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## India and the United States a Dynamic Trade Relationship in the Global Economy

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### ABSTRACT

*This article explores the trade relationship between India and the United States, examining its historical evolution, current trade dynamics, and prospects. The bilateral trade between the two countries has been characterized by growth, despite challenges such as tariffs, trade imbalances, and regulatory concerns. The analysis covers various aspects, including key industries, trade agreements, and the role of government policies in shaping the trade landscape.*

**Keywords:** *Bilateral Trade, Economic Partnership, Trade Landscape*

### INTRODUCTION

The trade relationship between India and the United States is one of the most dynamic and evolving partnerships in the global economy. From modest beginnings in the early years of India's independence to a burgeoning economic relationship today, the bilateral trade between these two nations has seen significant transformation. The United States is India's second-largest trading partner, while India is an increasingly important market for U.S. exports. With economic and political shifts shaping the global landscape, the India-U.S. trade ties hold the potential for future expansion, provided both nations can navigate the challenges that emerge.

### HISTORICAL EVOLUTION OF INDIA-U.S. TRADE RELATIONS

#### Early Trade Relations

After gaining independence in 1947, India adopted a self-sufficiency model focused on domestic industrialization and agricultural development. U.S.-India trade remained minimal during this period as India's economic policies emphasized import substitution and limited foreign trade. The U.S. extended economic assistance to India, including food aid under the PL-480 program, but the relationship was more aid-centric than trade-driven.

#### Cold War Era (1947-1990s)

During the Cold War, India pursued a non-alignment policy but leaned towards the Soviet Union for economic and military support. This alignment influenced U.S.-India trade dynamics, leading to a limited exchange of goods and technology. U.S. export restrictions, particularly on advanced technology and defence-related items, hindered trade growth. India's inward-looking economic policies, characterized by high tariffs and restrictive import controls, further constrained bilateral trade. Despite these challenges, trade existed in sectors such as textiles, agricultural products, and machinery but remained relatively insignificant compared to U.S. trade with other nations.

#### Post-Liberalization Era (1991-Present)

In 1991, India initiated economic reforms, reducing tariffs, dismantling import licensing, and encouraging foreign direct investment (FDI). These reforms marked a significant turning point in India-U.S. trade relations, with the U.S. becoming a key trading partner. Bilateral trade diversified into sectors such as information technology, pharmaceuticals, energy, defence, and services. The U.S. emerged as a major destination for India's IT services, contributing to the growth of India's technology industry. Agreements such as the Indo-U.S. Civil Nuclear Agreement (2005) and ongoing dialogues, including the U.S.-India Strategic and Commercial Dialogue, have fostered closer economic ties. The bilateral trade relationship has grown significantly, with both nations exploring areas like renewable energy, e-commerce, and digital technology. Ongoing discussions aim to address trade imbalances and enhance market access for goods and services.

## CURRENT TRADE DYNAMICS BETWEEN INDIA AND THE UNITED STATES

### Bilateral Trade Volume

As of recent data, trade between India and the U.S. exceeds \$150 billion annually. U.S. exports to India consist mainly of technology, machinery, and chemicals, while India exports goods such as pharmaceuticals, textiles, and agricultural products. Trade in services, particularly information technology (IT) and business outsourcing, is also a significant part of the trade balance.

Year/Period	Exports from India to US (US\$ Billion)	Imports from US to India (US\$ Billion)	Total Trade (US\$ Billion)	Remarks
FY24	77.5	40.7	118.2	Includes exports of engineering goods, electronic goods, gems & jewellery, and more.
April-May 2024	14.0	3.2	17.2	Key exports: engineering goods, electronic goods, and gems & jewellery.
2022-23	78.9	49.65	128.55	US emerged as India's largest trading partner.
2021-22	73.3	46.18	119.48	Significant growth in bilateral trade compared to previous years.
2021 (Calendar Year)	67.4	89.6	157.0	Record trade volume in goods and services.
FY23 FDI Inflows	-	6.04	-	US is the 3rd largest source of FDI in India.
2026-27 (Projected)	~150.0 (projected)	~150.0 (projected)	300.0	Based on current trade growth trends and strategic partnerships.

### TRADE BALANCE

India runs a trade surplus with the U.S. due to its strong exports, especially in the technology sector and pharmaceuticals. The U.S. trade deficit with India has raised concerns in Washington, prompting discussions on tariffs and trade policies.

### Sectoral Breakdown

- I. **Information Technology and Services:** India is a global hub for IT outsourcing, and the U.S. is the largest market for Indian IT services, with companies such as Tata Consultancy Services (TCS), Infosys, and Wipro playing major roles.
- II. **Pharmaceuticals:** India's pharmaceutical sector is another key area of trade. India is often referred to as the "pharmacy of the world" due to its generic drug exports.
- III. **Agricultural Products:** U.S. exports to India in agriculture include soybeans, almonds, and wheat.
- IV. **Energy:** Energy cooperation, particularly in the form of oil and natural gas exports, has grown in recent years. The U.S. is an important supplier of oil and LNG to India.

India's exports to the USA reached a value of US\$ 77.5 billion in FY24, covering 7,346 commodities. The major exported items include engineering goods, which accounted for US\$ 17.6 billion, followed by electronic goods at US\$ 10.0 billion, and gems and jewellery at US\$ 9.90 billion. Drug formulations and biologicals contributed US\$ 8.72 billion, while petroleum products and ready-made garments (RMG) made of cotton, including accessories, accounted for US\$ 5.83 billion and US\$ 4.71 billion, respectively.

During the period from April to May 2024, India's exports to the USA stood at US\$ 14.0 billion. Engineering goods led the exports with a value of US\$ 3.07 billion, followed by electronic goods at US\$ 2.11 billion. Gems and jewellery exports were valued at US\$ 1.83 billion, while drug formulations and biologicals accounted for US\$ 1.68 billion. Exports of RMG cotton, including accessories, stood at US\$ 862 million.

India's imports from the USA in FY24 amounted to US\$ 40.7 billion, covering 5,749 commodities. The key imported items included mineral fuels and oils, valued at US\$ 12.9 billion, followed by pearls, precious, and semi-precious stones at US\$ 5.16 billion. Nuclear reactors, boilers, and machinery accounted for US\$ 3.75 billion, while electrical machinery imports stood at US\$ 2.38 billion. In April 2024 alone, India imported goods worth US\$ 3.20 billion from the USA. The major items included mineral fuels and oils at US\$ 1.18 billion, nuclear reactors and boilers at US\$ 330 million, pearls and semi-precious stones at US\$ 272 million, and mineral fuels and oils at US\$ 197 million.

The India-USA trade relationship has witnessed several significant developments. In recent years, trade and investment ties between the two countries have deepened, with total bilateral trade projected to reach US\$ 300 billion by 2026-27. In FY23, India received foreign direct investment (FDI) worth US\$ 6.04 billion from the USA, making it the third-largest source of FDI. Indian companies have also made substantial investments in the USA, collectively amounting to US\$ 40 billion and creating over 425,000 direct jobs. Similarly, the USA remains a preferred destination for Indian students, with over 320,260 Indian students contributing US\$ 7.7 billion annually to the US economy as of 2023.

Several strategic partnerships and agreements have been signed to enhance bilateral cooperation. These include initiatives in defence technology, space situational awareness, and clean energy. The launch of the US-India Climate and Clean Energy Agenda 2030 Partnership and the establishment of the India-US Defence Acceleration Ecosystem (INDUS-X) highlight the growing focus on innovation and technology collaboration. High-level meetings, such as the India-US 2+2 Dialogue, and mutual visits by leaders, including Prime Minister Narendra Modi's State Visit to the USA in June 2023 and President Joe Biden's visit to New Delhi for the G20 Summit in September 2023, have further strengthened the relationship.

With the expanding scope of trade, investment, and strategic collaboration, the India-USA partnership continues to grow as one of the most significant bilateral relationships globally.

### Challenges in Trade

- I. **Tariffs and Non-Tariff Barriers:** Both countries have engaged in tariff disputes, particularly over agricultural products, steel, and aluminium.
- II. **Intellectual Property:** There are ongoing concerns regarding intellectual property rights protection in India, particularly in pharmaceuticals and technology.
- III. **Regulatory Issues:** The differences in regulatory environments, such as labour laws, environmental regulations, and trade barriers, can complicate trade relations.

## TRADE AGREEMENTS AND DIPLOMATIC EFFORTS

### Bilateral Trade Agreements

There have been several trade dialogues and agreements between India and the U.S., but no comprehensive trade deal has been finalized as of yet. The U.S.-India Trade Policy Forum (TPF) has played a role in discussing trade issues, although its impact has been limited.

### Regional and Multilateral Engagement

Both India and the U.S. are engaged in various regional trade organizations and initiatives, such as the Indo-Pacific Economic Framework (IPEF) and the World Trade Organization (WTO). India's participation in the WTO and its stance on trade policy have influenced discussions with the U.S. in areas like subsidies, agricultural trade, and dispute resolution.

## THE ROLE OF TECHNOLOGY AND INNOVATION IN TRADE

The rapid growth of India's IT sector has positioned the country as a significant player in the global digital economy. India's integration into the global value chain has facilitated substantial advancements in technology and innovation. Collaborations between India and the U.S. have further enabled technology transfer across key industries, including IT, telecommunications, and aerospace. These partnerships have strengthened economic ties and driven mutual growth in technology-intensive sectors.

In addition to established sectors, India and the U.S. are increasingly focusing on emerging technologies such as artificial intelligence, block chain, and space exploration. The commitment to innovation is evident in the growing investments from major U.S. tech companies like Microsoft and Google, which are heavily investing in India's digital infrastructure, cloud computing, and AI capabilities. These collaborations not only boost technological development but also enhance trade relations by fostering shared economic opportunities.

## POLITICAL AND ECONOMIC CONTEXT

India's economic growth over the past few decades has positioned the country as one of the fastest-growing major economies in the world. This growth, combined with a large and youthful population, makes India an increasingly attractive market for U.S. exports. Key sectors such as consumer goods, technology, and infrastructure are seeing significant demand, and India's development in these areas aligns well with U.S. strengths, driving trade and investment opportunities between the two nations.

Beyond economic factors, the U.S.-India trade relationship is influenced by broader geopolitical concerns. Both countries share strategic interests in the Indo-Pacific region, particularly in countering China's growing influence. Additionally, India's role as a crucial player in regional security, energy management, and environmental issues has further solidified the importance of its economic ties with the U.S. These shared interests have contributed to strengthening the bilateral partnership, making economic collaboration a vital component of their overall relationship.

## FUTURE PROSPECTS AND CONCLUSION

The future prospects for India-U.S. trade are highly optimistic, with significant potential for growth in sectors such as renewable energy, defence, and advanced manufacturing. Both countries have the opportunity to deepen their economic ties, particularly in emerging areas like artificial intelligence (AI), clean energy, and space exploration. These sectors offer promising avenues for collaboration, leveraging each country's strengths to foster innovation and sustainable development.

However, there are challenges that need to be addressed for continued growth. Trade imbalances, regulatory differences, and tariffs are issues that must be resolved through multilateral negotiations and enhanced bilateral dialogue. In addition, further trade liberalization, strengthening intellectual property protections, and investing in infrastructure are critical steps to driving more substantial growth in bilateral trade. These policy improvements could unlock even greater potential for both nations, enabling a more seamless exchange of goods, services, and technologies.

In conclusion, India and the U.S. are well-positioned to continue their trajectory of increased economic cooperation. By focusing on innovation, technology, and political alignment, both nations can navigate the complexities of a changing global economy while benefiting from deeper trade relations. Despite the challenges, the strategic and economic partnership between India and the United States will likely become even more significant in the coming years, further enhancing their roles in the global trade landscape.

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