

India's Missed Shot in Global Trade

Posted at: 12/11/2024

India's Missed Shot in Global Trade - A Call for Rethink on RCEP and CPTPP

Context:

Global trade dynamics are shifting, and India faces new challenges and opportunities. The "**China-plus-one**" strategy has helped countries like **Vietnam** and **Indonesia** capture investments and markets by reducing dependency on China. However, India has lagged in this approach, and recent U.S. election results have added more uncertainty to American trade policies, affecting India's trade strategy.

India's Trade Dilemma and the China-Plus-One Strategy

- Many Asian countries are successfully using the **China-plus-one** strategy to reduce dependence on China. This approach has become popular due to the **COVID-19 pandemic**, the **U.S.-China trade war**, rising **labor costs in China**, and other **geopolitical tensions**.
- India has not fully capitalized on this strategy. Despite some production gains, India has struggled to achieve the same **domestic value-added growth** as its Asian peers.
- **NITI Aayog CEO B.V.R. Subrahmanyam** highlighted the benefits of India joining large multilateral trade agreements, like **RCEP** and **CPTPP**, to better integrate into the global economy.
- The **MSME sector**, responsible for **40% of exports**, could gain significantly from joining these trade alliances.

Challenges with Trade Agreements and Protectionism

- **Commerce and Industry Minister Piyush Goyal** warned that joining **RCEP** could lead to a **flood of Chinese goods in Indian markets**, worsening India's **trade deficit**.
- The trade deficit with China grew at a **42.85% compounded annual rate between 2004 and 2014**, affecting domestic manufacturing.
- As **Western nations** like the **U.S.** and **EU** adopt **protectionist policies** to reduce imports from China, India faces additional challenges. For example:
 - The **U.S.** has pledged to raise tariffs on Chinese goods.
 - The **EU** has imposed tariffs on Chinese **electric vehicles and solar equipment**.
- **NITI Aayog CEO Subrahmanyam** suggests that **lowering tariffs** could help improve India's private sector capacity utilization (currently at **70%**) and attract more investment.

India's Missed Opportunities and Limited Gains

- According to an **Oxford Economics report**, India has lagged behind other Asian countries in

capturing **U.S. import demand** that has shifted away from China, particularly in **high-growth sectors**.

- Although India's share in **U.S. electronics imports** grew from **0.2% in 2017 to 2.1% in 2023**, competitors like **Vietnam, Taiwan, and Malaysia** maintain substantially higher shares.

Attracting Chinese FDI - Pros and Cons

- Chinese companies have increased **overseas investments** amid rising **Western protectionism**. However, **India has seen limited Chinese investment** due to border tensions, with China's share of investment to India falling from **2.6% in 2019 to 1% in 2021**.
- While Chinese investment might boost **short-term trade**, experts warn it could lead to **supply chain vulnerabilities** and impact **India's strategic independence**.
- There are concerns that Chinese firms may prioritize their own supply chains and limit opportunities for local Indian industries.

Impact of Trump's Return on India's Trade

- **Donald Trump's re-election** may increase risks of **U.S. tariffs on Indian goods**. During his previous term, Trump removed **duty-free benefits** for India under the **GSP program**, affecting **\$5.7 billion in exports**.
- Trump's **tariff policies** could target **key Indian sectors** like **textiles, automobiles, pharmaceuticals, and wines**, reducing India's competitiveness in the U.S. market.
- However, as the U.S. tightens its stance against China, **new opportunities may arise for Indian exporters** to fill gaps left by reduced Chinese imports.

