

Trade Policy Reforms in India

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Trade Policy in India

- Trade Reforms form the crux of the economic reforms in India.
- Export Promotion has been and continues to be a major thrust of India's trade policy
- Accordingly, policies have been aimed at creating a friendly environment by eliminating redundant procedures, increasing transparency by simplifying the processes involved in the export sector and moving away from quantitative restrictions, thereby improving the competitiveness of Indian industry and reducing the anti-export bias.
- Steps have also been taken to promote exports through multilateral and bilateral initiatives and giving several incentives to exports to cope with all uncertainties at the global level.

Features of Trade Policy Reform in India

- Free imports and Exports
- Rationalization of tariff structure/reducing tariffs
- Decanalisation
- Liberalization of the exchange rate regime.
- Setting up of trading houses, SEZ's and Export promotion industrial parks.
- Various exemptions under the EXIM policies to boost exports and imports and make the trade policy regime transparent and less cumbersome.

Towards a more open economy

	1990-91	2007-08
Peak Import duties (Manufactures)	200% plus	12.5%
Import Controls	Tight, detailed	Negligible
Trade goods)/GDP ratio (%)	14.6	34%
Software exports (& billion)	Nil	25 billion
Worker remittances (\$ billion)	2.1	25 billion
FDI (\$ billion)	negligible	23.2 billion
Foreign currency reserves (\$ billion)	2.2 billion	152 billion

Emergence of large developing countries in global trade

- Rise of India, China, Brazil and South Africa
- Combined share of these countries in
 - World GDP is more than 18 per cent
 - World Merchandise exports is 12 per cent
 - World Inward FDI is 10 per cent
- In commercial services India and China are among world's 10 leading exporters.

Emergence of India

- Impact of External Sector Liberalization

	1980-90*	1999-00*	2000-2007**
Export	8.1	9.3	20
Import	5.8	7.8	25

Note : Figures are in percentage and as CAGR
*WDI, 2002, World Bank
** Economic Survey 2007-08

India's strategic and Important role in global trade governance

- Started making substantial contribution since Seattle 1999-raising implementation issues
- Ending the practice of exclusion of developing countries in core negotiating groups.
- US and EU checked from imposing their views on other members
- Created and sustained counter-balancing alliances G-20, G-33, NAMA-11

India in the Doha round of negotiations

- India played a pivotal role in alliance building.
Eg. New QUAD
- Influencing agenda – India's tough stance aided by others saw the exit of competition, investment and government procurement from the Doha round of negotiations.
- Pro-active stance on services trade liberalisation.

India's role in post-Doha multilateral trading system

- To sustain and improve south-south cooperation
- To play a pro-active role in implementation will be crucial-delivering on development through increased trade.
- To further strengthen trade and economic ties with LDC's, duty-free, quota free market access.
- To popularize trilateral development cooperation for better trade-related capacity building of less income countries.

Important highlights and positive points of the presentation

- Evolution of trade policy reforms in India
- Tariff reforms
- Trade in Services
- Comparison on trade reforms in India and China.
- Anti-dumping issues.
- Return of protectionism
- Behind the border constraints
- Key problems and future agenda of trade policy

Important Issues in trade policy which the presentation does not discuss

- Impact and changes in the different phases of trade policy reform in India.
- Comparison of India-China though useful but actually not comparable. India can draw useful policy lessons from the Chinese experience.
- Details of export promotion measures through FTP, EXIM Policies, incentives to exports/exporters etc.
- Impact of WTO on India's trade policy.
- Role of India in global trade.
- Trade policy and the global economic crisis.
- Agenda for future trade reforms in India and plausible constraints.

Trade Policy Response to Global Economic Crisis (Source : OECD)

- Restore confidence by governments working together
 - Avoid protectionist responses in the short run
 - In the medium term delivering real opportunities to return to stable economic growth.
- Greater protectionism would delay the adjustments needed to respond to changing demand.
- Ultimately greater and more costly adjustments would be required both within the ‘protected’ economy and globally.

According to OECD analysis

- A 10 per cent increase in trade is associated with a 4 per cent rise in per-capita income.
- More efficient customs procedures could improve global welfare by a 100 billion USD.
- Full tariff liberalization in agriculture and industrial goods could increase global welfare to a further 100 billion USD.
- Much greater gains to be expected if services trade was liberalized.

India's trade policy choices

- Multilateral, Unilateral or Regional trade policy initiatives?
 - There are two problems with multinational approach: First, prospects of current Doha round negotiations appear uncertain, if not bleak.
 - The second problem with an exclusive reliance on multilateralism , is that the space of pure multilateral trade is shrinking.
 - Regarding Unilateral trade liberalization – the problem of unilateral trade liberalization is essentially a political economy one. How can liberalisation forces/interests be harnessed to overcome the opposition from vested interest resistant to reform.
 - India should be considering the regional option as a serious complementary effort to securing further liberalisation at home and abroad.

Challenges Ahead

- The dramatically altered foreign policy and security landscape in the aftermath of both 9/11 and 26/11.
- There is a general perception that the pace of reforms in India have slackened.
- The uncertain prospects for a successful conclusion of the Doha round in the wake of near stand-still in agriculture negotiations.
- The pace at which US is going ahead on FTAs could have serious implications on India's export prospects.
- India's gambit with ASEAN, with the curious choice of regional partner.

Challenges Ahead...

- There are indications of India softening its hard line stance on the Doha round negotiations.
- India should guard against towing the US line .
- US wants to bypass the 2005 Hong Kong ministerial declaration, wants to skip modalities and proceed to scheduling commitments based on request-offer approach.
- It would be unfortunate for India' trade policy to give into US demands for there is no sign of the US altering its current position.
- Trade negotiations in the WTO is last on Obama's agenda.
- At moment, domestic trade reform with unilateral trade policies seems to be the best option as good trade policy begins at home.

Thank you!