

INDIA-U.S. COMMERCIAL RELATIONS: OPPORTUNITIES AND CHALLENGES

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The U.S.-India relationship is of increasing importance to both countries. Yet, bilateral trade and investments, while accelerating, remain below potential. Even as government incentives and bilateral initiatives may help close the gap, it is business leaders who will ultimately determine the growth trajectory of U.S.-India commercial ties. This will require their active engagement with domestic policy formulations as well as exchange through various bilateral and multilateral dialogues.

U.S.-India bilateral cooperation has increased apace in many areas over the past decade, including regional development, energy, and climate change, and (especially post-Covid 19) global health. Notably, the U.S.-India relationship enjoys U.S. bipartisan support and has continued to deepen even through contentious changes in U.S. administrations.

While U.S.-India people-to-people tie continue to tether the growing relationship, an increasingly important bilateral defense and security cooperation is the most visibly changing component, with frequent joint bilateral and regional military exercises just one example. India is not only important but core to the United States' counter-China defense strategy in the Indo-Pacific. Increased engagement through forums such as the Quad lays testament to this fact.

The bilateral defense relationship is accelerating because both countries' wariness of the growing China threat provides them with the framework and impetus for collective action. The countries may not agree on every aspect of the growing security partnership, but the overall goal is clear: China needs to be

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countered. Additionally, India's border with China, which has witnessed military clashes even recently, together with its growing reliance on Asia Pacific trade routes, has caused a significant shift in the country's view that it faces more risks in the Indian Ocean than the Pacific. India understands that its economic development will be tied to its ability to integrate itself in global supply chains, which in turn will be dependent on its ability to safely utilize trade routes in the Pacific. The United States is also being more sympathetic to India's security concerns in the Indian Ocean.

A shared recognition of the China threat is also the reason why India-U.S. trade and commercial dialogues have been most robust in what one might term "defense adjacent" sectors such as cyberspace and supply chain resilience. Since the U.S.-India Defense Technology and Trade Initiative was launched during the Obama Administration, there has been a steady move to make it easier for India to access U.S. military technology. The U.S.-India Initiative on Critical and Emerging Technologies (iCET) promises to advance cooperation in a range of additional cutting-edge technologies. While it remains to be seen how businesses will respond to these initiatives, in theory, they may provide opportunities for both Indian and U.S. companies in development, co-development, investment and exports in related sectors, including cyber and semiconductors. iCET could also foster further cooperation in our IT sectors, and in emerging areas such as AI, thereby extending an already robust IT relationship.

Non- defense bilateral trade and investments between the United States and India are also growing. India has made significant efforts to open its economy to foreign investment. Some notable instances include lifting caps on foreign investment in the insurance sector, building a national single for investment clearances, and offering incentives such as the Production Linked Incentives (PLI). These moves seem to be paying off. As companies seek alternatives to China for manufacturing, investment in key sectors such as smartphones is on the rise. Apple already produces 5-7% of all its iPhones in India, and recently announced exports worth \$1 billion from the country. The company's plan to produce 25% of all iPhones in India is just one of several examples of American companies crowding in. Beyond newer opportunities, the services trade, notably in IT, will likely continue to grow positively because of existing investment and talent put into the relationship. Even as the trade partnership grows, it is a far cry from the total trade targets of \$500 billion set by PM Modi and President Obama in 2014. Given the success India has had in boosting trade with UK, and U.A.E., the U.S.-India partnership has unfulfilled potential.

Why FDI and trade matter

Foreign investment is important for India's economy, and not only for job creation given the rapid population growth. India, with its numerous MSMEs, dynamic entrepreneurs and young and skilled workforce, is well-positioned to become a global supplier and form important linkages to global markets via its exports. This means that the policy framework that the Center and states develop – for example, regulatory frameworks and robust Intellectual Property Rights (IPR) protection and enforcement – will be just as important as the significant infrastructure and investment incentives currently being rolled out, especially for sensitive technologies such as semiconductors, AI, cyber and defense.

Trade is also important for domestic growth as it will benefit both consumers and businesses. On one hand, consumers gain by getting access to a more diversified basket of goods to choose from, on the other, businesses get better access to inputs including materials, intermediaries, and talent. Developing market linkages via exports may also allow India to lure foreign companies into establishing local manufacturing bases. And while job creation is paramount for politicians, modern manufacturing may not produce as many jobs as import-generated sales and distribution systems do.

Beyond economics, building a more dynamic, integrated trade and investment relationship can bolster overall bilateral ties. The strongest partnerships in foreign affairs occur when countries share mutual interests and commitment, underpinned by common values. Take away one leg of this stool and it tumbles. While it is true that even the relatively significant U.S.-India schism surrounding Russia's invasion of Ukraine has not impeded bilateral progress in other spheres, our recent history suggests that that might not always be the case. The broader the bilateral relationship is, the less likely that a disagreement in one area will derail its overall stability.

The Role of Businesses will be Key

U.S. economist Thomas Sowell famously said, "If you want something done, don't leave it up to the government." Given the amount of work that needs to be done, strengthening the commercial relationship between the United States and India is certainly too important a job to be left to the governments alone. Both sides' businesses, which have led the way to expand commercial ties even amidst official trade and other disagreements, should ensure things stay on track.

Indian Americans have been the lynchpin of the U.S.-India commercial relationship. While Satya Nadella, Indra Nooyi, Shantanu Narayan, Ajay Banga, and Raj Subramaniam are some of the most prominent examples of the ties that unite our

business communities, there are many others who span both markets. Yet, we will know that we are truly on the way to well-entrenched U.S.-India trade and investment when more non-Non-Resident Indian (NRI)-affiliated American businesses are familiar with and drawn to the Indian market. This will necessitate, among other things, a deeper understanding of India within American boardrooms, including the important role that Indian states play in implementing policies from the Center and creating investment ecosystems. For this, Indian experts on staff will need to become a quintessential feature of American companies. The current situation is a far cry.

Conversely, while comparatively more Indians have studied or worked in the USA, most have done so in Science, Technology, Engineering, and Math (STEM) or business-related majors. While they may know quite a bit about American politics and culture, few study American history or political science. When Russia invaded Ukraine, there seemed to be little understanding in major Indian media outlets of how U.S. historic links to Europe might have driven our country's response. More serious study of the United States by Indian scholars would go a long way to help create more nuanced mutual understanding, just as Indian observers at think tanks in Washington explained India's position and seemingly helped modulate the USG's reaction to New Delhi's approach.

Indian business leaders can help build a cadre of experts on both sides by funding scholarships in both countries. They, together with U.S. counterparts, can play an active role in ensuring existing commercial dialogues such as the CEO Forum are not just talk shops and that other important groupings such as the Quad, formally include business dialogues.

Road Ahead

Even as bilateral defense ties seem to be accelerating rapidly, there is no equivalent shared vision for overall trade and investment, limiting the potential for growth in consumer and other sectors. India and the United States currently prioritize domestic job creation and industry “reshoring.” India has rejected participation in the trade pillar of the Biden Administration's signature regional economic initiative Indo-Pacific Economic Framework for Regional Prosperity (IPEF). The United States is disinclined to negotiate any Free Trade

Agreement (FTA) and would in any case never accept the types of FTA that India has negotiated with Australia and the U.A.E., as adequate. The “intellectual supply chain” that has created amazing benefits to both countries' IT sectors in the form of expert talent, is mired in U.S. immigration policies and a seeming general disinterest by India to attract global talent. Having said this, Air India's \$34 billion purchase of 220 planes from Boeing is certainly a good omen for the partnership. Both leaders recognize the opportunity for mutual benefit and are keen on delving further into the relationship. However, as lucrative as it may seem, the road ahead for U.S.-India commercial relationship is paved with critical challenges.

While government interest on both sides is critical, businesses' approach to their respective government's policymaking will be even more important for deepening bilateral commercial ties. At the end of the day, IPR, a predictable privacy regime and transparent rulemaking will all be essential for India to attract investment. It is also in Indian business leaders' interests to press their government for these measures as well as to help press the case for the adoption of international standards of corporate accounting. As the United States learned from experiences such as the collapse of Enron or the 2008 financial crisis, faith in overall effective policies and regulatory oversight is essential to ensuring that even major lapses do not threaten the overall economic and commercial ecosystem. It will be interesting to see whether the current troubles facing the Adani Group have economic or political repercussions on future investment in India. The government's and other Indian business leaders' inclination to address problems such as this will greatly impact India's reputation as an FDI destination. Similarly, it is in U.S. companies' interest to see that United States' immigration rules continue to attract Indian and other global talent. ■

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