Summary of roundtable discussions on “Pragmatic ways to handle Trump tariffs and WTO” organised by ITF at AMA, Ahmedabad

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Innovative Thought Forum

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The global economy stands at a pivotal juncture with the United States, under President Donald Trump, imposing tariffs as high as 10% on imports from all countries, with higher rates for nations like China. This policy shift, aimed at addressing a $1.2 trillion trade deficit and reviving U.S. manufacturing, challenges the multilateral trade framework established by the World Trade Organization (WTO) in 1995, building on the General Agreement on Tariffs and Trade (GATT). For India, which exports $75 billion (17% of its total exports) to the U.S., these tariffs present both risks and opportunities.

This report, based on extensive deliberations by experts from academia, industry, and policy, examines the implications of U.S. tariffs for India and proposes pragmatic strategies to ensure economic resilience and growth, aligning with the vision of Viksit Bharat by 2047, which requires sustained GDP growth of 8–8.5%.

Post-World War I, Europe's high tariffs triggered an economic depression, while the U.S.'s Smoot-Hawley Act of 1930 exacerbated a global recession, wiping out 25–33% of global GDP. The 1944 Bretton Woods Conference established the IMF and World Bank, but the proposed International Trade Organization failed due to U.S. resistance to external rules. The GATT, effective from 1948, facilitated trade concessions but excluded agriculture. The WTO introduced binding dispute settlement mechanisms, Trade-Related Intellectual Property Rights (TRIPS), and Trade-Related Investment Measures (TRIMs). However, the U.S. has distanced itself from the WTO, paralyzing its appellate body since 2019 by blocking member appointments, undermining dispute resolution and disproportionately affecting developing nations reliant on multilateral protections. India, historically cautious about WTO commitments, faced U.S. pressure, including Super 301 sanctions threats. China's 2001 WTO entry intensified competition, contributing to a decline in India's manufacturing share from 19.5% of GDP in 1990 to 14% today.

The U.S. tariffs, calculated as the trade deficit divided by total imports with a 50% discount, pose challenges for India. In agriculture, exports like fish, meat, processed foods, sugar, cocoa, cereals, vegetables, spices, dairy, and oils face higher duties, threatening small farmers and MSMEs. The U.S. seeks market access for its chicken, corn, soybean oil, apples, walnuts, almonds, and pistachios, which could disrupt domestic poultry and tribal corn farming. In manufacturing, India's weakened sector faces increased costs due to tariffs and potential Chinese

dumping, such as titanium dioxide oversupply. The TRIPS regime has increased India's royalty outflows from $1 billion in 1990 to $17 billion, straining foreign exchange reserves, and a potential TRIPS collapse could disrupt R&D incentives. However, opportunities exist. With China facing 54%tariffs compared to India's 26%, Indian goods gain a cost advantage in the U.S. market. India's pharmaceutical sector, with the largest number of U.S. FDA-approved plants, supplies 45% of U.S. generic drugs by volume, and tariffs may raise costs for U.S. patients, reinforcing India's indispensable role. In gems and jewelry, higher tariffs on Chinese goods provide India an opportunity to increase its export share. The Atmanirbhar Bharat initiative has boosted production capacity in pharmaceuticals, defense, electronics, and space, positioning India as a key player in global value chains.

The U.S.'s WTO disengagement reflects its perception that the organization no longer serves its interests, despite being a post-World War II architect. Tariffs aim to reduce the trade deficit, revive manufacturing, and appeal to domestic constituencies, including Black and Hispanic voters who supported Trump's "Make America Great Again" campaign due to job losses. Critics, including seven Nobel laureates, warn of inflation, reduced exports, and stunted growth, but proponents cite Reagan's tariffs weakening Japan's economy. India must recognize Trump's strategy as a calculated move to force bilateral negotiations. With the U.S. absorbing only 2% of its imports from India, India's leverage is limited, necessitating pragmatism.

To navigate this landscape, India should adopt a wait-and-watch approach, avoiding immediate retaliation and monitoring U.S. implementation challenges, including consumer and Wall Street resistance, while leveraging bilateral trade agreements to secure exemptions. The duty regime should be restructured, reducing import duties on non-sensitive items like alcohol, apples, almonds, walnuts, and pistachios to facilitate negotiations and lowering duties where India has export surpluses. A non-tariff barrier commission should address U.S. regulatory restrictions, particularly in pharmaceuticals and medical devices. Swift anti-dumping and safeguard duties are needed to counter Chinese oversupply. In agriculture, a negative list should protect MSMEs and small farmers from U.S. imports like chicken, corn, and soybean oil, while promoting value addition through byproducts and co-products. Shifting to quaternary agriculture, with high-

value crops yielding 1:100 revenue ratios, can enhance competitiveness, and domestic price distortions, as seen with millets, must be addressed. MSMEs need incentives to scale up and integrate into global value chains.

A robust R&D ecosystem is critical. Industry investment in R&D should be incentivized through tax breaks and subsidies, addressing the lack of orientation. Semiconductors, a foundation for technological development, require focus, building on recent initiatives. Local ecosystems for plant and machinery in core sectors must reduce import dependency. IPR inflows should be allowed by revising the 2010 IPR Enforcement Act and taxing royalties once to facilitate technology imports. Traditional knowledge, like turmeric and basmati, should be protected through geographical indications and digital documentation. Resisting evergreening of patents, as in the Novartis 3D case, safeguards public health. In pharmaceuticals, India should highlight its critical U.S. supply chain role to negotiate tariff exemptions, diversify export markets, and advocate for a zero-duty regime in medical devices. In gems and jewelry, India can increase market share through targeted marketing. Textiles and electronics need technological upgrades to compete globally.

Domestic reforms are essential. Inter-departmental silos must be addressed to ensure transparent, time-bound policies. Trade-related data should be digitized to support evidence-based negotiations. High energy costs, impacting agriculture and MSMEs, need reduction to improve competitiveness. Implementation challenges include U.S. domestic resistance to tariffs, Chinese counter-strategies like currency devaluation or third-country manufacturing, and Indian MSMEs' reluctance to scale up. The WTO's paralyzed appellate body limits India's ability to challenge unfair practices, emphasizing bilateral solutions.

The U.S. tariffs and WTO's decline present a complex but surmountable challenge. By adopting a strategic, sector-specific approach, India can transform threats into opportunities. Engaging in bilateral negotiations while maintaining a wait-and-watch stance, protecting agriculture and MSMEs through negative lists and value addition, fostering R&D in semiconductors, pharmaceuticals, and textiles, restructuring the duty regime, and streamlining bureaucracy are critical. India's strong economic fundamentals, bolstered by Atmanirbhar Bharat, position it to seize this "Make in India for the World" moment. By acting swiftly and

pragmatically, India can mitigate tariff impacts and emerge as a global manufacturing and innovation hub, advancing Viksit Bharat by 2047.

IMPORTANT SUGGESTIONS AND DATA

Key Takeaways:

- Tariff Arithmetic: Tariffs can be roughly calculated as (Deficit ÷ Total Imports) ÷ 2 – a framework possibly used by the U.S.
- Agriculture in India vs Developed World:
  - o India: 45% engaged in agriculture,
  - o U.S.: Less than 2%; Europe: 7-8%; Japan: 0.5%
- Decline in WTO Influence: The Appellate Body has lacked quorum since 2019, paralyzing the WTO's dispute resolution function.
- India's Export Edge:
  - o U.S. tariffs: China at 11th rank, India at 26th
  - o Chinese goods 54% costlier in U.S.; Indian goods 26% costlier
- Royalty and IPR related Outflows: Increased from $1 billion (1990) to $17 billion today—highlighting the impact of TRIPS.
- Anti-Dumping Measures: Need for prompt action on Chinese dumping (e.g., titanium dioxide) and long credit exports.
- Manufacturing Decline in India: From 19.5% of GDP (1990) to 14% currently.
- R&D Readiness: India holds capacity for innovation in chemicals, semiconductors, agrochemicals; requires IP policies aligned with national interest.

Conclusions and India's Path Forward

1. Factoring WTO's Dysfunctional Role: The World Trade Organization (WTO) is largely ineffective in its current form. While we should maintain our notional membership, India must reconsider imposing appropriate duties based on national interests, particularly concerning countries like China and Vietnam.
2. Reevaluating TRIPS: The Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement has had more negative impacts than positive ones, as evidenced by empirical data. It is crucial for India to develop its own Intellectual Property Rights (IPR) laws and frameworks, better suited to our national needs.
3. Reviewing TRIMS: The Trade-Related Investment Measures (TRIMS) have imposed several restrictive regulations that need revision. A swift, in-depth study of these rules should be conducted to amend them in favor of India's economic growth.
4. Addressing Global Financial Inequities: The global financial system, particularly offshore tax

havens, has created significant imbalances, benefiting wealthy nations, corporations, and individuals. Future trade agreements should account for the shifting of profits and wealth through such routes, ensuring fairer terms for all.

5. Responding to Trump's Actions: The actions taken by Trump are often arbitrary and irrational. India should adopt a calm, strategic approach, responding only after thorough research, analysis, and comprehensive deliberations, considering all potential implications.
6. Evaluating Tariffs Across Nations: Trump's tariffs are applied universally, but it's crucial to carefully analyze the comparative tariffs for the top five product categories to better understand the economic impact on India.
7. Exploiting Comparative Strengths: India has a comparative advantage in several sectors beyond the top five product categories. Post-tariff scenarios should be carefully assessed to identify and capitalize on emerging opportunities.
8. Bilateral Trade Agreement Strategy: In any upcoming Bilateral Trade Agreement (BTA), every product should be evaluated on its own merits and aligned with India's strategic interests. A blanket approach should be avoided in favor of tailored solutions for each sector.