



OUR VIEW



Gaza: There is more to a home than real estate

Trump's 'Riviera' plan for this war-flattened Palestinian territory has met global rejection.

Now the world must speak in unison to remind America of the perils of a colonial project

Even by his own standards, US President Donald Trump's announcement on Gaza this week was a head-spinner. America, he said, would take over that war-ravaged strip of land, move its 2-million-odd people out, secure it with US troops if necessary, and then build a grand "Riviera of the Middle East" by the Mediterranean Sea where anybody from around the world could eventually come and live. His declaration was met with global consternation. Nearly every country rejected the idea, including all other members of the UN Security Council. Brics nations have weighed in with their criticism, as have countries Trump may have expected to count on for help with his plan, like Saudi Arabia, Jordan, Egypt and Turkey. Leaders have called the plan bizarre, absurd, inhumane and unworkable. Gaza's Palestinians, evicted from their homes as Israel flattened their homeland with bombs, must be allowed to return home, leaders argued. London said nothing should be done that unsettles the fragile Hamas-Israel ceasefire. António Guterres, the UN's secretary-general, warned against "any form of ethnic cleansing." To be sure, White House officials appeared to backpedal on the proposal a day after it was made, saying that Palestinian displacement would be temporary, although Trump had said "either" when asked if he meant an interim or permanent eviction. The White House press secretary said Trump believes a US role in rebuilding Gaza would "ensure stability in the region," adding, "That does not mean boots on the ground in Gaza."

Whether Trump plucked the idea out of a hat or whether it has been in the works is not the point—the latter may be closer to the truth.

What matters is that it cannot be brushed aside as just another Trump throwaway. This is why world leaders rejected it so promptly. An incendiary plan for a volatile region could set it up for another flashpoint, with risks to countries seen approving of it. Second, while Trump appears to favour territorial expansion, a big shift in itself, such a brazen colonial project would deal a blow to the stability assurance of Pax Americana, which may spell perils elsewhere too. A world order where might is right suits nobody. Even if Trump saw the strip as a deal-making chip, with a maximal stance taken tactically in public to buy Israel's leader some time to survive a far-right political revolt over Gaza being returned to its inhabitants, his Riviera pitch is far too reckless. Words do send out signals, especially in a context fraught with America's military record in the region.

What can the rest of the world do? Speak in one voice, for a start, to remind the White House of the world's responsibility to everybody. This is not an era of war, as Indian Prime Minister Narendra Modi has said. Nor is it one of forced evictions. It is one thing to disrupt trade patterns, quite another to redraw the world map—in blood or otherwise. We must also reiterate that the Palestinian cause cannot be wished away. The people who lived on that land before the 1948 carve-out of Israel have endured much suffering. Whatever Trump may be bent on doing, a two-state solution remains the optimal way out of this crisis. Upwards of 47,000 people—mostly women and children—may have been killed by Israel's Gaza war in retaliation to the Hamas terror attack of 7 October 2023. Of course Gaza must be rebuilt, but by Palestinians themselves, aided by others, not by a colonial force.

THEIR VIEW

Trade: A tale of the US grasshopper versus Chinese ant

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The world is still to recover from the shock of US tariffs (held temporarily) on Canada, Mexico and China, their retaliatory moves and the risk of American tariffs on other trading partners. America runs trade deficits with about 100 countries. While there was always a possibility Donald Trump might impose steep tariffs on friends and competitors alike if voted to power, the common belief was that he was not serious about them, and that such Trumpian bluster was just his transactional style. Given the dystopia their continuation entail, there is still a distinct possibility that these tariffs might be abandoned once Trump achieves his real objectives, whatever these might be, before inflation kicks in and US demand as well as growth weaken. But there also appears to be a constituency in the US that believes if they cannot compete with China, as also Mexico, Canada and other countries with which it runs trade deficits, it is better to wreck globalization. America seems to suffer from what Stephen

Roach described as a "trade deficit disorder," induced by a macroeconomic imbalance—its deficit of savings—for which there is no bilateral fix. The deficit would just shift to other (higher-cost) producers.

Many believe it was the retaliatory steps and cascading effects of the US Smoot-Hawley tariffs that tipped what was originally a deep recession into the Great Depression of the 1930s, which provided the backdrop to World War II. Trump's tariffs are reminiscent of those moves, although nobody is talking of another Great Depression—just yet—or a major conflagration.

What is the case for these tariffs? Even if the strategy adopted is counterproductive, is the grievance—that the US runs wide deficits with partners that are gaming the system, through subsidies or exchange rate manipulation, and thereby depriving the US of domestic jobs—justified?

Cheap Chinese goods have raised living standards everywhere over the past three decades, despite growing unemployment and inequality, including in the US. The economic condition of Trump's 'Make America Great Again' base would have been far worse without these cheap imports. The US has now decided to look the gift horse in the mouth, and, as China responds with its own

measures, it's unclear where this will take us. The question is this: If China has a competitive advantage in consumer goods and other products, as a result of which others buy them, what principle of classical economic theory does this violate? According to theory, this maximizes human welfare.

There are two arguments that are made to argue that classical Ricardian theory does not hold in the current circumstances.

First, if a country has a comparative advantage in virtually all high-value sectors, as China appears to, then either its currency is artificially pegged or significant fiscal subsidies are being provided. China has a huge surplus on the current account matched by huge deficit on the capital account. These surpluses are parked in US Treasuries, which prevents its currency from appreciating. And there is inadequate data to be sure if China has pegged its currency. Second, if China captures global market share, in view of network

externalities, its competitiveness could be self-sustaining—if it keeps innovating—even if subsidies are done away with, especially in oligopolistic sectors.

Arriving at a 'fair' exchange rate that would balance trade involves intricate calculations on which a consensus is very hard. This debate is ultimately geopolitical, couched in economic language. It is about who would be the dominant global power.

The recent unpredictable behaviour of the US has eroded its soft power, making it increasingly unclear whether a US-led world

order is better than one that is led by China. In the former, geopolitics would dominate; in the latter, economics. Many may now be constrained to choose the latter.

A commonsensical approach would be that if the Chinese and others are somehow internalizing costs and subsidizing the US by burdening their own populations, the beneficiary should just pocket this charity while focusing on sectors

where it is competitive and increase savings to keep its trade deficit low.

The case for tariffs beyond raising some revenues and playing a limited role in the development of infant industries is dubious. Besides the classical argument of maximizing welfare, the Chinese are providing cheap consumer goods to the US and are willing to lend it money to buy them. Martin Wolf illustrated this in *FT* through the fable of the ant and the grasshopper—instead of the grasshopper (the US) dying of hunger in winter because of a lack of savings, the ant (China) opens its granary to the grasshopper and lends it money to buy grain!

One could even argue that in earlier times, the grasshopper would have had to transfer gold to the ant to get grain. But what the 'Chinese ant' gets in exchange are really scraps of paper—US Treasuries, which can be printed at will. Unlike gold, which will remain a store of value, the US can always renege on its debt through depreciation or other means, just as it is currently doing on long-standing trade agreements. It is Chinese consumers and taxpayers who pick up the tab for the current subsidies and future exchange rate risks, not American. One would, therefore, rather be the carefree grasshopper, willing away the summer, than the thrifty ant slaving away!



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That the Indian economy is going through a difficult phase is no longer a matter of speculation. The *Economic Survey* not only made that clear, but went further by offering evidence of a decline in earnings of the self-employed in the last six years. For regular and casual workers, wages have been declining for almost a decade, leaving little doubt whether India's slowdown is cyclical or structural.

This isn't the first such episode for this government; its first term saw sharper declines in India's GDP growth rate between 2016-17 and 2019-20, even before the pandemic hit. Back then, the distress was driven by rural pain. Two years of back-to-back drought followed by demonetization and the GST rollout hurt an already-fragile rural economy. The pandemic made it worse. The current slowdown also has roots in rural distress, which has extended for almost a decade now. This was bound to spill over to the urban economy and hurt overall demand.

With growing uncertainty under US President Donald Trump's policies and weaker demand in most advanced countries, exports are unlikely to drive a growth revival. That leaves domestic demand to do the job, and from rural areas in particular. The *Economic Survey* flagged these challenges. Still, neither did the budget offer anything new to boost agricultural incomes or worker

productivity, nor did it allocate enough to revive the non-farm economy.

The finance minister's speech did list agriculture as a top priority. But the budget offers no concrete plans. Most of the schemes either got no actual allocation or were a repeat of existing ones. The formation of a Makhana board in Bihar, for example; there already exists a National Research Centre for Makhana in Bihar's Darbhanga—it has no regular director, though. In the last five years, the Centre has spent only ₹3.4 crore.

The Centre's plan to increase incomes and productivity in 100 backward districts is also unconvincing, given that the overall allocation for agriculture has been lowered to ₹1.27 trillion from a revised ₹1.31 trillion last year. The crop insurance scheme got a cut of ₹3,600 crore. Even for PM-Kisan, the cash-transfer amount has remained at ₹6,000 per farmer since 2019.

In 2016, the government promised to double farmer incomes in five years and a panel had recommended increased investment in agriculture. In reality, public investment in farming in constant prices in 2021-22 was lower than in 2016-17. Farmer incomes have also declined. The much-touted pulses scheme is also not new. Such a scheme exists for oilseeds. While farmers

responded to the scheme's call to raise production, they have been forced to sell *moong*, soyabean, groundnut and *tur* at less than the mandated prices due to inadequate support from the government. The additional budget allocation is a mere ₹500 crore, which is not even enough to keep pace with inflation. It is not surprising then that farmers have been on protest since 2016, with the last hunger strike ended barely weeks ago.

The non-farm sector fares no better. The budget's allocation for the rural employment guarantee scheme, which has served as a lifeline for the rural poor, has seen a decline compared to the actual expenditure in 2022-23, even as wages have increased only marginally, notwithstanding the fact that even the Confederation of Indian Industry (CII) had recommended raising wages to boost rural incomes. For other crucial rural development programmes too, allocations only match last year's, which amounts to a decline in real terms.

The broader issue, however, is of the government's political priorities. While rural areas in general have been facing a prolonged and severe crisis, the budget has passed on benefits to the well-off among the middle class. The income transfer to them through its tax subsidy is now much larger than cash transfers to farmers. They are numerically almost 10 times the size of the middle class, but receive less than a tenth of the budget's transfers. The prevailing need was to increase fiscal spending in rural areas and on programmes to increase productivity as well as agricultural incomes. So, reduced spending coupled with a tax subsidy for the better-off is neither good economics nor good politics.

This budget was about making tough choices; between giving a ₹1 lakh subsidy to the well-off and doubling PM-Kisan transfers, between investing in agriculture and rural areas versus favouring the vocal middle class. The government has made its choice clear. Whether this will revive demand and thus the economy remains to be seen.

QUICK READ

Budgetary allocations for agriculture belie the speech's emphasis on this sector. The budget offers very little to end India's rural distress that has lasted for almost a decade now.

The budget's proposals offer benefits to the well-off among the middle class although the economy needed a boost for rural incomes as a broad way to drive up overall demand.

10 YEARS AGO



JUST A THOUGHT

To me, every decision needn't be a big-bang reform but a signal of proactive decision-making and removal of red tape and bureaucracy.

ANAND MAHINDRA