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No US trade deal till *swadeshi* blinkers on

Apart from India's high import duties, the stand on stents and GM crops only worsened matters, and also hurt India

THE OPTICS OF US President Donald Trump's visit and the signal it sent of strong Indo-US ties notwithstanding, it has to be disappointing that even a 'limited' trade deal—to use the term put out by the Indian side in the run-up to the visit—wasn't signed. President Trump saying he was saving the big trade deal for later, though, saved India—and him—the blushes.

There are, it goes without saying, legitimate Indian concerns, such as on freeing up agriculture, given the huge subsidies the US gives, even if they are fashioned in such a way as to be WTO-compliant. Similarly, loosening IPR norms, as the Americans want, can't be in India's interests since a lot more drugs will then get patent protection even if they represent no major innovation.

But, surely, the Indian position on putting price controls on high-end medical stents was quite uncalled for? It is possible the high-end medical stents are over-priced, and that they don't deliver anywhere near the value the manufacturers claim, but does that really matter since it is the only the well-heeled who are buying them and, in any case, there are several non-US stents available in the market? And, given how the US president was going on about the large import duties that Harley Davidson had to pay, would it really have hurt the Indian side to address this?

In any case, had India managed to put together a package of incentives to help Apple move more of its assembly operations to India, surely this would have facilitated a deal? President Trump is too much of a realist not to recognise a good deal when he sees one, and facilitating US industry to expand operations in India is part of the good deal.

Indeed, the worry for a country that never tires of talking of how India and the US are natural allies is that the Indian side doesn't seem to understand that many of the issues that are upsetting the Americans are also those that hurt India. Going after Monsanto and its GM seeds (*bit.ly/2TfHdSZ*) has certainly hit Indo-US relations, but more than that, it has hit Indian cotton farmers who, thanks to Monsanto, became among the world's largest suppliers of cotton.

There is, then, the issue of FCI's procurement of rice and wheat at the MSP, and since the stock it buys cannot all be disposed of via ration shops, FCI sells it off at a discount to traders. The discount, of course, is relative to what it cost FCI and not with respect to the market price since FCI's operational costs are very high. Yet, the fact that the grain is being sold at a discount is enough to get the US and WTO to argue that this is trade-distorting since some part of this grain is then exported. And yet, as this newspaper has pointed out often enough, disbanding the FCI-cum-ration-shop-system and replacing it with direct cash transfers to the 75% of citizens covered by the National Food Security Act would still save ₹50,000 crore every year, getting rid of FCI's excess mountain of stocks could fetch over ₹1 lakh crore as well.

In this case, too, there is a substantial overlap in Indian and US interests, and it is difficult to argue that progress here wouldn't help soften the US trade position.

How soon even a limited trade deal with the US will take is not clear, though commerce minister Piyush Goyal has said a first draft could be ready quite soon. It does seem, though, that little progress can be expected till India jettisons its *swadeshi* ideology. No one can possibly argue against self-sufficiency, but India's real challenge right now is not unbridled imports but unacceptably poor export competitiveness. In the six years since prime minister Narendra Modi came to power, India's exports have grown by just 0.5% per annum.

According to the latest Economic Survey, India's exports-to-GDP ratio fell from 16.8% in FY12 to just 11.3% in the first half of FY20 while imports of non-oil and non-gold fell from 15.2% of GDP to 10.3% in the same period. When you add gold and oil, however, imports were a higher 26.8% of GDP in FY12, and 17.6% in the first half of FY20. In other words, even if India is to hike tariffs on items like crude oil or gold—and increasingly electronics—the imports will still take place. So, the real solution lies in boosting export competitiveness, and not import tariffs, which, as President Trump made clear, he had a big problem with.

A related issue that anyone who has studied macroeconomics at even the graduate level will understand is that if a country tries to stimulate investment without enough local savings—as India is doing—there is no option but to raise the current account deficit.

The other problem with hiking import duties in the manner that India has been doing is that it needs to be time-bound. If, for instance, India hikes the import duty on plastic toys by three times, as it did in the last budget, it has to have a plan to raise the competitiveness of Indian toy manufacturers over a fixed time period. If not, the duty just ensures that Indian manufacturers get more uncompetitive globally. Similarly, the hiking of import duties on Indian steel over the last few years may have protected local steel producers, but since this makes anything produced out of local steel uncompetitive, it is bad in the long run. In other words, India's import-substitution policy may work for a while, but more often than not, high duties result in higher levels of smuggling. At the end of the day, import-substitution policies and export-promotion ones simply don't go together.

