

## Assessing India's Trade Policy - Regional Trade Pacts

### What is the issue?

With uncertain developments in, and the changing nature of, the global trade, India has to make a revisit of its trade policy.

### What are the recent developments?

- **US-China** - United States increased its tariffs from 10% to 25% on \$200 billion worth of Chinese goods.
- China soon retaliated, by announcing its plans to hike import tariffs ranging from 5% to 25% on a target list worth \$60 billion of US goods.
- The renewed US-China trade war and related uncertainty is likely to have a negative impact.
- Worryingly, the impact will be far beyond the US-China bilateral trade on global growth.
- The WTO, in its recent revised estimates, has already trimmed world trade growth forecast for 2019 to 2.6% from the earlier 3.7%.
- **India-US** - On the India-US side, the recent tensions include the following-
  - i. withdrawal of the [generalized system of preferences](#) (GSP) by the US
  - ii. [end of sanction waivers](#) for crude oil imports from Iran
  - iii. criticism of [India's protectionist tariff regime](#) and complex business environment by the visiting US Commerce Secretary
- All these have led to heightened tensions regarding US-India bilateral economic relations and trade diplomacy.
- The goods trade deficit reached a high of \$176 billion in 2018-19.
- At \$331 billion, exports, though the highest since 2013-14, have been well below the target of the Ministry of Commerce (MoC) for the year.

### What does it call for?

- An export push in traditional sectors is being appropriately worked on by a newly set up Ministry of Commerce working group.
- But these challenging circumstances require a deeper understanding of global value chain (GVC)-led trade.
- The facilitating role of preferential trading agreements (PTAs) therein has to be understood more now than before.

- In particular, India needs to recognise the importance of aligning with evolving regional trade formations.
- Utilising PTAs in its global value chain integration strategy is the need of the hour.

### How is India's export sector at present?

- **Sectors** - India's exports continue to be predominantly low skill and labour intensive commodities.
- Gems and jewels, cotton, articles of apparel and footwear have together accounted for 25-35% of exports over a decade and half.
- Over the same period, the most dynamic sectors globally have been office machinery, communication equipment, textiles and apparel.
- These have taken shape with highest production fragmentation based sectoral relocation across borders, which is characteristic of GVC led trade.
- **Office machinery**, with almost 40% of exports relocating across countries, has been the most dynamic sector globally.
- But the corresponding sectors of electrical equipment and machinery account for only 4-5% of India's exports.
- This reflects India's insignificant integration in global GVCs.
- **Textiles and apparel** is the only sector where India has been able to share gains of sectoral dynamism.
- However, this has only been alongside other countries such as China, Bangladesh and Vietnam.
- Even in this, over time, India's share in global exports has declined from a constant of about 5% in 2000-2012 to 4% in 2017.
- Over the same period, competitors like Bangladesh have registered an increase in their share of global exports from around 4.5% to 8%.
- China leads with a share of 37% in global exports in textiles and apparel.
- Other Indian top export sectors like leather goods, chemicals, and motor vehicles have been among the less dynamic sectors with lower relocation shares.
- India's export basket has not, therefore, evolved in line with the pattern of dynamic GVC-led trade.

### How is the regional trade scenario?

- At present, global value chains (GVCs) are undergoing a transformation.
- There is greater domestic content and regional consolidation.
- This is particularly the case in East Asia and in sectors like automotives, computers and electronics.
- East Asia has emerged as the global manufacturing hub centred on China early on in the process of GVC-led trade.

- The EU and North America were the other GVC hubs.
- But trade and growth in the EU is yet to gain its pre-global financial crisis momentum and the US grapples with trade disputes.
- So currently, East Asia remains the most resilient regional manufacturing hub in the world.
- It thus becomes imperative that India seeks a trade strategy towards greater integration with East Asia.

### **How significant is RCEP in this context?**

- Regional comprehensive Economic Partnership (RCEP) offers India the above opportunity, but there is no agreement yet on its clauses.
- India's perception of the RCEP is limited by its bilateral trade deficit with the largest economy in the trade formation - China.
- India's stance in the RCEP negotiations has been mainly defensive.
- It seeks differential and lower levels of preferential market access for its non-FTA partners such as China and Australia/New Zealand.
- This is because of the fear of being overwhelmed by Chinese goods under a preferential arrangement.
- Nevertheless, RCEP has to be seen as a mega regional trade agreement.
- Notably, India's trade strategy to work through multilateralism may once have been an option.
- But today when the WTO is struggling to remain relevant, mega regional PTAs have become dominant trade vehicles.
- It would, therefore, be in India's interest to make sure that the RCEP negotiations are concluded at the earliest.
- It is a means to both trade liberalisation and integration with regional value chains or GVCs through East Asia.
- Furthermore, China is caught in a trade war with the US.
- So India using its large, alternative market advantage could work out a bilateral deal with China within the RCEP.

**Source: Business Standard**