Boosting Economic Growth in a Protectionist World

The article is based on **"Boosting growth in a protectionist world"** that was published in The Hindu BusinessLine on 22nd August. It talks about the challenges of achieving a higher growth rate in a protectionist world order.

Context

- In recent times, governments across the world are focussed more on protectionist economic policies as a measure to boost their domestic economy.
- Protectionism, the theory or practice of shielding a country's domestic industries from foreign competition by taxing imports, gained ground mainly after the 2008 Global Financial Crisis.
- **US-China trade war** is an evidence of the growing phenomenon of protectionist trade and economic policies.
- The US, under Trump presidency, has already withdrawn itself from Trans-Pacific Partnership (TPP) and also looking cynically on other multilateral engagements.
- In the meantime, India has set an **ambitious goal of becoming a USD 5 trillion economy by 2024-25.**
- **Economic Survey 2018-19** calls for a sustained 8% growth rate for India to become a USD 5 trillion economy by 2024-25.

Challenges of Economic Growth in a Protectionist World

- India requires a **high growth of exports** to boost its economy, which is a huge challenge in the prevalent situation.
  - India's merchandise exports have been hovering around $300 billion for the last five to six years and have not been able to boost economic growth.
  - India is losing its competitive edge in traditional industries like textiles, to countries like Bangladesh and Vietnam.
  - India's service exports, spearheaded by information technology, however, rose from $137 billion in 2011-12 to $205 billion in 2018-19.
- **Uncertainty regarding US unilateral actions:** India is among the group of countries that has been subjected to tariffs of 25% on steel and 10% on aluminum imports by the US. While this may not make a big dent to India's exports of these products as India accounts for only 2% of the US' steel and aluminum imports and the US accounts for less than 5% of India's exports of these products, the US' unilateral steps are a matter of concern. There is a risk that such protectionism might be extended to products which matter for India.
- **Dumping:** US tariffs may lead to excess supply of steel and aluminum products in the world market and dumping in large consumer markets like India, increasing competition for domestic manufacturers.
- An environment of restrictive global trade has an **adverse impact on profit growth of Indian companies.** Higher import tariffs can have a negative impact on earnings, by increasing the cost of inputs.
- **Increased Fiscal Commitment :** Decline in trade openness has seen India responding with protectionism coupled with inward-looking policies, including increasing role of government in driving demand, supporting farm & rural sectors, job creation, housing for all and prioritising MSME lending for public sector banks (PSBs). This trend is expected to continue. Hence, it will also imply higher fiscal commitment.

How to boost economic growth?

- **Improving Ease of Doing Business:** India has improved a lot in World Bank's Doing Business Report (DBR) in the last four years. It has improved 65 positions in the last four years from 142 in 2015 to 77 in 2019.

  However, it is still ranked very low on two major parameters- **Starting a Business** and **Enforcing Contracts-** that are vital for attracting FDI.
- **Electronic Manufacturing:** India cannot become a significant, modern economic power unless it develops a **vibrant electronics industry,** with an indigenous capability for research and development and a substantial manufacturing capability to produce crucial items like semiconductors and computer chips.
  - Of the country's total demand for electronics, between 50-60% of the products and 70-80% of the components are imported.
  - Expenses on electronics imports could surpass those on oil imports by 2020.
  - The industry has the potential to provide millions of jobs, directly and indirectly.

- **Free Trade Agreements (FTAs) :** India needs to effectively utilise FTAs, especially with East Asian nations (ASEAN), Japan, South Korea to its advantage to boost investments, exports and technology transfers to and from these nations.
- Joining **Regional Comprehensive Economic Partnership (RCEP)** is an option. But, the Chinese dominance in this partnership is a concern for India which needs to be carefully studied given the growing regional security and geo-politics concerns.
- **Boosting Private investment:** Economic Survey 2018-19 termed Private Investment as the Key Driver of Growth, Jobs, Exports and Demand.
- **Deriving opportunity out of the Trade war** scenario between the US and China.
    - The ongoing trade war between the US and China will help India tap export opportunities in both the countries in areas such as garments, agriculture, automobiles and machinery.
    - China is also more willing than ever before to provide better market access to India on a wide range of agriculture and processed food products.

Way Forward

- Resolving trade issues with the US at the earliest to eliminate investors doubts in Indian trade regime.
- Drawing a fine balance between the interests of domestic industry and giving trade concessions to multinationals to attract foreign investment in the form of FDI.
- With enthusiasm for post Cold War style “globalisation” declining in Europe and the US, India now faces serious choices it has to make, given the security and diplomatic challenges it faces, from an increasingly assertive China.
- India needs to show leadership role in bringing the world order towards a liberal trade regime where prosperity in trade brings benefit to the the people equitably and sustainably.
- The goal of $5 trillion economy by 2025 needs a comprehensive multidimensional and multi-sectoral efforts to achieve a more than 8% growth rate annually that requires to meet the goal.

Drishti Input

“Discuss how India can achieve its ambitious goal of becoming a $5 trillion economy by 2025 in the backdrop of growing protectionism globally.”