

India's New Trade Gamble

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The BJP-led National Democratic Alliance government seems set to initiate another era of trade liberalisation. In recent weeks, there has been a flurry of ministerial-level delegations visiting the country and travelling abroad, announcing the revival after years in some cases of discussions on forging free trade or economic partnership agreements. The trading partners involved are many, but the UK, the EU, and the US are the principal ones. While expanding mutual trade volumes is the headlined objective, the direction of movement is clear reducing the still relatively high tariffs that India imposes on imports. But formal trade agreements will not end there and can include clauses that facilitate the provision of cross-border services as well as foreign investments.

While it is true that India has been down the path of full trade liberalisation since the middle of the 1980s, the initial push to dismantle import quotas and reduce import tariffs following the 1991 balance of payments crisis lost momentum after the early 2000s. By then, India's commitments under the WTO had more or less been met. Any further liberalisation was either reflective of voluntary Indian initiatives, often driven by strategic rather than trade considerations, or the result of pressures to offer WTO-plus concessions to some trading partners based on bilateral or plurilateral trade and cooperation agreements or investment treaties.

After some enthusiasm for such WTO-plus deals, India began to pull back, not least because of the adverse effects of the free trade agreements (FTAs) it had with the ASEAN (the Association of Southeast Asian Nations) grouping, Japan, and Korea. While the Indian government did go through with some agreements, such as the one with Australia, the European Free Trade Association (EFTA, comprising Norway, Switzerland, Iceland, and Liechtenstein), and the UAE, talks with the UK and the EU stalled. India also withdrew from negotiations on the Regional Comprehensive Economic Partnership (RECP) agreement among 15 countries in Asia and the Pacific.

This change in stance, which was unwarranted according to advocates of trade liberalisation, was not driven by ideology but as a result of enforced pragmatism. Rural India, still accounting for the lion's share of livelihood opportunities in a country plagued by underemployment, could bear the brunt of imports. Exposing a sector already a victim of neglect due to the urban-biased policy framework of the liberalisation years to debilitating competition was a politically risky move. And, Indian manufacturing, which had not lived up to the promise it showed in the immediate post-independence years, could not be further weakened by competition from cheap imports. Gradual and selective liberalisation could be pushed through, but not the comprehensive tariff reduction an FTA implied.

The reversal of this cautionary stance in the very first year of the third consecutive term of a Narendra Modi-led government is partly influenced by its neoliberal stance. Thus, in the case of the EFTA, India has offered comprehensive tariff reduction in return for a promised \$100 billion foreign investment commitment in industries such as pharmaceuticals, machinery, and manufacturing. But the current shift primarily stems from a strategic decision to win favour

with the US government, especially in the context of demands following the return of Donald Trump as President. Trump has been clear that he is not happy with an India which imposes “massive tariffs” on imports from the US so massive that the latter cannot “sell anything in India”.

India is not the only country being subjected to such aggression. What is surprising is that, while many other countries, including Canada and Mexico, have stood up against the US aggression, India has sought to play down the issue and use diplomacy to win itself a better deal. Prime Minister Modi himself visited the US in February, hoping that his friendship with Trump during the latter’s first term could be leveraged to extract special treatment. As weak evidence of success, the Indian government claimed that both sides had agreed to negotiate a mutually beneficial bilateral trade agreement, possibly in stages, followed by a visit from Union Commerce Minister Piyush Goyal.

But that does not seem to be the essential takeaway for a US President and an administration that are driven by the objective of putting America first. Suggesting that he has got Modi to accept his terms, Trump declared in early March that India’s interlocutors had “agreed” to “cut their tariffs way down...because somebody’s finally exposing them”. Not accustomed to such transparency, this set the Modi government scrambling. In a subsequent briefing to the Parliamentary Committee on External Affairs, Commerce Secretary Sunil Barthwal declared that India had made no commitments on tariffs, and that negotiations were still under way. But he let it slip that India was in favour of freer trade as that would increase the volume of trade between the two countries.

The revival of stalled free trade negotiations between India and major trading partners like the EU and the UK takes place against the backdrop of Trumpian aggression. Faced with US tariffs that are bound to adversely affect their exports, the desire of these countries to further open up other markets to offset the loss in the US is to be expected. But the nature of India’s reciprocal interest is less clear. It may be choosing, in the new environment, to extract concessions from them in return for a larger share of its market. Or it could be trying to create a template for free trade agreements acceptable to India, which it can present to US negotiators as the best possible.

But having decided to appease Trump and the US, India’s efforts to manage the magnitude and pace of tariff reduction may prove futile. That would put paid to the government’s half-hearted efforts to raise the share of manufacturing in India’s gross domestic product. It would also have devastating effects on agriculture, which has consistently suffered under India’s neoliberal development model.

The Trump administration is clear about what it wants. The Indian government is not. In the process, the casualty may not be just growth, productivity increase, and employment, but also

India’s chronically deficit trade and current account balances. If the latter deteriorates, footloose foreign financial investors may find one more reason to withdraw from the country, leading to a run on the rupee and a crisis on the external front. A strategic partnership with the US could impose high costs on the Indian people.

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