of social capital, the diaspora also helps promote bilateral FDI flows by reducing any information asymmetry that exists between both countries. Thus, focus should be on utilising this advantage of a significant Indian diaspora and promote export of specific ethnic commodities.

Trade in Geographical Indication (GI) Certified Goods

According to the Ministry of Commerce and Industry, as of 2023, India has 547 GI-tagged products, one of the least among all countries globally¹³. Geographical Indication (GI) tags covering categories like agriculture, textile, food items, handicrafts among others, are essential in creating a brand for the country in the international trade scenario more so in the globalised world of today, with products that reflect a culture that is unique to India. A GI certification serves as a protective measure against unauthorized use of a specific regional designation by third parties who fail to meet the established standards. For instance, in areas where the '*Darjeeling GI*' is safeguarded, producers are prevented from using the term '*Darjeeling*' for their products if they do not adhere to the defined standards outlined in the GI certification's code of practice. This

¹² <https://pib.gov.in/PressReleasePage.aspx?PRID=1945155>

¹³ Geographical Indications Registry, Department for Promotion of Industry and Internal Trade, India

mechanism is typically applied to safeguard the authenticity and quality of agricultural products, food items, alcoholic beverages, handicrafts, and industrial products associated with a particular geographical origin.

To enhance overall trade with the US, India can adopt a strategic approach by emphasizing the improvement of marketing efforts for its existing products while concurrently expanding its portfolio of Geographical Indication (GI) certified goods. The marketing enhancement can involve leveraging digital platforms, creating targeted promotional campaigns, and fostering partnerships to increase the visibility of Indian products in the US market.

The registration of additional GI certified products holds significant potential for boosting exports, especially for goods that possess unique qualities tied to specific regions in India. By obtaining GI certification for more products, India not only protects the authenticity and distinctiveness of its offerings but also gains a competitive edge in international trade. This certification acts as a quality assurance and origin marker, providing assurance to consumers and protecting against imitations.

Furthermore, a diverse range of GI certified products, including agricultural items, food products, handicrafts, and industrial goods, can showcase the rich cultural and geographical diversity of India. This, in turn, can appeal to a broader consumer base in the US, where there is a growing interest in unique and authentic products with a story behind them.

Collaboration with industry stakeholders, government bodies, and trade organizations is essential for streamlining the GI certification process and ensuring that it aligns with international standards. By fostering an environment that encourages the development and protection of distinctive regional products, India can not only strengthen its trade ties with the US but also position itself as a key player in the global market for unique and high-quality goods.

Movement of People

The US and India are both service oriented economies – US being the largest and India being the 7th largest service exporter in the world. Despite having a strong flow of bilateral service trade specially in sectors of education and Information Technology (IT), there exists several unresolved issues that need to be addressed to facilitate better service trade between the countries. Indian students opting for higher education in the US could benefit from a more organised and streamlined student visa process to avoid delays and uncertainties. Also, apart from students in the STEM field, visa approval priority should also be extended to students from other varying academic backgrounds thereby providing equal opportunity of quality education to a larger group of students.

The visa fee hike for temporary work visas of H1-B and L-1 that adversely impacts the large pool of Indian working professionals in the US also needs to be solved. Recently in February 2024, the new H-1-B application visa fee, form I-129, has been increased from US\$ 460 (over ₹ 38,000) to US\$ 780 (over ₹ 64,000). The H-1B registration is also going to rise from US\$ 10 (₹ 829) to US\$ 215 (over ₹ 17,000), from the next year. Similarly, the fee for L-1 visas has been increased from US\$ 460 (over ₹ 38,000) to US\$ 1,385 (over ₹ 1,10,000).

Further on, the signing of a totalization agreement or the Social Security Agreement (SSA) between India and the US will also benefit all those Indian professionals who split their career between both these countries. Currently, Indian origin professionals in total pay an estimate of US\$ 1 billion as social security in the US

which is not redeemable for those who return to India before its redeemable duration of ten years is reached. Thus, the signing of a SSA between both the countries will protect the working rights of Indian working professionals in the US and will allow them to derive benefits of the money they contribute while also be able to redeem it in case they leave the country before completing a decade.

Mutual Recognition Arrangements (MRAs)

During the recently concluded India-US Trade Policy Forum in January 2024, representative Ministers from both the countries agreed to establish Joint Facilitative Mechanism (JFM) to mitigate non-tariff barriers which would pursue mutual recognition of results from International Laboratories and establish Mutual Recognition Arrangements (MRAs), on a bilateral basis whenever possible. This would eliminate duplicative testing requirements and reduce compliance costs for trade in high-quality goods¹⁴. Timely conclusion of the MRA would allow exporters greater market access both in form of reduction in non-tariff barriers and reduced compliance costs.

India and the US should also reach a stand regarding the signing of a Mutual Recognition Arrangement (MRA) to further facilitate bilateral services trade. MRA's at country-to-country level will allow mutual recognition of academic qualifications completed in their respective home countries. Given the size of Indian origin students at higher educational institutions of the US – second largest group of foreign students in 2019 - the signing of such an agreement will help expand flow of educational services between India and the US through better educational partnerships, more opportunities for exchange of talent and smooth student mobility.

Collaboration on Digital Data Protection

Data serves as the lifeblood of the digital economy. Facilitating the flow of data across borders is crucial for fostering innovation and attracting investments. To unlock the full potential of digital and data services trade between India and the US, harmonizing the data protection regulations in both countries is essential. Alignment in these regimes is pivotal for ensuring trust, facilitating seamless exchanges, and nurturing a conducive environment for economic growth and technological advancement.

India has notified the Digital Personal Data Protection Act, 2023, the Act provides for an easy cross-border movement and processing of personal data in all geographies, except those barred by the government from time to time. However, the Act also stipulates that this provision shall not restrict any other laws which mandate and provide “for a higher degree of protection for or restriction” on the transfer of personal data outside India by a data fiduciary. This implies that the sectoral laws by various regulators will supersede the provisions of the Act when it comes to mandates for data localisation. These requirements could serve as a total market access barrier. Data protection is vital; however, it is equally important to ensure that barring personal and sensitive data, non-personal and anonymized personal data can move cross borders, thus promoting new innovations based upon the needs of the consumers. India and the US could agree over a Data Adequacy Agreement that facilitates these data movement based on mutual adequacy. The agreement must incorporate clauses that protects the personal data and privacy of the citizens of both the regions and the governments would guarantee the enforceability of these rights.

¹⁴ <https://pib.gov.in/PressReleaselframePage.aspx?PRID=1995749>

Collaboration in Financial Technology (Fintech)

Another area for India-US enhanced partnership is Fintech and the unification of the payment system. India and the US have seen increased investment in new FinTech companies, involved especially in advanced payment application systems. Indians can now use the Unified Payments Interface (UPI) to make payments in seven countries. Following its launch in Sri Lanka and Mauritius in February 2024, UPI payments are now accepted in France, UAE, Singapore, Bhutan, and Nepal (with relatively different scope). These developments are expected to transform the way money is sent abroad or remitted in India. Indians would be able to make transactions with partner countries with the same ease of operating UPI in India. Over the years, the cost of the payments for the cross-border transactions have become quite expensive and this linking of payment system between India and the US would make financial transactions between India and the US faster but also cheaper, thus promoting easy flow of remittances and payments.

Collaboration in Critical Emerging Technology

India and the US announced Initiative on Critical and Emerging Technology (iCET) in May 2022. iCET aims to elevate and expand the strategic technology partnership and industrial cooperation between the governments, businesses, and academic institutions of the two countries. The initiative focusses on cooperation of critical and emerging technologies in areas including artificial intelligence, quantum computing, semiconductors and wireless telecommunication. In lines with this, a Memorandum of Understanding was also signed between India and the US in 2023, enhancing bilateral collaboration on resilient semiconductor supply chains and supporting the development of a semiconductor design, manufacturing, and fabrication ecosystem in India which aims to leverage complementary strengths of both countries and facilitate commercial opportunities and development of semiconductor innovation ecosystems through discussions on various aspects of semiconductor value chain.

In terms of emerging technology, Artificial Intelligence (AI), Robotics, the Internet of Things (IoT), Distributed Ledger Technology (DLT)/Blockchain, Big Data, Cloud Computing, and 3D Printing are opening new opportunities for collaborations and investment in both countries. Indian companies could partner with the US based companies to provide innovative digital solutions for customer management and operating model by offering a comprehensive advanced people, processes, and technology and data analytics services.

Develop Secure Global Supply Chains

India and the US can work together to develop and secure global supply chains. In 2020, the outbreak of the COVID-19 pandemic, followed by the recent geo-political upheaval with its subsequent supply chain disruptions and delays reinforced the requirement of supply chain diversification thus showing greater scope for US and India to work together for mutual benefit.

The pandemic especially exposed the overdependence of the pharmaceutical industry on limited geographical regions, thereby resulting in weak supply chains and delaying access to necessities like medicines in times of a global health crisis. This has forced the post-pandemic world to now look to diversify and find alternate production and raw material sources in order to avoid abrupt shortage issues. In the case of pharmaceuticals, with India already having a strong presence in manufacturing, it can cooperate with the US to create resilient alternative supply chains.

Addressing climate change and fostering economic prosperity necessitates a concerted effort to reduce the carbon footprint of economic activities. Both the US and Indian governments have been actively collaborating with the private sector to drive the development and adoption of clean energy technologies. However, scaling these technologies to meet global demand requires a significant expansion in the extraction of critical minerals such as lithium, copper, nickel, cobalt, and graphite.

The current concentration for the production and processing of many of these essential minerals poses a significant risk to the resilience and security of global supply chains. To mitigate these risks and reduce dependency on undemocratic regimes, the US could collaborate closely with partners like India through initiatives such as the International Partnership for Expanding Energy Access and fostering resilience through diversified production locations. Failure to bolster production or secure reliable access to these minerals would not only hinder the clean energy transition but also pose serious threats to both climate mitigation efforts and economic growth in India and the US.

Box 2: India-Middle East-Europe Economic Corridor

On the sidelines of the G20 Leaders' Summit, Prime Minister of India along with the Leaders from the European Union, France, Germany, Italy, Saudi Arabia, UAE, and the US announced an MOU committing to work together to develop a new India-Middle East-Europe Economic Corridor (IMEC). The IMEC will comprise of two separate corridors, the east corridor connecting India to the Gulf and northern corridor connecting Gulf to Europe. The corridor will provide reliable and cost-effective cross-border ship to rail transit network to supplement existing maritime routes. It intends to increase efficiency, reduce costs, secure regional supply chains, increase trade accessibility, enhance economic cooperation, generate jobs, and lower greenhouse gas emission, resulting in a transformative integration of Asia, Europe, and the Middle East. For India and the US, this new connectivity constitutes a strategic paradigm shift of enormous geopolitical consequence that could reshape its role in the Eurasian economic order. This corridor is expected to reduce the time and cost of transporting Indian goods to Europe by 40% and 30%, respectively, and vice versa.

Energy Co-operation between India-US

Given the ambitious clean energy targets set by India and the shared commitment to combating climate change, there exists a ripe opportunity for deeper collaboration in the realm of energy between India and the US. Building upon the existing India-US. Strategic Clean Energy Partnership (SCEP) launched in 2021, both nations should intensify their efforts to facilitate the transition towards cleaner energy sources and technologies.

To achieve this, it is imperative for India and the US to leverage their respective strengths and resources. Specifically, they should focus on:

- **Expanding Renewable Energy Capacity:** India's aim to reach 500 GW of renewable energy capacity by 2030 aligns with global climate goals. The US, with its expertise in renewable energy technologies and investment capabilities, can provide valuable support in achieving this target through technology transfer, financing, and collaborative research and development initiatives.

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- **Promoting Energy Efficiency:** Both countries should prioritize energy efficiency measures across sectors to reduce energy consumption and emissions. Sharing best practices, implementing energy-efficient technologies, and fostering public-private partnerships can accelerate progress in this area.
 - **Advancing Clean Transportation:** India's accelerated adoption of electric vehicles (EVs) presents an opportunity for collaboration with the US, a leader in EV technology and infrastructure. Joint initiatives could include investment in EV charging infrastructure, research on battery technologies, and policy support to incentivize EV adoption.
 - **Investing in Critical Minerals:** Recognizing the importance of critical minerals for clean energy technologies, India and the US should deepen their cooperation in securing a stable supply chain. Joining initiatives like the Mineral Security Partnership (MSP)¹⁵ can provide a platform for India for collaboration on mineral exploration, processing, and recycling, ensuring a reliable supply of these essential resources for both countries.

Conclusion

The bilateral relationship between India and the US brims with untapped potential, poised for a new era of enriched trade and investment ties. As two economic powerhouses, both nations boast a rich tapestry of bilateral connections spanning a myriad of sectors, including social, cultural, economic, and diplomatic domains. There lies a ripe opportunity to address lingering issues, such as the withdrawal of Generalized System of Preferences (GSP) benefits for India, while concurrently embarking on ambitious collaborative ventures in pivotal arenas like defence, clean energy, and digital technology.

The convergence of efforts between India and the US in these spheres promises to yield manifold benefits, bolstering the fabric of their relationship and underpinning mutual advancement. By leveraging their respective strengths and synergizing strategic objectives, both nations stand to fortify their partnership and chart a course towards shared prosperity and innovation.

¹⁵ The MSP is a collaboration of 14 countries and the EU to catalyze public and private investment in responsible critical minerals supply chains globally.

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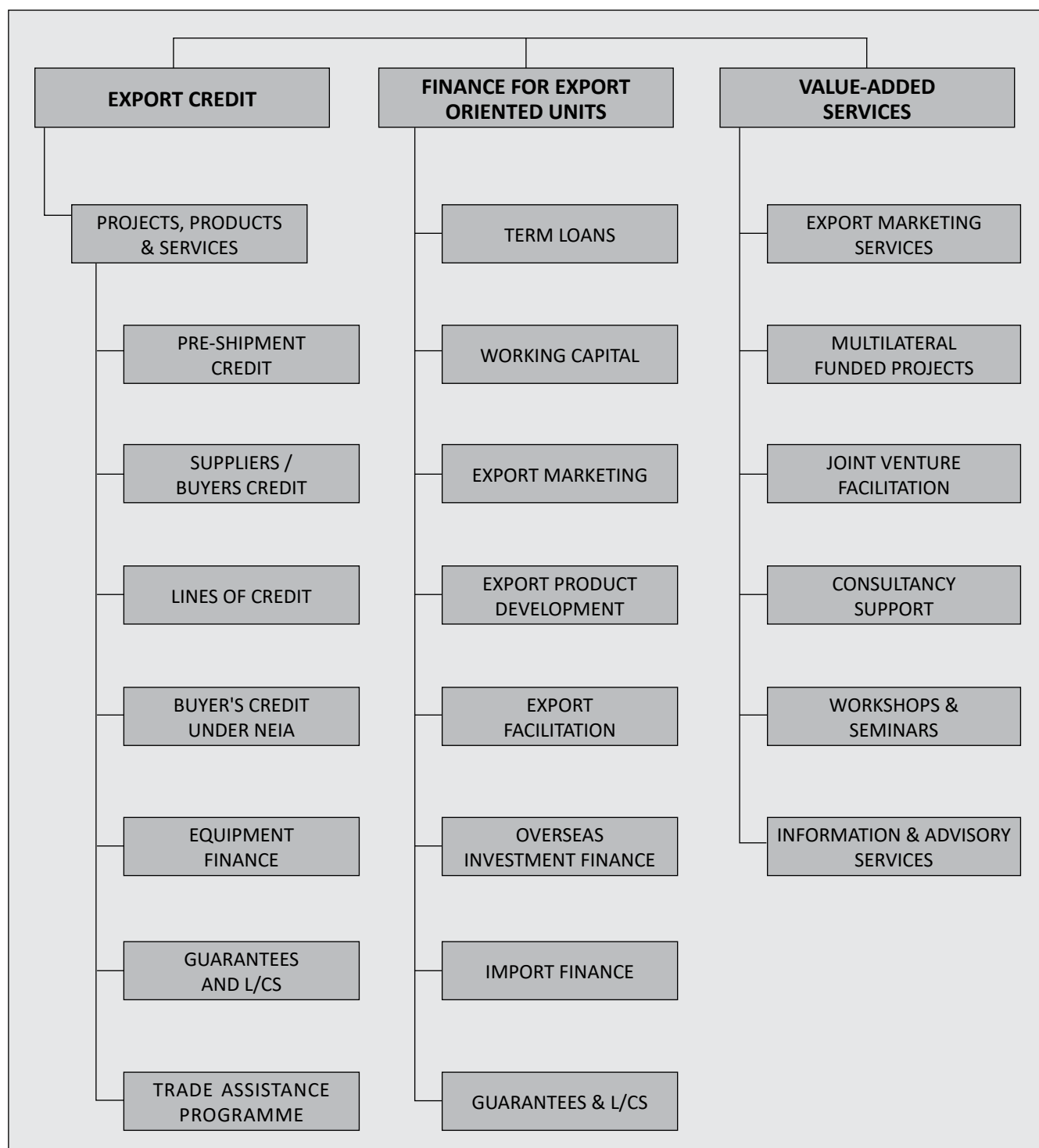
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