

Trade & Tariff Update, June 25, 2023

India and the US Settle Differences

A rare state visit by Prime Minister Narendra Modi of India culminated in a joint statement by President Biden and the Prime Minister on Thursday. This was an unusually detailed statement, covering 58 paragraphs and resolving or narrowing differences on a host of issues. Some disputes had been festering for years.

Despite pre-meeting statements advising that the summit was not likely to resolve many issues, the reality appears to be that the US and India see each other as major partners in the newly evolving world geopolitical and economic order. They decided for reasons of mutual interest to put many of their disputes behind them. Developments in China and Russia in recent days lend support to this reading of the Modi-Biden summit.

India and the United States have had occasionally rocky relations since India obtained self-rule in 1947, after 200 years of British rule. Before the British, India was ruled for several centuries by the Mughals, a Muslim sect that ruled what was then and still is a majority-Hindu population. The strife between Hindus and Muslims remains to this day. When Britain granted Dominion status in 1947, the country was divided into two new nations, India and Pakistan. Today, there are three, since the former East Pakistan (now Bangladesh) broke away from Pakistan (with considerable assistance from the Indian Army) in 1971. Critics claim ill treatment of more than 200 million Muslims in India, asserted by human rights groups as a key issue making difficult closer relations between the US and India.

But that was not the big story in US-India relations last week.

The big story was settling differences and moving ahead. Why did the human rights issue play second fiddle?

Largely because India and the US have more important and more urgent issues. The competition with China, which both countries view as of primary importance, has driven India and the US together.

On Saturday, we woke up to the news of conflict within Russia, between the Wagner group and the Russian Army. The immediate crisis ended as suddenly as it began. But the standoff between Putin and the Wagner Group could signal a major turn in the Ukraine War. The US and India are probably glad that they chose the route of cooperation on Thursday, given potentially cosmic changes in Russia. India has taken a neutral stance on the Ukraine War, and the joint statement did not signal a change in that stance. During the Cold War, India also took a neutral stance between the West and the USSR.

As for China, there has been consistent tension between China and India, two nations that share a common border along the Himalayas. Economically and strategically, India and China are rivals. The Modi state visit is a signal that India takes the China rivalry seriously. That message is very good news for the US in its evolving strategies to compete more effectively with China economically and strategically.

The joint statement discussed, mostly in very general terms, a number of trade and economic issues. Others, generally more intractable, were given short shrift. For example, the Chairman and ranking Member of the Senate Finance Committee, which handles international trade issues, wrote the President asking him to press the Prime Minister on protection of intellectual property rights for American investors in India. There was no mention of IP in the joint statement, other than a commitment to discuss the issue with reference to “Digital Public Infrastructure.”

A big development was the settlement of six WTO disputes between the two countries, including US cases against retaliatory tariffs imposed by India in response to the Section 232 “national security” tariffs on steel and aluminum imports. India is one of the world’s largest steel

producers and its companies are present in most major markets, including the United States. The joint statement actually mentioned a recently announced expansion of an India-owned steel plant in Mingo Junction, Ohio.

The settlement of the WTO cases will not remove the Section 232 tariffs on Indian exports of steel and aluminum, at least not obviously. But one feature of the Section 232 regime is its subtlety. While the US Trade Representative indicated that the settlement “maintains the integrity” of the Section 232 trade measures, the Indian Trade Minister suggested that, in the aftermath of the agreement, 70 percent of Indian steel exports and 80 percent of aluminum exports would be exempted from the tariffs. No details are available at the moment, but there are a few possibilities for how to accomplish a result of that sort.

The two nations announced steps to address climate change, including cooperation in security “critical minerals” supply chains (presumably reducing reliance on China, which currently produces more than three quarters of the world’s lithium ion batteries), and encouraging nuclear energy development. Of obvious political interest were several announcements of Indian investments in the US in the energy space.

The Modi visit certainly did not solve all bilateral problems. But the change in attitude and rhetoric was clearly designed to send a message to the world that driving wedges between the United States and India is going to be more difficult than appeared before last week.

Eventually, perhaps in calmer times hopefully to come, the remaining difficult issues in human rights and other areas can be narrowed as well.

India, of course, hotly denies that it is guilty of human rights abuses with respect to its Muslim minority (200 million Muslims are about 15 percent of India’s population). But few would disagree that Prime Minister Modi is popular in his homeland (The Economist declared him the “world’s most popular leader” with a 77 percent approval rating), and that India is a democracy.

If human rights abuses occur and they are popular, is that still “democracy”?

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