

The Trade Policy India Needs

CUTS POLICY RECOMMENDATIONS

1. Background and Context

1.1 India needs trade policy reforms to increase overall trade, push up exports and better integrate into Global Value Chains (GVCs). The objective is to increase our share of global trade, and boost domestic economic growth and jobs. The need of the hour is concrete policy recommendations towards these ends, taking into account larger strategic considerations.

1.2 Therefore, at CUTS International, we have been holding discussions with groups of eminent experts on India's trade policy since June, 2022, when the 12th Ministerial Conference of the World Trade Organisation was organised. Since then, we have hosted five sessions on various dimensions and contours of India's domestic trade policies, including its role in the multilateral trading system and its approach towards the trade pillar of the Indo-Pacific Economic Framework.

1.3 At the heart of those deliberations has been a single driving question – ***what is the trade policy India needs which can propel its economic growth and job creation?***

1.4 In this context, we have also kept in mind that this is an opportune moment to evaluate India's trade policy goals and the policy actions required to achieve them. The new Foreign Trade Policy has been deferred till the next financial year. The government has recently embarked on an overhaul of the highest offices of India's trade policy administration.

1.5 Furthermore, a National Logistics Policy has been notified recently, which seeks to provide a pathway for the development of the entire logistics ecosystem. It has also been reported that the Department for Promotion of Industry and Internal Trade (DPIIT) is working on a ‘comprehensive industrial policy statement’, which is expected to straddle with many trade and investment-related issues.

1.6 All these steps are welcome and, at the same time, they need to be part of a larger strategic plan to increase trade (and not just exports), which has to be driven by a whole-of-society approach. The idea is to ensure *Samaj-Sarkar-Bazar* to work in tandem.

1.7 Given this Background and Context, we propose the following list of policy recommendations. We hope that these policy recommendations will help the government pursue a practical roadmap for furthering the objectives of India’s trade for domestic economic growth and jobs creation.

Tariff Barriers

1. Reduce average applied tariffs: Bring down average APPLIED tariff levels similar to those prevailing in competitor developing countries (particularly in Southeast Asia) to facilitate imports of intermediate inputs and promote India’s integration with Global Value Chains (GVC). Perform targeted and phased MFN (Most-Favoured Nation) tariff liberalisation focusing on select tariff lines, including that for import diversification.

2. Undertake corrections in tariff structure: Correct existing inverted duty structures in identified categories of products and moderate the high effective rates of protection in other relevant categories.

3. Institutionalise periodic review of applied tariffs: Set up a task force that would look into calibrated tariff rationalisation to address anomalies in our tariff structure as existing in some areas.

4. Determine protection based on effective tariff rates: While considering the degree of protection to be provided to domestic producers, focus on effective rates of tariff protection as against nominal tariffs.

5. Align tariff policy with domestic incentive schemes: Align unilateral tariff liberalisation and tariff negotiations in Free Trade Agreements (FTAs) with the coverage of products under domestic incentive schemes. Tariff policy also needs to be supported with complementary exchange rate policy. Promote greater exchanges between the Ministries of Finance and Commerce for a more coherent approach to India's tariff policy.

Non-Tariff Measures and Barriers

1. Strive for regulatory certainty and harmonisation of standards: Promote harmonisation with international standards through technical assistance and capacity-building support to domestic producers and enter into more mutual recognition and equivalence agreements with trading partners.

2. Address standards and quality issues for exports: Equip the Indian industry, particularly micro, small and medium enterprises (MSMEs), to effectively meet the standards of their export markets. Ensure that non-tariff measures (NTMs) like sanitary and phyto-sanitary measures and those related to technical barriers to trade do not become barriers for our exports and inhibit negotiated market access with the trading partners. Enhance regulatory and institutional capacity in a dynamic manner so as to deal with ever-evolving NTMs for governmental authorities and exporters.

3. Prevent nullification of negotiated tariff concessions: Ensure that negotiated tariff concessions, which can enable cheaper sourcing of imported inputs, and in turn, boost our domestic competitiveness, are not nullified through the imposition of non-tariff measures. Strive for convergence between concessions granted in FTAs and imposition of trade remedial measures such as antidumping and countervailing duty.

4. Improve trade facilitation: Recognise the importance of transparency and trade facilitation measures including digitisation which improve ease of doing trade. Prioritise policy actions which can ease non-tariff (physical as well as institutional) trade bottlenecks.

Coherence between Trade and Allied Policies

1. Recognise that a competitive domestic economy will be the foundation of a competitive global economy: Promote policy stability, upscaling and expansion of enterprises from micro to small to medium and ensure domestic cost competitiveness. Trade and various other flanking policies (investment, competition, industrial, exchange rate, etc.) need to be holistically dealt with in the domestic regulatory ecosystem in order to enhance overall competitiveness. Use FTAs to drive incremental improvements to domestic competitiveness by implementing reforms in tandem with FTA commitments. Trade policy and domestic reforms must pull in the same direction.

2. Maintain a dedicated focus on MSMEs in the manufacturing ecosystem and promote a technology and innovation orientation for domestic firms: Explore the use of new technologies such as blockchain for integrating more MSMEs in the manufacturing and export ecosystem and address their adoption, adaptation and compliance costs. Keep MSME-centrality in both trade negotiations and domestic manufacturing and export incentives.

3. Invest in future-proofing: Align policy prescriptions keeping in mind global trends and India's existing and potential competitiveness in areas such as green manufacturing, internet enabled services, etc.

4. Improve physical and logistics infrastructure and reduce policy induced constraints: Physical and logistics infrastructure is crucial to improve competitiveness from the factory gate to the market. A comprehensively aligned rail, road, air and shipping network is the backbone of supply chains. Increase investments in enhancing infrastructural capacity. Correspondingly, reduce regulatory compliance burden and risks associated with supply chain transportation and other policy/regulatory induced constraints.

Integration with Global Value Chains

1. Adopt a supply-chain wide policy approach: Prioritise policy measures which can reduce turnaround time of local firms for product processing and 'importing to export'. The entire chain from importation of inputs, the factory floor and final shipment of a product where it enters GVCs must be considered in its entirety, and policy hurdles at each stage be identified and addressed.

2. Take policy measures which can attract and retain investment: Policy incentives including Production Linked Incentives (PLIs) must be structured in a manner which should not only attract but also retain international investments in manufacturing. Policy actions must also focus on the increasing servicification of manufacturing (use of services as value chain inputs), which is blurring the distinction between goods and services trade.

3. Ensure domestic trade integration as a prerequisite for better international trade

performance: State governments have a very important role to play in implementing many of the policies that ultimately impact India's trade competitiveness. Pursue policies that treat state and district administrations as equal stakeholders. Promote domestic trade integration which can be the foundation for a GVC-oriented trade policy.

Free Trade Agreements

1. Maximise unrealised potential of existing FTAs: Conduct sectoral impact assessments and preference utilisation studies of existing FTAs in coordination with line ministries. Streamline domestic regulations dealing with administration of FTAs (such as the Customs (Administration of Rules of Origin under Trade Agreements) Rules).

2. Choose FTAs carefully: Select FTA partners on the basis of goods, services, investments and regulatory complementarity and those which can foster and promote integration with GVCs, including arresting trade diversion. Ensure adequate scope and depth of commitments under FTAs and prioritise countries of interest, in order to secure more access to present and future markets.

3. Recognise the importance of FTAs for attracting investments: FTAs act as magnets for attracting investments because they facilitate the location of supply chains within their territories, where trade flows are not subject to too many barriers and enterprises can reap the benefits of freer flow of supply chain components.

4. Recognise that ambitious FTAs will need trade-offs between offensive and defensive interests: Discourage the exclusion of entire sectors seen as sensitive for the domestic economy from negotiations, as it reduces the scope for trade-offs and concessions in India's offensive interests. Accept trade losses on products if we can secure good terms for services and investments and come out with trade adjustment programmes for the FTA-challenged sectors.

Emerging Trade-related Concerns

1. Craft multi-purpose, evidence-backed trade policies: Design a forward-looking trade policy that clarifies India's stance on trade-related, non-trade and non-economic issues. Release position papers on trade-related aspects of gender, MSMEs, digital trade and electronic commerce, government procurement, etc., along with evidence-based details of concerns (for example, potential impacts on India's MSME sector by opening up government procurement) to encourage frank conversations and for soliciting constructive feedback.

2. Ensure presence at the negotiating table and be a rule-shaper: Commit to participate in various international negotiations on new and emerging trade-related, behind-the-border issues across different platforms. Adopt a policy of flexible, interest-based negotiation instead of solely positional bargaining. Seek carve-outs and longer implementation periods for new obligations.

Distributional Impacts of Trade Policy

1. Strive for labour-technology balance in policy approaches: Balance the need for enhancing competitiveness (requiring large scale technological upgradation) with maintaining the labour-intensive character of various sectors such as textiles and clothing.

2. Aim to maximise the welfare gains of a GVC-oriented trade policy: Tap into the link between GVC integration and domestic growth opportunities. Increase in domestic-value addition through GVC integration will enable MSMEs as suppliers for lead firms, further increasing domestic employment.

3. Understand the impacts of trade policies to minimise adverse effects: Analyse the disaggregated impacts of trade on particular groups and regions and accordingly formulate trade adjustment programmes to address the costs and adjustment period for 'losers' of a trade policy intervention.