India Holds the Keys to Unlocking U.S.-India Trade

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May 31, 2017

Trade between the United States and India is a massive $400 billion below expectations. It is tempting to look at U.S.-India trade as a fulcrum that could keep the bilateral relationship moving forward under the new administration. However, it would be a mistake for the U.S. to push on contentious trade issues that slow the trade discourse and only incrementally increase trade.

The better course lies with continuity and caution. The U.S. should continue pursuing its existing bilateral trade policies until India determines, in the words of Ashley Tellis, senior fellow at the Carnegie Endowment for International Peace, "the role of trade in its growth strategy." Further, the U.S. should watch the signals it sends to India on trade and protectionism or the U.S.-India trade numbers may fall even further below expectations.

Over the past two decades, India-U.S. relations produced meaningful outcomes on a variety of issues ranging from nuclear non-proliferation to climate change. Given the current administration's chaotic nature and lack of support for such issues, it appears likely that progress on these fronts will stagnate or backslide over the next few years. Therefore, the focus of the relationship may well shift to putting greater pressure on trade. This would be a mistake.

Often, the U.S.-India trade discourse focuses on divisive issues that ultimately won't do much to move the trade needle. India seeks an increase in H1-B visas. This was always a tough sell and will likely become an increasingly combative issue in light of the current administration's bent toward economic nationalism. In turn, the U.S. seeks changes to India's intellectual property protections while also flagging its import restrictions and tariffs. These issues bog down the trade conversation more than they bog down trade itself.

India has lowered its trade barriers since the early part of the century, and the big gains from reduced protectionism have already been achieved. Trade has grown exponentially between the two countries absent resolutions on visa or IP issues. Further, one only need look at the level of trade between the U.S. and China to see that those issues are not deal breakers with regard to trade volumes.

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Instead of pushing on contentious issues like visas and IP, the U.S. should give India time and support to grow its infrastructure and manufacturing sector. An empirical analysis of factors likely to increase trade indicates that visa and IP result in marginal increases while improvement in India's infrastructure,

manufacturing, and ease of doing business could result in the greatest trade growth between the U.S. and India.

Support for infrastructure in manufacturing is likely to be anathema in the Trump administration, whose priority is building up U.S. infrastructure and manufacturing. Yes, infrastructure in the U.S. needs investment, but that should not preclude supporting India's growth. India is on track to be the world's second-largest economy by 2050. The U.S. should continue existing policies that invest in education and infrastructure initiatives, such as the Smart Cities venture, to cement access to the market for U.S. enterprises and positive relations. Supporting India's development of a strong manufacturing sector to augment its already strong services sector will ultimately be what increases the U.S-India trade volumes toward that $400 billion goal.

Ultimately, India understands what it needs to grow—which will in turn unlock the potential for increased trade. What remains less clear is whether it is ready to fully embrace free trade. Focusing on export competiveness is one thing, but for India to truly commit to both imports and exports, it must reconcile its past with its future. This is not an easy feat for a country that was colonized by a trading company. This history would naturally leave an often unseen but real mark on India's policymakers' willingness to embrace free trade more fully.

The U.S. can, and should, encourage India's continued openness to trade and support its overall growth through consistency and modeling of more reasonable trade stances than those of the current administration. However, the U.S. should also recognize that India must make its own choices relative to trade and it may need time to do so. Patience could pay significant dividends.

The current administration should tread cautiously and watch its own signals and language. Increasingly protectionist language and threats of trade wars from the U.S. could bring the same from India, creating a situation in which both countries retrench into protectionist practices of the past. Beginning with the U.S. exit from the Trans Pacific Partnership, the U.S. is too often indicating a shift inward that will not help either country achieve its growth or economic goals.

India's development is essential. Only if India achieves manufacturing success—predicated on both infrastructure investment and improvement in its ease-of-doing-business practices—can the two countries achieve exponential bilateral trade increases. As much as the current administration enjoys taking brash action, in this situation it is India that is in the driver's seat. The U.S. should give it the space to move forward, rather than throw the car into reverse by modeling bad behavior in its approach to trade.

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