

India's mask of economic liberalism is off●

Trade protectionism seems to be the official policy, with the government following the path of its ideological leanings



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India's External Affairs Minister S. Jaishankar recently disapproved of free trade and globalisation. Sounding like a politician of the bygone era where the government shielded the domestic industry from competition by putting up protectionist barriers, he said, "in the name of openness, we have allowed subsidised products and unfair production advantages from abroad to prevail... justified by the mantra of an open and globalised economy. It was quite extraordinary that an economy as attractive as India allowed the framework to be set by others." He was speaking at a "dialogue" (<https://bit.ly/3nAqFTe>). Taking a dig at free trade agreements (FTAs), the Minister said, "the effect of past trade agreements has been to de-industrialize some sectors."

The fact that these observations were made just a day after 15 countries of the Asia Pacific region signed, on November 15, the Regional Comprehensive Economic Partnership (RCEP) agreement, the largest regional trading arrangement, is no coincidence. The Minister tried hard to rationalise the government's decision to walk away from RCEP last year. However, there are several flaws in Mr. Jaishankar's arguments.

RHETORIC VERSUS REALITY

First, by refusing to sign RCEP — a sign of weakness, not boldness — India is now truly at the margins of the regional and global economy. With trade multilateralism at the World Trade Organization (WTO) remaining sluggish, FTAs are the gateways for international trade. By not being part of any major FTA, India cannot be part of the global value chains. India's competitors such as the East Asian nations, by virtue of they being embedded in mega-FTAs, are in a far superior position to be part of global value chains and attract foreign investment. Second, has India embraced the economic openness that Mr. Jaishankar laments about? While India is surely a much more open economy than it was three decades ago, globally, India continues to remain relatively closed when compared to other major economies. According to the WTO, India's applied most favoured nation import tariffs are 13.8%, which is the highest for any major economy. Likewise, according to the United Nations Conference on Trade and Development, on the import restrictiveness index, India figures in the 'very restrictive' category. From 1995-2019, India has initiated antidumping measures 972 times (the highest in the world), zealously endeavoring to protect domestic industry (<https://bit.ly/3nGfUz0>).

Third, in blaming FTAs for the woes of India's manufacturing, the External Affairs Minister is contradicting his own government's economic survey presented earlier this year, which concluded that India has benefitted overall from FTAs signed so far. Moreover, impugning FTAs for de-industrialization means being oblivious to the real problem of the Indian industry — which is the lack of competitiveness and absence of structural reforms.



Fourth, the External Affairs Minister, following the finest traditions of the Narendra Modi government, criticised the past governments for compromising India's interests by doing business as per the 'framework' set by others. However, he did not share why his government utterly failed in the last six years to convince 15 other RCEP nations about a framework that would be advantageous to India.

Finally, in criticising economic openness and globalisation, the External Affairs Minister wholly ignored the fact that India has been one of the major beneficiaries of economic globalization — a fact attested by the International Monetary Fund (IMF). Post 1991, the Indian economy grew at a faster pace, ushering in an era of economic prosperity. According to the economist and professor, Arvind Panagariya, poverty in rural and urban India, which stood at close to 40% in 2004-05, almost halved to about 20% by 2011-12. This was due to India clocking an average economic growth rate of almost 8% with international trade being a major engine of progress (<https://bit.ly/39atner>).

ECONOMIC LIBERALISM

The comments of the External Affairs Minister give us a window to understanding the larger ideological moorings of the Narendra Modi government on free trade. When Mr. Modi became the Prime Minister in 2014, it was widely perceived that while his government might be socially conservative, it would be economically liberal and advocate globalisation and free trade. This was even though all ideological gurus of the Sangh Parivar, whether Deen Dayal Upadhyay or Dattopant Thengadi, championed swadeshi (indigenous products) over videshi (imports). Over the last few years, the Narendra Modi government has started walking on the path shown by its ideological gurus. Tariffs have been increased, FTAs are being demonised, and 'vocal for local', which strikes at the heart of international trade and globalisation, is the new mantra.

The Prime Minister's desire to make India a global destination for foreign investment is a pipe dream because it is naive to expect foreign investors to be gungho about investing in India if trade protectionism is the government's official policy. The mask of economic liberalism is finally off and the real ideological colours are there for everyone to see.

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