Reorienting India's trade policy

New Delhi must pursue strategies that will enable it to take its place in an interconnected world

If India becomes a signatory to the Regional Comprehensive Economic Partnership, it will gain access to 30 per cent of the global market

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The prime minister, in his speech last month, had made repeated references to *aatmanirbharta*, or self-sufficiency. He also referred to "local production" a few times and exhorted us to be "vocal about local". A limited sprinkling of phrases such as "global supply chains" and an aspirational statement that "local brands" must become "global" were noticed. The debate on economic nationalism versus globalism was once again set on roll.

The world has been in the throes of a most debilitating pandemic and none knows where we are heading. Even before the pandemic hit us hard, we were going through immense uncertainties about the pace and direction of globalisation. Almost all major economies, including India, were moving southwards and turning inwards. The pandemic has only hastened this process. A clear mistrust and angst against China in the United States is visible and cannot go unnoticed in some quarters in India. "Multilateralism" continues to be in the melting pot.

Those who would like to believe that economic power, triggered by an exodus of supply chains, may soon move out of China's hands, are daydreaming, as any presumption that after Covid-19, global supply chains would get reconfigured overnight is flawed. China did not reach where it has overnight but earned that position through sustained hard pursuit, although some of the measures it adopted would not have been possible in the rest of the world. On its own, however, China may continue to vacate a few value chains in line with its long-term plans. The interdependencies are quite deep, and decoupling may not even be pursued by western businesses unless pushed hard by their governments, as they are hugely invested in China.

Governments would always have the dilemma of choosing between their consumers and producers. Even producers would resist a dramatic shift. According to one estimate, the rest of the world has invested $7.3 trillion in China, whereas China has invested around $5.2 trillion in the rest of the world. Global multinationals have invested heavily in China because it offered them the most competitive production ecosystem in the world. If some other country could do the same, they will leave China too. But that's the million-dollar question. Who else can?

The reality of today's world is that no country can survive on its own capacities alone. The interconnectedness is so deep that the massive disruption which Covid-19 has led to might only re-configure it to a limited extent. Businesses will continue to search for the most competitive locations for their production processes. India's competitors, particularly from Asean (the Association of Southeast Asian Nations) understand this well. The China-bashing is driven more by the coming US elections in November this year. So, the "blow hot, blow cold" will continue.

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To some, China may appear under threat, but it has the first mover's advantage in the post-Covid-19 era, as the West lies battered under the impact of the pandemic. Nevertheless, American, European and Japanese businesses will have to do some de-risking of their supply chains without losing their market in China, as pluralisation of production becomes imperative in this uncertain world. A potential reconfiguration will create opportunities for new aspirants.

The aspirants will need hard preparation to trigger this reconfiguration. A country's foreign trade performance is deeply influenced by its other economic policies, including those concerned with production in selected sectors, foreign direct investment, intellectual property, regulatory frameworks (including technical regulations), even social sectors such as education and healthcare. From a trade policy perspective, this means a product-by-product attention to policies, programmes and promotional activities which will make those products competitive.

The recent policy focus on domestic manufacturing of mobile phones, medical devices and active pharmaceutical ingredients provides three such examples of attempted policy reorientation in India in a global context, though in a very limited sense. Prudence demands that the prime minister's exhortations about self-sufficiency and local manufacturing be seen in this perspective.

Since the eastern part of the world has been relatively less impacted by Covid-19, the factories of the world in Asia will be ready to produce once demand is restored. However, the fact remains that demand in the West is likely to pick up only much later. It is, therefore, not surprising that the Trade Negotiating Committee of the Regional Comprehensive Economic Partnership (RCEP) has picked up the thread from where it was left in November last year, promptly inviting India to the table again, conveying the preparedness of all members to reopen discussions on topics of concern to India.

It goes without saying that they are all concerned about China's growing economic domination and need India desperately to balance the deal. India must leverage its market and take this opportunity to rebalance the deal. The RCEP, over-riding a domestic reform agenda, can be an opportunity. India has been waiting for too long. It must recognise that self-sufficiency has a strategic connotation too. A potential trade deal stitching 30 per cent of the global market and attempting some disciplining of a dominant partner is one such strategic opportunity.

In an interconnected world, with an extremely diverse matrix of domestic production and consumption, laced with an aspirational demography, keeping within national boundaries is impossible. Looking at international trade opportunities is intrinsic to a new strategic re-orientation that India desperately needs. India must, therefore, review its trade policy to bring itself back into business.

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