Diversification holds the key to reducing our trade vulnerability

India's merchandise exports are less exposed to US policy vagaries than services. The latter need to find new export markets

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India, like the rest of the world, is navigating its way through exceptionally uncertain times. Much of this uncertainty is attributable to the quixotic policies and flip-flops of US President Donald Trump. The US is the largest economy in the world, accounting for about a fourth of global GDP in nominal terms and Trump is the most powerful man in the world. His executive orders, dealing with the US as much as with its global strategic and trade policies, whether legal or not, unleash waves of turmoil almost daily. We need to minimize our exposure to such turmoil.

A major source of India's current exposure to such turmoil is its trade relations with the US. Official-level discussions on the trade agreement being negotiated are over. But without President Trump's approval, the shape of the final agreement is not clear. Given that, it is important to be clear about our vulnerabilities and options to minimize such vulnerabilities. As we pointed out in the mid-term review of the economy by National Institute of Public Finance and Policy (NIPFP) on 11 November, India's goods exports to the US are quite limited. About 80% of India's merchandise exports are to other countries and have no exposure to the US. Of our five largest merchandise exports, 70% go to other countries.

For a more granular picture, only 18% of our largest export, engineering goods, goes to the US, followed by a mere 8% of our second largest export, petroleum products. Electronic goods, the third largest export, has high exposure with about 56% going to the US, but these products are exempt from the 50% reciprocal-plus-punitive tariff Trump has imposed on India. Drugs and pharmaceuticals are our fourth largest export and nearly a third of these go to the US, indicating high exposure. However, the 100% tariff imposed on drugs and pharmaceuticals is on patented and branded products, not on generics which account for the bulk of Indian exports. Gems and jewellery are our fifth largest export, of which 19% goes to the US. But exports of these products are quite diversified and the UAE accounts for nearly a third. Two products with very high exposure to the US, though not among the five largest exports, are textiles and apparel and marine products (shrimp). However, financial support can be extended to buffer these and some other products with large US shares.

Thus, overall, our exposure of goods exports to the US is quite manageable. The picture is very different for the export of services, where the US accounts for well over half of these exports. In fact, service exports are the most dynamic and surplus component of our exports. High exposure to the US here is at the heart of our trade and trade-related growth vulnerability. There are also worrying signs of rising US trade barriers to service exports. It has raised H-1B visa fees to $100,000 and also proposed a Halting International Relocation of Employment Act (HIRE) Act, which seeks to impose a 25% outsourcing tax. Against this background, India's trade-policy priority should be to diversify away from the US as quickly as possible in service exports. Further diversification is also desirable for our goods exports.

Thus, our trade policy must build on two pillars. Diversify away from the US, especially in services, as much as possible and at the same time negotiate hard with the US for a fair deal, especially in services. Two scenarios can be envisaged going forward.

A worst-case scenario is that despite its efforts to diversify away from the US, especially in service exports, India is unable to do so early enough and the US significantly raises its trade barriers *vis-à-vis* India. Our exports to the US, especially of services, will then take a hit. The trade surplus in services will vanish and India's overall trade deficit will increase substantially. Foreign exchange reserves of around $700 billion should be enough to absorb this, especially as the present trade deficit is very modest. However, a larger trade deficit will put pressure on the rupee. More importantly, the increase in trade deficit—a net leakage from domestic demand—will hurt growth.

A more benign scenario is that India makes some headway in its trade diversification efforts and/or reaches a reasonable trade agreement with the US such that there is no significant increase in the US tariff barriers we face.

India does not have the leverage that a few other countries like China have *vis-à-vis* the US. However, the agreements that the US has signed with other countries that similarly lack leverage suggest that Trump's bark may be worse than his eventual bite.

There is hope in this. If this scenario plays out, there will be no adverse pressure on either the rupee or on our export growth. Meanwhile, a more diversified trade basket would have significantly reduced our long-term vulnerability *vis-à-vis* any single country.

Thus, our main takeaway is that the vulnerability of India's goods trade *vis-à-vis* the US is limited and manageable. However, the country's service exports to the United States constitute a significant vulnerability.

Unless India is able to diversify its service exports away from the US early enough, or reach a fair trade agreement with Washington, India's current account deficit, exchange rate and growth will all be hurt because of heightened US service import restrictions.

These are the author's personal views.

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Given Trump's quixotic policies, we must identify specific areas of economic vulnerability. Our exports of goods to the US, for example, are not as big a concern as service exports to that market.

Even as we pursue a fair trade deal with Washington, we must especially diversify our service exports away from America for true resilience against Trump's frequent policy flip-flops.

What if China weaponizes its dominance of pharma inputs?

Overdependence on China for drug-making should worry the US

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The US could use India's help for pharma supply chain resilience. **REUTERS**

The US and China may have called a truce on trade, but Beijing has other levers to pull should febrile relations deteriorate again. That's a potential supply-chain chokepoint that Washington has overlooked: its strategic rival's tight grip on the raw materials needed to make an array of medicines.

The urgency of tackling pharmaceutical supplies lies at the heart of the US-China Economic and Security Review Commission's annual report, published last week. It proposed that Congress immediately amend a 2020 law to expand the authority of the US Federal Food and Drug Administration (FDA) to require pharmaceutical firms to report the volume and origin of the building blocks of modern drugs. It also asked the regulator to encourage the use of supplies from non-Chinese sources.

It wasn't the first time the body has brought up the issue. However, the speed with which the US essentially folded after Beijing expanded export controls on crucial rare earth minerals last month is a sign that this other glaring vulnerability can no longer be brushed aside.

The US and other countries rely heavily on China to make the foundational ingredients for their medicines. Because of its enormous and commoditized industry, China plays an outsized role in the global drug supply chain. It is a significant producer of compounds called key starting materials (KSMs), which are used to produce ingredients called active pharmaceutical ingredients (APIs).

Still, definitive data on the exact level of US dependence is hard to come by. Major drugmakers have little incentive to spell out just how deep that reliance runs. The best estimates come from the US Pharmacopeia, a non-profit that sets quality standards for medicines.

Looking into the drug master files that pharma manufacturers have submitted to the FDA, it found that China wasn't part of the landscape back in 1980. Twenty years later, it was submitting 5% of all files, outpaced by India at 19%. But, by last year, it had overtaken India with a 45% share of total filings. What complicates the picture is that the South Asian nation, the world's top supplier of generic medicines, itself relies heavily on China for KSMs, which is not reflected in FDA filings.

What's more, the non-profit identified a key trend: that half of the active ingredients used in the US came from just one source. China is the exclusive supplier of at least one chemical used in nearly 700 crucial medicines. For example, at first blush, the antibiotic amoxicillin, used to treat everything from bronchitis to urinary tract infections, appears to have a diverse array of sources from Spain to Singapore. But its four key inputs come almost entirely from just one: China.

As shortages of medical supplies during the pandemic demonstrated, it's a bad idea for countries to be so dependent on any single source, much less, in the case of America, a rival.

It's worth noting that not once during the height of the trade war escalation did Beijing threaten to withhold medical exports. But geopolitics isn't the only risk factor. Another global virus outbreak could also shut down the supply chain.

Leland Miller, a member of the US security review commission, told me that Beijing controls a "scary chunk" of active drug ingredients. Although the group doesn't have the authority to give orders to the US Congress, the ultimate goal would be to create a supply chain involving India and other allies that will be independent of China in specific areas, he said.

This will be a challenging enterprise, given the low margins and low profits in making the starting compounds used to manufacture medicines. China began to liberalize production back in the 1980s, along with the rest of the economy, with an emphasis on lowering costs for the local population. One state media report cited an executive as saying costs for US firms would jump by 50% if they were to try to replicate the supply chain for raw pharma ingredients.

That is exactly what Washington will have to try to do, at least on a limited or exceptional basis for the most crucial medicines. There's already a blueprint in the form of the Pentagon's agreement with MP Materials, a rare earths producer with a mine located in California. The deal includes a 10-year price floor, with the US Department of Defense promising to pay the company the difference if the market value for their products goes below a certain amount.

The scenario for the pharmaceutical industry is likely to be similar. China controls the spigots in many pivotal sectors, but the US will have to decouple from it in areas deemed priority by Washington in the context of national security. **©BLOOMBERG**

Would you like to be interviewed by an AI bot instead?

DEVINA SENGUPTA

writes on workplaces and education at Mint.

I don't think I want to be interviewed by a human again," said a 58-year-old chartered accountant who recently had an interview with a multinational company. I wasn't sure if I heard her right and asked her to repeat herself. Why would anyone prefer to be interviewed by an algorithm-driven bot over a human?

The Mumbai-based accountant has been interviewed 27 times in her career—25 times by humans and twice by artificial intelligence (AI). She was initially nervous, and in her first AI interview, the American-accented artificial voice asked such a multi-pronged and convoluted question that she was overwhelmed. She logged out and never attempted that interview again, despite reminder emails from the firm behind the exercise.

It is unlikely that she would have logged out or done the closest equivalent had there been people on the other side; that would have been unprofessional and rude. But mercifully, AI bots do not have feelings... even if they sometimes seem to.

It was the chartered accountant's second interview, this one for a quality and audit role, that began to change her mind. As she recounts the experience, staring at a screen-saver while an American-accented voice asked questions felt oddly comforting.

Why? I asked. Didn't she miss gauging how the interview was going from the expressions of panelists?

No. The AI interviewer did not have a face, its tone didn't give away how the interview was going and there were no smiles or sighs to interpret. In fact, after every answer, the AI bot summarized what she had said. "In a few questions, I fumbled. But the way the bot summarized my answers, it sounded right. It seemed like I had given the correct answer even if I hadn't. No interviewer would do that."

As a business journalist, I have tracked Human Resources management for about a decade and written about how interviews have evolved—from the classic "Where do you see yourself five years hence?" to ethical dilemmas like "Who would you rather save: a senior citizen tied to a railway track or a group of men tied together on a different track if you can save only one side?" But the concept of being interviewed by AI seems very complex. More than that, I'm not sure I would trust myself with my answers when I know there are no second chances, or that the bot has a fixed menu of questions and no digression would be allowed. I can't read its expression or get cues, yet the algorithm would be picking up mine. The process feels daunting—even tougher than psychometric testing rounds or facing psychologists on a human interview panel.

And yes, there will probably be human managers reviewing the bot's recordings and assessments before finalizing decisions.

But that does not explain what prompts recruiters to hand over the reins of interviewing (their most crucial selection tool) to an algorithm. Is it a quest for perfection in finding the right fit for a role? Or is it another way to pass on recruitment risks?

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QUICK READ

Recruiters are using AI for interviews for reasons that may range from cost and time saving to spreading the risk of a bad pick, but what about candidates? Could it be a source of comfort?

Some of those who've faced an AI interview have spotted upsides. Could an AI interviewer that's trained on truly unbiased data help make discriminatory hiring a thing of the past?

Are recruiters giving up the onus of selecting a candidate who simply feels right for the role on offer? This is not always about answers to questions; often, it's about sensing that the candidate may or may not click, but is likely all the same to bring in fresh ways of thinking. This is a finer judgement call that AI may be unable to grasp.

Under an overload of applications, perhaps AI does a useful job of basic screening. AI also promises significant time and cost savings by replacing human interviewers, especially for junior roles where primary competence matters more than other attributes. And while India Inc insists that middle- and senior-level profiles, which require collaborative and leadership qualities, will still be interviewed by humans, we can't say where this is headed.

A senior partner at one of the top three global headhunting firms told me that as AI gets more sophisticated, it will analyse candidates better than human bosses can, be it "detailed personality assessments, predictive insights into opportunities and risks if the firm hires the candidate" or "the open-ended questions that allow deeper checks and balances." He admitted that he fears a critical part of his company's role in recruitment may vanish.

At a time when companies take six to eight months on a CXO hire, some of them may prefer to let AI take the call. It's easier to blame AI if the candidate doesn't work out than to question the managers who made the decision.

Eventually, the big advantage of AI recruitment could turn out to be that it is less biased—a challenge deeper than India Inc openly admits. In Hrishikesh Mukherjee's film *Gol Maal*, the protagonist dons a fake moustache, avoids Western attire, hides his love for football and even pretends to have a twin brother, all to land a coveted job by aligning himself with what he knows the decision-maker prefers. The film, something of a Lemony Snicket-style chain of unfortunate events, is a laugh riot, but it mirrors the deep-seated biases interviewers often carry. Unless AI is trained on biased feeds, it could rise above all that.