Yet another fortnight of economic turbulence

■ *T.K. Jayaraman*

It started with the first shot in the trade war fired by the US President Donald Trump. It was not unexpected, as he fought his presidential election campaign promising action against "unfair trade practices" and "manipulative exchange rate" polices of China and vowed to protect American jobs.

President Trump has fulfilled his electoral promise. Though he softened his stand against imports of steel on allies, which included Canada and Australia, he did not stop with steel imports from China. He pursued the trade war with another round of tariffs. On March 22, he hit China with tariffs on $60 billion of imports. This time, it was to retaliate against the "theft" of American intellectual property.

China responded promptly. Next day, it released a list of potential tariffs on $3 billion worth of American goods, from pork to fruits and wine. A 25% would be imposed on a second category of goods totaling nearly $2 billion, including aluminium scrap.

If the list extends to include soybeans, the American farmers would be hit very hard. The loss will be around $ 14 billion. One-third of American exports of soybean go to China. Certainly, the farmers in the soybean growing states of the US, which elected President Trump, would not forgive him.

So the trade war has begun.

Will India be affected?

It will be foolish to ignore the signs. The US stock markets reacted quickly. India is one of those countries trading with the US having a trade surplus. America's trade deficit with India is $ 30 billion, much less than the deficit with China which stands at $ 375 billion. President Trump has already indicated his intention to reduce deficits with those countries including India with reciprocal rise in tariff rates. A research note prepared by Stanley Morgan says India has imposed high tariff rates against US imports in six major categories of trade. Imports of manufactured goods from the US are taxed by India at 5.7% as against the US rate of 1.7% on India's manufactured goods. The list goes on. It is obvious President Trump would soon turn his attention on India.

Can India, which is the ninth largest trading partner of the US, retaliate in the face of any reciprocal rise in tariffs? Pro-US trade activists argue that the US has a case for correcting the trade imbalance. They expect India to finalise purchase of a thousand planes with American companies soon just as India bought $2 billion worth of energy products.

India's trade deficit

Trade figures for the April 2017-January 2018 show that the trade deficit has been widening. It stands at $131.billion. Exports during the ten period rose by 11.47% and were $247.89 billion. On the other hand, imports increased by 22.10% to touch $379.05 billion. Slowly rising exports, which could not keep up with growing imports are the reasons. The losers in the race among the exports are garments, handloom, carpets, manmade textiles and handicrafts.

On the other hand, the gainers on the export side are engineering goods, petroleum products, chemicals and pharmacy products. It is worth noting that the losers are labour intensive goods, production of which contributes to employment creation. The labour intensive production for exports is all in the hands of small and medium enterprises. They were the most affected by the cash and credit crunch in the wake of the demonetisation of late 2016 and of the GST blues of July 2017.

There is no point arguing that stepping up industrial production would solve the problem. In a labour surplus economy with 1.3 billion population, with no-matching skills in productivity and sophistication of the Chinese economy for supplying manufactured goods to the rest of the world, it would take years for India to come up to the Chinese level of exports.

Some more disturbing news

The Reserve Bank of India reports that the current account deficit rose to 2% of the GDP at $ 13.5 billion in the December quarter, up from $ 8 billion or 1.4% in the year-ago period due to higher trade deficit.

The current account deficit, which normally gets bridged by capital inflows in the face of imports exceeding export earnings, is likely to bulge. It is feared there is a likelihood of the reversal of hot money inflows, which poured in previous years being speeded up. From December 2016, foreign holders of Indian bonds have been getting rid of them at an increasing pace. This has also contributed to the weakening of the Indian rupee. The Bloomberg says the Indian rupee is the worst performer after the peso of the Philippines.

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The problem of outflow portfolio funds has been compounded by the mother of all bank frauds of all time. The impact of the Punjab National Bank-Nirav Modi fraud will linger for a long time to come. In the meanwhile, we have yet another bank fraud detected from Chennai. ■

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