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