



# Time to Launch the US-India Trade Relationship into Another Orbit

Narayan Ramachandran, Sarthak Pradhan, Anupam Manur and Pranay Kotasthane

Takshashila Policy Advisory 2023-02  
Version 1.1, May 2023

This document explores the progress of the trade relationship between the US and India, proposing the establishment of an ambitious target of \$500 billion and \$1 trillion for bilateral trade by 2030 and 2040, respectively. It suggests a pathway to attain these objectives.

*Recommended Citation:*

Narayan Ramachandran, Sarthak Pradhan, Anupam Manur and Pranay Kotasthane, "Time to Launch the US-India Trade Relationship into Another Orbit," Takshashila Policy Advisory 2023-02, 2023 May, The Takshashila Institution.

# Table of Contents

<b>I. Preamble .....</b>	<b>3</b>
<b>II. Background on US-India Trade .....</b>	<b>5</b>
<b>III. Setting out the Goal.....</b>	<b>6</b>
<b>IV. Reframing the US-India Relationship .....</b>	<b>8</b>
<b>V. Pathways to Achieve this Goal.....</b>	<b>9</b>
<b>VI. References.....</b>	<b>12</b>
<b>VII. Appendix .....</b>	<b>14</b>

# I. Preamble

The US and India share a common belief that democracy, political and economic freedom, security and the rule of law, serve as the foundation of economic opportunity. The relationship between the world's oldest and the world's largest democracy is a fertile bed to foster shared economic prosperity for the people of both countries. The US and India recognize that each benefit from the other's success in expanding opportunity, creating jobs, reducing poverty, mitigating the impact on climate and enhancing its citizens' well-being.

These shared values are not merely rhetoric but are deeply embodied in their constitutions and, more importantly, represent the DNA of respective societies. The shared prosperity created from a bedrock of common values can be a beacon of aspiration to other democracies.

In the fiscal year 2022-23, the US has emerged<sup>1</sup> as India's largest trading partner. Amid the growing emphasis on strengthening supply chain resilience and reducing dependence on China, an even greater potential emerges for expanding trade between the US and India. With Prime Minister Modi's anticipated state visit<sup>2</sup> to the US scheduled for June 2023, there is a promising opportunity to reinforce and enhance the economic ties between the two nations. This visit holds the potential to foster closer

This document has been formatted to be read conveniently on screens with landscape aspect ratios. Please print only if absolutely necessary.

collaboration and generate mutual benefits, solidifying the already significant partnership between India and the US. This document sets out an ambitious agenda for the bilateral trade relationship over the long term.

## II. Background on US-India Trade

Modern trade between the US and India has been shaped by the break-up of the Soviet Union and the market-oriented reforms India undertook in the early 1990s. Since that time, bilateral trade has been growing steadily. Total trade between the US and India has grown to an estimated \$190 billion<sup>3,4,5</sup> in 2022. It represents a strong rebound from a pandemic-induced dip in 2020.

The US is India's largest trading partner and in turn, India is the ninth largest trading partner of the US in goods trade and has been rising steadily over the last 20 years.

### III. Setting out the Goal

We believe that ambitious goals must be set for US-India Trade (measured as Total Trade). The purpose of ambitious goal setting is to shed light on the direction of travel and to work assiduously to remove obstacles in that direction.

The US and India already exchange a wide range of goods and services. With further cooperation possible in emerging technologies, biotechnology, and defence, the opportunity for a dramatic uptick in trade is before us. Having reviewed the trade relationship between the US and India and the US and other partners like Canada, Mexico and China, we believe that the right aspiration for total trade between the two countries is to achieve \$500 billion by 2030 and \$1 Trillion by 2040. The \$500 billion goal represents a cumulative annual growth rate (CAGR) of 13% for eight years, followed by a CAGR of 8% for the remaining twelve years. Historical trade growth<sup>3,4,5</sup> between the US and India has ranged from a low of -17% during the pandemic year to as high as 32% on the rebound in 2021. The CAGR over the entire 14 years since the implementation of the strategic partnership is approximately 8%.

To provide some context, China acceded to the WTO in late 2001. Allowing for a year of adjustment, its bilateral trade<sup>3,4,6</sup> with the US was \$190 billion

in 2003 (the same as the US-India number in 2022). China's trade with the US grew to over \$500 billion in the 8 years to 2011. China's trade has grown further since then to the range of \$700-800 billion but has plateaued since 2017 when the US-China trade tensions began.

The ambitious goal of reaching \$1 trillion is expected to span at least four administrations in each country, and possibly even more, over the 18-year period leading up to 2040. Given the constitutional commitment in each country to the democratic system of government, an essential facilitator for trade will be to keep the framework of the trade relationship reliable, consistent and strategic across changing administrations.

## IV. Reframing the US-India Relationship

The strongest and most unique aspect of the US-India connection is the people-to-people relationship. The four million members<sup>7</sup> of the Indian diaspora and the rising numbers of first and second-generation Indian Americans has had an outsized impact on numerous aspects of society. Several Fortune 500 firms, particularly the most iconic, are now led by Indian-origin CEOs; Google, Microsoft, IBM, Adobe, Federal Express and Starbucks, to name just a few.

The soft power of both countries extends far and wide but also between them. Hollywood, Bollywood, streaming media, yoga, McDonalds, Google, Facebook, Twitter, and more recently, Apple bind the two countries together in brand recall and shared daily consciousness.

This "software" of relationship is the secret glue that binds the two societies together and is the magic sauce that can take the interaction to an altogether different level.



## V. Pathways to Achieve this Goal

Considering the escalating impact of security concerns, political trust, and strategic implications on international trade and commerce, a prudent need arises to expand the existing US-India 2+2<sup>8</sup> ministerial dialogue. This dialogue currently comprises the Foreign and Defence ministers from both countries. However, to comprehensively address the intricacies of global trade relations, it would be beneficial to transition to a 3+3 format to include both nations' trade and commerce representatives.

The economic landscape in India is witnessing a shift towards the states. Various factors that significantly influence business operations, such as land acquisition and law and order, predominantly lie under the jurisdiction of individual states. Owing to India's vast size and diverse nature, different states have fostered their unique strengths and advantages. The trade relations between the two nations can be further enhanced through a partnership where groups of states engage in reciprocal visits each year, bolstering trade ties and fostering mutual growth.

The Trade Policy Forum (TPF) must be held every year. It is the right cadence to ensure disciplined action and follow-through on ambitious goals. The

institutional memory of the TPF will work to create continuity. The old adage "we overestimate what can be done in one year and underestimate what can be done in 5 or 10 years" is particularly applicable here.

The organic growth in trade between companies on either side needs only the occasional enablement. Trade in technology services, pharmaceuticals, SaaS, industrial goods and many other sectors can continue. It will benefit from forums like the US-India Business Council (USIBC) that seek to remove frictions in the ordinary conduct of business and shine a light on some sticky areas.

Bi-lateral trade between the US and India will also benefit from both countries being part of plurilateral trade partnerships. Until now, the US and India do not together find themselves in any regional trade partnership. The revived QUAD, with a heavy security focus, will be one such partnership with significant trade implications. The Indo-Pacific Economic Framework (IPEF) proposed this summer is a promising way to advance on a partnership, but the partnership details must be worked out. For the greater good, India and the US will have to work out sticking points in the data & privacy sections of the agreement. There appears to be significant mutual concurrence on tax, anti-corruption and clean energy, the other three pillars of the IPEF agreement.

Trade in high-technology sectors would get a fillip from the two governments setting up specific framework agreements. The new US-India initiative on Critical and Emerging Technologies (iCET) is an example of a framework agreement that could kickstart interaction between government, industry and academia in areas such as artificial intelligence (AI), semiconductors, 5G/6G telecommunications, quantum computing, biotech, deep ocean and space technologies.

In commercial and societal terms, the exchange of people<sup>9</sup> will be the biggest binding factor between the two countries. In the short term, reciprocal visa access and availability should be addressed on a priority basis. In the longer term, both sides should work on Indians being separated from the general pool of "H1" applicants and in a category of their own. Additionally, the thresholds for each country employing citizens of the other should be brought down gradually.

## VI. References

1. PTI. "U.S. Emerges as India's Biggest Trading Partner in FY23 at \$128.55 Billion; China at Second Position." The Hindu, April 16, 2023. <https://www.thehindu.com/business/Economy/us-emerges-as-indias-biggest-trading-partner-in-fy23-at-12855-billion-china-at-second-position/article66743587.ece>.
2. Roy, Shubhajit. "US President Biden to Host PM Narendra Modi for State Visit in June." The Indian Express, May 10, 2023. <https://indianexpress.com/article/india/president-biden-host-pm-narendra-modi-official-state-visit-to-us-8602478/>.
3. BEA Interactive Data Application. Accessed May 15, 2023. <https://apps.bea.gov/iTable/?ReqID=62&step=2#eyJhcHBpZCI6NjlsInNOZXBzljpbMiw2XSwiZGF0YSI6W1siVGFibGVMaXN0IiwzMzEwMDMiXV19>.
4. "International Trade in Goods and Services." International Trade in Goods and Services | U.S. Bureau of Economic Analysis (BEA). Accessed May 15, 2023. <https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services>.
5. Bureau, US Census. "International Trade." United States Census Bureau, April 15, 2019. <https://www.census.gov/foreign-trade/balance/c5330.html>.

6. Bureau, US Census. "International Trade." United States Census Bureau, April 15, 2019. <https://www.census.gov/foreign-trade/balance/c5700.html>.
7. Standard, Business. "4.4 Million Diaspora Defined India's Image in US Society: S Jaishankar." Business Standard, April 13, 2022. [https://www.business-standard.com/article/international/4-4-million-diaspora-defined-india-s-image-in-us-society-s-jaishankar-122041300085\\_1.html](https://www.business-standard.com/article/international/4-4-million-diaspora-defined-india-s-image-in-us-society-s-jaishankar-122041300085_1.html).
8. "Fourth Annual U.S.-India 2+2 Ministerial Dialogue - United States Department of State." U.S. Department of State, April 12, 2022. <https://www.state.gov/fourth-annual-u-s-india-22-ministerial-dialogue/>.
9. Pritchett, Lant. "Immigration before Automation." Foreign Affairs, May 10, 2023. <https://www.foreignaffairs.com/podcasts/immigration-before-automation-lant-pritchett>.

## VII. Appendix

### US India Bilateral Trade<sup>3,4,5</sup>

Year	Total US-India Bilateral Trade (Billions USD)	Annual Growth Rate (%)	CAGR - Base year 2008 (%)
2008	65.6		
2009	59.7	-9.0	-9.0
2010	74.2	24.3	6.4
2011	86.3	16.4	9.6
2012	92.8	7.5	9.1
2013	96.8	4.3	8.1
2014	104.1	7.5	8.0
2015	108.6	4.3	7.5
2016	113.8	4.8	7.1
2017	124.8	9.7	7.4
2018	139.8	12.0	7.9
2019	145.5	4.1	7.5
2020	120.8	-17.0	5.2
2021	160.5	32.9	7.1
2022	190.5	18.7	7.9

## US China Bilateral Trade<sup>3,4,6</sup>

Year	Total US-China Bilateral Trade (Billions USD)	Annual Growth Rate (%)	CAGR – Base Year 2002 (%)
2002	157.8	20.5	
2003	191.6	21.4	21.4
2004	245.3	28.0	24.7
2005	302.5	23.3	24.2
2006	362.9	20.0	23.1
2007	409.9	13.0	21.0
2008	436.7	6.5	18.5
2009	394.1	-9.8	14.0
2010	491.2	24.6	15.3
2011	544.0	10.7	14.7
2012	582.0	7.0	13.9
2013	614.3	5.5	13.2
2014	650.9	6.0	12.5
2015	663.0	1.9	11.7
2016	649.1	-2.1	10.6
2017	711.9	9.7	10.6
2018	738.9	3.8	10.1
2019	637.0	-13.8	8.6
2020	615.2	-3.4	7.9
2021	718.8	16.9	8.3
2022	766.1	6.6	8.2



The Takshashila Institution is an independent centre for research and education in public policy. It is a non-partisan, non-profit organisation that advocates the values of freedom, openness, tolerance, pluralism, and responsible citizenship. It seeks to transform India through better public policies, bridging the governance gap by developing better public servants, civil society leaders, professionals, and informed citizens.

Takshashila creates change by connecting good people, to good ideas and good networks. It produces independent policy research in a number of areas of governance, it grooms civic leaders through its online education programmes and engages in public discourse through its publications and digital media.