

India`s trade policy: Its position at the WTO and its FTAs

By Pradeep S. Mehta¹

The evolution of India`s trade policy is indeed a highly complex and nuanced one. When one thinks of India in the international trading system today - one thinks of its most recent actions that have thrust it to the forefront of trade discussions. We all remember how India held the Bali Ministerial hostage late last year. While India`s largest critics accused India of threatening to jeopardise the entire Round, its supporters, including the President of International Fund for Agricultural Development (IFAD), praised India for choosing to maintain its principled stand. Many poor countries who also supported India did not voice it due to geo-economic reasons. Again in July, 2014 – we saw India seemingly backtrack on its commitments in Bali - again earning ire from its critics, and its support from its advocates however those in support seemed to have dwindled second time round.

India however is not new to controversy. In fact as India`s trade policy has undergone drastic changes dating back to its independence, India has always taken such stands that have ruffled feathers within the international community. In spite of all this however, India has always recognised the importance of the international trading system – and the multilateral trading system in particular. What has also remained clear throughout India`s history is that its focus has remained unchanging: a voice for the poor, whether it be its own poor or on a much larger scale, the marginalised global players in the developing world.

¹ Secretary General, CUTS International, psm@cuts.org with assistance from Chenai Mukumba of CUTS

Following independence, until the 1980s, due to what has now been coined the East India Company-syndrome, India had very little interest in trade or any other activity that opened its economy. Till the late 1980's India was a closed economy characterised by average tariffs exceeding 200 per cent, extensive restrictions on imports, and stringent restrictions on foreign investment. In India, trade and imperialism were considered synonymous with British rule and as such, in an effort to distance itself from the principles of free trade, like most developing and some developed countries such as Australia, India maintained high protectionist barriers and followed an import-substitution approach to development which included the promotion of a strong manufacturing sector, infant industry protection and export pessimism.

Interestingly enough, India was a founding member of the GATT (and later of the WTO). Its contributions to discussions however were reflective of its domestic philosophy and its stance always articulated the needs of developing countries, particularly industrialisation efforts of newly independent countries. Therefore while India's policy choices differed from those espoused by the international trade body, it remained an active member. This strategy was derived from the pre-independence influence of the self-sufficiency movement but also reflected much of the development economics thinking at the time. India's participation in this multilateral body was not underpinned solely by a desire to evade commitments to tariff reductions and reciprocity. Instead, India played a key role in advocating the interests of developing countries at all times. In the Uruguay Round talks it lead the poor countries along with Brazil.

It was in the dawn of the twenty first century that that India was hit hard by the surge in oil prices of the 90s. This had negative implications on its

balance of payments and coupled with a tightening of foreign exchange policies and internal political instability, India experienced a fall in national output and annual growth rates were abysmal. Due to growing political support in favour of further liberalisation and a tight fiscal situation, in 1991, India began to pursue a policy of liberalisation, privatisation and deregulation which finally resulted in the gradual adoption of a more liberal trade and investment policy regime. As a result of market-oriented policies, India began to experience unprecedented growth and by 2008, India's trade was twenty times what it had been in 1980.

India's liberalisation coincided with the coming in of the WTO in 1995 in spite of much domestic opposition particularly over the contentious issue of patents and intellectual property protection more generally. Today, India plays a key role in negotiations and while its involvement remains largely in support of fairer terms of trade for developing countries, the coherence of its economic philosophy with the underpinnings of the international trading system is new. As the years have progressed and as India has adopted a more outward-oriented approach, it has increasingly begun to garner the benefits of an open economy. However, India still has much work to do, particularly at the domestic level, to fully leverage the benefits of the international trading system. It must now turn its attention to facilitating convergence between its domestic policies and its foreign policy.

In order to facilitate this convergence a number of steps need to be taken. The most important is increasing increased engagement between national and sub-national actors in the formulation of India's trade policy and its implementation and implementing of a whole-of-government approach to tackling trade-related issues. These were two of a number of findings that

we came across during a pan-India study that CUTS undertook earlier this year.

At a Roundtable on India's Foreign Trade Policy that we hosted in association with the FICCI and IPE Global Ltd this past weekend, we were pleased to hear that indeed, the DGFT has already set this process in the formulation of the new NFTP.

We were honoured to have Mr Pravir Kumar, Director General of Foreign Trade, Department of Commerce give the key note address at this event and were pleased to hear that his comments reflected that we can expect that the new trade policy will be focused on being more attuned to India's domestic scenario in an effort to make its exports more competitive. Trade policy is an instrument and framework for trade and its underlying assumption is that trade is good for the economy as it leads to wealth and employment generation.

The DGFT recognises that the most important issue when it comes to trade is by putting in place measures to facilitate trade and make doing business easier for business including traders. Secondly, there is an acknowledgement that there is a need to enhance India's competitiveness which means addressing the issue of reducing exporting taxes to ensure that Indian goods are exported at their real cost. And thirdly India needs to increasingly begin to focus on further market expansion in markets beyond the traditional west.

One of the key issue areas we highlighted in our work was the need to not only improve coherence between India's trade and investment policies, particularly foreign direct investment where there needs to be increased attention on export-oriented FDI, but also the need to facilitate more

synergy between India's trade policy objectives and its negotiating objectives.

At present, India's trade policy is largely isolated from its negotiations of bilateral, regional and multilateral trade agreements. The planning and administration of policy instruments under the NFTP have often been undertaken without sufficient consideration of the sectoral needs that receive preferential market access through such negotiations. This approach unfortunately enhances market access for certain products through the Trade Policy without identifying the specific sectors or providing trade adjustment assistance to sectors impacted by imports.

We are hopeful that the new trade policy will address this particular issue. While India's strategy to engage in bilateral and regional trade arrangements has aided in ameliorating the negative impacts of trade diversion, the lack of congruence between India's participation in these FTAs and its trade policy have meant that India's net trade gains has remained below potential.

Over the past twenty years we have seen a proliferation of FTAs and although India was a late entrant into the game, her participation has begun more intentional. One such example is India's participation in the RCEP negotiations which India has undertaken to counter the implications of the TTIP and TPP in which it is not a member.

According to the Department of Commerce, India is also currently negotiating 21 regional trade agreements, one of which is the India-EFTA FTA. India and the EFTA countries need to find a solution to the stalled

pact talks and continue on the path to signing this agreement. There are significant complementarities in sectoral strengths on both sides.

India's exports to Norway include: woven apparel or clothing accessories; textile articles; mineral fuels, oil; knitted apparel; and leather articles. As India works to mainstream trade into its national development strategy, indeed focusing on labour intensive goods that comprise the majority of its exports to Norway allows us to take advantage of our demographic dividend and address the poverty eradication agenda.

Textiles and clothing is an important sector for India. Currently, the sector accounts for 14 per cent of the industrial production of the country. The sector is the second largest provider of employment, after agriculture, employing close to 85 million people; 35 million directly in textiles and 50 million in related activities. It also contributes substantially to India's export earnings, accounting for nearly 17 per cent export of the country's total exports.

India's relationship with Norway is equally important as India provides a large market for its goods as well as investment, given India's stage of development. Norway's top exports to India include: nickel and articles thereof; machinery, mechanical appliances; iron and steel; optical, medical, surgical instruments. This bilateral relationship is therefore mutually beneficial to both India and Norway.

Trade can be an effective tool for development therefore we wait and hope that indeed the new foreign trade policy that is to be released early next year will enable India to meet its broader economic objectives.