

Press Release

Trump's trade policies and India's decision to opt out of RCEP discussed at CSEP's first Flagship Seminar

New Delhi

The Centre for Social and Economic Progress (CSEP), formerly Brookings India, held its first Flagship Seminar on December 17 with renowned economist **Anne Krueger, Senior Research Professor of International Economics at the Johns Hopkins School of Advanced International Studies**, on her new book, *"International Trade: What Everyone Needs to Know."*

The panel also featured **Ernesto Zedillo, Former President of Mexico and the Director of the Centre for the Study of Globalization at Yale University**; **Montek Singh Ahluwalia, former Finance Secretary and Deputy Chairman of the Planning Commission**; **Douglas Irwin, John French Professor of Economics at Dartmouth College and Non-Resident Senior Fellow at the Peterson Institute for International Economics**; and **Dr Rakesh Mohan, President & Distinguished Fellow at CSEP and former Executive Director on the Board of the International Monetary Fund and former Deputy Governor of the RBI**.

The wide-ranging conversation touched upon crucial contemporary issues including the global trade tensions among the leading economic powers of the world, the Trump administration's trade policies, and India's decision to opt out of the Regional Comprehensive Economic Partnership (RCEP) in India.

After almost 70 years of increasingly open trade, the system has come under threat in recent years. Krueger's book comes at an important time, amid a wider global shift, especially in the western world, towards protectionist trade policies, often in the name of boosting domestic industry, protecting jobs and safeguard national interests.

Trump administration's trade policies

"There is some belief that protection brings jobs, and that seems to me entirely wrong on all kinds of levels," said Krueger, who has also served as the World Bank's Chief Economist and the first Deputy Managing Director of the International Monetary Fund. Krueger offered the example of the Trump administration's decision to impose a 25% tariff on steel imports. The move was touted as a means to protect the US steel industry from foreign competition and create jobs. According to Krueger, it was a failure on all counts. The price of steel in the US shot up, and the net effect of the tariff was job loss in the steel-using sectors.

"The best defence for free trade is not that it's the best of everything, it's just better than anything else," said Krueger. "When you try to protect an industry or industries, you're de-protecting somebody else and it hurts. So, while it's easy to protect steel, it's not easy to protect everything, in fact you can't do it."

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Coming down strongly on what he called Trump's "wrong-headed" approach, former Mexican president Ernesto Zedillo said, "This approach...led the US government to use self-defeating protectionism to try to fix the external balance. The result, the US trade deficit, a few months ago, reached its highest level in 14 years despite a dramatic slowdown in the US and the world economy."

Zedillo criticised Trump's "unwarranted and abusive" policies towards friendly trade partners such as Canada, Mexico, Brazil and the European countries. But even worse was US aggressiveness towards China, which ignited a trade war without precedent since the 1930s. "Regretfully but not surprisingly, China responded in kind," he said. However, he cautioned that while Trump's policies may have been unjustified, China will need to work hard to repair the damage and put serious offers on the table.

"The Trump administration basically didn't trust multilateral organisations which... is a disaster for the US, but also US's leadership role, which has been a disaster for, I think, the world," said Anne Krueger. "The Biden admin would need to begin by easing trade tensions with China," she added.

Protectionism as subtle nationalism?

Douglas Irwin criticised what he termed as the Trump administration trying to create a "license raj" in the steel sector. According to Irwin, resistance to open markets comes from competing domestic industries that want to protect their narrow interests. But the other factor is a rhetoric of subtle nationalism and self-reliance, and he attributed the Trump administration's tariff policies to a desire to punish China. "The President has led the charge for higher tariffs and import restrictions, often against the wishes and desires of industry itself," he said.

Talking of the Indian government's recent announcement of 'Atmanirbhar Bharat' or self-reliant India, Ahluwalia said that, "I think the government is aware of the fact that an unrelenting or an apologetic return to protectionism does not make sense." He said that he would welcome self-reliance if it was defined as not being closed off, but becoming stronger, dealing with the world on our own terms, integrating with global supply chains and becoming a more important participant in the global economy. "But not enough attention is being paid to the fact that a policy of simply jacking up tariffs is not consistent with this objective," he said.

India's decision to opt out of the RCEP

In early November, India made the decision to opt out of the RCEP, which sparked debates on both India's reasons for not joining and the long-term implications of the decision.

For Ahluwalia, India's decision was a mistake -- one that he hopes we can reverse in the near future. "I think that this is only the result of substantial lobbying by domestic industry -- not all of domestic industry, but the smaller, more inefficient domestic industry combined with a great fear of competition versus China," he said.

Ahluwalia said that since the RCEP agreement allows for a long adjustment period, the Indian government would be much better served by setting up a consultative mechanism to institute measures that will make Indian industry competitive, instead of withdrawing from open trade.

Rakesh Mohan noted that all projections show that most global economic and trade growth will come from countries associated with the RCEP. “So we are really counting ourselves out from the majority of economic growth and global trade by counting ourselves out of RCEP.”

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