Trade Ban on China

What is the issue?

- The Indian government has responded to the border dispute with China by training its guns on trade.
- Turning a defence dispute into a trade one is an ill-advised move.

What are the reasons that say this is an ill-advised move?

- **Trade deficits are not necessarily bad** - Having a trade deficit against a country does not make the domestic economy weaker.
- If one looks at the top 25 countries with whom India trades, it has a trade surplus with the US, the UK and the Netherlands.
- But, that does not mean the Indian economy is stronger than these three.
- Similarly, it has a trade deficit with the other 22 of them (including China), regardless of their size and geographic location.
- Yet, a trade deficit with China only means that Indians buy more Chinese products than what Chinese from India.
- But per se that is not a bad thing as it shows that Indian consumers, as well as the Chinese producers, gained through trading.
- Both sides are better off than what they would have been without trade.
- While a persistent trade deficit merits the domestic government to put in place policies and create the infrastructure that raises competitiveness.
- **Will hurt the Indian poor the most** - The poorest consumers are the worst-hit in a trade ban because they are the most price-sensitive.
- Similarly, the Chinese products that are in India are already paid for.
- By banning their sale, Indians will be hurting fellow Indian retailers.
- Again, this hit would be proportionately more on the poorest retailers because of their relative inability to cope with the unexpected losses.
- **Will punish Indian producers and exporters** - Some may argue that trading with China hurts many Indian producers.
- This is true, but it is also true that trading hurts only the less efficient Indian producers while helping the more efficient Indian producers.
- Several businesses in India import intermediate goods and raw materials from China.
- These, in turn, are used to create final goods - both for the domestic Indian market and the global market (as Indian exports).

- A blanket ban on Chinese imports will hurt all these businesses at a time when they are already struggling to survive.
- This ban will also hit India's ability to produce finished goods.
- **Will barely hurt China** - In any case, India has trade deficits with most countries so why single out China.
- Still, some may argue that we want to single out China because it has killed our soldiers at the border.
- If India and China stop trading, China would lose only 3% of its exports and less than 1% of its imports.
- But India will lose 5% of its exports and 14% of its imports.
- In the short to medium term, it would be both difficult and costly to replace Chinese products.
- India and Indians will be far more hurt than it will hurt China.
- **India will lose policy credibility** - It has also been suggested that India should renege on existing contracts with China.
- This would be hugely detrimental for India, which has been trying to attract foreign investment.
- One of the first things an investor tracks is the policy credibility and certainty.
- If policies can be changed overnight, or if taxes can be slapped with retrospective effect, no investor will invest.
- Or, if they do, they will demand higher returns for the increased risk.
- **Raising tariffs is mutually assured destruction** - It has been argued that India should slap higher import duties on Chinese goods.
- Others suggested that India can allow primary and intermediate goods from China at zero duty, but apply prohibitive tariffs on final goods.
- This would be in violation of the rules of the World Trade Organization.
- Also, it is relatively easy for the world to bypass India and carry on trading if India does not play by the rules.

What is the conclusion?

- The surge of protectionism and anti-globalisation sentiment since the start of the Global Financial Crisis of 2008 is well known.
- But it has also well established that trade leaves people better off.
- Of course, not everyone. However, this protection will come at the cost of domestic consumers.
- In the first four decades of India's existence, it has tried and failed making mantras like self-reliance, import-substitution and protecting infant domestic industries work.
- India must try to aggressively acquire a higher share of global trade by

raising its competitiveness.

- India now has an insignificant share in world trade.
- If it is not careful, much smaller countries will further chip away.

Source: The Indian Express

