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DOES U.S. WANT INDIA TO IMPORT MORE?

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign capital, Foreign Trade & BoP

What happened?

President Donald Trump came to power partly on the promise that he will create more jobs and that other countries would not thrive at the expense of the U.S. In his dealings with the rest of the world, he has made it amply clear that if the U.S. buys more from another country than what that country buys from the U.S., America loses; something he does not want. That spirit has spurred his move to impose higher duties on imports to spur local manufacture and increase jobs in the U.S. The same spirit is also behind the move to pressure India to import at least $10 billion a year more from the U.S. over the next three years.

How much do we buy?

According to the U.S. Census Bureau, India imported $25.7 billion from the U.S. in 2017 while it exported $48.6 billion to the largest economy in the world. The U.S.'s latest demand means it wants India to cut its trade deficit with the American nation by close to half, through increased purchases of civilian aircraft and natural gas. Between 2014 and 2017, India's trade deficit with the U.S. has hovered over $23-24 billion annually. In 2017, it dropped by $1.5 billion compared with 2016, due to higher imports from the U.S. Till July this year, India's deficit ran to $13.2 billion, not significantly different from the $13.6 billion for the same period a year earlier.

Where does China stand?

Juxtapose those figures against China's trade deficit with the U.S. — it was $375.6 billion for 2017. Mr. Trump is targeting imports from China (which, in his opinion, are taking jobs away from Americans) and has imposed duties on $50 billion worth of Chinese exports to the U.S. China has reacted with similar duties on imports from the U.S. With duties impending on another $200 billion worth of trade, he has most recently said his administration has lined up action on a third lot of $267 billion worth of Chinese imports into the U.S. This has roiled markets globally as trade wars benefit none. In the U.S.'s own case, for example, duties on solar panels, being sourced from China, have led to the sector forecasting a slower growth and flagging a loss of 23,000 jobs — the exact opposite of what Mr. Trump wanted.

Is it helping the U.S.?

The tough stance of the U.S. is significant. Reports suggest that the administration has wrought a miracle of sorts. The U.S. economy has returned to life: the GDP is growing at a 3%-plus rate; unemployment rate is near a 50-year low; the stock market has jumped 27% amid a surge in corporate profits. Many critics, including some from his Republican Party, have said this is not sustainable and that government spending, which is driving a part of the revival, will peter out in 2019. Some predict that the U.S. could even see a recession in 2020.

How does it affect India?

If this happens, it could be disastrous for India — not only will India's exports to the U.S. suffer, but it would have wasted precious dollar resources in signing up for imports under pressure. Even if the U.S. continued to grow, an increase in imports by India, merely to address the trade gap, would have a telling effect on the exchange rate. Indian government officials have estimated an extra $26 billion expenditure due to rising oil prices. Oil importers buy dollars to pay for their imports. That has contributed significantly to the falling rupee, which has lost as much as 14% this year, making it the worst performing currency in Asia. Spending an extra $10 billion a year on imports from the U.S. would mean further pressure on the rupee.

A falling rupee makes life difficult for other Indian importers. This would have a domino effect on the rest of the economy. Rising prices could dampen consumer demand, resulting in poorer profit margins for industry.

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