

India-USA trade and financial flows

Policy changes by new US Government may impact some specific sectors

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The US contributes significantly to Indian merchandise trade and services trade.

However, India does not form a significant share in the US' overall trade scenario.

ICRA has analysed the trade, financial flows and bilateral agreements between India and the United States of America (USA). USA's imports are significant for India for more than 65 product categories. Moreover, US exports are significant for India for more than 100 product categories, including sectors like textile, chemicals, metals, auto components, cut and polished diamonds (CPD) etc. India's trade surplus with the US has grown at a compound annual growth rate (CAGR) of 7% over the past decade. However, India does not form a significant share in the US' overall trade scenario.

In terms of financial flows, the US contributes primarily to the overall pie of Foreign Direct Investment (FDI) equity inflows, Foreign Portfolio Investors - Assets Under Custody (FPI-AUC) and remittances to India. Apart from this, many Indian entities have presence in the US and vice versa.

With the recent elections have resulted in a new elected government in office, and there is a likelihood that additional tariffs could be imposed on certain Indian exports – as was the case in 2018. This note discusses the potential impact on certain key sectors.



Merchandise trade

- USA's share in the total Indian merchandise imports (FY2024) stands at 6%. However, its imports are significant for India for more than 65 product categories, including agriculture/poultry products, metals, chemicals and certain machineries/instruments. USA's share in the total Indian merchandise exports was higher at 18% in FY2024. Its exports are significant for India for more than 100 product categories including textile, chemicals, metals, CPD, auto components etc.
- However, India's share in the US' total imports and exports pie stands at 2-3%. The import of Indian textile, agricultural/marine product and exports of certain metals to India is significant for the US.



Services trade

- More than half of India's services exports are to the US (~55% in FY2024).
- The total software services exports (part of total services export) increased by ~18% in FY2023; however, exports to the US rose by ~20% in the same year.

Given the US' sizeable share in Indian exports, any additional tariffs could have commercial and economic implications.



Sectoral impact if additional taxes/duties are imposed on Indian imports to the US

- Additional duties/taxes are not expected for certain sectors like pharma, agrochemicals, for security reasons. Sectors with lower export share to the US like steel, cement may also not be materially impacted.
- The US has high reliance on imports for CPD and textile sectors and hence these sectors may not face additional duties.
- Petroleum products and processed minerals may also not face risk even if additional duties are levied as the same can be exported to other countries or consumed domestically.
- However, chemicals and telecom may face substitution risk if additional duties are levied.



FDI, FPI and Remittances

- USA is the third largest country for FDI equity inflows to India, contributing ~10% of the total pie.
- USA's share in the overall pie of FPI-AUC was ~40% as of October 2024. It is the largest country, contributing to FPI AUC for India.
- It is also the second largest country for India's migrant stock and remittances.



Bilateral Agreements and Memorandum of Understanding (MoU)

- There have been agreements between the two countries to improve cooperation, collaboration and investment.



Corporate presence

- Presence of many Indian corporates in the US and vice-versa; increase in duties/taxes may have commercial implications on these entities.



In 2018, when the Trump administration took office, it imposed additional tariffs on certain Indian exports. If the incoming government adopts a similar approach, it could have commercial and economic implications on a few sectors such as textiles, chemicals, pharma, telecom instruments, CPD etc.



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