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OPINION

Relevant for: Indian Economy | Topic: Issues relating to Planning

International trade arrangements are being ripped apart by US President Donald Trump. Only an ostrich with its head buried in the sand can think that the World Trade Organization (WTO) will survive in its present form. A backlash against immigrants has altered political landscapes in many countries. Only an ostrich would expect the flow of people across borders to ease soon. Political divisions have become sharper in many countries between ruling political establishments and populist movements rising from both the right and the left.

A principal cause of the global politico-economic malaise is the widespread breakdown of people's trust in the political establishments that have been ruling them in the past few decades. Another force disrupting the Washington-dominated march of globalization is the remarkable rise of China. "Death by China" is the title of a book by Peter Navarro, chief of trade and policy in the Trump administration. The US, shaken by what China achieved by its industrial policies to become the factory of the world, is alarmed by what it may achieve by its Made in China 2025 policy whereby it aims to also dominate emerging technology sectors, such as robotics and artificial intelligence. One of the demands of the US in the ongoing trade war between the two countries is that China should dismantle its Made in China 2025 policy.

The contrast between China's and India's economic development since the 1990s is stark. The two countries' industrial sectors had comparable capabilities at that time. Now China's manufacturing sector is 10 times as large, and machinery production in China is 50 times more than in India. India and China have taken different paths to industrial development since the 1990s. India was coerced into adopting the path of the Washington Consensus when it turned to the International Monetary Fund (IMF) for support because its foreign exchange reserves had become precariously low. India had to open its economy for more imports and more investments by foreigners. Free market ideologies, on which the Washington Consensus was founded, forbade government supported industrial policies. Whereas China stayed on its own course of building domestic capabilities.

The opening of India's economy has benefited Indian consumers. While they were starved of many things before, they have been able to buy a great variety of products made in other countries—electronic goods, consumer durables, clothing, packaged foods—much of it made in China. The question is: what has been India's overall economic achievement? India's current account deficit has averaged 1.9% over the past five years, hardly less than the 2% in 1990 when India had to go to the IMF. India does not have to turn to the IMF now because inflows of foreign direct investment (FDI) and foreign institutional investment (FII) since 2000 have been over $600 billion. However, an analysis of these inflows shows that India has been selling assets to pay for current consumption. Central depository data show that foreign investors (FDI and FII) own a combined 56% of the value of all shares outstanding. It is estimated that more than half of all profits generated by the organized private sector accrue to foreign investors.

In history's most successful programme of poverty reduction, China has been able to provide employment to millions of its people, increasing their incomes manifold by promoting manufacturing in China (almost all by Chinese companies). India, meanwhile, is confronted with a big economic and political challenge. Good times for its masses (the 'acche din' they were promised by the new government in 2014) will come only when their incomes rise faster, with jobs and ownership of enterprises. The employment elasticity of the Indian economy—the numbers of jobs generated by each unit of gross domestic product (GDP) growth—is among the lowest in the world. Small enterprises find it difficult to do business and grow. Even large enterprises have not been investing much in recent years.

‘Make in India’ was a good vision. However, it has not had much traction on the ground because policies are mired in ideological contentions. The confusion is glaringly obvious in the defence production sector. Shorter term benefits, of satisfying customer needs (in this case the armed forces) and accepting suppliers’ conditions so that deals can be done continue to weigh over longer term requirements of building the country’s own industrial base.

For India to be taken more seriously in shaping global trade and geo-political policies, as China is now, India must change the policy framework applied to its own development. The principles of the Washington Consensus were:

•No boundaries for flows of trade and finance.

•Rights of investors privileged over rights of workers.

•Limited role for governments in economies.

•Social security is a ‘socialist’ idea, and therefore bad.

•National governments subordinated to international organizations (WTO, World Bank) and to demands of international investors and companies.

•National industrial policies forbidden.

India needs sound economic policies to grow more production, more enterprises, and more jobs in India. A strategy is necessary to integrate trade, industry, labour, finance, and other policies to achieve the country’s goals. Economic reforms whose thrust is to provide consumers more stuff to aspire for, but do not provide them the means to earn and pay for, are short-sighted. They will result in social and political problems, as India is experiencing now. The litmus test of India’s economic strategy must not be whether it is attractive for foreign investors (which seems to matter too much now to many Indian economists and policy-makers), but whether it is attractive for small, Indian entrepreneurs. When Washington has dumped the principles of the Washington Consensus, it is time for India’s economists and policy-makers to wake up to a new world order. It is high time that India creates an India Consensus for its own development.

(Arun Maira was a member of the erstwhile Planning Commission)

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