Evolution of India's Trade Negotiations

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India's trade negotiating approach would need to take a broader long-term view of things to come in future. Increasing volume of trade is more important than trade deficit because trade need not be a zero-sum game. The combination of quality and price determines the staying power of a product in the market. India should consciously develop a wide-angle approach to the evolving global trade dynamics.

The numismatic evidence found in various ancient coastal towns of Romans, Sumerians and Egyptians suggest that ancient Indians were enduring traders. Chanakya's Arthasastra, of about 300 BC, mentions about vibrant spices trade links between India and countries in the West and Southeast Asia. During the 300 years of Colonial rule, the East India Company completely controlled India's external trade, allowing export of mainly raw cotton and spices and dumping finished products in the country.

Multilateral Trade under GATT

The General Agreement on Tariffs and Trade (GATT) of 1948 was the first multilateral agreement under UN aimed at boosting economic recovery by reducing barriers to trade. Even though India was one of the 28 founding members of GATT, it was not a serious stakeholder in multilateral trade negotiations. The newly-born independent countries known as 'Third World Countries' had their priorities firmly rooted in development issues such as providing basic necessities to its people—food, clothing and shelter as also building institutions for preserving the hard-earned freedom.

In the eight GATT Rounds held in the later half of 20th century, India and developing countries were primarily concerned about safeguarding their agriculture interests against large-scale agriculture subsidies of developed countries. They feared possible dumping of agricultural produce in international markets would cause market distortions, to the detriment of farmers in developing countries who were faced with challenges of subsistence living, erratic monsoons, low yielding, fragmented farming etc. Moreover, agriculture being a livelihood issue for a large number of people in developing countries, it was felt necessary to protect it from external competition. National Agriculture Market (NAM) proved to be a useful tool to garner awareness and build coalitions in the multilateral trade negotiations against unfair trade policies.

World Trade Organization

India, along with 76 countries, was a founder member of the World Trade Organization (WTO) in 1995 which subsumed the Uruguay Round GATT negotiations from 1986-1994.

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India believes that a fair, equitable, justiciable and predictable rules-based multilateral trading system embodied in WTO is in the best interest of developing and Least Developed Countries (LDCs). The Dispute Settlement Body, a lynch-pin of WTO, makes trade rules enforceable and effective. India sought correction in the highly imbalanced trade negotiations under the Agreement on Agriculture (AoA), reasoning that since developing countries were unfamiliar of the long-term implications of the negotiated formula on agriculture under AoA during the Uruguay Round of negotiations, correction was necessary. Under AoA, the domestic support policies, subject to reduction commitments, were calculated by the total Aggregate Measurement of Support (AMS) on the base years of 1986-88. Accordingly, input subsidies known as 'Amber box' have been calculated for exclusion from reduction commitments at less than 5% of the value of production for developed countries and less than 10% for developing countries. India and other developing countries have argued that developed countries have taken undue advantage of the huge domestic support provided under other boxes namely, 'Green' and 'Blue' that have been tacitly kept outside the reduction commitments. Efforts to bring balance in AoA negotiations remained unsuccessful till date.

Trade and Development

It was not until the beginning of the 21st century that WTO recognised the causal link between trade and development. This recognition led to the launching of the 'Doha Development Round' in 2001 putting 'development' at the centre of global trade. India articulated the popular view underlining the urgency in lifting millions out of poverty in developing and LDCs, and trade could be an effective catalyst for development. But irreconcilable differences in positions amongst member countries made it hard to bridge meaningful gaps in the Doha Round of negotiations on many vital areas, including on agriculture subsidies. However, India scored a major victory at the Bali Ministerial Conference in 2013 when it successfully negotiated a 'permanent peace' clause on domestic support for agriculture as a trade-off for agreeing to WTO Agreement on Trade Facilitation. The 'permanent peace' clause allows India to pursue its agriculture domestic support programs, without the risk of being challenged in the WTO Dispute Settlement Body, until the issue is resolved collectively by all members. India's accession to the WTO Trade Facilitation Agreement in

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April 2017 also proved beneficial to it for improving logistics efficiencies and bringing down trade costs for its exports.

Reform of WTO

Presently, talk on reform of the WTO has gathered momentum in the wake of unilateral measures and counter-measures imposed by mostly USA and China. Developed countries are seeking to graduate few emerging countries like India, China, Brazil, South Africa etc. from the status of 'developing countries' by withdrawing Special and Differential Treatment (S&DT). The principles of S&DT enshrined in GATT and adopted into the WTO system, was based on the premise that developing countries and LDCs, faced with developmental challenges, require certain buffer to cope with external competition. India strongly opposed this distorted view arguing that development parameters of developing countries are not even remotely close to those of developed countries and putting them in the same basket as developed countries is unfair. Another challenge in WTO for developing countries is effort by plurilateral groups to push for new issues on the WTO Agenda for rulemaking such as e-commerce, investment facilitation, MSME and gender. For India and developing countries, Doha Development Round remains unfinished and new issues run the risk of undermining the 'development' agenda. India needs to maintain a delicate negotiating balance on reform of WTO without undermining the principle of Special & Differential Treatment and the development-centric agenda of WTO.

Tariff and Non-Tariff Barriers

Understanding how tariffs and non-tariffs impact trade is crucial for trade negotiations. The rationale for high tariffs is to protect domestic industry from external competition and enhance revenue collection for the State. WTO member countries had bound their tariff rates for each line of product; developed countries bound 99% of their tariff lines to below 5% rates and developing countries bound their rates to 98% but with varying peak rates, within which they can maintain flexible applied rates. Member countries list their commitments in their schedule and offer them on Most Favoured Nation (MFN) basis as per GATT Article 1 i.e, "preferences to be offered to all members on an equal basis in a non-discriminatory manner". This flexibility was considered necessary for developing and LDCs to withstand global trade distortions caused by sudden surge in imports of certain products. India brought down its applied rates significantly from an average 100% rates in the 90s to currently around average 15% for industrial products and 25% per cent for agriculture products. Several lines kept under Open General Licensing system (OGI), not meant for trading in support of MSMEs, were finally abolished in 2005.

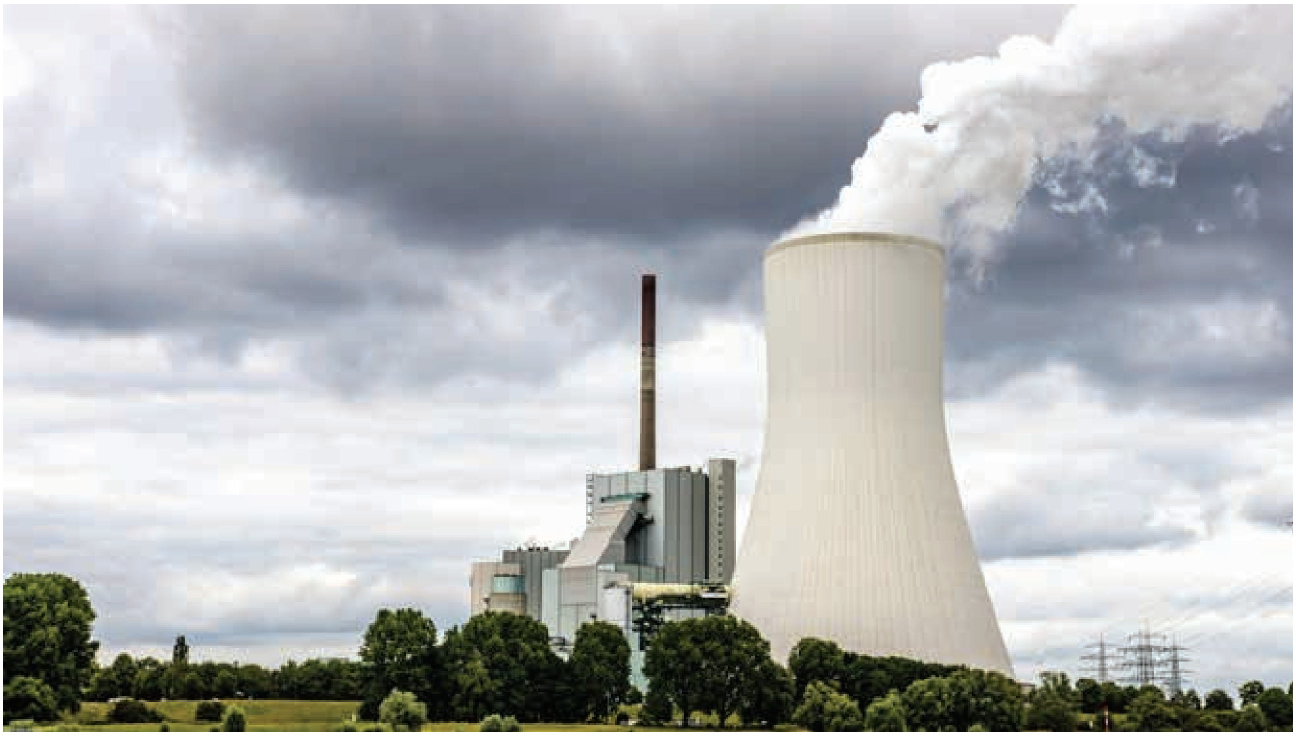
The game of tariffs in trade negotiations has always been deceptive. While developed countries have seemingly cut down their tariffs, they have surreptitiously erected non-tariff barriers in the form of standards, regulations, licenses, port restrictions, testing etc., ostensibly to deny market access to others and protect their domestic industry. WTO Agreements on Sanitary and Phytosanitary Standards (SPS) and Technical Barriers to Trade (TBT) have defined rules on standards but these are not enforceable. As Standards are voluntary in WTO, countries tend to take advantage of the ambiguity in the Article 20 of GATT that allows governments to restrain imports in order to protect human, animal or

plant life or health, provided they do not discriminate or use it as disguised protectionism. For developing countries coping up with these high standards is hard as they add up costs. Moreover, tendency to often shift goal posts makes the game even more challenging. Trade negotiators would need to be particularly adept at tackling these unseen walls in global trade.

India's Share in World Trade

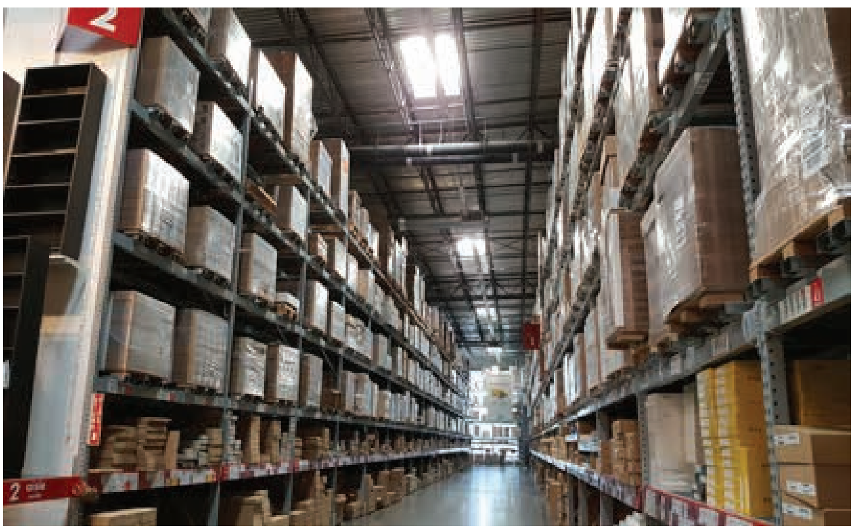
India's share in the world merchandise exports at the time of our independence in 1947 was 2.2%; it dropped to 0.5% in 1983 and marginally raised to 0.7% in 2000. Currently, India's share in global exports is 1.7%. Experts attribute India's low share to its decades of insular economic policies but with 1991 economic reforms, leading to integration into the world economy, India's share has picked up. In contrast, countries such as Japan, Korea, China and even ASEAN enjoy much greater share in global trade as a consequence of their open economic policies with significant thrust on exports.

In 2000, India's total trade was about $103 billion (exports $43 billion+imports $60 billion); in 2010, it was $528 billion (exports $201 billion + $327 billion imports) and in 2019-20, it was about $787 billion, India's major trading partners are USA, EU, China, UAE, Germany, Singapore, UK, etc. A worrisome factor for India is the ever widening trade deficit with China, which is feared to be dumping its goods in India indiscriminately through a deliberate state-sponsored unfair trade practices, while insulating its markets through highly cumbersome non-tariff measures. In South Asia, India is the most dominant economy with total trade at about $25.7 billion in 2019-20, of which India's exports were $22.8 billion. The World Bank Group study of 2018 observed that if only regulatory obstacles to trade are minimised in the region, trade in South Asia could increase by three times in few years. India's export product profile more or less remained constant for several years; petroleum products, Gems & Jewellery, machinery, organic chemicals, pharmaceuticals, electronics, leather, etc. have been consistently leading the chart. Diversifying export basket with value added products would help to expand its global market share.



Trade in services has assumed high importance in global trade. Technology and mobility of skilled manpower across borders have stimulated trade in services sector. Services constitute more than 55% of India's GDP, similar to the economic profiles of most developed countries. India's export of services trade has been gradually growing in the last two decades; in 2019, services exports were $214 billion and imports $128 billion and India supplies 40% of global demand for IT skilled manpower. However, India's share in world services trade is only 2.6%, mostly concentrated in IT and IT-enabled services. With a view to diversifying services trade, India identified 12 champion services sectors with emphasis on realising their potential for employment generation. Currently, India's total trade including merchandise and services is $1129 billion, which constitutes about 42% of the GDP.

Deeper external engagements are a necessary condition for boosting trade and, in this regard, Global Value Chains (GVCs) and Free Trade Agreements (FTAs) are important tools.



Global Value Chains

Global Value Chains or Supply Chains are a reflection of fragmentation of production processes that have assumed a high degree of sophistication and specialisation due to changes in technology, skills, capital and investment policies. It denotes an underlying principle that companies source raw materials and intermediate products at qualitative and competitive prices from wide ranging sources across the world. It marks a shift away from the traditional way of manufacturing where components and finished products are all produced in one country. As GVCs reduce input costs, it makes finished products competitive in the global markets, a propitious condition for trade to thrive. Open trade and investment policies of a country naturally attract GVCs. Some sectors of India, especially Pharma, Auto and Textiles are well-integrated into GVCs while those of China, Japan, Korea, Singapore etc. are not only extensive but also deeply entrenched in several countries around the world, lending their products competitive edge in the global markets.

Free Trade Agreements

Free Trade Agreements (FTAs) create conducive environment for GVCs to operate efficiently. Partner countries take advantage of liberalised investment climate under FTAs to set up production units as part of Supply Chain networks (GVC) to feed into finished products. A successful FTA creates a win-win situation for both partner countries, not only in terms of providing market access but also enabling deeper engagement through investments, technology and services. GATT Article 24 of WTO allows member countries to enter into bilateral/regional preferential trade arrangements in order to achieve higher level of trade liberalisation, notwithstanding that this provision amounts to derogation of GATT Article 1 'Most Favored Nation' (MFN) that stipulates non-discriminatory treatment on trade preferences to all countries. In the last two decades there have been proliferation of free trade agreements globally with about 450 FTAs/PTAs concluded and another 180 FTAs/PTAs under either negotiation or review, involving about 2/3rd member countries of WTO. India concluded about 16 FTAs/PTAs and another 20 of them are under either negotiation or review. India's most notable bilateral FTAs are with Japan, Korea, Chile, Singapore and regional FTAs are SAFTA, ASEAN, Mescosur, APTA, etc.

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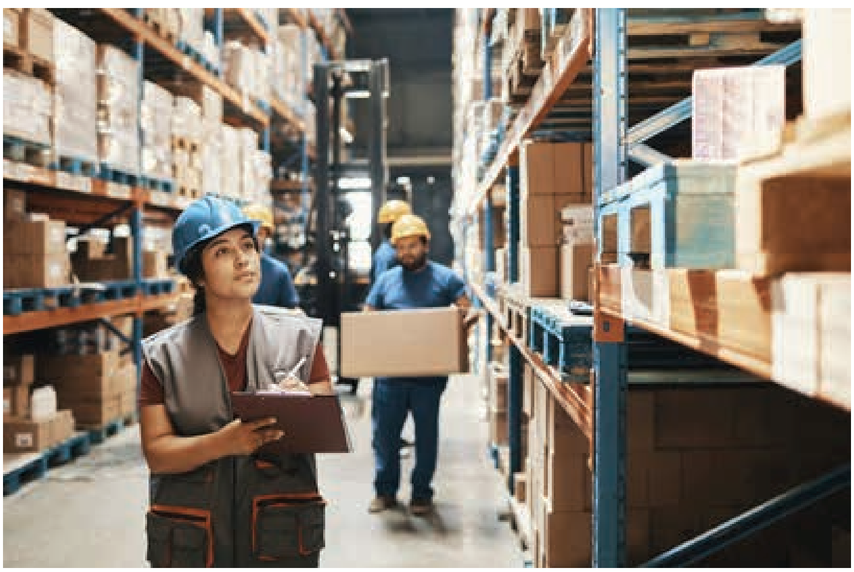
Traditionally, India has been conservative to opening its economy through Free Trade Agreements for fear of exposing domestic industry to external competition. However, trade data of last 10 years suggests that India's volume of trade with its FTA partner countries has significantly grown and trade deficit remained either constant or widened marginally.



Not being part of preferential trade architecture could be detrimental for a growing economy like India as it would amount to inevitable erosion of its market share when FTA countries begin to trade amongst their partner countries at zero duty tariffs. Therefore, the way to go about an FTA negotiation is to seek longer staging phase out of its tariffs with a partner country while at the same time seek immediate phase outs in areas of core interest. For example, as India is relatively strong in textile, leather, chemicals, automobile components, pharma etc., seeking immediate tariff phase outs in these sectors through FTA could be beneficial. Also, India's interest in services trade has grown exponentially; seeking openings in services sector for movement of professionals should be a priority. Similarly, encouraging investments through FTA route should form part of the strategy.

Conclusion

India's trade negotiating approach would need to take a broader long-term view of things to come in future. Increasing volume of trade is more important than trade deficit because trade need not be a zero-sum game. Ultimately, combination of quality and price determines the staying power of a product in the market. Understanding the evolving linkages between trade, investment, services and technology, GVCs is critical. Investment brings technology which is crucial for making affordable quality products at competitive prices. In the age of servicification of manufacturing, emphasis on providing quality services would have a ripple effect on the overall volume of trade. Technology will impact trade in big way in near future and staying in niche technologies such as machine learning, 3D printing, robotic engineering, internet-based production; e-commerce, etc. will all impact global trade in a big way. India should consciously develop a wide angle approach to these evolving global trade dynamics. ❑