

India is Trump's trade target

Though India is still not affected, it will have to strike a deal with the US sooner rather than later

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For the second time within days, US President Donald Trump has lashed out at India's high tariffs on various American products and asserted that the Government of India (GoI) is desperately seeking a trade deal with the US to keep him happy. Chances are that Trump is speaking the truth, at least about India having approached the US for negotiating a trade agreement.

Talk of a trade deal gained credence not only because Trump said so. Only last week, Assistant US Trade Representative Mark Linscott was in New Delhi for detailed talks with officials about a possible agreement on bilateral trade. Earlier in June, Linscott had come at the head of a US delegation for a discussion of issues related to trade and tariffs that have been points of bilateral contention.

Yet, in spite of Trump's taunts of India being a "Tariff King", if the Government of India has not been forthcoming on a trade deal apparently in the offing, it could be because of concerns over domestic reactions, especially among industry and business.

With the threats of a trade war, particularly between the US and China on the rise, the question is, what should India do. Former Foreign Secretary Lalit Mansingh, who was also ambassador to the US, says India should lose no time in signing a trade agreement with the US. Trump is challenging the WTO and he may well render the current international trading regime irrelevant, if not obsolete.

In such a scenario, India has no option but to work on regional and bilateral trade pacts to safeguard and advance its interests, says Mansingh. India, which is part of the RCEP — Regional Comprehensive Economic Partnership (RCEP), between the ASEAN and the Indo-Pacific nations of China, Australia, New Zealand, Japan and South Korea — should now similarly protect its economic and commercial interests by signing a bilateral agreement with the US, which is its largest trading partner.

In Mansingh's view, also shared by other observers of India-US relations, India would be justified in going to the US for a special bilateral deal because it has not been able to take advantage of the WTO system in the aggressive way China has been able to do. Besides, the US opposition to China's trade strategy under the prevalent world trading system is not limited to Trump; there is a political consensus in the US on redefining the terms of trade with China. Mansingh's prescription is more by way of a safeguard in the event of a trade war breaking out between the US and China.

So far, India has not suffered as a result



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of Trump's trade offensive and slapping of tariffs across continents. It is true that Trump struck India with tariffs on steel and aluminium after New Delhi failed in its attempts to get an exemption. Even so, India is not affected as it is not a big exporter of either steel or aluminium comparable, for example, to China, Japan and South Korea. However, if a US-China trade war breaks out, the international system could be in serious trouble like in 2008, and India would suffer more than collateral damage. Right now it is a war of words and wits. But a trade war between the world's two largest trading nations will certainly affect India severely. At this stage, it would be hard to foretell all the grim consequences. For the same reason, it is not possible for India to protect its economic and trade interests against the tide of oncoming events.

At the same time, it should not be difficult for India, to secure some of its interests, such as ensuring oil supplies and stabilising the rupee-dollar equation.

Petroleum prices are high and going higher because of US sanctions against Russia and its retraction from the nuclear deal with Iran. This is affecting the Indian economy as well as eroding the value of the rupee. In addition, the US sanctions against Russia is also likely to inflict collateral damage on India, which is facing

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rough weather from the US on the defence deals to be signed with Russia.

In a way, the price and supply of crude are not related to the rupee value. Oil supplies are hit because of Trump's actions and campaign to squeeze Iran. India has been protesting unilateral sanctions against Iran. But considering that the US is the largest economy and the biggest military power, India cannot ignore what it entails. Nor can India afford to stand on principle — that it will support only UN sanctions — beyond a point.

India can and will find other sources of oil as well as natural gas. (In this matter, Trump has said that he would help India). Refineries dependent on crude from Iran will suffer, but given India's good relations with oil producers such as Saudi Arabia, UAE and others in the Middle East, supplies should not be a problem in the event of India being compelled

to end imports from Iran. Prices will keep rising until such time supplies increase, which will happen when OPEC decides to raise the production. With Trump warning that oil prices should be stable, OPEC would have to give in soon.

Although GoI expects that the US would allow it to fulfil its oil contract obligations with Iran, India is unlikely to wait until the November deadline for finalising other sources of oil supplies. The Ministry of External Affairs (MEA) is confident that there would be no oil crisis.

There is no basis for similar confidence with regard to the rupee value, which is falling because of the weakness of the Indian economy. To address that weakness calls for measures, which the government can ill afford when the country is in election mode, particularly when such measures can alienate powerful financial interests.

India needs to have in place political, economic and diplomatic strategies to deal with a world where the US is moving away from multilateralism. To begin with, it may be worth considering whether India could take a cue from Trump's North American trade deal with Canada and Mexico.

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