

Careful and Clever: Rajan Urges Caution in India-US Trade Talks



As India and the United States continue negotiations for a proposed Bilateral Trade Agreement (BTA), former Reserve Bank of India (RBI) Governor Raghuram Rajan has cautioned India to approach the discussions with "very careful and clever" strategies, particularly concerning the agriculture sector. His remarks come after the conclusion of the fifth round of BTA talks in Washington earlier this week.

Rajan, now a professor at the University of Chicago Booth School of Business, highlighted the inherent difficulties in agricultural trade negotiations, where nearly every country heavily subsidizes its domestic producers. He warned that an "unconstrained flow of agricultural products" from highly subsidized foreign markets could significantly harm India's numerous small-scale farmers, who often operate with relatively lower subsidies. "I think where it is much more sort of difficult (trade negotiations) is in areas such as agriculture," Rajan stated, emphasizing the need to protect the livelihoods of Indian farmers.

Instead of merely accepting increased agricultural imports, Rajan suggested that India should explore alternative avenues to boost value addition for its domestic producers. He proposed encouraging more Foreign Direct Investment (FDI) from developed countries into sectors like dairy, to enhance the value of products such as milk powder and cheese. This approach, he argued, could be more beneficial to Indian milk producers than simply allowing more foreign milk into the country.

The ongoing trade discussions have also seen the US push for lower tariffs on agricultural and dairy imports, a demand India has consistently resisted in all its free trade agreements to date. Additionally, India is advocating for the removal of a 26% additional tariff imposed by the US, alongside reduced duties on steel (50%), aluminum (25%), and automobile exports (25%).

While trade tensions can negatively impact exports and investment, Rajan acknowledged a potential opportunity for India. If US tariffs on other Asian manufacturing hubs, like China, remain high, India could be perceived as an attractive alternative for supply chains. He noted that while India's manufacturing exports to the US are not currently substantial, tariff advantages could encourage a shift in manufacturing to India in the long term.

Rajan also touched upon India's protectionist measures in certain areas, suggesting that reversing some of these could be beneficial. He cited car manufacturing as an example, where increased competition could lead to positive outcomes. The intricate negotiations demand a nuanced approach to balance domestic interests with global trade opportunities, ensuring India secures a pact that serves its long-term economic prosperity.