# Export Advisory Group: Trade Policy For Globalisation 2.0


**BloombergQuintOpinion**

- Rajeev Kher@RajeevKher

Bookmark



**November 05 2019, 12:03 PMNovember 05 2019, 8:20 PM**


The report of the High-Level Advisory Group constituted by the Department of Commerce on boosting exports could not have come at a more appropriate time. The Indian economy faces tough challenges in an overall global economic slowdown. The trade conflict between the United States and China accompanied with a wave of heightened protectionism and the stalemate in the World Trade Organization, have all positioned emerging countries like India in a difficult spot when they must break away from the business-as-usual policies and find solutions to their economic challenges by pursuing domestic reforms.

India has been a significant beneficiary of globalisation, notwithstanding the initial resistance at every occasion when it was forced by circumstances to integrate with the world economy. Recall 1991, when a precipitous balance of payments situation compelled it to open its economy. Recall the mid-1990s when it joined the WTO and the Agreement on Trade-Related Aspects of Intellectual Property Rights or TRIPS against severe resistance at home. Was it because of status quoism preferred by those enjoying the fruits of the then moribund economy or did it betray a sense of diffidence of its businesses, entrepreneurs, farmers or policymakers? It showed a 'mindset' of resistance to any change and so it persists.

**India's refusal to join the Regional Comprehensive Economic Partnership at the moment can also be interpreted as yet another show of this mindset.**

Many times, in the report, the group discusses this 'mindset', which has led to excessive regulation or absence of one where required or the ridiculous extent to which it has been taken at other times or simply forced India to be aloof in the global market place.

## A Changed Global Landscape

The first phase of India's globalisation thrived between 2000 to 2011 though the takeoff started in 1991. It was able to harvest relatively easier gains made possible by using its wage arbitrage and the first-mover advantage of its information technology services sectors. After 2011, the global economy has looked very different and more particularly since 2016, the world economic outlook has changed drastically.

***The global pie has shrunk, there are more competitors, there is a greater resistance to further opening up even by the principal proponents of globalisation, there is little respect for rules and regulations and there is far more chaos to deal with.***

Yet, there are opportunities entwined with challenges, like the U.S.-China trade conflict. Newer concepts for industrial production, such as global and regional value chains are critical to competitive manufacturing. Their adoption, however, requires investments in technology, production for the world, a greater focus on services, trade agreements which facilitate onboarding value chains and expanding markets, and efficient institutions and generous attention to infrastructure and logistics.

# Five-Pronged Approach

If India has to arrest the southward journey of its external trade sector, the second phase of globalisation must begin with some critical reforms to make goods and services more competitive to be able to find global markets. The report also contextualises its work in India's aspiration of becoming a $5 trillion economy by 2025. The target just cannot be achieved without a significant contribution of exports to the GDP. And exports can only be promoted by gaining competitiveness, diversifying markets and products, strengthening infrastructure and logistics and expanding scales of production to bring down costs.

The recommendations can be broadly grouped as:

- **Institutional** - covering both external and internal;
- **Sectoral -** including goods and services addressing both policy and regulatory issues;
- **Facilitation -** such as export credit and insurance and investment promotion;
- **Contemporary Developments** - such as the U.S.-China trade conflict and new regional trade agreements; and
- **Reforms -** in the core sectors such as labour, land, agriculture, cost of capital and taxation.

# Embrace Regional Coalitions

The underlying thought on the institutional issues is to engage constructively in global institutions to pursue national interests, remain open to new issues and new approaches to negotiations, pursue new coalitions where required and engage constructively with others in addressing issues such as subsidies and disciplines on state enterprises.

It is imperative for India to join regional trade agreements to retain its position as a major trading nation, to pursue value chain-based manufacturing for the world, promote technology-led investments, secure mobility for its skilled workforce, and above all to become more competitive and not be excluded from the mainstream of international trade.

# Things To Do At Home

At home, global trade needs to be mainstreamed in all arms of the governments at the central and state levels and inclusive mechanisms need to be created among stakeholders to mobilise the external trade sector.

The report includes champion sectors such as textiles and clothing, pharmaceuticals, biotechnology, electronics, medical devices and agriculture for special recommendations. The focus of recommendations includes simpler and less regulation, higher skill development, removal of barriers—regulatory, legal, and technical—within Indian states and the central government and beyond India's borders, adopt global best practices, collaborate for technology, innovation, research, and promote investment.

India’s exports are seriously impacted by both the high cost of capital for production and export credit as such, including the low coverage of insurance. Hence the report recommends enhanced Exim capitalisation, greater leveraging of borrowing and newer instruments to promote buyers’ credit.

***Despite a keen interest in India, investors shy away discouraged by the unhelpful environment.***

The opportunities arising due to developments such as the U.S.-China conflict may simply not materialise, hence the group recommends an empowered institutional architecture for promoting and approving investments beyond a selected threshold.

A significant part of the discussion on sectors in the report includes important service sectors such as financial services, education, healthcare particularly medical value tourism, and tourism. The report draws from global best practices, analyses Indian hurdles to growth and identifies policy, regulatory and promotional actions which will take India to a higher trajectory of growth. A quote from the report on financial services summarises the approach of the group to this subject, “*the baggage of round-tripping cannot be used to stifle a major sector any more than using the risk of a traffic accident to stop construction of a key highway.*”

# Cleaner Regulation

All recommendations revolve around simplifying regulation making them less burdensome and above all remove the underlying principle of ‘suspicion’ in every transaction. The report recommends a new blueprint for foreign investment funds and foreign institutional and individual investors. Recognising the need for huge investments in the infrastructure sector, it recommends long-term bonds, allowing a mechanism for mainstreaming a one-time disclosure of undisclosed income. The report addresses issues of taxation and fund management at length from two perspectives, firstly as facilitation to fresh investment and secondly to encourage competitive production.

Dismayed by the absence of significant reforms in agriculture, the report recommends dismantling of the APMC Act. More importantly, it strongly recommends a review of the agri-export basket to discourage water-guzzling crops and include fruits and vegetables.

Labour-related recommendations have been made for sectors such as textiles and clothing where archaic laws have come in the way of modernisation and expansion.

In early 2000, India consciously adopted a tariff reduction plan which somehow was lost in the protectionist noise and appears to have been more or less given up since 2017, in order to pursue a ‘Make in India’ program.

The group recommends a five-year plan to rationalise and reduce tariffs but still protect tariffs on new technology products for a limited time to develop capacities.

It is impossible to even summarise all the recommendations of the group as they are far too many and cover multiple areas of the economic space. The strength of the report lies in its vast coverage of issues, not getting overly bogged down by dogma and more driven by the need of the hour for the country, having the courage to suggest unconventional solutions, oriented towards a constructive globalised world view yet maintaining national focus. Running into 300 pages, many of the recommendations are likely to generate a hot debate over the next few months as India faces economic challenges one after the other. The timeliness of the report is clearly indicated by the fact that one of the major recommendations on corporate income tax has already been accepted by the government and some others are reported to be under active consideration.

*Rajeev Kher was a member of the High-Level Advisory Group; is Distinguished Fellow, Research and Information System for Developing Countries; and was Commerce Secretary, Government of India.*

*The views expressed here are those of the author and do not necessarily represent the views of BloombergQuint or its editorial team.*

*BloombergQuint*



https://www.bloombergquint.com/opinion/india-exports-trade-policy-for-globalisation-20-by-rajeev-kher