The Dwindling Trade Policy Scenario in India: Fresh Insights

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30 April 2024

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Abstract

India faces significant challenges in trade policy, including global economic contraction, protectionism, delayed implementation of mega-trade agreements, and concerns related to agriculture and fisheries subsidies. To achieve its policy objectives, the government and industry, particularly the manufacturing sector, must be prepared to seize opportunities and increase their involvement. The Indian government recently unveiled its Foreign Trade Policy 2023, aiming for a $2 trillion export objective by 2030. However, India faces numerous challenges, including a limited understanding of trade policy, an inadequately developed manufacturing sector, unsatisfactory outcomes from regional trade agreements, and constrained relations with its primary trading partners. Economic reforms that produce a technologically innovative, open, and competitive economy are needed to support India's trade policy framework. Implementing initiatives like the Make in India programme can increase the manufacturing sector's contribution to the country's gross domestic product. The new Foreign Trade Policy 2023 should focus on establishing long-lasting international alliances with India's principal trading partners, eliminating obstacles impeded by product and service flow, and promoting enhanced integration into worldwide supply chains. India should also adapt to international standards regarding technical trade barriers and phytosanitary measures. With the current pause or lack of progress in certain trade agreements, India has a significant amount of time to ensure adherence to these standards and re-establish the multilateral trading system's pre-eminence. This revival aligns with India's interests and benefits from the most-favoured-nation treatment facilitated by WTO-anchored multilateral trading systems.

Keywords: *Trade Policy, India, Subsidies, FTP 2023, Export Promotion, WTO*

Introduction

The Foreign Trade Policy (FTP) of a nation signifies the inclination of national authorities to promote export growth and facilitate necessary import activities (Wani and Rasa, 2023). As a result, it is possible that it would encompass not only general policies but also particular initiatives such as tax relief and recovery, the establishment of exclusive export areas to develop geared export capability, the facilitation of deemed exports (Wani and Dhami, 2014), the promotion of market intelligence and information systems, the extension of export incentives, and additional support, assistance, and facilitation related to trade. The nation-state is a central actor in trade policies and regulations that perpetually affect the framework and functioning of global chains of value (Azmeh, 2019; Curran, Nadvi, & Campling, 2019; Van Assche & Gangnes, 2019; Wani, 2019). This all together leads to a cascading role of international investment and trade in the formulation and implementation of policies and regulations, for a synergising trading environment. (Horner and Alford, 2019).

Substantial transformations have occurred in the regulatory dimensions of trade policies ever since the establishment of the World Trade Organization (WTO) in 1995. The kind of government-provided incentives and benefits were consequently scrutinized by the WTO. It was necessary to eliminate the overwhelming majority of them because they were determined to be trade-distorting policies (Taneja and Wani, 2014; Hoekman, 2005). As a result, considerable effort is devoted to developing an FTP that is financially sustainable, compliant with the WTO framework of rules, promotes excellence within the trade community, facilitates business transactions, provides equitable competition, and empowers effective engagement with the external environment (Narlikar, 2022).

Moreover, trade policy exerts a significant influence on the progress of a country, given that increased levels of international involvement stimulate economic activity in three key sectors: services, manufacturing, and agriculture. According to Marelli and Signorelli (2011), trade has been a significant tool for emergent economies such as China and India to accelerate their economic development, as evidenced by the increasing proportion of trade to gross domestic product (GDP).

The Foreign Trade Policy (FTP) 2023 of India has been introduced with the dual objectives of fostering export growth and facilitating business operations for exporters, with an increased focus on the "export control" system (Kathjoo and Fazili, 2023). Four pillars support the policy, which is founded on the tenets of partnership and trust with exporters: Emerging Areas, Export Promotion through Collaboration, and Incentive to Remission. The policy is responsive to the evolving demands of the time while maintaining a foundation in the longevity of tried-and-true approaches.

Among the numerous new initiatives introduced by FTP 2023 is a temporary amnesty program that permits exporters to terminate pending authorizations and begin again. Additionally, it promotes the acknowledgement of exporters via the Status Holder Scheme and the recognition of new communities via the Communities of Export Excellence Scheme. In addition to streamlining the well-known Advance Authorization and EPCG programs, the policy permits merchanting from India (Bhala,2023).

One of the primary goals of FTP 2023 is to streamline operations for exporters through process re-engineering and automation. Codifying implementation mechanisms in an online, paperless environment, the policy emphasizes the use of automated IT systems in conjunction with risk management systems for a variety of approvals. Additionally, fee structures and IT-based programs are reduced as part of the policy to facilitate access to export benefits for MSMEs and others.

The acceleration of the development of the grassroots trade ecosystem and the promotion of exports at the district level are additional critical components of the FTP 2023. The policy advances the Districts as Export Hubs (DEH) initiative, which identifies export-ready products and services addresses district-level concerns, and establishes alliances with state administrations. Additionally, the policy endeavours to establish district-specific export action plans for every district, which delineate the strategy specific to that district for advancing the export of particularized products and services.

India is enhancing its integration with countries that adhere to export control regimes, while concurrently fortifying its policy regime to effectively implement international treaties. To ensure adherence to global regulations, the FTP 2023 expands the scope and comprehension of Special Chemicals, Organisms, Materials, Equipment, and Technologies (SCOMET) among all relevant parties.

In its entirety, the FTP 2023 is a dynamic policy document to exponentially enhance India's growth in the future years and augment its exports. It is anticipated that the policy's focus on technology interface, collaboration, and convenience of doing business will foster an environment conducive to the expansion of the export sector, as well as enable micro, small, and medium enterprises (MSMEs) and other enterprises to avail themselves of export advantages. The FTP 2023 serves as a strategic blueprint to propel India's exports to unprecedented levels of success and establish the country as a frontrunner in the international export sector.

Fresh Insights

At the WTO meeting, India could face pressure, as it involves high stakes. Developed nations were likely to target fisheries subsidies and agriculture. India must play its cards well, or else it will affect the livelihoods of the poor and food security. With the 13th Ministerial Conference of the WTO (MC13) to be held on February 26-29, what is at stake for India?

Divergence among WTO members on many issues has created considerable uncertainty about the likely outcomes at MC13. However, if the developed countries have their way, as has generally been the case in most of the previous Ministerial Conferences of the WTO, it would create considerable challenges for India and many other developing countries. The outcomes in two areas — fisheries subsidies and agriculture could have implications for the food security and livelihoods of hundreds of millions of poor and hungry in India. There is also a systemic issue Investment Facilitation for Development — which could have an important bearing on how business is conducted at the WTO in future. What is happening at the negotiating table and what are the prospects on these critical issues at MC13?

In agriculture, India and many other developing countries are caught in a twin trap — no progress in issues of their interest, but being pushed to agree to a negotiating mandate that would promote the interests of agri-business of countries with large-scale commercial farming:

Despite the persistent efforts of India and a large number of other developing countries over the past decade, we are no closer to achieving a permanent solution to the problem of food security. The US and a group of countries having an interest in agriculture exports (Cairns Group) have blocked any meaningful progress on this issue.

No doubt, on account of the Bali Peace Clause and the subsequent 2014 decision of the WTO General Council, India's scheme of minimum price support enjoys some degree of immunity from legal challenge from other WTO members. However, repeated attempts are being made, particularly by the US and the Cairns Group, to chip away at these two outcomes. This could, in the future, put some fetters on India's public stockholding programme. In order to have legal certainty and put to rest these attempts, it is imperative that at MC13 India negotiates hard for a permanent solution to the problem of public stockholding.

While impeding any progress on the issue of public stockholding, the developed countries and the Cairns Group are making concerted efforts to secure a commitment at MC13 to initiate comprehensive negotiations on different pillars of agriculture. It is apprehended that the subsequent negotiations based on a possible MC13 mandate would witness attempts at going back to the drawing board and finalising negotiating modalities that might be very different from what was generally agreed upon during the Doha Round, which contained important flexibilities for many developing countries. With no certainty that these flexibilities would be included in new negotiating modalities, India is likely to be extremely hard put to protect

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its interest in future negotiations on agriculture. In respect of fisheries subsidies, we can expect the finishing touches to be given to the negotiations on subsidies that contribute to over-capacity and over-fishing. What is on the negotiating table provides little assurance that those who are historically responsible for the problem of over-exploited fish stocks will take any meaningful disciplines on their large industrial fishing fleets. The negotiating document contains multiple loopholes that would allow countries with large industrial fishing fleets to continue to provide unlimited amounts of capacity-enhancing subsidies and other support to their marine fishers. Further, no effective discipline is envisaged in countries that engage in distant water fishing-one of the main reasons for dwindling fish stocks.

India is Pushed Into A Corner

On the other hand, countries such as India and Indonesia, which did not create the problem in the first place, appear to have been pushed into a corner to protect their ability to grant subsidies to low-income, resource-poor fishers, who fish beyond 12 nautical miles. Further, an outcome based on the present negotiating text will constrain the ability of these countries to build industrial fishing fleets in the future, as they would be prohibited from providing any government support for this purpose beyond a negotiated transition period.

The negotiating text, seen from a holistic perspective, would preserve the commercial advantage of countries that have large industrial fishing fleets but would erect barriers to the entry of new players from developing countries.

The proposed agreement, as it stands today, is likely to be anti-development and pro-developed countries. Even the existing Agreement on Agriculture, negotiated during 1986-1994, is not riddled with so many asymmetries and imbalanced provisions.

The Investment Facilitation for Development text is an outcome of a Joint Statement Initiative at the MC11 in Bueno Aires (2017) by a group of developed nations (except the US) and some developing countries. Having failed to get a consensus-based negotiating mandate on the issue at MC11, these countries decided to negotiate a text outside the WTO and bring back the outcome to the WTO for its inclusion as a legitimate plurilateral agreement. India, South Africa and many other developing countries have not participated in the exercise on principle. Irrespective of the content of the present draft text, if it were allowed to become a part of the WTO in MC13, it would create a new paradigm for future negotiations among WTO members- jettisoning a multilateral consensus-based approach in favour of a cherry-picking plurilateral one, loaded in favour of developed countries.

In conclusion, given the high stakes involved in the negotiations on agriculture and fisheries subsidies, at MC13 we can expect India to talk tough on these issues. However, this will not be enough. To secure its interests and those of many other developing countries, especially on the systemic issue of the future path of negotiations at the WTO, India would also need to create a broad-based coalition of like-minded countries. India may also need to leverage its growing close political ties with the UAE, whose minister will chair the forthcoming WTO meeting, to ensure that the interests of millions of small and poor farmers and fishermen, in a large number of developing countries, are not jeopardised by the outcomes of MC13 at Abu Dhabi.

Conclusion

The analysis of India's foreign trade policy landscape in 2023 has revealed a range of fresh insights which explain the nation's policy goals and engagements with the global economy. Taken together, an analysis of policy shifts, economic structure, geographic expressions of trade, and evolving geopolitical realities demonstrates the multi-faceted nature of India's trade policy. Moreover, it highlights that India's state of trade is not merely a function of its pure economic desires or needs, but rather is deeply integrated with geopolitics and its internal policy preferences. The analysis of these realities ultimately calls for policy frameworks that are nimble and malleable to the point to be able to draw upon global challenges and push in sustainable growth directions.

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