India at a crossroads

The global economy is entering a turbulent phase. Abhijit Mukhopadhyay considers where India sits in an era of bilateral and plurilateral trade agreements

Slowdown in trade

Looking at the trend in the changes to world export growth since the 1980s, a few stylised facts become quite clear. First is the acceleration in world trade since the inception of World Trade Organization (WTO) in 1995. This acceleration lasted till the world was hit by the trans-Atlantic financial crisis of 2008, which originated from the housing mortgage segment of the USA financial market.

In the context of current turbulent international trade scenario, probably it will not be an exaggeration to say that the 'golden period for international trade' during the period between 1995 and 2008 is over now. And that 'golden period' is now followed by a conflicting time of 'tariff war' – which is threatening to spoil all the positive influences the 'golden period' imparted on the world economy.

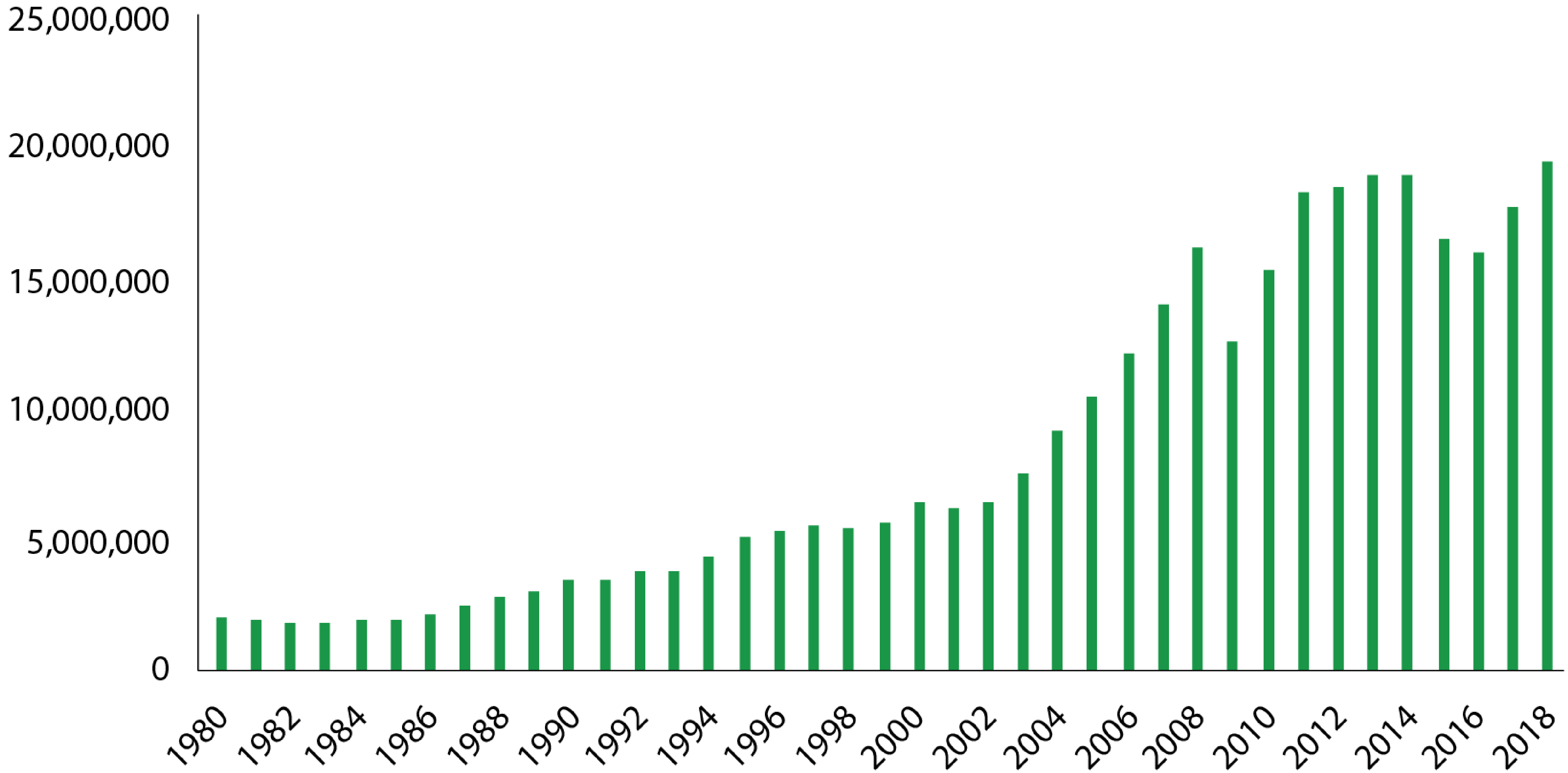
After a sharp drop in world export volume in 2009, the growing trend showed what initially looked like a recovery in subsequent years. But, the data since 2010 exhibits a stagnating trend at the same level – as if the volume of world exports has reached a mountain table-top. In fact, world exports once again started declining in 2015 before going up in 2017.

However, the overall volume keeps on showing similar mountain table-top characteristics. This is a distinct sign of slowdown in international trade and business – whichever way one interprets the data.

Growing influence of China

China's growing influence in world trade is quite evident from the lists of top exporters and top importers. While China is the top exporter of the world, the country stands next to the USA as the second largest importer in merchandise goods.

Figure 1. Trend in World Exports since the 1980s (in million US dollars)



Source: www.wto.org

This growing influence of China is one of the implicit reasons behind its ongoing war with the USA. Official reasons may tend to project different reasons for this trade war, but at a broad level it looks like a battle for supremacy in the international business arena.

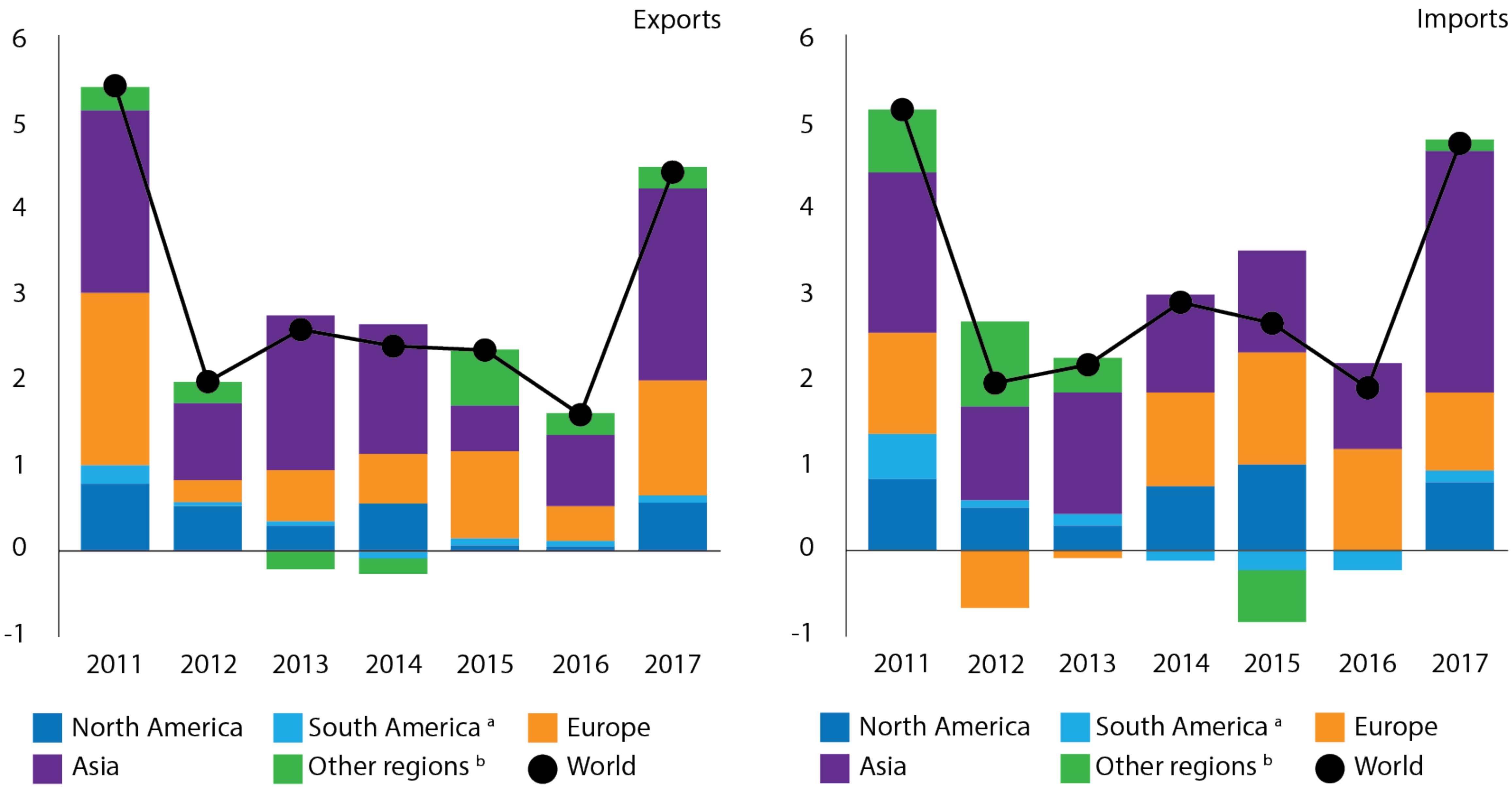
Historically, if one looks into the volumes and direction of trade in the last thirty years or so the major direction of trade was concentrated towards Northern America and Europe. This tendency started shifting after China's accession in WTO in 2001.

Table 1. Regional Composition of Trade in 2016

Top importers			Top exporters		
	Import (US$ million)	Share (%)		Export (US$ million)	Share (%)
United States	1,945,159	13.29	China	2,077,109	14.08
China	1,216,714	8.62	United States	1,292,436	8.76
Germany	916,090	6.26	Germany	1,145,973	7.77
United Kingdom	610,647	4.17	Japan	661,678	4.49
Hong Kong China	582,557	3.98	France	488,825	3.31

Source: World Integrated Trade Solution (WITS), World Bank

Figure 2. Contributions to World Trade Volume Growth by Region, 2011-2017



Notes: a) Refers to South and Central America and the Caribbean. b) Other regions comprise Africa, Middle East and the Commonwealth of Independent States (CIS), including associate and former member states.
Source: World Trade Statistical Review 2018, WTO

A prolonged debate among the leading developed countries preceded before the accession, but China rapidly but surely kept on making giant strides in international trade, particularly exports. A good export-oriented strategy made Chinese GDP grow in tandem.

According to World Economic Forum data, China's GDP touched $14 trillion mark in 2018. The gap between China, the second biggest economy of the world, and the USA, the biggest economy of the world at $20.4 trillion, narrowed considerably in around 17 years.

How India inks new agreements with potential new partners... will decide whether the country will be able to avail exports as one of its near future economic growth drivers

The contribution of different regions in world trade volume growth during the period between 2011 and 2017 also confirms this trend. Both in terms of exports and imports, the growth was largely driven by Asia. And in that Asian growth story, China played a significant role.

Age of trade wars

The current trade war started in early March 2018. The USA fired the first salvo, as it raised tariffs on $92 billion worth of imports covering steel and aluminium products, washing machines, solar panels and a range of other products, in which China holds substantial export shares in the USA. Affected countries by this set of tariffs include Brazil, Korea, Argentina, India and the EU (European Union) – apart from China.

The second dimension, unveiled at the end of March, was American President's directive to the United States Trade Representative (USTR) to take all possible actions against China, including using penal tariffs on its exports, for *"harming American intellectual property rights, innovation, or technology development."*[1]

In subsequent developments, the USA has brought in 25 percent tax on a second tranche of goods worth $16 billion by August 2018. These goods include motorcycles, aerials and optical fibres[2]. The measures are part of American president's broader 'America First' approach.

In a natural reaction, all affected countries retaliated with counter tariffs. The EU announced 'rebalancing measures' targeting 340 American export items valued at $7.2 billion, roughly equal to the amount of its steel and aluminium exports adversely affected by the US tariff.

Canada announced retaliatory tariffs of up to 25 percent on the US imports of steel and aluminium, orange juice, whiskey and other food products – having a value of around 16.6 billion Canadian dollars, which is the value of targeted Canadian steel exports to the USA. Mexico announced similar measures on a number of products, including dairy, horticulture and meat products, 'up to an amount comparable to the damage caused by the US action'[3].

In early April 2018 China decided to retaliate against the USA by imposing tariffs on 128 products, which accounted for $3 billion US exports to China in 2017. China proposed imposition of a 15 percent tariff on the first set of products, including fresh fruits, dried fruits and nuts, wines, modified ethanol, American ginseng, and seamless steel pipes.

On a second set of products, including pork and its products, and recycled aluminium, a 25 percent tariff imposition was proposed. Continuing the tit-for-tat policy, China further decided to impose additional tariffs of 25 percent on chemical products, medical equipment and energy imported from the USA[4].

The Chinese government on 8 August signalled its willingness to impose retaliatory tariffs on US goods – just ahead of China's top leaders gathering for their annual summit. This is reportedly in retaliation to *"Trump administration's publishing a list of Chinese products that will confront 25 percent duties starting on 23 August 2018"* – raising the value of tariffs to $50 billion, up from the current $34 billion[5].

And this willingness later translated into additional tariffs on $60 billion worth of imports from the USA. The Customs Tariff Commission of the State Council unveiled lists of 5,207 American products which will face additional tariffs of 5 percent to 25 percent. The effect of this set of tariff can be quite significant in the near future[6].

The US government again hit China with a new set of tariffs affecting $200 billion worth of Chinese goods from the middle of the month of September 2018. Unlike the previous set of tariffs which were mainly aimed at capital goods, this will hit thousands of consumer goods made in China, ranging from luggage and electronics to housewares and foods. Imposition of tariffs will ultimately result into increase in these goods' costs and prices[7].

This action apparently has been undertaken by the USA to address China's indifference to address its 'unfair policies and practices'. China, meanwhile, deeply regretted the decision and conveyed that it has *"no choice but to take counter-measures."*

Much to the relief of many countries of the world, on 1 December 2018 the standstill agreement reached between the USA and China at the sidelines of G-20 meetings had brought a much-needed breather for these two countries and the rest of the world. Both countries agreed not to impose any tariffs for the next 90 days.

However, this temporary truce looked inadequate to resolve the deeper trade problems in their relationship and seemed to be a more short-term political agreement than a substantive step towards resolution of existing problems.

As expected multiple rounds of talks between these two countries failed to end the deadlock, and it is expected to continue in spite of both the countries being parts of coming G-20 meet. In addition, the situation worsened in the interim period as the USA stepped up its efforts to ban Chinese tech company Huawei from doing any business with American companies. American Federal Government's decision to expand official ties with Taiwan is expected to further aggravate the situation.

India caught in the crossfire

India, perhaps unwillingly, also got embroiled into this trade war. The Indian government imposed higher duties on

29 key US imports (applicable from 18 September 2018), in which the value of actual imports stood at $1.5 billion in 2017-18.

This has been ostensibly done to offset the estimated loss faced by India after the US government hiked import duties on steel and aluminium in May this year[8]. Needless to say, if the tariff war goes on then more tariffs are bound to be applied from Indian side on other sets of goods as well.

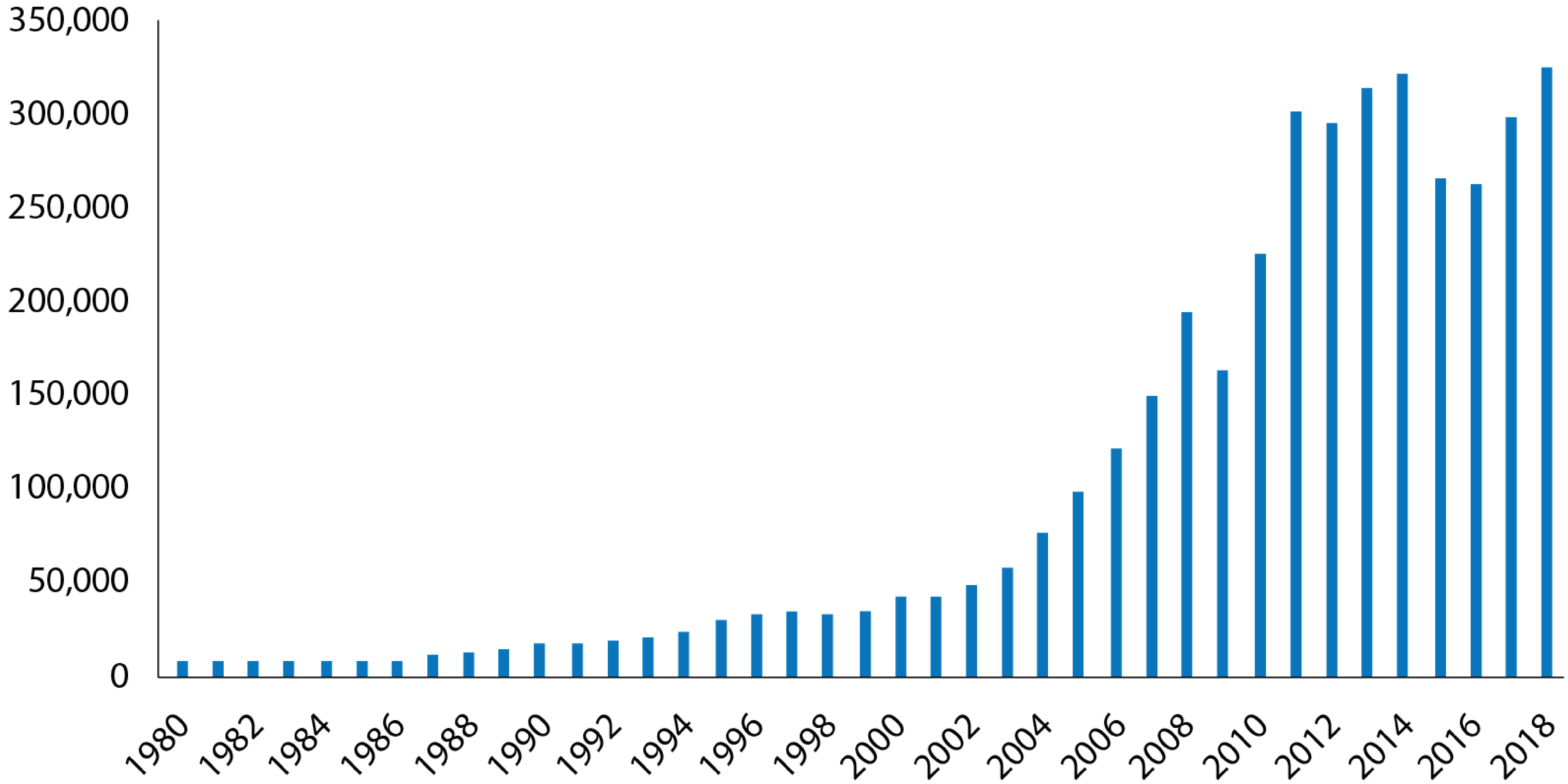
In a latest related development, in March 2019 the US government decided to withdraw trade concessions given to India under the Generalised System of Preferences (GSP) – a programme that allows duty-free entry for certain products into the US market.

Under GSP, the trade between these two countries grew over the years, and reached $6.2 billion in 2018. No other country's GSP export value has ever exceeded India's exports under GSP in the last two decades cumulatively. Though officially India downplayed the effect of GSP withdrawal, sectors like gems & jewellery and apparel will be adversely affected[9].

Subsequently, the USA indicated postponement of withdrawal of GSP for India till the elections are over[10]. However, immediately after the elections are over American administration indicated that the USA has no intention of going back on the decision to terminate GSP facility – terming the suspension a *"done deal."*[11]

Meanwhile, the trend in Indian exports shows an almost identical pattern to the world trend. After starting to grow healthily since the inception of the WTO and increasing manifold till 2008, the absolute value of Indian exports received a jolt in 2009 in the immediate aftermath of financial crisis.

Figure3. Trend in India's exports since the 1980s (in million US dollars)



Source: www.wto.org

It then recovered, started growing again for couple of years – before reaching a 'mountain table-top' pattern – similar to the world exports growth. Almost repeating the world exports trend, Indian export volume also went down in 2015 and 2016. Subsequently, it went up in 2017 and 2018 but remains more or less at the same level as in 2014.

Indian exports trend aligning broadly with the world exports trend highlights two important aspects. Firstly, India is closely aligned with the rest of the world and as a result if there is turbulence in the international trade arena then India will also get negatively affected. Secondly, if world trade is unable to recover then India has to contemplate a different strategy if the country wishes to maintain its economic growth momentum.

While most of the recent growth success stories, including China, were pivoted through an export-oriented strategy, similar trajectory option may not be available to India, given the current tariff war.

In that case, like other important economies of the world India will have to find new trade partners, mainly through the route of bilateral and plurilateral agreements. And the country has to find the partners as fast as possible as all significant economies are currently scouting for partners.

A flurry of efforts to chalk out agreements – like TPP (Trans-Pacific Partnership) and RCEP (Regional Comprehensive Economic Partnership) – in the recent past is a clear indication of that desperation to find trade partners.

Eventual failure of the member countries to arrive at a final agreement in both these prospective regional trade agreements (RTAs), on the other hand, shows the immense difficult situation the world trade is currently in – as a result of which finalisation and concretisation of such RTAs have become incredibly difficult task.

India has to reconcile to these new realities of international trade, and inviting BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) countries' heads in the inauguration ceremony of the freshly elected government is a good start.

How India inks new agreements with potential new partners, particularly in the Asian region, and also the choice of trade partners will decide whether the country will be able to avail exports as one of its near future economic growth drivers. ■

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Endnotes

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