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Trump Is Playing Chicken With India, And No One Is Winning

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President Donald Trump turned his trade war on India this month by revoking the country's access to lower tariffs. He thinks the country's import controls are too strict and has decided if we can't sell our goods there, we'll make it harder for them to do business here. Never mind that many Americans benefit from cheaper products, Trump believes reciprocal tariffs are how you level the playing field. Speaking in January about a proposed bill to give him more power to levy such tariffs, he mentioned India several times.

They make whiskey, and they sell it to us. We charge them zero. We sell it to them; they charge us 150 percent ... Look at motorcycles ... It was 100 percent. I got them down to 50 percent just by talking for about two minutes. But it's still 50 percent versus 2.4 percent. Again, other than that, it's a very fair deal."

He added that the proposed legislation "will help finally to give our workers a fair and level playing field against other countries." This echoed the State Department's senior South Asia diplomat Alice Wells, who in April said the United States is working with India to resolve "market access issues" and "ensure a level playing field for U.S. companies."

But this talking point about a level playing field doesn't stand up to scrutiny. Experts agree the Trump tariffs are a failure. A 2018 Reuters poll asked 60 economists about the issue and almost 80% said they would do more harm than good. The rest said they would amount to nothing and not one said they would benefit the economy. But tariffs themselves are not the problem. The Norwegian economist Erik Reinert argues that free trade fails because it tells countries to specialize even though the winners of the global economy are not the one that specialize but the ones that excel in multiple areas, creating a synergistic effect. He also says it's important not to focus too much on agriculture or extracting precious minerals, since these resources will see diminishing returns, but instead develop one's manufacturing sector and protect it from out-sized foreign competition using tariffs.

This is precisely what India is trying to do. In September 2014, Indian Prime Minister Narendra Modi rolled out his Make In India program to turn the country into a manufacturing hub. In 2015 alone, foreign direct investment rose 46%, Foxconn signed a \$5 billion deal to make Xiaomi smartphones in India and Uber decided to invest \$1 billion in the country. Last year, India overtook China as the favored nation for corporate deals.

Having a wealthier trading partner should make America happy, so why is Trump upset? The problem began with milk. India is the second-largest producer of cow milk in the world after the United States and the top producer of buffalo and goat milk. Hindus believe milk is purifying and therefore has religious significance, hence the practice of pouring milk on a Shiva linga.

India has refused to certify U.S. dairy products from animals fed on bovine meat or extracts, citing religious reasons. EU members and New Zealand reportedly abide by this requirement, but the U.S. evidently does not. Nevertheless, in September 2017, the U.S. dairy industry asked the U.S. Trade Representative (USTR) to review India's status as a beneficiary of the Generalized System of Preferences (GSP), which offers lower tariffs to developing nations, claiming India was refusing to allow its products into the country "due to unscientific import requirements."

India was the top GSP beneficiary in 2017, exporting \$5.6 billion under the program. This represents 11.52% of all U.S. goods imports from India or \$48.6 billion total, up 101.9% over the past 10 years. Because the GSP exists to help developing countries strengthen their economies, wealthy nations cannot join and highly competitive products from less wealthy nations aren't eligible. So if a product from India accounts for 50% or more of the value of total U.S. imports of that product, it gets no exemption.

The U.S. dairy petition was followed by a similar request one month later. Medical devices in India have historically gone unregulated. This is a problem because 80% of its medical equipment is imported, so India depends on foreign regulators to ensure quality. That doesn't always work out. Kaiser Health News released a report this month finding that the FDA has let medical device companies file at least 1.1 million injury and malfunction reports on a non-public database, leaving doctors and patients in the dark. India's medical-device sector is also enormous, and is now the fourth-largest in Asia — worth \$5.2 billion with a growth rate of 15.8%. So last year, the government published new regulations, including price caps for coronary stents and knee-replacement implants. AdvaMed, the world's largest medical technology trade association, was not happy. In October 2017, one month after the U.S. dairy industry asked for a review of India's GSP status, AdvaMed asked the USTR to "suspend or withdraw" India's GSP status. When the USTR announced its review of India's GSP status last April, it cited these petitions by the U.S. dairy and U.S. medical-device industries.

The GSP is of course not without flaws of its own. For one thing, it's political when it shouldn't be. India is the most recent example, but not the first. The GSP must be renewed or it automatically expires each year, which happened in 2010 after then Alabama Senator Jeff Sessions, now Trump's attorney general, delayed its approval. The Alabama sleeping bag manufacturer Exxel Outdoors was facing stiff competition from sleeping bags made in Bangladesh that came into the U.S. duty-free under the GSP. Sessions blocked the GSP's renewal to secure Exxel's expansion, because its CEO said he wanted to start a fourth production line at the company's plant in Alabama, which would require hiring 20 new employees. Sallie James, director of development at the Cato Institute, commented:

That's right, readers. The GSP expired and millions of U.S. consumers and businesses (not to mention developing country exporters) are being penalized to save a hypothetical 20 (that's two-zero) jobs that don't even exist yet."

In addition to being politicized, there's evidence to suggest the GSP doesn't even do what it's supposed to do, which is help countries become more competitive. According to research by the economist Shushanik Hakobyan, the program helps countries improve exports to the point that they graduate from the program, but then they don't continue to export at the same level, suggesting the program was propping them up rather than helping them grow.

But even if you take Trump at his word and believe he's wisely raising tariffs in order to get India to see the wisdom of dropping theirs, that's a dangerous game of chicken in which we all take a bruising along the way.