

Future of US-India Bilateral Trade: Outcome of discussions between President Trump and Prime Minister Modi

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Re-elected after a four-year break, President Donald Trump returned to White House and signed series of executive orders on his Inauguration Day, January 20, 2025. These orders reaffirmed his commitment to his signature slogan—"Make America Great Again" (MAGA)—by implementing both domestic and international measures.

On the domestic front, key policies included a corporate tax rate reduction from 25% to 15% and stricter enforcement of immigration laws, including deportation of illegal migrants. Internationally, Trump's focus has been on restoring America's economic dominance by rolling back globalization and freer trade measures. His administration has begun to impose higher tariffs on imports, particularly from neighboring Canada and Mexico, and of course China.

The globalization reversal: A setback for developing nations

Globalization has significantly benefited developing economies, spurring GDP growth and increasing per capita incomes. The reforms that fueled this growth included:

- Moving away from socialist economic models.
- Embracing market-driven, incentive-based policies.
- Encouraging private sector participation and global trade.

A striking example of this transformation is the communist China. It successfully integrated capitalist strategies into its development framework. Vice Premier Deng Xiaoping famously justified this shift by quoting a Chinese proverb: "It doesn't matter if a cat is black or yellow, as long as it catches mice." This pragmatic approach propelled China to become the world's second-largest economy, surpassing Japan.

However, Trump remains a staunch opponent of globalization. His "America First" stance favors economic protectionism over free trade. Unwilling to engage in direct military conflicts, he has instead opted for a tariff war, targeting emerging markets—including India, which he previously labeled "the King of Tariffs."

Understanding tariffs: Tools of trade protection

Tariffs serve various economic purposes, ranging from revenue generation to protectionism.

Key types include:

- **Revenue Tariffs:** Imposed at low rates primarily to generate government revenue, without restricting imports
- **Protective Tariffs:** Set at high rates (often exceeding 100%) to shield domestic industries from foreign competition
- **Specific Tariffs:** Levied as a fixed amount per unit of imported goods (e.g., a \$1 tax on every imported Mexican avocado)
- **Tariff-Rate Quotas:** Taxes that increase once a certain import threshold is reached (e.g., the 2018 tariffs on washing machines, where the first 1.2 million units faced a 20% tax, but additional imports were taxed at 50%).

Most of the above are also called ad valorem tariffs, as the levies are as a percentage of the landed price of goods, making them more impactful on high-value imports.

If an imported good is highly price-sensitive (demand-elastic), even a revenue tariff can function as a protective measure.

US Trade Deficit: Trump's core concern

A key issue driving Trump's trade policies is America's growing trade deficit. In 2024, US exports of goods and services totaled \$3,196 billion, while imports reached \$4,110 billion, resulting in a \$918.4 billion trade deficit. Trump often refers to this as a "one trillion-dollar deficit."

The largest trade surpluses with the US were recorded by:

- China: \$295.4 billion
- European Union: \$235.6 billion
- Mexico: \$171.8 billion
- Vietnam: \$123.5 billion
- Canada: \$63.3 billion

In 2023, the US trade deficit stood at \$773.4 billion (exports: \$3,056.5 billion, imports: \$3,836.9 billion), with the same key trading partners benefiting from surpluses.

Trump has long argued that while the US maintains low average tariffs (around 3%), many of its trading partners impose significantly higher tariffs:

- Canada: 4% ● Mexico: 7% ● European Union: 5%
- United Kingdom: 4% ● China: 8% ● Japan: 4% ● India: 17% ● South Korea: 13% ● Vietnam: 9% ● Australia: 2%



This disparity reinforces Trump's perception that wealthier nations tend to impose lower tariffs, while developing economies maintain higher barriers to US exports.

US-India bilateral trade: Key issues and agreements

The US is India's largest trading partner, yet India ranks only tenth among US trading partners. US foreign policy strategists believe that strengthening economic ties with India will counterbalance China's dominance in the Indo-Pacific region.

A Global Trade Research Initiative (GTRI) study highlights discrepancies in US-India trade data for 2024. According to India's Directorate General of Commercial Intelligence and Statistics (DGCIS): while Indian exports to the US are \$73.7 billion and Indian imports from the US are \$39.1 billion, US official figures report differently. They are US imports from India: \$91.2 billion and US exports to India: \$34.3 billion.

These inconsistencies led Trump to claim a \$100 billion trade deficit with India, while Indian data suggests a lower deficit of \$45 billion (including goods and services). If US figures are taken into account, the deficit is closer to \$60 billion. GTRI has urged both nations to reconcile these differences before trade negotiations begin in April for a Final Agreement by Fall 2025.

Another point of contention has been tariffs on Harley-Davidson motorcycles. While the pre-budget tariff was 50%, India reduced it to 30% in its February 1, 2025, budget. Despite this, a White House Fact Sheet (February 13, 2025) highlighted India's historically high tariffs on these motorcycles.

India's recent tariff reductions according GTRI

India has low tariffs :

- **Petroleum crude:** Only \$1 per tonne tariff
- **Cut diamonds:** No tariff
- **Aircraft and liquefied natural gas (LNG):** 2.5% tariff

- **High-end motorcycles, lithium-ion batteries for EVs, and mobile phone battery components:** Lower duties introduced in the recent Union Budget

These tariff cuts benefit companies like Harley-Davidson, Tesla, and Apple, aligning with India's strategy to attract foreign investment and technological collaboration.

The future of bilateral trade

The Joint Statement issued on February 13 at the end of talks between two leaders indicate some key trade agreements.

- **India will import:** F-35 fighter jets, petroleum crude, and liquefied natural gas from the US
- **Joint military production:** The US and India will collaborate on defense manufacturing, enhancing security ties
- **Artificial intelligence and technology partnership:** Both nations will work together on AI and emerging technologies.

The two nations will aim at increasing trade to \$500 billion by 2030.

At a joint press conference, Trump expressed satisfaction that these deals would significantly reduce the US trade deficit with India. Prime Minister Modi emphasized the broader vision of a strategic and economic partnership, beyond just trade balances.

Conclusion

With President Trump's return, a promising partnership has begun. While tariff disputes may persist, both nations recognize the strategic importance of closer economic ties. With trade reconciliation efforts, reduced tariffs, and ambitious economic cooperation plans, the two largest democracies are set to redefine their economic future in the Indo-Pacific region. ■



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