



## **India: Washington State's Next Great Trading Partner?**

An Analysis of Washington's Trade ties with India

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## India: An Emerging Economy for the 21st Century

With one of the world's largest and fastest growing economies, India's importance as a trading partner for Washington state is often overlooked. The signs of its economic power and potential are clear. India's GDP was the world's seventh largest in 2018, putting it ahead of countries such as Italy, Brazil, Canada, Russia, and South Korea. Between 2009 and 2018, India's economy expanded at an average real rate of 7.5% per year, only slightly below China's 7.9% average annual growth over the same period.

This torrid economic growth is forecast to continue for the foreseeable future. The International Monetary Fund (IMF) projects that India's economy will grow 7.6% per year between 2019 and 2024, outpacing the less than 6% annual growth forecast for China. By 2024, the IMF projects India will be the world's fifth largest economy, surpassing France and the United Kingdom, representing more than 4% of global output. With a population of 1.35 billion in 2018, or 18% of the world's total, India is expected to become the world's largest country by 2023.<sup>1</sup> Its working age population is projected to grow from 737 million in 2017 to 980 million by 2040, while the working age populations of China and Europe are expected to see sizable declines over the same period.<sup>2</sup>

For economic, social, and geopolitical reasons, the United States and India have developed closer relations in recent years. India has invested in developing an innovative economy with an emphasis on education and business development. Consequently, India has become more of a global player, particularly in the technology and pharmaceutical sectors, resulting in natural synergies with Washington state interests. Increases in immigration and more Indian students pursuing higher education in the State of Washington has strengthened this relationship. These stronger ties and India's accelerated economic path offer potentially significant export and investment opportunities that may result in economic benefits for Washington state workers, businesses, and communities engaged in trade with India.

## Washington's Trade and Economic Ties with India

Washington state already enjoys stronger trade ties with India than most other U.S. states. Over the past five years, Washington has had the fourth highest exports to India of any state, behind only California, New York, and Texas. Last year, India was Washington state's 10<sup>th</sup> largest export market and the 16<sup>th</sup> largest source of imported goods by value, according to U.S. Census Bureau data.

In the past decade, leading Washington exports to India have been aerospace products, fruit and nuts, vegetables, and optical and medical devices. Aircraft sales in 2018 more than doubled over 2017 exports. Excluding aerospace products, Washington exports to India have risen steadily, increasing from \$246 million in 2008 to \$448 million in 2018 (**Exhibit 1**).<sup>3</sup>

**Exhibit 1. Washington State Non-Aerospace Exports to India, 2008-2018, (Millions 2018 \$)**

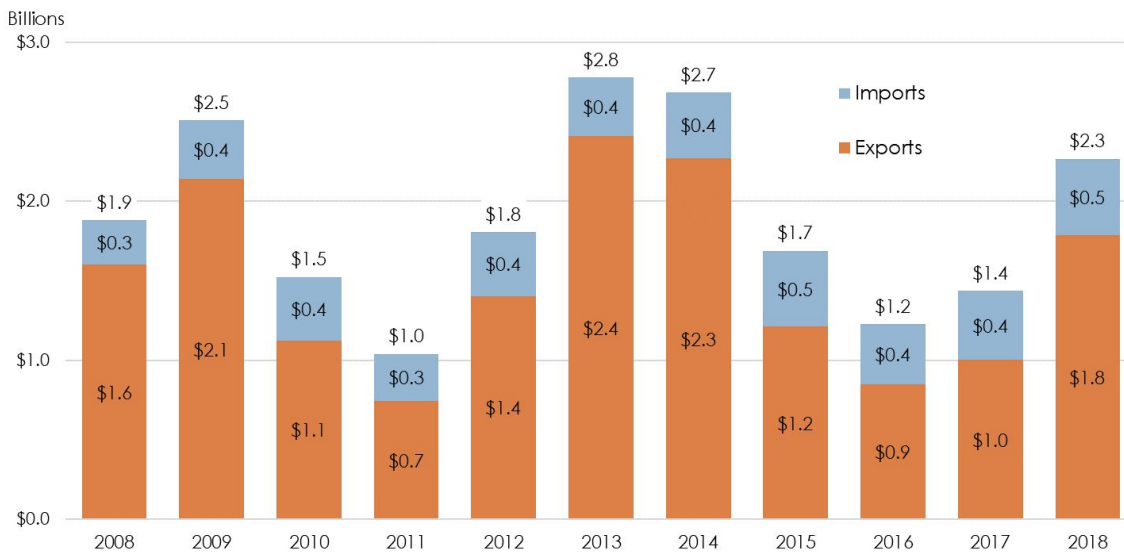


Sources: U.S. Census Bureau, 2019; Community Attributes Inc., 2019.

**Imports:** Leading Washington state imports from India include electrical machinery, textiles such as bedding or clothing, cosmetics, and pearls and precious stones. Washington also imports a significant amount of frozen shrimp from India (approximately \$30 million worth annually since 2011).

Overall U.S. trade with India is also vital for Washington state ports. In 2018, two-way trade between the U.S. and India handled at Washington’s ports totaled \$2.3 billion worth of goods, the majority of which (\$1.8 billion) were exports (**Exhibit 2**).

**Exhibit 2. Washington Port Two-Way Trade in Goods with India, 2008-2018, (Billions 2018 \$)**



Sources: U.S. Census Bureau, 2019; Community Attributes Inc., 2019.

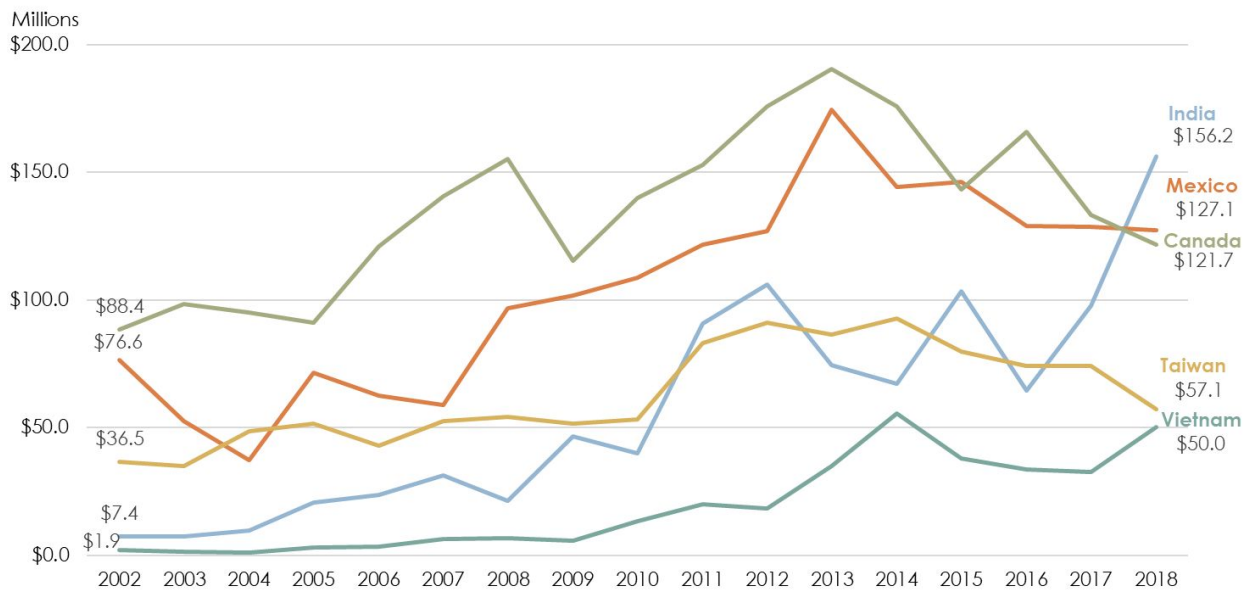
## Apple Exports to India

Apples are a key component of Washington state exports to India—the highest value commodity after aerospace. India has been one of the main consumers of Washington apples for the past five years and in 2018 became the world’s largest importer (**Exhibit 3**). While the Red Delicious variety of apples has become less popular in the U.S. it remains a strong export product because of its durability and price. In 2016, 90% of apples exported to India were Red Delicious.<sup>4</sup>

**Impact of tariffs:** In June 2019, in response to trade actions taken against India by the United States, India raised tariffs on various U.S. products, including apples. The apple industry has been hit harder by these retaliatory tariffs than any other industry in the state. In India, Washington apples are now subject to an additional 20% tariff on top of the 50% tariff already in place for all World Trade Organization (WTO) members.

Foreign markets are crucial to Washington’s apple industry, which exports nearly a third of the apple crop each year.<sup>5</sup> Farmers had been grappling with higher tariffs for a year before India’s recent increase.<sup>6</sup> Until May 2019, Mexico had a 20% tariff on apple imports in retaliation for U.S. tariffs on steel and aluminum. India’s recent tariffs on apples provide a similar burden to the state’s apple producers as well as an opportunity for foreign competition. All WTO members face a 50% tariff exporting apples to India, but the additional 20% faced by U.S. producers puts competitor countries like New Zealand and Chile at a price advantage.

**Exhibit 3. Leading Destinations for Washington Apple Exports, 2002-2018**  
(Millions 2018 \$)



Sources: U.S. Census Bureau, 2019; Community Attributes Inc., 2019.

## Aircraft Sales to India

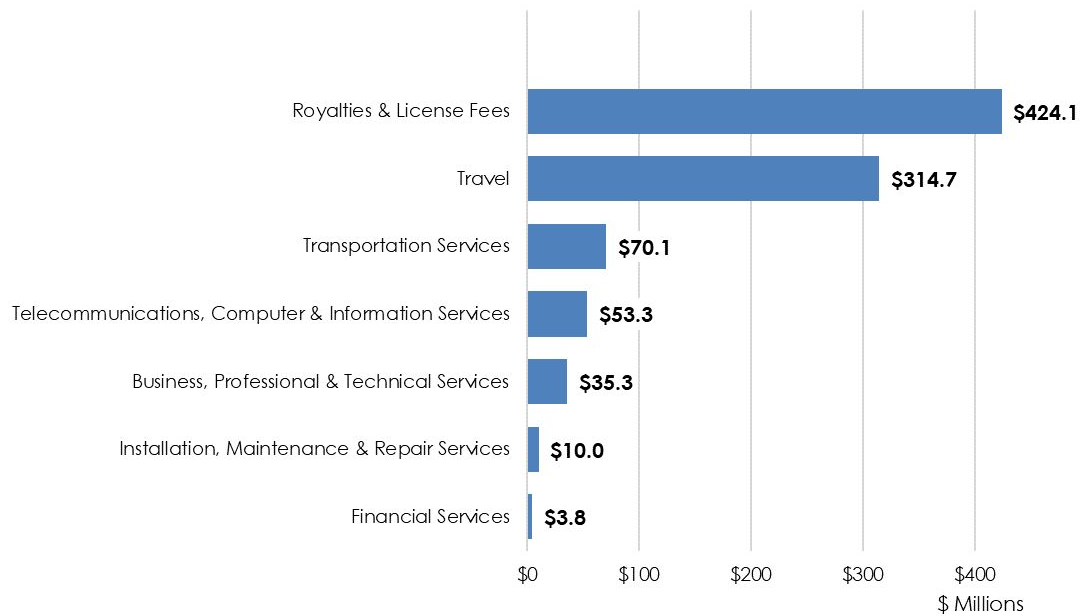
To serve its growing population, India’s aircraft market will be one of the strongest in the world over the coming years. According to Boeing’s Commercial Market Outlook, India will need 2,300

new planes over the next 20 years, worth \$320 billion.<sup>7</sup> The current trend reflects this growth potential, with aircraft sales to India reaching more than \$1.3 billion in 2018, more than doubling 2017 exports.

## Services Exports to India

Beyond just commodities and merchandise goods, many Washington businesses provide various types of services to Indian businesses and consumers. While more difficult to measure, estimates help illustrate the importance of this segment of Washington’s economic relationship with India. For example, in 2017, based on data from The Trade Partnership, Washington state sold \$913.2 million in services to India (**Exhibit 4**). Nearly half of these sales (\$424.1 million) were in the form of royalties and license fees, primarily for computer software (\$410.7 million). Travel-related services made up \$314.7 million in sales, split between education-related travel (\$162.7 million) and other tourism-related traveling (\$152.0 million).

**Exhibit 4. Services Exports to India, 2017**



Source: Estimated by The Trade Partnership (Washington, DC).

## India’s Ties to Washington State

In 2017, there were nearly 70,000 Indian-born residents living in Washington, equal to 7% of the state’s foreign-born population.<sup>8</sup> Indians living in Washington work at many of the state’s leading trade-oriented industries. Some come to the region through the H-1B visa program and many start and operate businesses in the state. These economic and cultural linkages help facilitate growing trade opportunities between Washington state and India.

Several India-based companies also have a significant presence in Washington state. Many are technology and IT services companies. Among the most notable include: Cybage Software Inc., HCL Technologies, Jubilant FoodWorks, Sonata Software, Tata Technologies, and Tech Mahindra.

## Introduction Recent Developments and Outlook for Washington State-India Trade

### Steel & Aluminum Tariffs

India was among the countries targeted by the U.S. government for Section 232 national security tariffs on steel and aluminum. In March 2018, the U.S. imposed 25% tariffs on steel and 10% tariffs on aluminum imported from several countries. These tariffs affected \$761 million of steel and \$382 million of aluminum imported from India to the U.S., representing 2.3% of total imports from India to the U.S. In May and June 2018, India released a list of U.S. products targeted for retaliatory tariffs, but delayed implementation in an effort to negotiate with the US. India ultimately began imposing retaliatory tariffs of an additional 5 to 20 percentage points on selected U.S. products. In the year since the Section 232 tariffs went into effect, imports of Indian steel to the U.S. dropped by 46%.<sup>9</sup>

### Generalized System of Preferences (GSP)

In April 2018, the Trump administration began reviewing countries' eligibility for the Generalized System of Preferences (GSP) program. Begun in 1975, the GSP is designed to help grow the economies of developing countries by increasing their exports by providing duty-free access on specific products, subject to certain conditions. GSP programs are voluntary and subject to various eligibility criteria. Many other developed nations have similar programs, including Canada, the European Union, Australia, Japan, and Russia.

India has been one of the largest beneficiaries of the GSP program since 1975. In 2018, approximately 11.5% of India's exports to the U.S. qualified under GSP, totaling \$6.3 billion worth of goods nationwide. President Trump announced in March 2019 that India, along with Turkey, would be removed from the list of countries eligible for the GSP. Turkey was judged to be a developed economy no longer in need of preferential treatment while India was disqualified for failing to allow sufficient market access to U.S. exporters.<sup>10</sup> The dairy and medical device industries testified to the negative effects of India's trade barriers on U.S. exporters at a federal hearing in June 2018.<sup>11</sup>

The result of the U.S.'s trade actions on Section 232 and the GSP was the imposition of tariffs on approximately \$7 billion worth of goods in 2017, representing 14% of all imports from India. These tariffs are significantly smaller in size than those applied to China. The U.S. discontinued the preferential tariff rates under GSP and raised the duty for those products to the rate paid by WTO members. According to the Peterson Institute for International Economics, the average tariff applied to Indian imports to the U.S. increased from 3.0% to 3.9%.<sup>12</sup>

# India's Retaliatory Tariffs

In June 2019, India responded specifically to the Section 232 ruling and generally to the atmosphere created by the GSP decision by placing tariffs on approximately \$1.4 billion worth of goods, accounting for 4.1% of U.S. exports to India in 2018.<sup>13</sup> Two of the biggest targets of India's tariffs were fruit and nuts. Approximately 9% of exports targeted by India come from Washington state: apples, chickpeas, and lentils were the most affected (Exhibit 5).<sup>14</sup>

**Exhibit 5. Impact of Indian Retaliatory Tariffs on Washington Exports**

<b>Commodity</b>	<b>Additional Tariff</b>	<b>2018 Export Value</b>	<b>Additional Tariff Cost</b>
Apples	25%	\$156,159,485	\$39,039,871
Chickpeas	10%	\$3,260,643	\$326,064
Lentils	10%	\$2,496,768	\$249,677
Diagnostic reagents	10%	\$1,665,815	\$166,582

Sources: World Trade Organization, 2019; U.S. Census Bureau, 2019; Community Attributes Inc., 2019.

## Looking to the Future: Area of Opportunity Between Washington and India

According to the Organization for Economic Co-operation and Development (OECD), India is forecasted to be the fastest growing import market in the world by 2020. India's imports will grow by approximately 9% annually, compared with 4.9% in Mexico, 3.6% in China, and 2.7% in Canada.<sup>15</sup> India's economy is expected to continue to grow at a rapid rate, becoming the fastest growing major economy in the world between now and at least 2024, based on IMF projections. The IMF also projects that the volume of Indian imports of goods and services will grow at an average rate of nearly 9% a year, based on fixed price indices. This growth is expected to significantly fuel demand for many of Washington state's major export goods and services, including aircraft, agriculture products, and machinery.

The evolving and multi-faceted economic relationship between India and the state of Washington offers fascinating cultural and business opportunities for both parties. The continued growth of exports to India in key state sectors is a trend that portends growth opportunities for Washington companies with positive benefits for workers and communities. Broader international dynamics, political decisions, and policy changes can complicate the relationship and limit future growth. Washington business, tech, and political leaders should continue to monitor this relationship closely and understand the many important factors that impact it.



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