REDEFINING INDIA'S TRADE POLICY

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- Global trade is getting redefined. A digital platform based economy is challenging the traditional regulatory framework of trade policy.
- Recent economic data expects domestic consumption-led growth in India to catapult India's economic growth trajectory over next two decades.
- Trade policy should leverage investment scale and consumption pattern to build competitiveness and brand identity for Indian products and services globally. The new foreign trade policy must be nimble, responsive, easy to implement, such that responses to changing trade ecosystems can be quickly rolled out.

AN OVERVIEW

This section focuses on exploring new ways of looking at India's foreign trade policy – as a tool to increase India's competitiveness in global trade. This topic is analysed in the:

- current and emerging context of trade tensions
- growing influence of digital economy
- changing role of a global multilateral trade organisation like the WTO
- possible change in India's status as a developing economy, and
- change in consumption patterns.

The established framework of global trade is getting redefined on various counts:

(i) Increased protectionism by key economic powers,

(ii) India moving up the development matrix thus losing the trade policy maneuverability,

(iii) Growing influence of digital-platform-based economy challenging the traditional regulatory framework.

As India Loses its Developing Country Status, the foreign trade policy which has been guiding India's market access in past few decades needs to undergo a fundamental change to ensure India's competitiveness in the global economy. Incentives, exemptions and subsidy-based trade policy initiatives will need to give way to market driven, competitiveness enhancing instruments of trade which are more acceptable in the multilateral global framework of the WTO.

ANALYSIS & DISCUSSIONS:

Key Forces Shaping India's Trade Policy

1. **Demographic Influence:** India's economic growth trajectory over the next two decades, which is expected to be driven by domestic consumption led growth, is different from the last three decades of China's growth story, which was export-led growth supported by massive production capacity building. If consumption is the growth driver for India, then a major contribution of consumption would come from the rising economic surplus in the hands of urban population. Economic data indicates that per capita GDP in urban India would move to USD3200 by 2020 and that urban India is likely to contribute 70%-75% to the GDP. Given that more than 70% of the GDP contribution would come from urban India, product preferences in urban areas would drive the consumption pattern and the trade policy needs to have a distinct focus to encourage building production capacity targeted to service the particular consumption needs of the emerging, urban India. Trade policy should leverage the scale of investment and pattern of consumption to build competitiveness and brand identity for Indian products and services in the global market.

2. **Key Themes of The Urban Consumption Pattern would Include:**

   a) urban consumption – premium end of consumer staples and four wheelers;

   b) urban services – consumer banking, private healthcare, telecom data services and internet;

   c) infrastructure – urban infrastructure services and real estate.

   Trade policy of the future should focus on leveraging the strong brand of domestic industry in this sector to penetrate the global market. Market share of key players in this space should get an impetus from the emerging contours of trade policy. India Brand Equity foundation report mentions about India being the Mecca of small cars manufacturing and export; the competitiveness of India's small car manufacturing should logically extend to environment friendly electric and hybrid cars also. An illustration would be that the world is expected to have another 900 million cars produced over next 10-to-15 years. Trade policy should endeavour to strengthen the complete ecosystem and supply chain of car manufacturing to ensure that India's cost effective manufacturing base produces more than 10% of the future cars.

3. **Promoting a Digital Economy:** Digital economy (includes internet platforms, e-commerce and digital content firms) has the power to rapidly and exponentially increase market penetration of products and services in the global market. In such cases legislative and procedural frameworks generally apply. Trade policy and related think tanks need to master the art of understanding the disruptive power of such business models for penetrating global markets at a rapid pace. United Nations Conference on Trade and Development (UNCTAD) data indicates that the number of digital companies in the top 100 MNEs (multinational enterprises) has more than doubled, the assets of digital MNEs have increased by 65%, their operating revenues and employees are up by about 30% versus flat trends for other top 100 MNEs. It is also important to notice that digital MNEs make about 70 per cent of their sales overseas, with only 40 per cent of their assets based outside their home countries. The impact of digital MNEs on host countries is less directly visible in physical investment and job creation, but their investments can have important indirect and productivity effects, and contribute to digital development. This trend is relevant from India's trade policy that seeks deeper penetration in the global marketplace.

   In this case the policies of trade, investment, IT and manufacturing will have to align and create a symphony of sorts by creating deep and stable data connectivity network, significant governmental push to digitisation of technologies in global supply chains across all industries, attracting large investments in centralised "big-data-enabled" production and greater services outsourcing. Involvement of multi-skilled expertise in such comprehensive and coordinated policy development is important.

   A comprehensive digital development strategy should cover investment in digital infrastructure, in digital firms, and in digital adoption by firms across all industries. Promoting investment in local digital content and services is crucial to speed up digital development. Promoting investment in information and communication technologies (ICTs) across all firms, as well as business linkages and participation in global value chains, should be an important part of digital development policies. Tariffs and taxes on devices, and taxes on internet usage also influence the effective costs of ICT adoption for firms. Facilitating access to cloud services can lower such costs. Skill development – potentially in partnership with global digital MNEs – is also important to allow local firms to interact digitally with MNEs and access e-value chains.

   While promoting investment in digital development, policymakers need to address public concerns. This requires up-to-date regulations in such areas as data security, privacy, intellectual property protection, consumer protection and the safeguarding of cultural values. Where digital transformation causes disruption in other sectors or generates negative social or economic impact, they need to put in place policies to mitigate these effects. Governments need to find a balanced approach that accommodates both public concerns and the interests of private investors. Investment policymakers should take a more proactive approach in the formulation of digital development strategies.

4. **Rise in Unilateral Decisions on Trade Barriers and Corresponding Global Trade Tensions:**

Rising nationalism and unilateral action in increasing specific trade barriers by the US, China, Russia and India is the new force emerging in the global trade space. Trade policy would have to deal with such uncertainty and develop suitable tools of intervention so as to convert such tension into opportunities for gaining greater market access for Indian goods. This may require the government to explore the option of Indian consulates and embassies across the globe to become active nodes for business registration, licensing, verifications, certifications, clarifications, policy awareness outreach programmes etc. so as to provide a platform for quick and closer engagement with the global business with the message that India is keen and eager to come forward and participate.

Opportunities that can be realised through such initiatives could be many. Business would like to explore options of alternate locations for manufacturing in case production from the current locations is hit by a trade barrier. In such cases, India should become an important alternate location. The new foreign trade policy will have to be more nimble, responsive and easy to implement so that response to changing trade ecosystems can be rolled out quickly.

CONCLUSIONS:

We Believe India's Future Trade Policy Must Focus On …

1. Stronger Participation in the Global Value Chain of Goods

India, being a cost advantage country, has been a beneficiary of global outsourcing of software development and BPO related services. But the cost advantage has not delivered a similar scale of growth for goods exports. India has not been able to integrate in the global value chain of goods in the same manner as it has in the global value chain of services. Foreign trade policy should be able to deliver greater integration with the global value chain so that the natural cost advantage of the country converts into scale of business, greater employment opportunity and increased value addition in India.

But foreign trade policy in isolation may not be able to deliver the above objective – coordinated multidimensional trade policy should integrate the need for development of scalable global manufacturing facilities, need for high speed, hassle free connectivity for goods, people and data, stronger implementation of intellectual property (IP) rights etc. As global value chain manufacturing is very time sensitive, it is important for customs laws and other laws dealing with compliance, relating to import and export of goods, to become temporarily admission friendly; semi-finished goods entering through the global value chain should be administratively and procedurally handled in a very facilitative manner so that entry, conversion and export be eased and compliance should not decelerate the velocity of trade.

An illustration of the possible opportunity to be realised could be around increased barriers for supply of Chinese origin goods to the US. This could throw up the opportunity for finishing of semi-finished goods brought from China into India and exported to the US after finishing operations in India in a manner that (Chinese) origin requirements are met.

Better participation in global value chain in goods, improved infrastructure and coordinated trade agreement policy framework would also allow India's goods gain better market access through the instrument of trade agreements.

2. Being Integrated and Comprehensive on Goods, Services and Investment

The current foreign trade policy framework was conceived and articulated in the early nineties immediately after the balance of payments crisis. Services as an industry was at a nascent stage in India, the software export sector was in its infancy, hence the focus of foreign trade was on export of goods and an increased share for India in global trade. Times have changed since then. The services sector contribution to India's GDP has risen, has matured and is globally competitive but lacks a comprehensive, robust policy platform to provide the thrust to increase the share of India's trade in services.

A coordinated comprehensive policy platform for services export would also mean equitable and fair treatment through the policy instrument of trade agreement. The framework of trade policy should cover all the aspects relating to goods and services – tariff and non-tariff, in a coordinated, well thought out, harmonious manner.

3. Relying on Data-and-Digital-only Procedures and Compliances

Increased velocity of trade can itself be a competitive advantage; and velocity of trade has a direct linkage with hard and soft infrastructure available to facilitate global trade – an important element of soft infrastructure of data-and-digital-only trade policy procedure and compliance. All the effort of making an online application, scanning and uploading the supporting documents, deliver incremental results but does not free up the trade process from paperwork, which reduces the velocity of trade. In order to make speed a competitive differentiator, a disruptive change is required in the focused area.

Data-and-digital-only procedures and compliance should be the expressway for faster and responsive supply chain of goods. Proof of concept should be evaluated for key products like small cars where compliance should only be driven by data and not by documents. The time from factory-gate-to-ship loading should be monitored and brought down dramatically. IGST (integrated goods and services value-added tax) and drawbacks claimed on such export should be processed as the ship sets sail thus releasing the capital locked in supply chain quickly and increasing the speed of cash moving in the small car export supply chain.

4. Reducing Friction in Trade Movement

Focus of the trade policy should shift from export incentives like SEIS, MEIS and similar scripts-as-cash schemes to reduce friction in global trade by building up robust trade infrastructure – physical, procedural, administrative and legal. This would require coordinated action from various ministries and, likely, going by the success of GST related decision making on the platform of the GST Council, a similar transformative Global Trade Council be set up with representation of key Central government ministries and ministers of all state governments to underline the increased emphasis on a coordinated action plan by all stakeholders.

The framework for trade policy should expand to include all aspects of international trade – ports, roads, warehousing, conveyance, special economic zones (SEZs), taxation and finance.

Policy measures should be able to support and neutralise trade transaction friction at the deeper end of the supply chain rather than its current ability to influence the beginning or the end of global supply chain.

5. Identifying New Trade Policy Performance Parameters

Previously, performance of the trade policy was measured on the value of exports leading to an increase in India's share in global trade and job creation. However, for the future trade policy our vision should centre on:

(i) **Growth of Scale –** Thrust on key sectors/products that have an existing large domestic and export base already yet retaining the potential to deliver orders of magnitude; the growth base is big like small cars, pharma, gems and jewellery, petroleum, garments etc.

(ii) **Growth of Potential –** Focus on key sectors, products, services that can deliver more than 20% YoY like banking, software, digital economy (digital content, internet platforms etc.)

(iii) **Economic Value Addition in India –** Increase in share of higher value-added products and services in the export basket versus natural produce export, which typically has low value addition in India.

6. **Other Areas of Focus**

(i) **Thought Leadership –** Proactive engagement with academia and think tanks

Businesses should get deeper, proactive thought leadership support from trade policy experts in academia and think tank bodies who simulate and model the trade policy after considering the impact on various measures. Globally we have seen that there have been interest groups / sponsors of various instruments of increasing market access at the lowest tax cost while professing the cause of the 'larger good'.

(ii) **Information Technology Agreements –** Were conceived in the early nineties, in-depth research and modelling was conducted to evaluate its possible deep linkages with economic growth of developed world sponsors, a smart logic was crafted to convince the global community of the larger good by rolling out the agreement. India signed the ITA-I but realising the damage it has done to India's IT equipment manufacturing industry, India has resisted signing the ITA-II.

(iii) **WTO Ministerial Declaration on e-commerce –** Along similar lines as the ITA agreement, the WTO ministerial declaration on e-commerce has largely benefitted the biggest brands / corporations like Amazon, Netflix, Google, FB, Apple. It is important for India's trade policy to think of a long term policy strategy, so as to ensure that India becomes the breeding ground for rolling out and scaling up of large, global businesses over the next decade and ahead.