INDIA'S SECOND 1991 MOMENT - ECONOMY

NEWS: US President Donald Trump's reciprocal tariffs, targeting China (125%) and others (10%) is a potential turning point for India's economy, similar to the 1991 economic reforms.

WHAT'S IN THE NEWS?

Trump Tariffs (TT)

- US President Donald Trump announced **reciprocal tariffs** (April 2, 2025), targeting **China (125%) and others (10%).**
- **Aim:** Counter **China's mercantilist policies (**export-led growth, import restrictions, reserve accumulation).
- These tariffs aim to **reduce the US trade deficit**, which currently stands at $1.2 trillion.
- A **base tariff of 10%** applies to all countries, while country-specific tariffs are imposed from April 9.
- The US has announced the **suspension of additional tariffs on India for 90 days** until July 9, 2025.

China's mercantilism:

- **Mercantilism**, an economic system prevalent from the **16th to 18th centuries,** aimed to **increase national wealth and power** through a combination of **government regulation and protectionist trade policies**, emphasizing exports over imports.
- **Export-led growth model**: China maintained a **consumption-to-GDP ratio of just 35% in 2010**, prioritizing exports over domestic demand.
- **World's largest exporter**: China's share of **global manufactured goods exports rose from 4% in 1996 to 30% today**, reflecting its aggressive export strategy.
- **Persistent trade surplus**: China has sustained massive trade surpluses for decades, stockpiling foreign reserves — a classic mercantilist move.
- **Limited market access for imports**: China imposes **non-tariff barriers and subsidies** to restrict imports while promoting domestic champions.
- **Strategic currency policy**: The **managed undervaluation of the yuan** for years boosted export competitiveness and discouraged imports.

Geopolitical Reactions to US Tariffs

- **China's resolute opposition:** China will impose **125 per cent** tariffs on US goods.
  - This comes after the US decided to pause tariffs for 90 days on many countries, but hit China with a **145 percent tariff a**mid the ongoing trade wars.
- **Japan opts for negotiated settlement:** Japan chose a **diplomatic route**, sending a team to negotiate with the US.
  - Its goal was to protect economic interests through peaceful dialogue.
- **EU considering both options:** The EU adopted a **balanced approach**—open to negotiations while preparing retaliatory measures.
  - It emphasized the importance of safeguarding its **€1.5 trillion trans-Atlantic trad**e relationship.

India's Stance on US Tariffs

- **Strategic Restraint**: India **did not retaliate** against US tariffs; instead, it opted for **dialogue and negotiation**.
- **Bilateral Trade Agreement (BTA)**: Actively negotiating a **BTA with the US** to expand trade from $191 billion to $500 billion by 2030.
- **Government Response**: Commerce Minister urged exporters to stay calm and emphasized India's image as a **trusted and stable trade partner**.
- **Tariff Pause Advantage**: US paused **26% reciprocal tariffs** on India for 90 days (till July 9, 2025), recognizing India's cooperative approach.
- **Opportunity Focus**: India views the situation as a **chance to boost manufacturing, attract investment**, and integrate into global supply chains.

Impact on Indian Economy

- **Stock Market Volatility:** Sensex plunged over **2,000 points** on April 7, 2025, after tariff announcement.
  - Indian markets fell less than others but reflected global trade tension sensitivity.
- **Export Sector Disruption:** India faces a **26% reciprocal tariff**; sectors like **auto (3% of exports)** and **IT** are hit.
  - Nifty IT fell by over **3%** due to fears of reduced discretionary spending in the US.

    - Though temporarily exempted, India’s **$12.2B pharma exports to the US are** vulnerable to future tariff hikes.

- **Reduced Export Competitiveness:** Higher tariffs increase product prices abroad, making Indian exports less competitive, especially in metals, electronics, and chemicals.

- **Pressure on Monetary Policy:** RBI cut **repo rate by 25 bps to 6%** on April 9, citing global uncertainty and impact on exports.

- **Risk of Inflation:** Tariff-induced global inflation could spill into India via **imported goods**, affecting household budgets and input costs.

- **Uncertainty in FDI & Investor Sentiment:** Unstable global environment may deter new investments.

    - India already saw FDI dip to **<1% of GDP** by 2025.

1991 LPG Reforms (Liberalization, Privatization, Globalization)

- LPG reforms, announced on **July 24, 1991,** marked a **shift from a heavily regulated, socialist-inspired economy to a more market-oriented one**.

- The **primary goals** of the LPG reforms were to **address the economic crisis, increase economic growth, and build foreign exchange reserves.**

- **Liberalization**: This involved **reducing government control and regulations** in various sectors, including industry, trade, and finance.

    - This meant **lowering tariffs, relaxing import restrictions,** and allowing greater freedom for businesses.

- **Privatization**: Ownership of **government-owned enterprises transferred to the private sector**.

    - This was done through disinvestment and the encouragement of private sector participation in various industries.

- **Globalization**: This involved **opening up the Indian economy** to international trade and investment.

    - This included **reducing trade barriers, attracting foreign direct investment**, and integrating the Indian economy with the global market.

Opportunities for Indian Economy

- **Second 1991 Moment – Trigger for Reforms:** External pressure provides the **political cover** needed to push trade, FDI, and industrial reforms.
- **Boost to Manufacturing & PLI Schemes:** US-China decoupling accelerates **“China+1” strategy**, India can attract global firms in electronics, pharma, and EVs.
  - Apple aims to shift **25% iPhone production** to India by 2025.
  - PLI schemes target **$520 bn manufacturing output** by 2026.
- **Repositioning as Global Supply Chain Hub:** China’s 125% US tariff creates space for India in manufacturing.
  - India is seen as a **“trusted and reliable partner”** in global trade.
- **Boost to Bilateral Trade Talks with US:** India–US **BTA in progress**, aiming to grow trade from **$191B to $500B** by 2030.
  - India’s **non-retaliatory diplomacy** helped pause the 26% tariff for 90 days.
- **Greater Leverage in FTA Negotiations:** Simultaneous FTA discussions with **EU, UK**, and CPTPP being explored.
  - India is now negotiating from a position of strategic necessity and opportunity.

The **“China+1” strategy** is a business approach where companies diversify their **manufacturing and supply chain operations beyond China**, rather than relying solely on it.

- **Demographic & Workforce Edge:** India’s **prime-age (25-54), AI-ready workforce** set to surpass China’s in coming years — making India more attractive to industries relocating from China.
- **Textiles & MSME Export Boost:** Indian textiles ($9.6B to US) may gain edge over **China (21%)** and **Vietnam (19%)** under new tariff regime.
- **Rupee Trade Settlement Expansion:** Rising dollar volatility and US-centric risk offers India a chance to **expand rupee trade** with **Russia, Iran, UAE, Africa**.
  - Reduces dollar dependency & improves sovereign economic autonomy.
- **Tech, Innovation & Startup Ecosystem Gains:** India can attract **venture capitalists (VC) and tech giants** diversifying away from China.
  - Startup India, **DPI (Digital Public Infrastructure)**, Open Network for Digital Commerce (ONDC), UPI have already created global interest.

- **Agricultural Market Access: Bilateral Trade Agreement (BTA)** may open up **US agri markets** for Indian rice, spices, and organic produce.
    - Push for **farm sector R&D** and tech-backed productivity growth.

Way Forward & Reforms Needed for India

- **Trade Policy Modernization**: India's **trade-weighted import duties (12%) a**re among the highest globally (vs. 2.2% US, 3% China).
    - High tariffs make Indian goods **less competitive,** inflate costs for domestic industries, and hinder integration into global value chains.
    - Pursue **"zero-for-zero" industrial goods agreements**, starting with the India-US BTA as a template for upcoming EU/UK deals and eventual CPTPP accession.
- **Reform and Liberalise FDI and BITs**: FDI inflows have fallen **below 1% of GDP, from 2–2.5% over two decades.**
    - The **2015 "model" bilateral investment treaty (BIT)** mandates Indian courts for dispute resolution — a major deterrent for foreign investors.
    - **Revamp BITs** to include neutral arbitration mechanisms and attract long-term capital investment.
- **Deepen Trade Integration via Strategic FTAs**: India's **global export share remains low** (1.8% in 2023), far below China (15.4%).
    - Expedite trade agreements with the **US, UK, EU, and consider joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).**
- **Reform Land, Labour, and Agriculture Laws**: Outdated laws constrain ease of doing business and industrial competitiveness.
    - **Rollback of 2020–21 farm laws** under political pressure stalled essential agricultural reform.
    - **Reintroduce** these reforms with better consensus-building and implementation strategies.
- **Boost Export-Oriented Manufacturing**: Job creation in India depends on scaling manufacturing exports, especially in **labour-intensive sectors** like textiles and toys.
    - **Make in India struggled** due to protectionism and neglect of such sectors.
    - India holds just **6% of the US textile market**, vs. Vietnam (19%) and China (21%). TT could shift supply chains — India must seize this opportunity.

- **Invest in R&D and AI-Ready Workforce**: India's **demographic dividend** is peaking; its prime-age labour force will soon exceed China's.
    - Invest in **skilling, R&D, and digital infrastructure** to ride the AI and innovation wave.
    - The West is increasingly **looking at India as a counterweight to China**; building a skilled, export-capable workforce is critical now.
- **Diversify International Trade Partnerships**: Resume and conclude negotiations for the long-pending **India-EU Free Trade Agreement by 2026** to access Europe's $18 trillion market, particularly for pharmaceuticals, IT services, and automotive exports.
    - Proactively **lead developing nations in WTO reforms** while expanding rupee trade settlements to 50+ countries, building on the successful **Russia-UAE payment mechanisms** that bypass dollar dependence.

Conclusion

India must leverage **US-China trade tensions** to push long-pending reforms. **Strategic alignment with the West** can accelerate growth to **8%+**. **Second 1991 moment** hinges on bold economic policy shifts.

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