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The U.S. and China in India's Foreign Economic Policy: In Quest of Balance for Maintaining Strategic Autonomy

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Abstract. The paper investigates trade and investment relations between India and its two major trading partners, the U.S. and China in the 2000—2010s. On the basis of mixed method research with equal use of quantitative and qualitative, as well as historical and statistical methods, the authors estimate the possibilities for expanding interstate interactions and the difficulties the countries might face. By comparing the scale and particulars of the product structure of Indo-American and Indo-Chinese trade, the authors reveal that intra-industry trade between India and the United States is at a fairly high level, which, in turn, is not typical for the trade between India and China, which is mostly inter-industry due to the sluggish cooperation of Indian and Chinese entrepreneurs. The authors assess the intensity of the Indo-American and Indo-Chinese bilateral trade between 2000—2018 by means of indices of intensity of India's exports and imports to / from the USA and China, as well as indices of intensity of exports and imports of its partners to / from India. The obtained results outline the upward trend of the share of Indian exports to the U.S. relative to other countries, which indicates that India is successfully conquering the U.S. market, and Indian goods are becoming increasingly competitive. Meanwhile, the volume of Indian-Chinese trade remains on a much lower level than it could be expected with the current share of India in the world trade. In the meantime, neither for the United States nor for China, India is a dominant partner. The article also investigates major obstacles hindering the development of both Indo-American and Indo-Chinese bilateral relations. The obtained results enable the authors to predict that in the short- and mid-term economic cooperation between India and its leading partners is likely to strengthen, with India keeping striving for standing neuter while building the two most crucial vectors of its foreign economic policy.

Key words: India, U.S., China, Indo-Pacific Region, trade and economic cooperation, investment, D. Trump, N. Modi, trade intensity index, Grubel — Lloyd index

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США и Китай во внешнеэкономической политике Индии: в поисках баланса для сохранения стратегической автономии

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Аннотация. Анализируются основные аспекты экономического сотрудничества Индии со своими ведущими партнерами — США и Китаем в 2000—2010-е гг. Исследование проведено с помощью смешанного метода научного познания, интегрирующего количественные и качественные методы. На основе исторического и статистического методов проведена оценка возможностей расширения их взаимодействия и трудностей, с которыми страны могут столкнуться. Авторы сравнили масштабы и особенности товарной структуры индо-американской и индо-китайской торговли, что позволило прийти к следующим выводам. Внутриотраслевая торговля между Индией и США находится на довольно высоком уровне. В свою очередь, это нетипично для взаимодействия между Индией и Китаем, которое носит межотраслевой характер, являющийся следствием слабой кооперации индийских и китайских предпринимателей. Дана оценка интенсивности индо-американской и индо-китайской взаимной торговли в период 2000—2018 гг. Результаты, полученные на основе расчетов индексов интенсивности экспорта и импорта Индии в / из США и КНР, а также индексов интенсивности экспорта и импорта ее партнеров в / из Индии, свидетельствуют о том, что в настоящее время Индия успешно завоевывает американский рынок, и конкурентоспособность ее товаров на нем неуклонно возрастает. Вместе с тем объем индо-китайского товарооборота остается гораздо ниже возможного при нынешнем участии Индии в мировой торговле. Между тем ни для США, ни для Китая Индия не является ведущим партнером. Также проводится анализ основных проблем как индо-американских, так и индо-китайских двусторонних отношений. В заключение подчеркивается, что в кратко- и среднесрочной перспективе экономическое сотрудничество между Индией и ее ведущими партнерами, вероятнее всего, будет лишь углубляться, а найденный ею разумный баланс при выстраивании двух важнейших векторов ее внешнеэкономической политики сохранится.

Ключевые слова: Индия, США, Китай, Индо-Тихоокеанский регион (ИТР), торгово-экономическое сотрудничество, инвестиции, Д. Трамп, Н. Моди, индекс интенсивности торговли, индекс Грубеля — Ллойда

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Introduction

The relevance of the research topic is primarily due to the fact that at present India is a privileged strategic partner of Russia, and cooperation with it is traditionally one of the main directions of Russia's foreign economic policy. In this regard, for the further development of Russian-Indian economic relations and the adjustment of their basic mechanisms, it is becoming increasingly important to identify India's priorities and specifics of its foreign economic policy.

The large-scale liberal reforms implemented in India since 1991, aimed at transforming the socio-economic model and integrating the country into the global economy, have been very successful. Having demonstrated an accelerated growth rate of the national economy (in the 2000s—2010s — an average of 7—7.5 % per annum[1]) and keeping the third place in the world hierarchy of leading economies by GDP at PPP for the past 10 years, India again, as it did in 2019, according to IMF estimates, will move up to the sixth position in the ranking of leading economies by GDP at the exchange rate, surpassing only the United States, China, Japan, Germany and the United Kingdom.[2]

The country, second only to China in terms of population, possesses nuclear weapons and missiles. It has made a powerful technological breakthrough, becoming the world leader in the export of IT products (14.2 % of total exports of the top ten countries in 2018[3]) and dominating the global market for IT outsourcing.

The transformation of India's system of foreign economic relations in the 1990s—2000s under the *Look East* policy led to a turn in its foreign economic policy toward the East, a greater focus on developing countries, whose share in India's trade turnover increased almost 1.5 times, from 46.5 % in exports and 46 % in imports in 1990/91 financial year[4] to 65.3 % and 79.2 % in 2018/19 financial year, respectively.[5]

The unprecedented growth in mutual Indo-Chinese trade, which emerged at the turn of the 20th and 21st centuries and turned China into India's leading trade partner, has not, however, led to any significant increase in investment, scientific and technical cooperation between the two eastern giants.

Meanwhile, despite the significant decline in the U.S. share of India's trade, especially manifested in the decline of Indian imports — from 12.1 % in 1990/91 f.y.[6] to 6.9 % in 2018/19 f.y.,[7] its position in investment cooperation is steadily strong: the country is confidently included in the "three" leading investors in India. The U.S. also has a significant position in India's services exports: the U.S. and Canada account for 61.4 % of Indian IT products,[8] which indicates that there are close partnerships between Indian suppliers and American customers. In addition, the Indian

[1] World Economic Outlook, April 2020: The Great Lockdown // International Monetary Fund. April 2020. P. 131. URL: https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020 (accessed: 20.01.2021).

[2] Projected GDP Ranking // Statistics Times. March 16, 2021. URL: https://statisticstimes.com/economy/projected-world-gdp-ranking.php (accessed: 18.03.2021).

[3] World Trade Statistical Review 2019 // WTO. URL: https://www.wto.org/english/res_e/statis_e/wts2019_e/wts19_toc_e.htm (accessed: 30.03.2020).

[4] Fiscal year in India starts on April 1st and ends on March 31st of the following calendar year.

[5] Compiled by the authors based on: Economic Survey 1995/96 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 1996. P. S88—S89; Economic Survey 2019/20 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 2020. P. A113—A130.

[6] Economic Survey 1992/1993 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. P. 104—105.

[7] Economic Survey 2019/20 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 2020. P. A120.

[8] Survey on Computer Software and Information Technology-Enabled Services Exports: 2018—19 // Reserve Bank of India. November 18, 2019. URL: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=48664 (accessed: 20.12.2020).

diaspora influences the American political establishment and contributes to the comprehensive development of both economic and political relations [Li, Skop 2010]. India's participation in the Washington project of the Indo-Pacific Quad, in which it is a member along with the United States, Japan and Australia, demonstrates, on the one hand, the interest of the Indian political elite in cooperation with the United States and, on the other, its concern about the growing presence of China in the region.

Thus, it is clear that the U.S. and China are India's largest and most important strategic partners. At the same time, India's ambiguous position is also evident. As an arena of confrontation between the two powers over its sphere of influence, India itself has to maneuver politically and economically and find an adequate balance between the American and Chinese vectors of its foreign economic policy.

The purpose of this study is to identify India's approach to determining a reasonable balance between its two leading partners in order to achieve its own strategic priorities (that is, to what extent mutual trade and investment cooperation with both countries correspond to the current strategic priorities of India) and to identify the risks of cooperation with them.

The theoretical basis of the study is a synthesis of the theory of P. Krugman [1986] about the competent foreign trade policy of the state, which has a significant positive impact on the entire national economy, and the theory of M.J. Melitz and J.I.P. Ottaviano [Melitz, Ottaviano 2008], which analyzes the degree of openness of the national economy depending on the size of the domestic market, as well as the export and import capacity of large states. In the light of the analysis of Western and Eastern vectors of India's foreign economic policy, the foreign economic policy theory, developed specifically for developing countries by the famous British economist, professor of the University of Kent E. Thirlwall [Thirlwall, Pacheco-Lopez 2017], as well as the theory of foreign trade policy of a developing country by M. Todaro and S. Smith [Todaro, Smith 2015], also represent a special interest for this research.

The authors used the mathematical approach of J.H. Grubel and P.J. Lloyd [Grubel, Lloyd 1975] to assess the level of efficiency of mutual trade, and the method introduced by economists A.J. Brown [1947] and Kojima [1964] to estimate the intensity of bilateral Indo-American and Indo-Chinese trade.

A wide range of works is devoted to the analysis of D. Trump's economic policy, the most authoritative are studies by V. Valli [2018], J. Herbert, T. McCrisken, A. Roe [Herbert, McCrisken, Wroe 2019], V.B. Supyan [2018, 2020], L.F. Lebedeva [2020], V.S. Vasiliev [2019].

The agenda of modern US — India trade and economic relations is present in the publications of H.V. Pant and Y. Joshi [Pant, Joshi 2016], L.N. Garusova [2018], A. Zhaozhen [2019].

Various aspects of Indo-Chinese rivalry are presented in the works of J. Garver [2001], J.M. Smith [2014], B. Chellaney [2013], Sh. Kantha[9]. The main directions of the foreign

[9] Kantha Sh. Changing Patterns in India — China Trade Relations // Institute of Chinese Studies. February 2020. No. 39. P. 8. URL: https://www.icsin.org/uploads/

economic policy of China and India are considered in a number of works by Russian orientalists, for example, E.Ya. Arapova [2018], N.V. Galistcheva [2013], N.G. Khromova [2019].

In foreign literature, along with the main directions of Indo-Chinese cooperation, the issues of Indo-Chinese contradictions are also widely covered. The publications of J.K. Baral [2012] and B. Chellaney [2009] are of the greatest interest in this field.

The methodological basis of the research is a mixed method of scientific knowledge [Johnson, Onwuegbuzie 2004] with a combination of quantitative and qualitative methods and approaches. The comparative method of studying the two most important directions of Indian economic foreign policy was used as a base.

The novelty of the work lies in the fact that it is actually the first attempt in Russian scientific literature to make a multifaceted comparative analysis of the two most important vectors of India's foreign economic policy — the American and the Chinese.

Proceeding from the fact that foreign economic policy is an integral system of measures developed at the state level, taking into account the existing realities and implemented in the course of economic interaction between national subjects of foreign economic activity with foreign ones, when writing the article the authors intentionally focused on the analysis of its most important, the most representative for bilateral cooperation aspects — mutual trade, investment and scientific and technological cooperation between India and the USA and China.

2020/02/19/3d9eba12dba8421db3ef4a1a33e7b3b2.pdf (accessed: 03.03.2020).

Mutual Trade in Goods: An Economic and Statistical Analysis

The United States and India view each other as important strategic partners for advancing shared interests regionally and globally.

Undoubtedly, for India, economic cooperation with the United States is more important. U.S. exports to India account for about 3 % of total exports. At the same time, in 2019, the U.S. was the first largest export market for Indian goods (17 %) and the third largest supplier of imported goods to India (7 %) after China (14 %) and the EU (9 %).[10]

Accelerated growth of mutual India — China trade turnover was outlined in the 1990s— 2000s: in 1992 it reached almost 300 million USD, in 2000 — 2.2 billion USD, and in 2010 it exceeded 58.6 billion USD.[11]

In 2010, China, overtaking the United States, became India's largest trading partner and has maintained this position to this day, ranking third in Indian exports (over 5 % of the total) and first in imports. India's annual increase in foreign trade exceeded 20 % in the early 2000s, and between 2002 and 2007 it

[10] US — India Trade Relations // Congressional Research Service. December 23, 2020. P. 1. URL: https://fas.org/sgp/crs/row/IF10384.pdf (accessed 13.03.2021).

[11] Economic Survey 2019/20 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 2020. P. A120, A121, A129, A130.

Table 1

India — China Bilateral Trade in 2010s

Indicator	2007/2008 financial year		2015/2016 financial year		2016/2017 financial year		2017/2018 financial year		2018/2019 financial year	
	bln USD	%[12]	bln USD	%	bln USD	%	bln USD	%	bln USD	%
Exports	10.9	6.7	9.0	3.4	10.2	3.7	13.3	4.4	16.8	5.1
Imports	27.2	10.8	61.7	16.2	61.3	16.0	76.4	16.4	70.3	13.7
Turnover	38.1	9.2	70.7	11.0	71.5	10.8	89.7	11.7	87.1	10.3
Balance	–16.3		–52.7		–51.1		–63.1		–53.5	

Source: calculated and compiled by the authors according to: Economic Survey 2009/10 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 2010. P. A94, A99; Economic Survey 2010/11 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 2011. P. A94, A99; Economic Survey 2016/17 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 2017. P. A113, A121; Economic Survey 2019/20 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 2020. P. A120, A121, A129, A130.

Table 2

India — USA Bilateral Trade in 2010s

Indicator	2007/2008 financial year		2015/2016 financial year		2016/2017 financial year		2017/2018 financial year		2018/2019 financial year	
	bln USD	%	bln USD	%	bln USD	%	bln USD	%	bln USD	%
Exports	20.7	12.5	40.3	15.4	42.2	15.3	47.9	15.8	52.4	15.9
Imports	21.1	5.0	21.8	5.7	22.3	5.8	26.6	5.7	35.6	6.9
Turnover	41.8	8.1	62.1	9.7	64.5	9.8	74.5	9.7	88.0	10.42
Balance	–0.4		18.5		19.9		21.3		16.8	

Source: calculated and compiled by the authors according to: Economic Survey 2009/10 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 2010. P. A94, A99; Economic Survey 2010/11 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 2011. P. A94, A99; Economic Survey 2016/17 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 2017. P. A113, A121; Economic Survey 2019/20 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 2020. P. A120, A121, A129, A130.

reached 50—60 %[13]. According to Indian statistics, the mutual trade between India and China in 2013/14 f.y. amounted to 65.9 billion USD, in 2016/17 f.y. — 71.5 billion USD, in 2018/19 f.y. — 87.1 billion USD (Table 1). In January-July 2019, the volume of bilateral trade amounted to 53.3 billion USD, of which Indian exports to China totaled 10.38 billion USD, and Indian imports — 42.92 billion USD.[14]

According to Indian statistics, the mutual Indian-American trade turnover has positive dynamics in 2007—2019 (Table 2).

[12] % of the total for the corresponding section.

[13] Economic Survey 2019/20 // Government of India. Ministry of Finance. Department of Economic Affairs. Economic Division. February 2020. P. A120, A121, A129, A130.

[14] Ibid.

In 2019, imports of goods from the United States to India amounted to 34.41 billion USD, and exports — 57.67 billion USD. Thus, the total volume of India's mutual trade was almost 6.6 times higher than in 2000 (14 billion USD). India maintained its position as the 9th most important trading partner of the United States, with a surplus of 23.3 billion USD. In mutual trade, goods prevail (62 %), while services account for 38 %.[15]

The main categories of Indian exports are rough diamonds (13.8 %), pharmaceuticals (12.8 %), mineral fuels (6 %), seafood (3.7 %) and jewelry (3.3 %). The commodity structure of imports from the United States in 2019 was dominated by oil (16 %), rough diamonds (13 %), gold (4 %), civil aircraft and parts (4 %), coal (3.6 %), aircraft, spaceships and satellites (3.4 %).[16]

India and the United States are the world's largest exporters and importers of rough diamonds, and the reason for their counter trade in the same commodity is that India tends to export extremely cheap and labor-intensive rough diamonds for processing. Export is due to the fact that the country, using cheap but skilled labor, improves the quality of rough diamonds for better and more profitable processing, which consequently increases its price [Khromova 2019: 20].

The commodity structure of Indian exports to China is traditionally dominated by primary raw materials: mineral fuels, oil and petroleum products (about 18.9 %), organic chemicals (about 18.8 %), cotton fiber (9.2 %), ores, slag, ash (6.7 %), plastics (about 6.7 %), nuclear reactors, boilers and mechanical devices (over 5 %), salt, sulfur, earth and stone, plaster materials, lime and cement (about 4.3 %). Recently, however, there has been a certain trend towards diversification of India's supplies: the share of machinery and equipment, as well as chemical products, has increased. India is making attempts to further expand them, including at the expense of goods with higher added value, which could help solve the problem of a significant deficit in mutual trade with China.

In the commodity structure of India's imports from China, a significant share is traditionally accounted for by electrical machinery and equipment (31.5 % in 2018). Other significant items of Indian imports are nuclear reactors, boilers, equipment and mechanical devices; organic chemicals; plastic products; iron and steel (18.5, 11.6, 3.7 and 2.3 % respectively in 2018). Overall, India's import basket in trade with China is characterized by significant diversity, on the one hand, and quite high technological sophistication, on the other. However, India is heavily dependent on its partner for some import items. For instance, about 90 % of mobile phones imported from abroad, 55 to 60 % of electronic products, 1/3 of machinery

[15] India — US Trade and Investment // Embassy of India. URL: https://www.indianembassyusa.gov.in/pages/MzQ (accessed: 15.03.2020).

[16] US Trade Numbers // WorldCity. URL: https://www.ustradenumbers.com/country/india/ (accessed: 27.03.2020).

and equipment, about 2/5 of organic chemicals, 1/4 of fertilizers are imported from China.[17] Meanwhile, due to coronavirus infection, China's share in India's electronics imports is expected to drop to 30—35 % at the end of 2019/20 f.y. and in 2020/21 f.y.[18]

To assess the quality of intra-industry trade within a given pair of countries (India — U.S. and India — China) in the context of the 15 largest commodity items in 2000—2018, the authors, based on authoritative studies[19] calculated the Grubel — Lloyd index in weighted average form using the formula:

$$GL_k^{ij} = \frac{\left[X_k^{ij} - M_k^{ij}\right]}{X_k^{ij} + M_k^{ij}}, \qquad (1)$$

X_k^{ij} — export of industry k from country i to country j; M_k^{ij} — import of industry k of country i from country j.

Analysis of the Grubel — Lloyd index shows that for a number of commodity groups, intra-industry trade between India and the United States was at a fairly high level: in 2018, for precious and semi-precious stones, this indicator was 0.798, machinery, mechanical devices, nuclear reactors and boilers — 0.967, mineral fuels — 0.625, electrical machinery and equipment — 0.960, organic chemical products — 0.981, chemical products — 0.897, plastics and plastic products — 0.852.

In 2018, intra-industry trade in pharmaceuticals (0.119), vehicles (0.223), textiles (0.056), clothing items (0.002), and iron and steel products (0.289) was at a low level. In contrast to the situation with the United States, intra-industry trade between India and China was at a very low level for most product groups (Figure 1). The Grubel — Lloyd index was 0.109 for engineering products and 0.116 for vehicles. Intra-industry trade was carried out at an average level for items such as mineral fuels (0.541), pharmaceuticals (0.493), organic chemicals (0.528), and plastics and plastic products (0.562). Only for precious and semi-precious stones and goods of the textile, food and leather industry, the Grubel — Lloyd index was 0.88, 0.792, 0.840 and 0.882, respectively.

Analysis of statistical data confirms that the quality of Indo-US intra-industry trade is much higher than that of Indo-Chinese trade. Mutual trade between India and the United States is horizontal, or intra-industry, which is a clear evidence of the very high interest in mutual cooperation of businessmen of the two countries, who are willing to establish joint ventures in both India and the United States. In turn, mutual trade between India and China has

[17] Kantha Sh. Changing Patterns in India — China Trade Relations // Institute of Chinese Studies. February 2020. No. 39. P. 8. URL: https://www.icsin.org/uploads/2020/02/19/3d9eba12dba8421db3ef4a1a33e7b3b2.pdf (accessed: 03.03.2020).

[18] Joy Sh. COVID-19 may further dwindle Chinese electronics goods import to India // Deccan Herald. March 14, 2020. URL: https://www.deccanherald.com/business/business-news/covid-19-may-further-dwindle-chinese-electronics-goods-import-to-india-813680.html (accessed: 18.03.2020).

[19] World Trade Organization. A Practical Guide to Trade Policy Analysis. United Nations, 2012. P. 19. URL: https://unctad.org/system/files/official-document/gds2012d2_en.pdf (accessed: 12.07.2020). See also: [Vidya, Prabheesh 2019: 511; Pak 2018: 99—100].

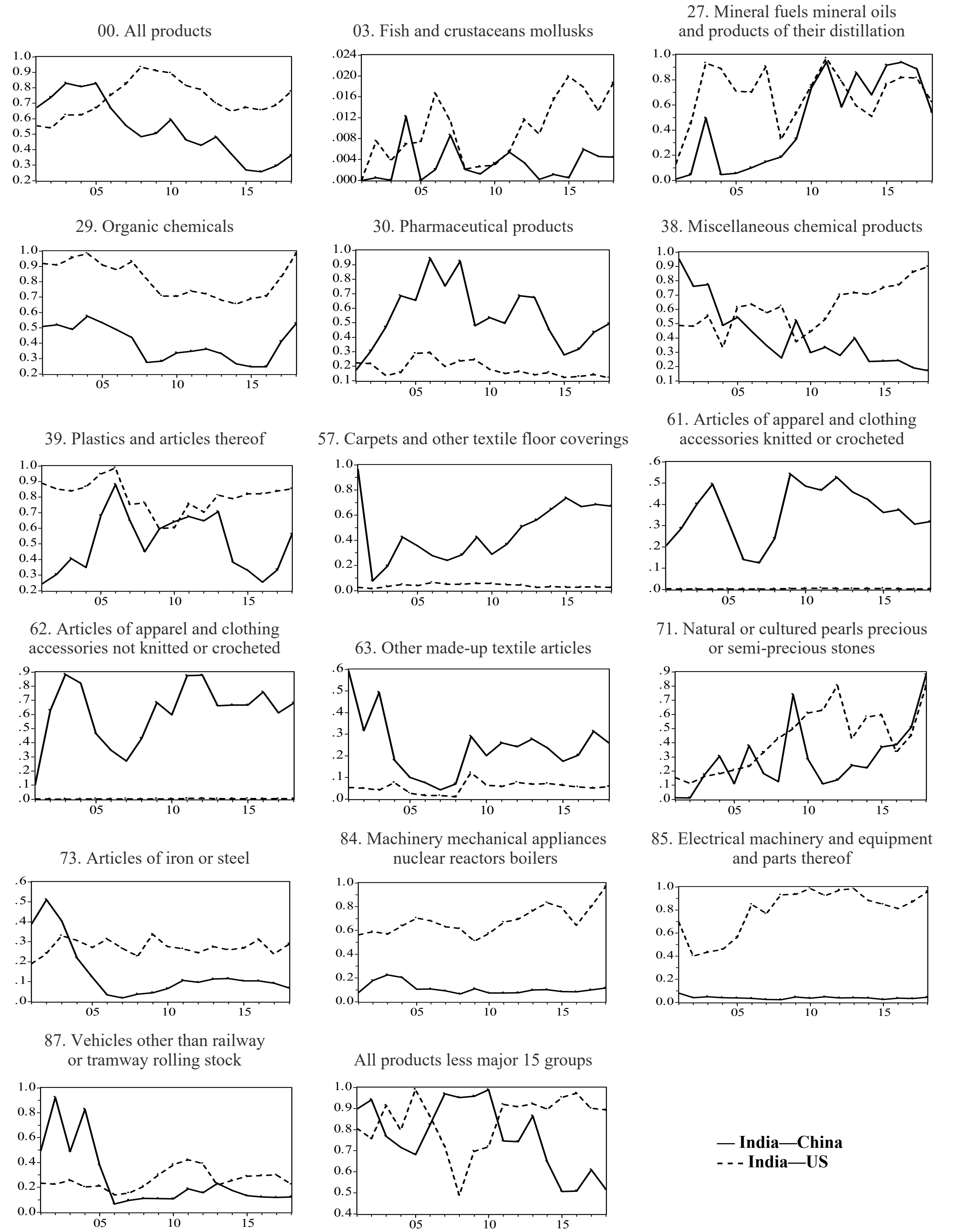

Figure 1. US — India and India — China Grubel — Lloyd Index on major product groups, 2000—2018

Source: calculated and designed by the authors according to: US — India Trade Relations // Congressional Research Service. February 2020. URL: https://fas.org/sgp/crs/row/IF10384.pdf (accessed: 20.02.2020); UN Comtrade Database. URL: http://comtrade.un.org/data/ (accessed: 12.03.2020).

a vertical, or inter-sectoral character, which is a consequence of the still weak cooperation between Indian and Chinese entrepreneurs. Thus, Indo-American cooperation in this area is more stable in the future than Indo-Chinese.

To estimate the intensity of trade, the authors calculated the Export *Intensity Index* (II), which was introduced by A.J. Brown [1947], and later modified by K. Kojima [1964: 19]. The Intensity Index value for exports can be calculated using the following formula:

$$XII_{ij} = \frac{\frac{X_{ij}}{M_j}}{\frac{X_i}{M_w - M_i}}, \qquad (2)$$

X — exports of goods; M — imports of goods; X_{ij} — exports from country i to country j; M_w — world imports. Formula (2) differs from that presented by A.J. Brown by swapping M_j and X_i. This rearrangement is mathematically permissible and, according to the authors of the article, simplifies the interpretation of the index.

The Intensity Index value for imports can be calculated using the formula:

$$XII_{ji} = \frac{\frac{M_{ji}}{X_i}}{\frac{M_j}{X_w - X_j}}, \qquad (3)$$

M_{ji} — imports to country j from country i; X_w — world exports.

The share of Indian exports to the U.S. relative to other countries was minimal in 2010 and is currently growing (Figure 2). India is successfully conquering one of the most attractive export destinations — the U.S. market, which indicates the increasing competitiveness of Indian goods. Since 2014, the Intensity Index value for exports from India to the U.S. has exceeded one. The Intensity Index value for imports in 2000—2018 is generally characterized by an upward trend with declines in 2008—2009 and 2013, although even in those years the indicator was close to 1, which underlines the high role of the U.S. in Indian imports.

For the United States, India is not a leading partner. The peak value of exports intensity (0.79) was reached in the pre-crisis year of 2007, and of imports (0.934) — in 2008. Since 2014, the role of India in U.S. exports and imports has been increasing, but it has not reached its peak.

As shown in Figure 3, the II of India's trade with China in 2000—2018 was in the range of 0.4—0.8, rising only in 2005—2007 (during this period, the II of imports rose above 1, while for exports it was around 1) and in 2010 (the II of exports was 0.806 and imports — 0.914). Thus, the volume of India — China trade remains much lower than possible at India's current level of participation in world trade.

Since 2000, the II of China's trade with India has consistently exceeded 0.8, and rose above 1 in 2007—2009 and 2016—2018, which means that China's trade intensity with India is quite high based on its role in global trade (in 2017—2018, the II of exports was 1.040 and 1.028, and imports — 1.232 and 1.098, respectively). Thus, Chinese exports are gradually overcoming resistance and conquering the Indian market.

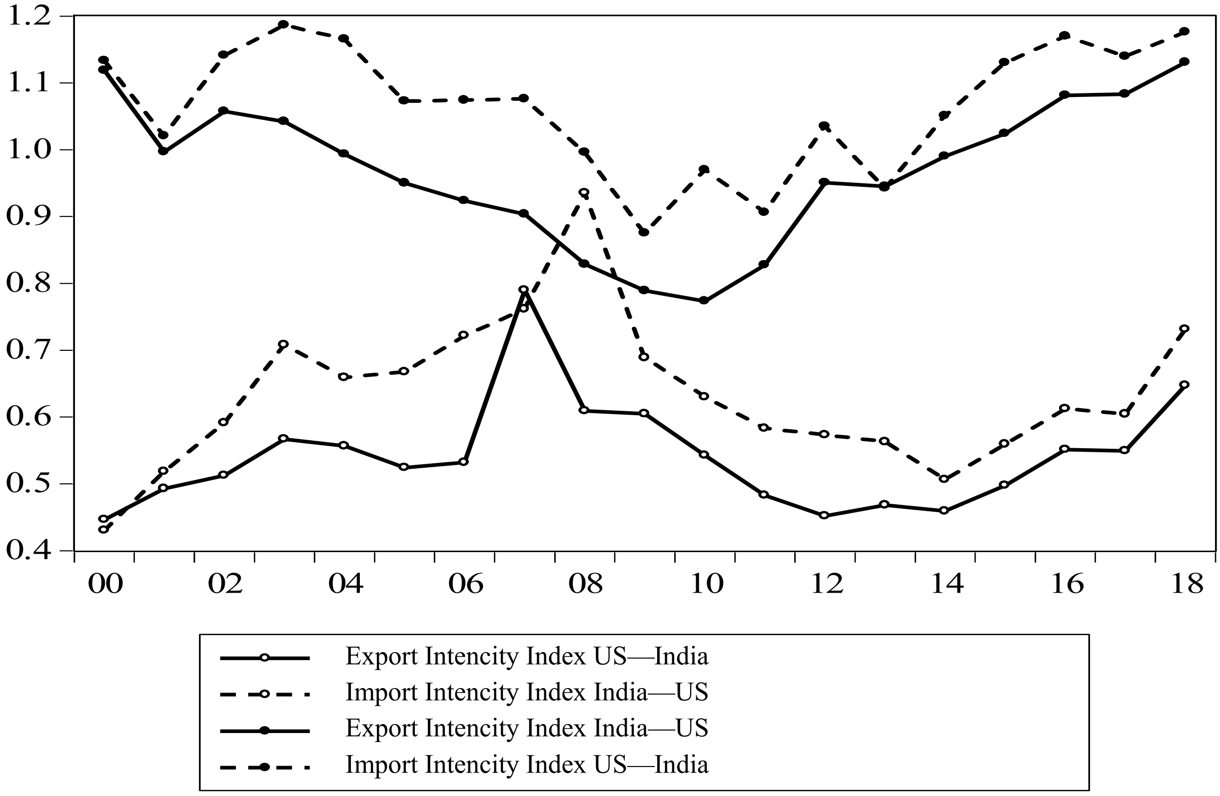

Figure 2. India — US bilateral trade intensity index

Source: calculated and designed by the authors according to: UN Comtrade Database. URL: http://comtrade.un.org/data/ (accessed: 12.03.2020).

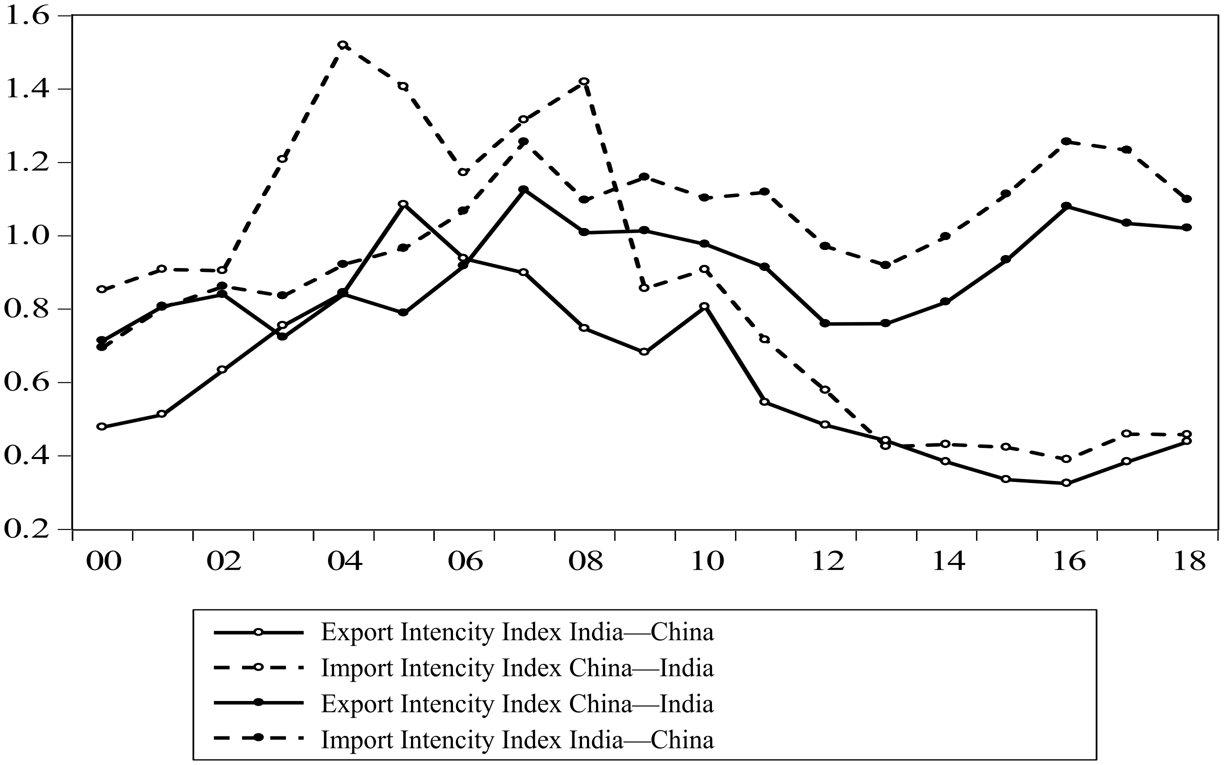

Figure 3. India — China bilateral trade intensity index

Source: calculated and designed by the authors according to: UN Comtrade Database. URL: http://comtrade.un.org/data/ (accessed: 12.03.2020).

The commodity structure of trade with both countries generally corresponds to India's strategic interests. In fact, currently carrying out another modernization and transforming the structure of industrial production in favor of high-tech industries, India is importing from China relatively cheap, but in a certain sense, advanced equipment. At the same time, desperately in need of mineral fuel, the rapidly developing Indian economy is trying to diversify its supplies, including by importing oil and coal from the United States.

Key Aspects of Indian Foreign Trade Policy: American and Chinese Vectors

With the arrival of President D. Trump to the White House, India and the U.S. announced their desire to continue cooperation in the formation of the Indo-Pacific Region (IPR), which can be considered as a response to China's increasing economic growth and military power. This strategy replaced the ineffective *Pivot to Asia* and rebalancing policies, initiated by B. Obama [Singh, Pande, Smith, Saran, Joshi, Lohman 2018: 13].

In 2018, the first U.S. — India defense and foreign ministers' 2 + 2 dialogue took place, culminating in the signing of the Communications Compatibility and Security Agreement (COMCASA). The document provides Indian military personnel with access to encrypted information channels and the opportunity to purchase American high-tech equipment for secure communications systems.

At the 2019 meeting, the main topics were strengthening cooperation in the strategic and defense spheres, as well as in the Indo-Pacific Region.

In 2019, the United States adopted a new version of the National Defense Authorization Act, that would grant India the status of a U.S. partner, equal to NATO members,[20] which means further deepening military cooperation in terms of modern technology transfers.

Since 2008, the U.S. and India have signed a number of defense supply agreements worth more than 15 billion USD, which demonstrates an increase from 500 million USD in the previous years combined. Key items on the list include 24 naval multi-purpose helicopters MH-60R SeaHawk (2.6 billion USD) and 6 additional attack helicopters AH-64 Apache (930 million USD).[21] Meanwhile, the U.S. has urged reforms of offset obligations on imports of such products and an increase in the limit of foreign participation in the form of foreign direct investment (FDI) in the defense sector.

[20] H.R.2500 — National Defense Authorization Act for Fiscal Year 2020 // 116th Congress (2019—2020). URL: https://www.congress.gov/bill/116th-congress/house-bill/2500 (accessed: 02.03.2020).

[21] Roblin S. More U.S. — India Arms Sales Could Follow $3.5 Billion Helicopter Deal // Forbes. February 26, 2020. URL: https://www.forbes.com/sites/sebastienroblin/2020/02/26/modi-and-trump-sign-35-billion-helicopter-deal-more-could-follow/#136b295023aa (accessed: 28.02.2020).

India's involvement in a multibillion-dollar deal to acquire Russia's S-400 air defense system could lead to U.S. sanctions against India under the Countering U.S. Adversaries through Sanctions Act.[22]

The strategic partnership between India and the United States may be weakened due to a number of objective reasons. India's import duty rates are relatively high, especially for agriculture (31.5 % on average), as well as for medical devices and some consumer goods. It can increase the applied rates to bound rates without violating its obligations under the World Trade Organization (WTO), which creates uncertainty for U.S. exporters.

In turn, India opposes the 25 percent tariff on steel and the 10 percent tariff on aluminum imposed by the United States. After the US administration deprived India of its right to participate in the Generalized System of Preferences (GSP) for failing to provide fair market access in May 2019, one-tenth of Indian exports to the United States were subject to tariffs of 1—7 percent. India responded by imposing duties on 28 U.S. products (mostly agricultural).

The U.S. withdrawal from the Joint Comprehensive Plan of Action (JCPOA) and the imposition of sanctions against Iran are causing serious losses for the Indian economy. In May 2019, India stopped buying Iranian oil and cut its budget for the construction of the Chabanar seaport, as the port's equipment suppliers refused to make deliveries for fear of US backlash.

In late October 2019, India, having one of the highest trade duties in the Regional Comprehensive Economic Partnership (RCEP), withdrew from the agreement to avoid reducing the duties to zero. In addition, it would have had to open its market to China as one of the parts of the RCEP, which would lead to an increase in cheaper Chinese products in the country and the displacement of Indian goods.

It had been expected that during D. Trump's visit to India in February 2020, an agreement could be reached on the partial restoration of preferences for India under the GSP in exchange for certain concessions to India, but expectations were not fulfilled. India's budget for 2020/21 f.y. includes a significant increase in tariffs on groups of goods, including those imported from the United States.

Further development of the situation largely depends on the new U.S. President Joe Biden, whose administration has promised to strengthen ties with India, reinforce its defense capabilities and continue working together to combat climate change. On the one hand, these intentions and the project to enhance military cooperation, discussed during the visit of the new head of the Pentagon L. Austin to Delhi in

[22] Countering America's Adversaries through Sanctions Act, P.L. 115—144 // US Department of the Treasury. URL: https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information/countering-americas-adversaries-through-sanctions-act (accessed: 02.03.2020).

March 2021, form the necessary ground for stronger bilateral relations. On the other hand, some serious problems need to be addressed first. India hopes to get back on the list of countries with preferential trade regimes, end minor trade wars, simplify visa regulations and lift sanctions against Iran, which prevent India from diversifying its oil supplies and threaten its infrastructure projects. The likelihood of leveling the above barriers in the near future does not seem high. The advantage of this state of affairs for India is the opportunity to maintain freedom of maneuver in its interaction with the United States and China, demonstrating to the latter its ability to get closer to the U.S., if necessary.

A serious problem in India — China trade is a significant trade imbalance in favor of China, which increased more than 100 times in the post-reform period and is primarily associated with an imbalance in the structure of mutual trade. India is not among China's leading trading partners, ranking 7th in Chinese exports and only 26th in imports. India is taking steps to reduce the trade deficit in mutual trade with China, trying to ensure access of its products to the Chinese market. As part of the Five-Year Program for India — China Trade and Economic Cooperation, signed in 2014, India has already had some success: in 2018 all varieties of rice except for basmati, rapeseed oil, certain types of fish, and in 2019 tobacco leaves and chili peppers were granted access to the Chinese market,[23] which certainly meets the strategic aspirations of modern India.

In every possible India stimulates exports to China, and also increases import duties on Chinese goods. In addition, India is forcing China to organize joint ventures on its territory for the production of those products that are imported into the country in significant volumes, primarily machinery and equipment.

In addition to the progressive negative trade balance, Indo-Chinese mutual trade also suffers from numerous tariff and non-tariff barriers (primarily complex customs and administrative formalities, technical regulation and quantitative restrictions). It is known that despite foreign economic liberalization, India's domestic market still remains sufficiently protected from competition from foreign goods by high import base duties and all kinds of additional charges. For example, in some years India periodically introduces the so-called special additional duty, the rate of which varies from 8 to 14 % [Galistcheva 2013: 85—86].

Mutual Trade in Services

Since the beginning of the millennium, India's mutual trade in services with the United States has increased at a fairly rapid pace: 54.6 billion USD in 2018 compared to 6 billion USD

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[23] India — China Bilateral Relations // Ministry of External Affairs. Government of India. September 26, 2019. URL: https://www.mea.gov.in/Portal/ForeignRelation/china_brief_sep_2019.pdf (accessed: 25.11.2019).

in 2000. In 2018, the export of services from India to the United States was estimated at 28.8 billion USD and imports — at 25.8 billion USD.[24] The main export items are telecommunications, computer and information services, research and development, and also the tourism sector. The main items of imported services are tourism, intellectual property (computer software, audio and video products) and the transport sector.

The surplus of trade in services with the U.S. is 3 billion USD,[25] which is a major concern for the latter. Barriers to U.S. companies' access to India's services market include India's restrictions on foreign ownership and requirements to open representative offices in the country. For its part, India is challenging U.S. work visa fees at the WTO and is monitoring potential U.S. actions to revise the H-1B visa program for highly skilled workers. India also continues to push for an international social security treaty, needed to eliminate double taxation on employment benefits and to coordinate social protection for workers who pursue careers while working in two countries.

In April 2018, the Reserve Bank of India published a new rule for payment service providers, according to which all user data collected within the country's borders must be localized within six months for possible supervision.[26] This is just part of India's broader set of cross-industry data protection and privacy measures.

It is assumed that in 2021 the law on personal data protection may come into force, which, on the one hand, is timely and justified, given the numerous cyberattacks and privacy scandals. On the other hand, the implementation of this legislative initiative implies the creation of new infrastructure facilities and more stringent regulatory requirements, which will lead to higher operating costs for foreign companies located in India or providing services to Indian residents, which usually store Indian personal data on remote servers. As a result, this could have a serious impact on the overall state of the Indian economy and the movement of foreign direct investment.[27]

The Indian government was also worried about the US withdrawal from the Paris Agreement, as it could lead to a one-third cut in

[24] India — US Trade and Investment // Embassy of India. December 17, 2019. URL: https://www.indianembassyusa.gov.in/pages/MzQ (accessed: 27.03.2020).

[25] India — US Trade and Investment // Embassy of India. December 17, 2019. URL: https://www.indianembassyusa.gov.in/pages/MzQ (accessed: 27.03.2020).

[26] Likhi K. India's data localization efforts could do more harm than good // Atlantic Council. February 1, 2019. URL: https://www.atlanticcouncil.org/blogs/new-atlanticist/india-s-data-localization-efforts-could-do-more-harm-than-good/ (accessed: 23.03.2020).

[27] Srinivas R. All You Need to Know about India's First Data Protection Bill // CISOMAG. January 3, 2020. URL: https://www.cisomag.com/all-you-need-to-know-

the Green Climate Fund budget [Zhang, Dai, Lai, Wang 2017], seriously weaken the developing countries financing [Korneev 2018: 372—373] and deprive the U.S. — India relations of one of the newest and fastest-growing areas of cooperation. In February 2021, the United States formally completed the process of returning to the Paris Climate Agreement.

Indo-Chinese trade in services is small in scale, primarily because of the language barrier and the very significant limitations of the Chinese market. The authors of the article estimate that India's export basket consists mainly of tourism services and computer and information technology services, while the import basket consists of tourism and transport services.

Investment and Scientific and Technical Cooperation

According to the Department for Promotion of Industry and Internal Trade, the U.S. is the 6th largest source of FDI in India.[28] In 2018, accumulated FDI from the U.S. to India was 46 billion USD, which is 3.4 % more than in 2017. The main investments go to professional, scientific and technical services, manufacturing, finance and insurance. This corresponds to the strategic interests of India, which is interested in accelerating the transformation of its industrial production structure in favor of high-tech industries. The stock of FDI from India to the United States in 2018 amounted to 9.6 billion USD, which is 2 % less than in 2017.[29] FDI is mainly directed to professional, scientific and technical services, manufacturing and credit organizations, which is clearly in line with India's strategic priorities at the current stage and contributes to the ambitious *Make in India* program, as well as providing professional training for modern manufacturing.

By attracting FDI to the credit sector, the Indian leadership hopes to gradually strengthen healthy competition in the domestic market and saturate it with financial resources, which the fast-growing economy lacks.

During the visit of Indian Prime Minister N. Modi to the United States in 2014, it was decided to establish the India — U.S. Investment Initiative, aimed at facilitating access to foreign direct and portfolio investment of the participating countries, capital market development, and infrastructure financing. It was also agreed to create a cooperation platform to introduce advanced U.S. technologies into Indian infrastructure. American firms are slated to become leading partners in the development of Allahabad, Ajmer and Vishakhapatnam as

about-indias-first-data-protection-bill/ (accessed: 15.02.2020).

[28] India — US Trade and Investment // Embassy of India. URL: https://www.indianembassyusa.gov.in/pages/MzQ (accessed: 25.03.2020).

[29] U.S. — India Bilateral Trade and Investment // Office of the United States Trade Representative. August 2019. URL: https://ustr.gov/countries-regions/south-central-asia/india (accessed: 17.12.2019).

smart cities. It is planned that U.S. firms will be leading partners in the development of Allahabad, Ajmer, and Vishakhapatnam as smart cities.

To attract FDI, India has raised the maximum limit of foreign participation in the insurance (49 %) and banking sectors (74 %),[30] but the country requires foreign insurance companies to be under its control.

U.S. concerns about investment barriers are heightened by India's new restrictions on e-commerce platforms such as Amazon and Flipkart. From the U.S. perspective, India's lack of regulatory transparency and data localization policies could impede the flow of investment.

Due to the coronavirus pandemic, many U.S. companies are leaving the Chinese market and directing their investment flows to India, which fully meets of the latter strengthening its position in global supply chains. The entry of American players in the market would allow India to speed up its post-quarantine recovery and slightly bring the share of the manufacturing sector in GDP of 15 % to the target value of 25 % by 2022 (although hardly achievable in such a short term), create new jobs, that are desperately needed after 122 million people have lost their jobs.[31]

At the turn of the century, Indo-Chinese investment cooperation was very sluggish. This was mainly due to the fear of each side of allowing a rival to enter its market. However, with the strengthening of their financial potential and the growth of economic power, India and China opened their borders to the competitor's capital. Thus, in 2010 Chinese entrepreneurs invested about 2 million USD in FDI in the Indian economy, in 2012 — already 148 million USD. At the end of 2017, the total amount of accumulated Chinese FDI in the Indian economy was 4.747 billion USD[32]. Meanwhile, China is still not a significant investor in the Indian economy, despite its successful penetration of other Asian markets [Arapova 2018: 82] — here its share is only about 2 % of the total volume of entrepreneurial capital attracted by India.

The Chinese capital currently operating in the Indian market generally corresponds to the strategic objectives of the Indian economy. While it does not pose a significant threat to the development of national business, it contributes to a certain extent to the modernization of production by introducing new technologies in the production of electrical appliances and electrical equipment and the extraction of minerals that India is unable to extract on its

[30] Ayres A. A Field Guide to U.S. — India Trade Tensions // CFR. February 13, 2020. URL: https://www.cfr.org/article/field-guide-us-india-trade-tensions (accessed: 04.03.2020).

[31] Byas M. Job losses may have narrowed // Centre for Monitoring Indian Economy. May 26, 2020. URL: https://www.cmie.com/kommon/bin/sr.php?kall=warticle&dt=2020-05-26%2008:18:26&msec=533 (accessed: 25.10.2020).

[32] India — China Trade and Economic Relations // Embassy of India. URL: https://www.eoibeijing.gov.in/economic-and-trade-relation.php (accessed: 10.03.2020).

own. Experiencing an acute shortage of electricity, India, with the help of Chinese capital, is actively developing technologies in the field of alternative energy. Meanwhile, certain risks in this matter are obvious: 90 % of the Indian solar energy market is controlled by Chinese companies — Trina Solar, JA Solar, Jinko, Yingli and Hareon.[33]

Indian companies are also penetrating the Chinese market: at the beginning of the 21st century, more than 125 Indian companies participated in more than 2000 investment projects in China (total investments of about 80 million USD). In the second decade of the 21st century, the inflow of Indian investment in China increased from 28 million USD in 2010 to 50 million USD in 2011, and the volume of FDI stock in China in September 2017 amounted to 851.91 million USD.[34] At the same time, China is not the main destination for Indian capital, accounting for only 0.34 % of total FDI.[35] The sectoral distribution of Indian capital in China is dominated by automotive industry, textile and clothing, food processing and pharmaceuticals. The Chinese banking market is represented by such well-known Indian banks as Bank of Baroda, Bank of India, State Bank of India, ICICI Bank, etc.

Scientific and technological cooperation between India and China is very sluggish and is limited to a number of successful projects in IT, biotechnology, space and energy, which are being developed by both state research institutes and private companies. An example of successful cooperation is the joint development of paleontology by the Birbal Sahni Institute of Palaeo Sciences in India and the Nanjing Institute of Geology and Paleontology in Beijing. The interaction is complicated by the language barrier, a very complicated system of Chinese visas for Indian scientists, and the obligation of Indian research institutes and universities to obtain special permission from the state for cooperation with Chinese partners.

Conclusion

India is successfully developing trade and economic ties with both the United States and China, despite certain difficulties in bilateral relations. The United States is interested in deepening cooperation with India, trying to weaken its partnership with Russia, as well as within the framework of the Shanghai Cooperation Organization (SCO) and the BRICS.

Meanwhile, it is obvious that, despite the rivalry between India and China in the world economy in general and in the Asian region in particular, their economic cooperation in the short and medium term is likely to only deepen. At the same time, China will inevitably have to take into account India's growing economic and military potential.

[33] India — China Trade and Economic Relations // Embassy of India. URL: https://www.eoibeijing.gov.in/economic-and-trade-relation.php (accessed: 10.03.2020).

[34] Ibid.

[35] Ibid.

On the one hand, the intensification of policy in the Asia-Pacific region corresponds to India's *Act East* program, aimed at strengthening India's position in the region. On the other hand, it is unlikely that the intense struggle between the United States and China, which in recent years has been particularly evident in the form of contradictions in trade policy, will cause India to desire to damage relations with its longstanding partners, including Russia.

Certainly, the signing of the "first phase" of the U.S. — China trade agreement in early 2020 creates new opportunities for increased collaboration with Chinese partners in the technology sector. China's *Made in China 2025* strategy requires Western technologies and joint projects with experienced actors, which can be Indian financial and IT companies that have longstanding contacts with U.S. counterparts and are highly qualified in their fields. India is likely to continue trying to preserve the strategic autonomy that has been the basis of its state policy since the first days of independence.

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