

# Discussion of India's International Trade and Future Prospects

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# Questions

- How has India's approach to trade and FDI changed since 2014?
- Have domestic trends in India or democratic backsliding had any impact on India's trade posture and investment climate since 2014?
- How may the different possible outcomes of India's 2024 general election impact India's trade and FDI policies?
- What risks do domestic trends in India pose for the Global North's trade and investment interests in India? How can the Global North address these risks?
- Is the Indian Economy the World's Engine?

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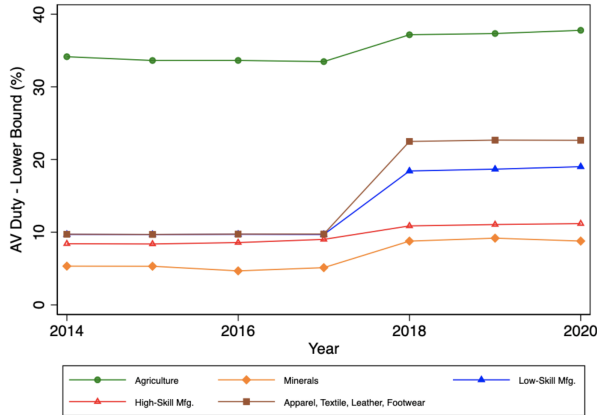
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# How has India's approach to trade/FDI changed since 2014?

1. Unlike vast majority of other countries, India has increased import tariffs of many important lines

**Figure 2. Tariff Changes, Sectoral, 2014-2020**



Source: WTO and Ministry of Commerce, Government of India

# How has India's approach to trade/FDI changed since 2014?

## 2. Import bans on some goods

### Invoking self-reliant India, govt bans import of 101 defence items



With the import of subs embargoed after December 2021, the Navy will contract six for Rs 42,000 crore. The IAF will buy 123 Tejas for Rs 85,000 crore

Ajai Shukla | New Delhi

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## How has India's approach to trade/FDI changed since 2014?

3. Production-linked incentives PLI (i.e. production subsidies)
  - Initially mobile phones and consumer electronics
  - Being expanded to other IT & tech goods
  - PLI 2.0 tied to expanding product mix
4. Increased divergence on views related to global trade and investment governance
  - India planning to kill Digital Services Tax
  - India expected to challenge EU CBAM at WTO

## Comment #1: Restricting imports is not a recipe for growth

1. In order to become a manufacturing hub, India needs to build capabilities / increase productivity
2. Intermediate inputs are key to building productive capabilities (cf. Goldberg et al. AER 2009, Halpern, Koren, Szeidl AER 2015, Boehm, Dhingra, Morrow JPE 2022), cf. China
3. India's labor productivity still quite low in international comparison
4. Restricting access to imports risks losing the market to Vietnam, Thailand, Bangladesh, Malaysia and others
  - Particularly now during time of rising wages in China and geopolitical fragmentation

## Comment #2: Self-reliance really does not make sense for India

Even if you have a preference for making things “at home”:

- India is a large country. Large countries are by nature more diversified and therefore less dependent on trade (clear evidence).
- Protecting domestic industries unlikely to increase productivities (India has tried for 30 years!)
- Worst possible signal to foreign companies/investors: haven't given up on old ideologies. Now is not the time to spill the beans.

Given the current Indian government's reliance on economic growth, an emphasis on self-reliance seems misguided.

## Comment #3: Production subsidies as second-best policy

Standard public economic theory argues against production or export subsidies

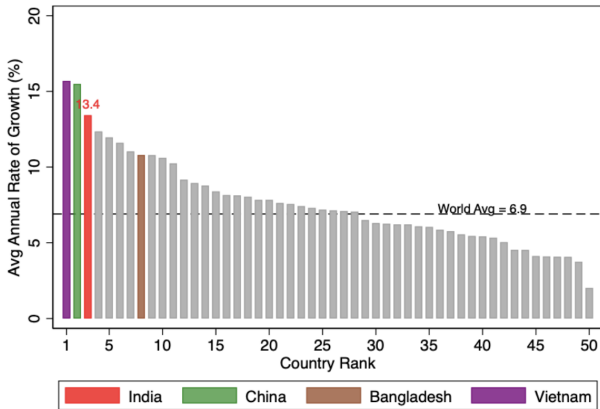
But potentially a reasonable policy if expected spillovers are large

- Factors that are complementary to foreign technology are abundantly available (engineers + low-skilled labor, cf. China)

Of course it would be better to fix factor market frictions (energy access, labor market frictions, poor contract enforcement)

## Comment #4: Indian export growth during 1995-2018 was actually pretty good

Figure 1a. Export Growth of Goods and Services 1995–2018



Source: World Development Indicators. Exports of Goods + Non-Factor Services

# So, will India's economy become the world's growth engine?

Putting it all together:

- Demographics and geopolitical situation clearly in favour of Indian economy
- Some evidence for misguided economic policy thinking in the Gol, could endanger growth
- Learn the lessons from China and from India's post-independence trade/growth experience
- Cooperation instead of confrontation at the international level is likely to pay off