

# India's mask of economic liberalism is off

Citing trade agreements for India's below potential growth appears to be a way to deflect blame for policy errors



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India's External Affairs Minister S. Jaishankar has presented an ill considered take on India's trade record in a 'keynote' speech delivered at a "dialogue" on November 16 (<https://bit.ly/35Tbf6I>). The Minister believes that the economic growth that has accrued from globalisation is not a good enough outcome for India. An "honest" self assessment of this trade and economic performance is necessary to show what costs India has paid for its economic success: That if globalisation, especially trade, is assessed in the broader context of its overall impact on society, the costs could be shown to have set off the gains considerably. That one such cost is "deindustrialisation". That "employment challenge" was created by trade. That trade agreements have made India "over dependent on imports".

Let us fact check the Minister. A new paper by Shoumitro Chatterjee and Arvind Subramanian, 'India's Inward (Re) Turn: Is it Warranted? Will it Work?' is instructive (<https://bit.ly/3pRgTy4>).

## EXPORT-LED GROWTH

The Minister gets it right when he says that trade has delivered high economic growth for the country. India's record of export led growth cannot be dismissed. Between 1995 and 2018, India's overall export growth averaged 13.4% (in dollars) annually. This is the third best performance in the world among the top 50 exporters. It is nearly twice the world average growth and not far behind China's growth of just over 15%. The Chatterjee Subramanian paper also shows how much exports contributed to GDP growth in each of the three decades since the 1990s.

The Minister has a point when he says this performance represents only limited progress relative to India's potential, and that this gap with the potential presents the real challenges. It is true that despite the evident success, India is not a big exporter on the global scale; its share of global manufacturing exports is only 1.7%, marginally less than Vietnam's, at 1.75%.

## 'STRONG RUPEE' APPROACH

But how much of the blame for India's below potential growth can be ascribed to trade agreements? This causation Mr. Jaishankar suggests is problematic. India's exports growth has lost momentum in recent years. The Narendra Modi government's "strong rupee" approach is among the chief causes that have been shown to have slowed down exports. The real effective exchange rate has

appreciated by about 20% since 2014. This is not a subsidy given by other countries to their exporters. It is in fact a subsidy given by Mr. Modi's government to the exporters of other countries. If imports — such as of holidays and higher education overseas — have leapt, it is because the exchange rate has made them more affordable.

Studies of trade agreements by NITI Aayog show that Indian exporters suffer logistics, compliance and transaction costs twice as high in other countries. This low ease of doing business relative to other exporting countries has further eroded the competitiveness of Indian exports. In sectoral causes, the damage to the reputational advantage of India's pharmaceutical exports after malfeasance fraud was exposed at some manufacturers, has hurt exports. Those can also not be blamed on trade agreements.

### **ON MANUFACTURING**

The Minister does not get it quite as right on manufacturing. Between 1995 and 2018, India's manufacturing exports (in dollars) grew on average by 12.1%, nearly twice the world average. This was the third best performance in the world, surpassed only by China and Vietnam. Even during the years of slowing global trade post 2012, when world exports were virtually flat, India continued to gain global market share, its exports growing by about 3%. During this period, India's manufacturing export growth ranked within the top 10 among the 50 major exporters. Can this be characterised as "deindustrialisation" caused by trade? If India's manufacturing sector finds itself in crisis since 2012, it is in large part because of policy errors inflicted first by the Manmohan Singh led government and then the one headed by Mr. Modi.

Between fiscal years 2006 to 2012, manufacturing sector GDP grew by an average of 9.5% per year. India's trade openness was at its peak during these years of high growth that also overlaps with the period when the highest number of Indians in recorded history exited poverty. Then, over the next six years, manufacturing sector GDP growth declined to 7.4%, coinciding with the phase of corruption scandals, a severe banking crisis, demonetisation and a badly designed Goods and Services Tax (GST) — none of which were consequences of trade agreements. MEA in lead role The paper by Chatterjee Subramanian shows how openness to trade is in fact one of the few channels available to India for generating employment in the post COVID19 world, given that the financial positions of households, government and banks are too weak to support the economy. They calculate that after the 2008 global financial crisis, China vacated about \$140 billion in exports in unskilled labour intensive sectors, including apparel, clothing, leather and footwear. But India did not take advantage of the opportunity. India is exporting about \$60 billion of low skill exports annually less than it can if the underlying problems are addressed.

The weakest case the Minister makes is on the employment challenge. Probably because economic arguments are playing an ever shrinking role in formulation of trade negotiating positions and growth strategies, with curtailed roles for the Departments of Economic Affairs and Commerce, and the Ministry of External Affairs taking over much of the economic diplomacy.



Trade openness versus import substitution is the one policy debate where policymakers need to look no further than India's own pre1991 experience of inferior, low quality products on the one hand and low growth rates on the other. Great examples of how responsible globalisation can solve problems are the multiple COVID19 vaccines being readied across the world. They are in fact India's only hope of safeguarding the population. To denounce trade openness and globalization at this point is also poor timing. Mr. Jaishankar's speech is a great candidate for a fact check of the sort done on U.S. President

Donald Trump's unfounded statements by the U.S. media. But to explain it away as a poorly researched and badly argued talk would be to miss the point of it completely. It serves to lend credibility to the antitrade narrative invented by certain political outfits — on the Left and the Right — that have come to represent

India's worst economic insecurities. This is no ordinary member of Mr. Modi's Cabinet speaking. By blaming trade agreements for "deindustrialisation", Mr. Jaishankar seeks to deflect blame for the Modi government's policy errors. India's switch to a "strong rupee" policy, in line with the Prime Minister's pre2014 election campaign, led to the surge in imports of goods and services preferred by non rich Indians, and a measurable loss of competitiveness in labour intensive exports. At the same time, the disadvantages Indian exporters have long struggled against — the substantially higher logistics and other costs — remain as burdensome. The speech is a purely political one.

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