SOCIO-ECONOMIC VOICES

"Tightened Global Trade Norms will Spur India to Reduce Dependency and Boost Self-Sufficiency"

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"India's Three Pillars of Progress need to be Tech Innovation, Ethical Governance and Workforce Development"

Intro: This week on **Socio-economic Voices** we have noted business economist **Dr. Rumki Majumdar** in an exclusive conversation with senior journalist **Mahima Sharma**. Together they discuss the critical global and domestic economic challenges, including the impact of the US trade policies, rising oil prices, Middle East tensions and India's strategies to enhance self-sufficiency. An insight into **Indiastat** to secure India's economic future amid global uncertainties.

MS: How could policy changes in the US around trade and investment, be shaping global trade dynamics across the next 5 years?

Dr Majumdar: There is a possible shift towards trade protectionism among the industrial countries, especially in manufacturing. This will have an impact on the existing supply chain and trade relations, with strong possibilities of near shoring or friendly shoring. Investment in certain sectors will get impacted such as energy (non-fossil or cleaner energy alternatives), technology, and semiconductors, among others. **There could be new hubs of manufacturing arising as the industrial countries try to diversify their supply chain to countries such as India, Vietnam, Thailand, or Mexico, in order to become more resilient.**

Emerging nations might see the impact on foreign investment inflows as global investors may become wary of risky assets and prefer to remain invested in safer havens. This will adversely impact growth of and innovation in key sectors in these emerging countries that are dependent on foreign investments, impacting their global competitiveness.

MS: What could be the possible implications of the rising escalations in the Middle East crisis on global oil prices and India's energy security. Could that exaggerate the challenge of inflation and what can policymakers do to curb the rising risks?

Dr Majumdar: Oil prices have been rising since the start of the new year over the risks of newer sanctions on Russian oil producers and the possibility of China's economy doing better in the short term backed by the stimulus provided.

Rising oil prices will have implications on import costs, resulting in higher inflationary pressures and widening current account deficit. It will have an impact on corporate margins as input costs go up leading to higher cost of production. If the government steps up efforts to reduce the impact of oil prices by subsidising fuel prices, it can potentially impact India's fiscal space, although I believe, the government will likely ensure that the deficit does not deviate from the target of 4.9% of GDP this year.

On a positive note, rising oil prices will incentivise the government to accelerate its efforts towards transitioning to cleaner alternate and non-fossil fuel options. Again, it will make more sense to start diversifying sources of imports and India will likely work towards exploring new trade geographies.

MS: With several industrial nations increasingly tightening trade norms around technology and energy, how should developing economies like India navigate this challenge?

Dr Majumdar: Tightening trade norms could affect India's export-driven industries. But I feel this changing dynamics will be a critical reason for India to reduce trade dependency of certain key goods from certain geographies and bolster self-sufficiency in critical sectors. This strategic focus would be to understand the long-term implications of geopolitical tensions and increasingly restrictive trade regulations imposed by industrialised nations on India's economic security and well-being. At the same, it gives India the opportunity to collaborate with newer trading partners who are now more willing to open up borders and new trade relationships can be explored and established.

Diversifying trade relations will also entail realigning strategy based on climate prerogatives and political prerogatives to secure India's economic well.

Looking inwards for manufacturing and being self reliant in critical sectors such as semiconductors and energy will be important. This will also mean the government will have to bring in major reforms in these sectors to promote these sectors. This may entail investment in R&D, mining and processing of critical minerals, skilling and training of the workforce, safeguarding data and digital infrastructure, and enhancing renewable resource capacity.

India could look into establishing new trade relations and engage in bilateral agreements that leverage India's competitive advantage and strengths and also secure access to new and advanced technologies and critical resources.

MS: What could the next policy move of the US Fed be? Could the RBI reduce its policy rates in the next MPC meeting?

Dr Majumdar: The US will likely see an increase in intermediate input and production costs post the rise in import tariffs, thus fueling consumer inflation. This would prompt the US Federal Reserve to go with fewer rate cuts in 2025 than anticipated. In fact, the present US Fed Chairman has hinted to that as well.

The reversal in price pressures in India over the past three months is worrisome. In addition to soaring food prices, prices of precious metals (such as gold and silver due to rising global prices) and hardening input costs across the manufacturing and services sectors are causing core prices to edge up.

India could see inflationary pressures building up further as trade and investment flows get impacted post new trade policy announcements in the US. The dollar index value has been rising sharply causing the INR to depreciate against the dollar and therefore resulting in higher import prices. Besides, oil prices are also rising. Reduced capital flows due to tighter liquidity conditions globally could further stress INR. The RBI will monitor price movements and may place greater emphasis on price stability in the long term. It is unlikely to implement immediate rate cuts until inflation concerns, particularly those related to the last mile, are adequately addressed.

MS: Considering the recent depreciation of the Indian rupee to a record low of 85.84 against the US dollar and the sale of $1.1 billion in Indian equities and bonds by foreign investors in January, what strategies can India employ to bolster investor confidence and stabilise its currency?

Dr Majumdar: The rising dollar index value and the possibility of shifts in trade and supply chain are likely to put pressure on the INR. It will be important for India to make sure that key economic fundamentals remain strong and India is able to relatively isolate itself from global uncertainties. **By keeping the inflation under check and maintaining the fiscal deficit with the target, the government will be able to signal foreign investors about its ability to manage stability in the economy.**

In addition, growth in domestic demand has to be sustained through continuous spending on capex and building the infrastructure. This would not only help create employment, income and assets, but also reduce logistics cost and crowd in private investments.

MS: How can India position itself as the voice of South Asia and a leader of the Global South in socio-economic matters?

Dr Majumdar: India's growing significance on the global stage is positioning the country as a leading voice for the Global South. India is playing an important role in supporting its neighbours through challenging times and fostering stability in the region. In the years ahead, India can champion the creation of a regional collaboration framework akin to ASEAN, which has been instrumental in Southeast Asia's development.

And I firmly believe a deeper trade integration across South Asia could indeed unlock shared economic benefits in the sectors such as energy, food and food products, construction, financial services, tourism, health and education services and trade, amongst others. A South Asian economic bloc could focus on harmonising trade policies focusing on these sectors and fostering investment-friendly environments to build shared infrastructure such as cross-border energy grids and transportation networks. This would entail reducing trade barriers, streamlining customs processes, and leveraging regional trade agreements.

MS: With global investors shifting to safer assets amid geopolitical uncertainties, what unique factors are keeping India's capital markets resilient? What steps need to be taken to bolster this resilience further?

Dr Majumdar: Amid global uncertainties, India's capital markets have remained resilient. Between October and December 2024, foreign institutional investors (FIIs) withdrew substantial funds due to geopolitical tensions surrounding the U.S. elections, subdued Indian corporate earnings, and China's stimulus measures in September. These outflows were comparable to those seen during the onset of the COVID-19 pandemic. Yet, the Sensex demonstrated remarkable stability in the past quarter, which is in contrast to previous periods of heightened FII-driven volatility.

This stability was bolstered by the growing participation of retail investors, who have emerged as a vital counterbalance to foreign institutional capital outflows, thereby contributing to India's capital market resilience.

Recognising the rising importance of retail investors, the government is expected to leverage the Union Budget 2025–26 to strengthen domestic retail participation and channel household savings into alternative financial investments. In addition, there has to be focus on reinforcing safety mechanisms to protect savings from market volatility, and improving financial literacy among retail investors.

MS: Services exports have been a key buffer against trade deficits, but their scalability often depends on niche markets like IT. What should India do to diversify its service offerings and reduce dependency on specific sectors?

Dr Majumdar: India's services sector is emerging as a significant contributor to economic growth, employment and services. The sector contributes 55.3% of the GDP, and in the last quarter (Q2 FY25), it accounted for 47% of total goods and services sector exports.

Going forward, India should focus on three things: one would be to use the latest advancements in technology to revolutionise the service delivery, both domestically as well as globally. The second would be to address data security, regulatory compliance, and the ethical use of technology as adoption scales. The third would be to build a highly skilled workforce through targeted education and training programs.

MS: Given the narrowing of India's current account deficit to 1.2% of GDP in Q2 FY25, primarily due to robust services exports, what strategies should India adopt to further diversify its export portfolio and reduce import dependence in specific sectors or regions?

Dr Majumdar: As mentioned above, the key focus should be to prioritise critical sectors and focus on being self reliant. This would entail bringing reforms in sectors such as energy and semiconductors and also promote growth of the sunrise sectors. Taking advantage of the technology to increase new customer outreach (through e-commerce platforms), improve payment efficiencies (through digital payment systems), and optimise production processes (digitise supply chains using robotics and machine learning) will help improve competitiveness and broad-base regional dependencies.

At the same time, as mentioned earlier, focus should be on opening up new doors to newer trading partners who are now more willing to open up borders and new trade relationships.

MS: What's your expectations for the Budget 2025? What measures in your experience need to be taken this year to prop up growth amid global risks?

Dr Majumdar: I believe the government will focus on three things on priority. One would be the continued spending on capex building and spending on infrastructure so as to make for the lag this year and give investments the required boost. The second focus would be to have targeted policies to improve the food supply chain and improve farm productivity to increase rural income and reduce food inflation. The third would be to expand the services sector's growth opportunities in high-skilled services and improve its competitiveness by building a supportive ecosystem and reducing internal trade barriers for professional and business services. This sector has immense potential in terms of creating urban jobs, income for the middle-class, and country's exports.

About Dr Rumki Majumdar

D. Majumdar is a business economist with expertise in macroeconomic and industry research, developing thought leadership and economic forecasting using statistical and econometric models. In her 16 years of professional journey, she has published over 100 publications in business and academic journals, as well as in media publications.

She is adept at identifying research gaps, conceptualising new ideas, generating insights, storyboarding and writing. She enjoys exploring new ideas and has been working with industry experts on a myriad of themes that are likely to disrupt the future. She is proficient in leading and working with cross-cultural, cross-location, and virtual research teams.