Panel Session on ‘India’s Trade Prospects in the Changing Global Economic Scenario’

The Chamber organized a Panel Session on ‘India’s Trade Prospects in the Changing Global Economic Scenario’ on 16th May, 2013, at Hotel Hindusthan International, Kolkata. The Panel Speakers at the Session were Dr. Achin Chakraborty, Professor of Economics, Institute of Development Studies Kolkata and Dr. Bibek Ray Chaudhuri, Assistant Professor, Indian Institute of Foreign Trade, Kolkata.

In his Welcome Address, Shri Ashok Aikat, President, observed that the prices of oil and gold have been rising ceaselessly for the last few years. Since these two items constitute about 45 per cent of India’s imports in value terms, the Indian economy has been under severe pressure on this count for quite sometime. Thus cost of crude oil imports in India thus increased from US $ 90 billion in 2009-10 to US $ 169.3 billion in 2012-13. Similarly, the cost of gold imports increased from US $ 28.60 billion in 2009-10 to US $53.8 billion in 2012-13.

The high cost of crude oil, in particular, has created heavy pressures on India’s Current Account Deficit (CAD). Over and above the cost, heavier and heavier subsidies have been paid on petroleum products and fertilizers produced from petroleum, Shri Aikat stated. There have recently been sudden drops in the prices of crude oil and gold. The cost of crude oil reduced from US $ 122 a barrel in December, 2012 to US $ 99 in May, 2013. On the other hand, the reduced price of gold created immense excitement in the jewellery market. The Prime Minister’s Economic Advisory Council had accordingly projected that gold imports will moderate to US $ 45 billion in 2013-14 compared to US $ 56 billion in the last fiscal. Similarly, the CAD is expected to be moderated to 4.7 per cent of GDP in this fiscal compared to 5.1 per cent in 2012-13, Shri Aikat said.

The sudden fall in prices of oil and gold, according to Shri Aikat is due to increase in production and supply, particularly in the US. Coincidentally, it appears that the economies of the US and a couple of European countries have started showing early signs of revival. In this regard, the latest figures project a somewhat brighter picture of the overall US economy. The first quarter of 2013 recorded a growth of 2.5 per cent compared to 0.4 per cent for the first quarter of last calander year. Besides, the economy is reported to have generated a robust 3,32,000 jobs in February this year. This according to Shri Aikat is a striking development as economies throughout the world are reported to be growing without generating jobs. In fact, the focus of one of the latest issues of ‘The Economist’ is “Generation jobless”.

Shri Aikat further observed that in the Euro Zone, there has been a marginal improvement in the growth for the first quarter of 2013 compared to a negative growth of 0.3 per cent in the first quarter of 2012. The German economy is reported to have grown by 0.7 per cent in the first quarter of 2013 compared to the negative growth for the corresponding period in the previous year. The growth in France this year has been as good as last year, while, Italy has registered a negative growth in the first quarter this year. Shri Aikat further said that in the Asian context, China's economy is reported to have grown by 7.7 per cent in the first quarter of this year which is, however, falling short of expectations. Monetary restructuring is underway in Japan to rejuvenate the economy. The Bank of Japan has pumped in liquidity and the efforts to reinvigorate the nation's economy are already showing results. Far East nations, Latin America and African nations are also reported to be doing well according to our Commerce Ministry. All these are expected to have a positive impact on India's trade prospects. There appears to be some positive signs of economic revival in various countries, Shri Aikat felt. He solicited the views of the Panel Speakers and requested Shri Rajkumar Agrawal, Chairman, Global Trade Standing Committee to introduce the learned Panel Speakers.

Following the introduction of the Panel Speakers, Dr. Achin Chakraborty, Professor of Economics, Institute of Development Studies Kolkata observed Current Account Deficit (CAD) in India, as per the Budget 2013-14 was as high as 25 per cent. According to him India has been facing a paradoxical situation. In general with the fall in growth rate the CAD declines pertaining to the fall in imports. However, in India a contrary and rather worrisome phenomenon is being witnessed. Dr. Chakraborty stated that despite a fall in capital inflow foreign exchange reserves in India are sufficient enough to ward-off its risks on increasing imports. This renders relief under such conditions. According to him, while a failure in balance between oil and non-oil import prices have affected CAD, an upward rise in invisible trade has reduced its sharpness.

Dr. Chakraborty further stated that though we brood about a depreciation in rupee, an appreciation of the same would worsen Balance of Trade. Despite the fact that such an appreciation would be damaging to companies which have foreign exchange liabilities, it would help increase domestic demand.

Dr. Bibek Ray Chaudhuri Assistant Professor, Indian Institute of Foreign Trade, Kolkata, observed that developed countries like the United States of America, post 1990, have been heavily dependent on imported goods and services. The capability of self production of the country has been quite low over the years. This in turn has made USA weak in front of the current global economic downturns. The country according to Dr. Ray Chaudhuri, is trying to gather strength by increasing employment and reducing its dependence on imported goods and services through enactments of draconian and prohibitive laws which are, to a large extent, in defiance of TRIPS.

Defining the concept of a 'perfectionist economy' Dr. Ray Chaudhuri stated that instead of competing and trading with a developed economy, as per traditional models, it is more profitable in trading with an economy which possesses similar trade framework. Presence of a normal trade barrier with low and amicable tariff rates makes it easier for countries to develop cordial trade relations. The final aim of enhancing trade volumes and encouraging FDI could be is easily met in this way, Dr. Ray Chaudhuri stated.

On the contrary, China, which in the past few years have achieved high growth rates, exploiting trade with USA, have faced similar brunt. Its high dependence on trade as the engine of growth has proved to be faulty. It is due to this reason that China, in the current years have focused more on building its domestic economy than increasing trade. It utilizes its quality labour and resources to generate an economy of scale which in turn helps in increasing production. According to Dr. Ray Chaudhuri, since India possesses similar resources and labour quality as China, the Government of India should focus on bringing about such economies of scale which in turn would help in raising production and productivity.

Dr. Ray Chaudhuri stated that in India a weak internal economy has thus weakened demands for both domestic and international products. Low demand for goods in turn lowers exports in all countries. Indian and Chinese exports have lowered due to this reason. Since exports are huge contributors to the development of a country, a fall in export in both India and China has lowered the respective growth rates. Dr. Ray Chaudhuri further stated that foreign investments have softened in both the countries due to such bleak business sentiments.

Referring to the post-globalisation of Indian economy, Dr. Ray Chaudhuri stated that post the adoption of New Economic Policy in 1991 FDI inflow in India increased and export too enhanced. However, this growth story post liberalisation eclipsed the volatility of the Indian capital market. India's capital market volatility can be attributed to its high dependence on oil imports. Since any oil importing country is always susceptible to external demand and policies, India too had to bear its brunt. Its growth catalyst has been marred by factors such as an ever rising fiscal deficit and CAD. Since monetary controls would accelerate inflation and fiscal policies would affect domestic demand it is very difficult to conceive an appropriate policy to revert growth back to its original trajectory, Dr. Ray Chaudhuri felt.

Focusing on the recent oil prices, Dr. Ray Chaudhuri stated that such a phenomenon is the work of a weak international demand which has been engineered by the global downturn. Hike in oil prices in the past has been due to risk associated with oil supply. Over and above the normal risks, oil supplies were further affected by sanctions imposed by USA on Syrian and Iranian oil exports on grounds of their civil skirmishes and nuclear developments respectively, Dr. Ray Chaudhuri observed.

Food prices, according to Dr. Ray Chaudhuri, have been the result of the slowdown in US and European economy. The food products imported by India as a result is in short supply. Since the country is not self sufficient in the production of certain basic food crops and needs to be complemented by imports, a fall in production in the importing countries results in inflation in India. Dr. Ray Chaudhuri stated that on the other hand prices of imported non food commodity would remain constant. Since non-food commodities are denominated in dollars and dollar in India has appreciated, non-food goods are expected to be priced at lower rates.

Dr. Ray Chaudhuri defined the fall in investment from the perspective of a phenomenon that is generated by the US itself. This phenomenon is commonly called 'Quantitative Edging'. As per its definition the US Federal Reserve purchase corporate bonds so as to inject money into the US economy. This results in the outflow of investments from other countries thereby slowing those economies too. This trickledown effect thus affects the entire process of economic transition. As in India, the EU takes recourse to a process called ‘Direct Monetary Transfer’ whereby investors buy Government Bonds. This increase the confidence of investors without affecting the money supply in the economy. Developing countries such as BRICS have witnessed a high trajectory of growth till 2010. The fall in the growth rates of these countries can be attributed more to their respective internal problems and internal bottlenecks. India’s trade failure, according to Dr. Ray Chaudhuri can be correlated to the fall in trade volumes of its trade partners. The reason for such simultaneous trade failures among India and its trading partners are due to the existence of a low price and income elasticity in these countries at the same time. High import price of gold is another reason for the fall in the Indian growth trajectory Dr. Ray Chaudhuri stated.Thus offering gold for public investment can help reduce its demand and thereby its prices.

Emphasizing on ways and means to return India back to its growth trajectories, Dr. Ray Chaudhuri pointed out that one should follow policies with long term implications and short term benefits. This would not only help enhancing international demands for Indian commodities but would also strengthen internal demands. an equitable distribution of such policyimplication among states with respective variations would help in recovery of the Indian economy at a faster pace.

Mr. Sajjan Bhajanka, Senior Vice-President of the Chamber offered a hearty Vote of Thanks to the learned Speakers.

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