Section 301 Probe: How India Responded to Section 301 Allegations on Trade and Forced Labour

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Section 301 Latest News

- India has responded to **two Section 301 investigations** launched by the United States on issues of "structural excess capacity" and "forced labour", defending its trade practices and legal framework.
- The development assumes significance as US Treasury Secretary warned that **Trump's tariffs** — previously struck down by the US Supreme Court — could be restored to 50% reciprocal tariff levels by July.

About Section 301

- Section 301 of the **US Trade Act of 1974** is a powerful unilateral trade instrument that allows the US Trade Representative (USTR) to investigate foreign trade practices deemed "unreasonable, unjustifiable, or discriminatory" and to impose retaliatory tariffs or trade restrictions.
- It is a key tool through which Washington pressures trading partners on issues ranging from intellectual property and market access to labour practices and industrial policy.

- In March 2026, the USTR launched multiple **Section 301 investigations** against India and several other nations, targeting **“structural excess capacity**” in manufacturing and alleged **failures to curb forced labor** in supply chains.

India’s Response on Excess Capacity

- India’s central argument is that a bilateral trade surplus is not evidence of unfair trade practice but rather a **natural consequence of global trade** rooted in broader macroeconomic conditions.
- Trade imbalances inevitably manifest in bilateral relationships.
- Treating them as a “unique condition that harms US commerce” effectively challenges the **foundational principles of comparative advantage** that underpin the entire global trading system.

The Reserve Currency Factor

- India made a sophisticated macroeconomic argument by pointing to the US Dollar’s status as the world’s primary reserve currency — accounting for 56% of global foreign exchange reserves.
- Because the dollar is the dominant medium for international transactions, the US can borrow more easily and sustain persistent trade deficits as a structural feature of its position in the global economy.
  - Because the US can borrow so easily and spend so freely, **American consumers and businesses buy a lot** — including a lot of imported goods from countries like India, China etc.
  - Americans consume more than they produce. This naturally means the US imports more than it exports — which is precisely what a trade deficit is.
- India argued that this makes the bilateral surplus a product of systemic global circumstances rather than Indian policy choices.
  - Countries like India hold dollars as foreign exchange reserves or use them for its own international transactions.
  - So, the dollar flows out of America into the world, and goods flow into America from the world.

India’s Export Profile Does Not Indicate Overcapacity

- India submitted that its merchandise **export-to-GDP ratio** of approximately 12% clearly indicates that Indian production is overwhelmingly oriented toward meeting domestic demand — not flooding global markets.
- Further, India’s goods exports constitute only 3.1% of total US imports, making it difficult to argue that India is a significant contributor to the US trade deficit.
- The USTR’s selective focus on specific sectors where India has a global trade surplus, India argued, does not automatically establish structural excess capacity in those sectors.
- India also pointed to the role of non-market economies as a more plausible factor behind the widening US trade deficit, implicitly referring to China without naming it.

India’s Response on Forced Labour

- On the second investigation, India asserted that its legal framework is fully aligned with international labour standards.
- India highlighted that it has ratified both the **Forced Labour Convention, 1930** and the **Abolition of Forced Labour Convention, 1957** under the **International Labour Organisation (ILO)**, which mandate the prohibition of forced labour in all forms.
- This positions India's labour laws as internationally compliant and the investigation as lacking a credible legal foundation.

Broader Context

- From a trade policy perspective, this incident illustrates:
  - how unilateral instruments like **Section 301 can be weaponised** by large economies to pressure trading partners; and
  - how the principle of comparative advantage — a cornerstone of free trade theory — is being increasingly challenged by protectionist impulses.
- It also reflects the complexity of the India-US relationship — simultaneously a strategic partnership and a site of significant economic friction.
- From a macroeconomics perspective, India's response offers a textbook illustration of why trade deficits are driven by structural factors like reserve currency dynamics rather than simply by the trade practices of surplus countries.

Source: IE | TI
