

India's trade policy must evolve

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Global Trade has been witnessing serious turbulence since Donald Trump entered the high office. Indiscriminate enhancement of import duties on products for reasons (national security) unlikely to stand legal scrutiny has come as a major threat to the smooth flow of global trade. While the US may have reasons to worry about the growing trade deficit with China, Mr Trump's solutions will not pay long-term economic dividends. However, "correcting" US trade flows is not the only reason for Mr Trump's excitable policy announcements. Arguably, he has twin objectives. Firstly, his actions are directed as reports to his constituency, as he completes his second year in office and prepares for re-nomination next year. Secondly, he is using

trade policy pronouncements as ammunition for a larger global objective. While these events are one more means of settling the larger power game, he is also settling scores with his allies such as the European Union and Canada by possibly asking a greater price for the role the US plays in maintaining the present global order.

Several disputes have been lodged in the World Trade Organization (WTO) against the US decision to increase tariffs on steel and aluminium. India, though not so significantly affected, has also chipped in. China, understandably, is the most aggrieved economically — it also fits in well with its larger political game plan. China has huge stakes and therefore, it must react to any such belligerence. So, it was tit for tat in the first round. The second round has been announced and will take some time to conclude. And then the third and so on. This game is unlikely to settle anytime sooner. A settlement before November — i.e. till the US congressional elections — seems unlikely. Chinese trade is more vulnerable to the US action for obvious reasons. China may at some point start looking at non-trade responses. Can others in this turbulence remain unaffected? Very unlikely. Some may use this as an opportunity with new markets opening, others need to find alternatives.

What about India's reaction (or retaliation)? It would not have liked to be seen as passive for several reasons. Firstly, as a matter of principle, it would not like to be seen cosying up with the perpetrator (in this case) of global discord and a rule breaker. The recent visit of the trade minister was reported to have gone well and will be followed up with a more intimate bilateral soon. It is sensible to ally with the "globalisers". Secondly, the US has challenged Indian export incentives in the WTO and raised questions on its food procurement subsidies more recently. India has had several other disputes with the US in the recent past. It is time to pay back. Thirdly, India is too familiar with the American bullying tactics, often used in trade negotiations, which have become even cruder in the present dispensation in Washington. Therefore, India must position itself appropriately to deal with what is to come and convey that it cannot be a pushover. An Indo-American conversation on trade has often led to mud-slinging. The US has often refused to accept India's sensitivities while India, at times, has been more static than necessary. There are many areas of irreconcilable differences between the two sides. The fact that India is a geo-strategic ally and that trade accounts do not include defence and

strategic procurements have either not been mentioned by India or the US has preferred to remain mercantilist in its approach.

Where does this take India in the global trade game? Indian exports have not shown buoyancy for long and traditionally winning sectors seem to be stagnating. It is perhaps the last call for India to put its act together and act fast. While domestic reforms in many areas take roots, trade policy must evolve, and trade craft must be pursued more vigorously. Berating trade deficit with China has a limited shelf life. We import either capital goods and components for our manufacturing or consumer goods from China. There is nothing one can do about the former. Import substitution has its costs and our experience in the past is not too good. Unless we establish competitive industry, it is unlikely that we will be able to replace Chinese capital goods and component imports. There are some product areas where Chinese trade barriers despite promise have not been removed. Recent opening for non-basmati rice and refined sugar by China are good pointers to what can be achieved when the leadership strives to reorient its conversation (Wuhan) in a spirit of happy coexistence. Nurturing value chains within South Asia is of critical importance. It is long overdue that we make investments in our South Asian neighbours and the CLMV countries (Cambodia, Laos, Myanmar, Vietnam) to feed our own production systems.

The WTO will take much longer to come out of somnolence, so we must weigh our options. Surely, bilateral agreements are only the second-best alternative for us, but we cannot sit till WTO wakes up or sleeps forever. It is now an imperative that trade agreements with Eurasia, Iran, some African nations such as Kenya and Ethiopia, and Latin American countries such as Peru, are negotiated post haste. Long-pending negotiations such as the one for Regional Comprehensive Economic Partnership (RCEP) may require a fresh look. A fresh look at our bilateral strategies is required. The debate on free trade agreements (FTA) will never end because each side can have arguments to support. Those taking a narrow view may not support many of these agreements but those taking a deeper and dynamic view and economy-wide impact into considerations may recommend them. It is true that FTAs can create a dynamic economic environment and lead to reorganisation in some sectors. But is that not happening even without FTAs? The Trump triggered turbulence may give us the right reasons to consider and act early on some alternatives.

The writer is a distinguished Fellow RIS. Views are personal