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India's International Trade: Trends and Perspectives

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This paper seeks to review India's external trade since 2000-01. It will highlight the positive features reflected in trade trends. It will also try to flag certain areas of concern that may need to be addressed. It attempts to present an overall snapshot and some macro perspectives rather than getting into a detailed analysis product wise or market wise. The essay also dwells briefly on the current framework of rules governing international trade, particularly as they relate to India.

At the outset, it needs to be recognised that given India's size as well as its aspirations for development, its trade indicators are quite modest. While India is No. 2 in the world in terms of population and No. 7 in terms of nominal GDP, it only figures at No.19 in terms of exports with a 1.64 percent share and ranks No.13 in terms of imports with a 2.34 percent global share. The ratio of India's exports to GDP at 12.88 percent is relatively low at its level of development. So is India's merchandise export per capita, at US$ 208. Table 1 presents a comparative picture *vis-à-vis* several other developing and emerging economies.

Historically, India was a leading trading nation till the arrival of the East India Company and the British colonial rule. From available accounts, during the medieval period, India's exports far exceeded her imports, both in the variety of items as well as in volume. They comprised a number of products, including textiles, carpets, inlay furniture, hand crafted items, pearls and jewellery, and spices. The chief articles of import were horses from Kabul and Arabia, dry fruit, and precious stones. India also imported glassware

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from Europe, high grade textiles like satin from West Asia, while China supplied raw silk and porcelain. Several Indian ports, including Kozhikode, Surat and Nagappattinam to mention a few, have played a prominent part.

Table 1: Share of Merchandise Trade in the Economy in 2015

Country	Exports as percentage	Exports per per capita GDP, 2015	Country Country (2015)	Exports as percentage GDP, 2015	Exports per per capita (2015)
Bangladesh	16.59	202	**Malaysia**	67.30	6521
Brazil	10.77	938	**Philippines**	20.08	576
Cambodia	66.26	763	**South Africa**	26.11	1527
China	20.94	1623	**Thailand**	54.23	3181
India	12.88	208	**Turkey**	20.03	1876
Indonesia	17.43	588	**Vietnam**	83.73	576

Source: Compiled using figures in WTO Trade Profile 2016

Export has been regarded as a priority sector for the Indian economy by the present government as well as by all earlier governments. Exports provide a good avenue for promoting growth and for earning foreign exchange. Labour intensive exports can also contribute in a significant measure to employment generation. ‘Export or perish’ was in fact a slogan used in the early sixties by India’s first Prime Minister, Jawaharlal Nehru. While India has made considerable improvement over the years in its trade performance, the export numbers are still rather low for a large country like India.

In diplomacy, the clout and leverage that a nation wields in manoeuvring its way in world affairs can depend on various factors. In today’s world, strength in foreign trade is an important one. Greater economic inter linkages and commerce with lands near and far, contribute to strengthening partnerships, generating greater understanding, and enhancing scope for leverage. Exports, in particular, also bestow a certain brand value and reputation as has been the case of Germany or Japan.

Review of Trade Trends

A look at India’s external trade[1] in the last twenty years reveals the following broad trends:

- India’s exports were US$ 18 billion in 1990-91, and it took almost ten years to double to US$ 36.8 billion in 1999-2000. And, in those years, India's share of world trade was less than 1 percent.

- While India's major economic policy reforms began in 1991 and gave way to dismantlement of the so called license raj, substantial changes in trade policy came later. Quantitative restrictions on imports were fully done away with only in 2001. A steady reduction of import duties down to ASEAN levels on several non-agricultural products was also a policy move implemented during the Nineties.
- The effect of these reforms, coupled with investments by the Indian industry in sectors like steel, chemicals, and the automobiles sector energised trade. From 2002-03 onwards (see Table 2), exports began doubling every three years. For example, India's exports rose from US$ 52 billion in 2002-03 to US$ 103 billion in 2005-06 and from US$ 83

Table 2. India's Total Exports and Imports

Year	India's total exports (in US$ billions)	India's total imports (in US$ billions)	Balance of trade (in US$ billions)
2000-01	44.56	50.54	-5.98
2001-02	43.83	51.41	-7.58
2002-03	52.72	61.41	-8.69
2003-04	63.84	78.15	-14.31
2004-05	83.54	107.13	-23.59
2005-06	103.09	129.69	-26.61
2006-07	126.41	187.73	-59.32
2007-08	163.13	251.65	-88.52
2008-09	185.29	303.69	-118.4
2009-10	178.75	288.37	-109.62
2010-11	249.82	369.77	-119.95
2011-12	305.96	489.32	-183.36
2012-13	300.4	490.74	-193.34
2013-14	314.41	450.19	-135.78
2014-15	310.34	447.96	-137.62
2015-16	262.29	381	-118.71
2016-17	276.28	384.31	-108.03

Source: Directorate General of Commercial Intelligence & Statistics (DGCIS) billion in 2004-05 to US$ 163 billion in 2007-08.

The financial crisis in 2008/09 slowed this rapidly growing trend somewhat, and exports actually declined in 2009-10. However, they picked up dramatically during the following two years.

Overall, the ten-year period from 2001-02 onwards, up to 2011-12, were very good years for India's exports which rose seven times. But, imports rose even faster during this period and went up nine times, reaching a peak in 2012-13 of US$ 491 billion. India's merchandise trade deficit also widened considerably to US$ 193 billion that year.

After 2011-12, there was a global slowdown. This severely retarded the trend and, in the following years, India's exports did not exceed the US$ 300 billion mark that was reached in 2011-12. In fact, in 2015-16, there was a substantial decline by 15.5 percent to US$ 262 billion. There is still no sign of any significant revival even as exports have shown a modest rise of 5 percent in 2016-17 to US$ 276 billion.

The substantial decline in petroleum prices in the last two to three years has no doubt played a part in the recent decline in value of both India's exports and imports. Some analysts, however, also regard that the stagnation and decline in India's case during the last five years or so is also attributable partly to loss of relative competitiveness. The reasons given[2] for this include higher wage growth, a stronger rupee, and infrastructure not keeping pace with growth.

It may be noted here that certain developing countries in ASEAN, such as Vietnam and Cambodia, have been able to buck the trend and continue increasing their exports globally. Exports from other economies - like China, Thailand, or even Bangladesh - have also witnessed a less steep decline than India since 2014.

The Sectoral Composition of India's exports

As for the composition of India's exports, there has been a significant change over time (see Table 3). In the year 2000, textiles and garments were the lead item in the basket. While they have grown over the years, the rate of growth has been less compared to overall exports. Indian textile and garment exporters have not been able to maintain their earlier shares in many of the developed markets. Consequently, this sector has a less prominent role now

Table 3. Sectoral Composition of India's Exports in Millions of US dollars

	2000-01	2005-06	2010-11	2013-14	2016-17
Textiles and garments	11,984 (26.9%)	17.516 (17%)	27.411 (11.0%)	35,458 (11.3%)	35,923 (13%)
Gems and jewellery	7,384 (16.6%)	15,529 (15.1%)	40,509 (16.2%)	41,692 (13.26%)	43,574 (15.77%)
Chemicals and allied products	6,177 (13.9%)	15,619 (15.15%)	30,855 (12.35%)	43,994 (14.0%)	45.840 (16.6%)
Engineering goods	5,673 (12.73%)	19,303 (18.7%)	49,815 (19.9%)	61,629 (19.6%)	67,061 (24.27%)
Agriculture	3,880 (8.7%)	7,219 (7.1%)	17,346 (6.9%)	32,387 (10.3%)	24,699 (8.93%)
Leather products	1,944 (4.4%)	2,698 (2.6%)	3,909 (1.6%)	5,714 (1.82%)	5,327 (1.93%)
Petroleum products	1,892 (4.2%)	11,640 (11.3%)	41,480 (16.6%)	63,177 (20.1%)	31,704 (11.47%)
Marine products	1,721 (3.9%)	1,589 (1.5%)	2,623 (1.05%)	5,016 (1.6%)	5,920 (2.14%)
Ores and minerals	1,152 (2.6%)	6,164 (6.0%)	8,661 (3.46%)	5,631 (1.79%)	3,205 (1.16%)
Electronics	1,120 (2.5%)	2,268 (2.2%)	8,285 (3.32%)	7,703 (2.45%)	5,696 (2.06%)

Figure in parentheses indicate relative export share during the reported year. Compiled from DGCIS statistics

in India's overall exports, ranking No.4.

- Very welcome has been the rise in exports of engineering products. They have grown significantly from being the No. 4 item to becoming the leader, accounting also for twice the earlier share. Key items of export include automotive products, steel and other metals and products, machinery items like pumps and compressors, transformers etc.
- Chemicals and pharmaceuticals also have acquired a prominent share, with India becoming a large exporter of generics and other drugs, and chemicals including dyes. Further, refined petroleum product exports have also risen sharply from being only No. 7 in 2000-01 to take a major

share, with their precise annual ranking depending on the prevailing price levels.

- Exports of gems and jewellery, mainly cut and polished diamonds, have always played a prominent part. In the jewellery trade, the well known fact is that out of every 12 diamonds in the world, 11 are cut and polished in India.
- Some of India's traditional exports - like leather and footwear, marine products and agricultural items - have also grown over the years, but more slowly. The exports of iron ores that were doing well for a while have contracted after a judicial ban was imposed on exports from some States. While they accounted for US$ 4.6 billion in 2011-12, their exports drastically declined to only US$ 191 million in 2015-16. Another item whose export has sharply declined in recent years is that of soya bean meal which came down from a peak of US$ 2.6 billion in 2012-13 to US$ 233 million in 2015-16. This was principally due to a steep drop in international prices that were uncompetitive for Indian producers.
- It is also noteworthy that, despite the decline in India's overall exports in the last couple of years, some sectors continued to show growth. These included gems and jewellery, marine products, certain segments of chemicals, engineering, as also the knitted garments sectors.

The Direction of India's Exports

There has also been a significant change in the direction of India's exports. Whereas Europe and North America accounted for around 50 percent of India's exports in the nineties, these have now got moderated to around 35 percent (see Table 4). To some extent, this has happened because of India's inability to consolidate and build on the market share it had earlier in these developed markets for labour intensive items like textiles, garments, and leather products. However, this also happened because of the welcome market diversification of India's exports. Exports to the developing economies of West Asia, ASEAN, Africa, and South Asia rose significantly. Even the share of far away Latin America showed a notable increase. Even within regions, there was greater diversification. For example, within Africa or Latin America, Indian exports came to be shipped in greater shares to many more countries.

- While the USA, UAE, and Hong Kong continued to remain as India's top three export destinations, more Asian economies - China, Singapore,

Table 4. Exports of India: Region-wise shares (%)

	1997-98	2000-01	2005-06	2010-11	2014-15	2016-17
EU	26.83	23.99	22.53	18.43	15.89	17.01
Rest of Europe	2.02	1.91	1.62	1.54	2.23	2.19
Africa	5.48	5.33	6.76	7.86	10.57	9.37
North America	20.91	22.82	18.25	11.02	15.3	17.3
Latin America	1.69	1.86	2.47	3.73	3.71	2.62
Oceania	1.48	1.12	0.97	1.0	1.03	1.22
ASEAN	7.08	6.53	10.09	10.25	10.25	11.24
Northeast Asia	15.67	14.09	15.73	14.39	12.17	12.55
West Asia	9.93	11.32	14.67	20.1	19.48	18.02
South Asia	4.69	4.38	5.38	4.66	6.59	6.91

Source: Compiled from DGCIS figures

Vietnam, and Bangladesh - came to figure among the top ten, displacing some of the individual European markets and Japan (Japan accounted for 9.4 percent of India's exports in 1990-91).

- Another notable change was the steep decline in the share of Russia which was 9.2 percent in 1990-91 when there was a rupee-rouble bilateral trading arrangement. Trade plummeted once this arrangement was dispensed with. Russia's share remains presently at less than 1 percent of India's exports.
- What about India's exports to its FTA partners? Did the easier access under the FTAs make a difference? The record is somewhat mixed here. At the regional level, India's exports to SAFTA countries and the ASEAN region have risen. From a 5.38 percent share in 2005-06, when SAFTA came into force, exports to these neighbours have steadily expanded to 7 percent of India's global exports. With ASEAN countries too, from a 10.26 percent share in 2010-11, when the FTA came into force, it rose in one year to 12 percent in 2011-12. However, the share has since moderated to 11.24 percent.
- Notwithstanding the bilateral FTAs with Sri Lanka (2001), Singapore (2005), the Republic of Korea (2010), Japan (2010), and Malaysia (2011), India's export performance to these countries did not experience faster growth in any steady fashion, compared to India's overall exports. In

some cases, there has also been decline. While Indian exporters made good use of tariff concessions in these FTAs for certain items, there were certain other items - like garments for example - where even zero tariffs did not result in increased exports in markets, such as Korea or Japan. In the case of Singapore, the CECA made no difference to India's market access. Even MFN tariffs are zero for practically all items in that country.

- It needs to be noted here that many other competing developing countries (including ASEAN countries) also have FTA tie-ups with Korea and Japan. This meant that India's CEPAs with Korea and Japan gave no special tariff advantage to Indian products vis-à-vis many of its competitors. Rather, not having an FTA may have been a disadvantage. Additionally, onerous and non-transparent regulatory requirements relating to import approvals for drugs, and compliance with sanitary and phytosanitary standards, posed difficulties for products like generics and agriculture items. Furthermore, there were supply constraints on the Indian side in respect of iron ore, soya bean meal, etc. A detailed examination[3] by this author of the implementation of India's FTAs with Korea, Japan, and Singapore may be seen for further elaboration.
- The slowdown and decline in India's exports in the last couple of years affected its exports to all regions; but a few individual markets - like the Czech Republic, Spain, Argentina, and Myanmar - bucked the trend. India's exports have continued to grow to all these countries. Further, India's exports to ASEAN and the USA recovered significantly after the decline in 2015-16, particularly in respect of non-petroleum products.

Sources of India's Imports

India's sources of import have also diversified (see Table 5). While Europe and North America accounted for 40 to 50 percent of India's imports in the nineties, their share added up to only around 23 percent in 2016-17. On the other hand, imports from West Asia and North East Asia have climbed sharply. While the former is due to rising crude oil imports, the latter is largely due to imports from China, which were negligible in the nineties but which jumped sharply to 17 percent of India's imports. Interestingly, imports from China have also exceeded the collective imports from all EU member countries. There has also been an increase in shares of imports from ASEAN and Latin America.

Individually, China is the No.1 source of import into India today, followed

Table 5. Imports of India: Region-wise shares (%)

	1997-98	2000-01	2005-06	2010-11	2014-15	2016-17
EU	26.22	21.12	17.43	12.04	10.98	11.02
Rest of Europe	6.77	6.43	4.74	7.19	5.51	4.95
Africa	7	4.08	3.26	8.56	8.59	7.47
North America	10.15	6.86	7.02	6.28	6.46	7.65
Latin America	1.18	1.3	1.72	3.52	6.01	4.49
Oceania	3.79	2.33	3.54	3.14	2.46	3.07
ASEAN	8.18	8.2	7.29	8.27	9.98	10.57
Northeast Asia	13.72	11.11	15.51	20.58	20.93	24.73
West Asia	13.72	5.14	6.71	26.96	24.86	20.85
South Asia	0.59	0.97	0.94	0.58	0.65	0.73

Source : Compiled from DGCIS figures

by the USA and UAE. Resource rich countries, like Australia and Indonesia, now feature among the top ten import sources along with the Republic of Korea, in place of the UK, Belgium, Japan, and Singapore that figured among the top ten in 2000-01.

- How has India's FTA partner countries fared in India's imports? At the regional level, ASEAN countries have done well. While they had an 8.27 percent share of India's imports in 2010-11 when the FTA came into force, the share has steadily climbed to 10.57 percent by 2016-17. On the other hand, imports from SAFTA countries declined in share in the initial years after SAFTA came into force even as there has been a revival in recent years to register a share of 0.73 percent in 2016-17.
- At the individual country level, imports from Sri Lanka rose by over ten times between 2000-01 and 2010-11 by when it had a 0.14 percent share in India's imports. Growth has been incremental since then, rising to 0.19 percent in 2015-16. Imports from Singapore have followed a more unsteady pattern, but there has been no rise in its share over the years.
- Imports from the Republic of Korea and Malaysia have shown greater steadiness in increasing market shares after the comprehensive economic partnership agreements signed with them came into force. For Korea, it rose from 2.83 percent in 2010-11 to 3.28 percent in 2016-17. In the case of Malaysia, it climbed from 1.76 percent to 2.32 percent over the

same period. Japan used to enjoy a much higher share (above 5 percent) in India's market during the nineties, but it steadily declined thereafter. The coming into force of CEPA from August 2011 has given its exports some spurt which rose from 2.33 percent in 2010-11 to 2.54 percent in 2016-17 even as the intervening years saw some decline.

The Sectoral Composition of India's Imports

The relative ranking of India's imports of major product groups (see

Table 6: The Sectoral Composition of India's Imports in Billions of US Dollars

	2000-01	2005-06	2010-11	2013-14	2016-17
Petroleum products	15.65 (31.32%)	49.96 (29.47%)	105.96 (28.66%)	164.76 (36.6%)	86.89 (22.6%)
Gems and jewellery	9.44 (18.9%)	20.45 (13.7%)	77.02 (20.83%)	58.43 (13.0%)	53.73 (13.98%)
Chemicals and allied products	4.1 (8.22%)	21.42 (14.37%)	42.16 (11.4%)	47.27 (10.5%)	52.38 (13.63%)
Electronic items	3.51 (7.02%)	13.24 (8.88%)	27.95 (7.56%)	32.38 (7.19%)	41.93 (10.9%)
Ores and minerals	2.13 (4.22%)	8.58 (5.75%)	16.2 (4.38%)	24.6 (5.46%)	21.62 (5.63%)
Base metals	1.31 (2.6%)	6.4 (4.3%)	21.15 (5.72%)	21.56 (4.79%)	21.55 (5.61%)
Agriculture and allied products	2.11 (4.17%)	3.72 (2.49%)	10.75 (2.90%)	13.49 (3.0%)	23.2 (6.04%)

Figures in parentheses indicate relative import share during the reported year.
Compiled from DGCIS figures.

Table 6) has not changed much over the years, with petroleum crude and fuels being the main items. Varying crude prices do, however, make a difference in the annual overall ranking of this sector from time to time.

Another major item of import is gold and rough diamonds. Some of these imports are for domestic use, and the rest are processed for export as cut and polished diamonds or gold and studded jewellery.

- Imports of machinery, non-ferrous metals and higher end steel, and chemicals - in the form of capital goods or intermediate products - form a large part of India's imports that feed into the industry. Fertiliser imports are also significant.

- Electrical machinery and electronics imports have seen a sharp rise in recent years. This has happened particularly with China which accounts for substantial imports into India of telecom, power, and electronic equipment. For example, it accounts for imports of more than 50 percent of mobile handsets into India. Excessive dependence on imports from China is a factor that also has security dimensions that need to be kept in view.[4] Of course, over 80 percent of imports from China fall into the category of capital goods or intermediate goods; and these being available at competitive rates from China are, at one level, useful for India's manufacturing sector.
- There are also the import of agricultural items - particularly pulses, edible oils, and dry fruits - items on which India is somewhat import dependent.
- Apart from China, the other top countries with which India has come to have a substantial trade deficit include Switzerland, Saudi Arabia, Iraq, and Indonesia. On the other hand, the USA, the UAE, Hong Kong, the UK, and Vietnam topped the list of countries with which India enjoyed a trade surplus in 2016-17.

What emerges from this overall review of trade in merchandise goods is that, as we look into the future, with a growing domestic population and rising consumption, our import needs will only rise steadily. There is also the need for modern defence and security equipment that are still significantly imported. Our import requirements, be they of petroleum products or capital and intermediate goods or technology items or agricultural essentials or even gold will only expand. However, India already has a significant level of trade deficit on the merchandise account. Therefore, it is absolutely essential that we rapidly expand our merchandise exports.

Trade in Commercial Services

The situation is somewhat better in respect of trade in commercial services. Here India figures at No. 8 globally, with an export level of US$ 155 billion in 2015 (see Table 7). India is also No.10 in imports, with an import level of US$ 122 billion. The shares of exports and imports are also higher than in merchandise trade. And, the main services which make a difference is India's export of computer services and computer enabled business services which

Table 7. Leading Exporters and Importers of Commercial Services in 2015

Rank	Country Exporters	Value in USD Billion	Share (%)	Rank	Country Importers	Value in USD Billion	Share (%)
1	United States	690	14.5	1	United States	469	10.2
2	United Kingdom	345	7.3	2	China	466	10.1
3	China	285	6	3	Germany	289	6.3
4	Germany	247	5.2	4	France	228	4.9
5	France	240	5	5	United Kingdom	208	4.5
6	Netherlands	178	3.7	6	Japan	174	3.8
7	Japan	158	3.3	7	Netherlands	157	3.4
8	India	155	3.3	8	Ireland	152	3.3
9	Singapore	139	2.9	9	Singapore	143	3.1
10	Ireland	128	2.7	10	India	122	2.7

Source: WTO yearly statistics for 2015

add up to over US$ 100 billion annually. Much of these exports are directed towards western developed markets.

On the other hand, India is a substantial importer of transportation services, apart from financial services, the purchase of intellectual property rights, etc. While India has an overall surplus of US$ 30 billion or so on services trade, pressures are building on the IT industry. Recent developments in the form of restrictions on visas for India's computer professionals in some developed countries, and the onset of automation and Artificial Intelligence whose potential impact is unknown, have created uncertainties.

Need for an Activist Export Effort

Given this overall backdrop on both goods and services, there is the need for an activist export effort not only towards consolidating existing exports markets but also finding new value added products for export. In fact, the Indian government itself had, in 2015 (before the slowdown had showed its full impact), come out with a new Foreign Trade Policy for 2015-20 to more or less double trade in goods and services from US$ 465 billion to US$ 900 billion by the end of the five year period. Rightly, it also recognised the need to address infrastructure bottlenecks, high transaction costs, complex procedures, constraints in manufacturing, and inadequate diversification of

India's services exports.

All this requires enormous efforts and coordination between the government and industry. The policy has also recognised that it needs the 'whole of government' approach, as it cannot be accomplished by one ministry or agency alone. The task is challenging; but there have been some areas in which Indian trade and industry have demonstrated limited successes in the past. A striking example is that of refined petroleum products that is now a leading item of India's export. This was not the case in the Nineties. Setting up world class refineries at port locations has enabled the export of these products at competitive prices despite strong international competition. Some may rue about limited value addition over imported crude. Their contribution to exports, however, is evident even if it is not a labour intensive sector. They form a lead item in our export basket today.

The Economist (11 July 2015) has elaborated how Welspun in Anjar has emerged as the predominant global source for towels. The diamond and jewellery sector has also continued to evolve - from mere cutting and polishing to studded jewellery, with significant technology infusion in design. This is a skill intensive sector in which Indian craftsmen and designers have acquired a reputation. It is also welcome to see that the Gem and Jewellery Export Promotion Council has talked of an export target of US$ 60 billion by 2022.

Some engineering, automotive, pharma, and agricultural items can also be cited as export successes in recent times, even though they are still limited. Cars made in India have come to be exported to a large number of markets, including certain models to a few developed ones.

Several more value-added products could potentially enter the export basket in a major way. India exports crude granite to China which, in turn, processes it further, and exports as granite tiles to several countries. India exports shrimps to Vietnam which adds value to it in the form of breaded shrimps or skewered shrimps, and sells it to Japan. Can Indian exporters not do the value addition themselves? A good share of India's steel export is in the form of pig iron or ferro chrome or ferro manganese. Most of higher end steel is imported.[5] India exports aluminium ingots but imports aluminium coils or sheets. Similar is the case with zinc or lead. India exports raw cotton and cotton yarn, much of which can go as finished fabrics or garments. Within garments, a good share of India's exports falls under casual or informal wear, but not formal wear which brings in higher returns. There could be many more examples, including in agriculture related products.

It must be made clear here that it is not being proposed that India copies the Korean, the Japanese, or the Chinese models. India will have to fashion its own model, depending on its strengths and factor endowments. And the task is urgent. Even as India does so, paying attention to improvement in quality and standardisation as per international norms becomes crucial. For example, recalls by international drug regulators of Indian pharma products are occurring frequently. Improvements in Standard Operating Procedures and retraining of staff where required needs to be undertaken rigorously.[6]

Will the Indian private sector get interested in such 'Make in India' value addition ventures? These will involve substantial investment. New investments will also need to be located suitably, perhaps near port locations so that transaction costs are minimal and shipping and other connectivity high. Government support and some concessionary bank financing will be essential to make it happen. Labour laws will also need suitable adjustments.

Some labour intensive foreign investments in China (by Japanese, Korean, Taiwanese and other western foreign investors) are getting relocated to Vietnam and other lower wage sites. A conducive and trade facilitating manufacturing environment can attract them also to India.

The question that arises is whether India itself will be competitive still for large scale labour intensive manufacturing. Chapter 7, titled 'Clothes and Shoes: Can India Reclaim Low Skill Manufacturing?' of the annual *Economic Survey* (brought out by the government this year), has asked this question. It has also dwelt upon the challenges towards enhancing India's exports in these two important labour intensive sectors. It has determined that there is a narrow window of opportunity still available for India to make good in these sectors. It has suggested their focused promotion, particularly considering the externality generating attributes they have - like employment, exports, and social transformation.

Furthermore, exploring markets with untapped potential should be another key element of the strategy. Noteworthy here is that some of our markets in Latin America, Africa, and South Asia, as also Turkey, have bucked the trend of declining Indian exports in recent years.

Facilitating border trade with our neighbours can bring significant gains, particularly in trade with Bangladesh, Myanmar, and Nepal. This would involve taking actions both on the soft and hard infrastructure aspects to ensure a truly single window clearance, with adequate back up logistic linkages and efficient transit arrangements. The setting up of Integrated Customs stations in various border locations currently underway offers the opportunity to make this happen.

To be successful in export is dependent in turn on the competitiveness of the country in specific items of export. If one were to look at the comparative analysis of trade figures, then India is among the top ten exporters only in three or four broad areas: gems and jewellery, textiles and garments, pharmaceutical products, and leather items. While India has made forays in a number of other areas, including automobile parts and vehicles, steel, marine products, and certain agricultural items, it is still not among the top ranking export nations for those products. It is hoped that the government's programs like Make in India, Start up India, and Digital India, along with skill development efforts, will help India to move further on these.

However, it is not enough if the country has a competitive product at the factory site. The entire supply chain has to be quick, cost effective, and smooth. This requires efficient trade infrastructure and connectivity, with trade being facilitated at the port. Here again, the government is trying to implement various programs aimed at expanding the capacities of our ports, promoting growth corridors like the Delhi-Mumbai corridor and the Chennai-Bengaluru corridor, etc., apart from various SEZs. The trade facilitation program is also aimed at the expedited clearance of goods at ports and airports, with the use of single window clearance, risk assessment procedures, and faster track clearance for authorised exporters, etc. It is also important that the industry takes more interest in all this, and not remain preoccupied only with the domestic market.

Should India provide a conducive business environment, its participation in the global supply chain (GSCs) could rise. While China is the largest player in GSCs, with GSC participation estimated at US$1.07 trillion, India's participation is estimated at about US$ 134 billion (as per a Special Report brought out by the Standard Chartered Bank in 2015). Several Asian countries are, in fact, heavily dependent on GSCs for their exports, ranging from 90 percent of GDP in the case of Singapore and Hong Kong to around 10 percent in the case of China. In the case of India, it has been estimated at about only 5 percent of its GDP.

Role of Commercial Wings in our Diplomatic Missions Abroad

Having a competitive product that is also transported efficiently to the port and cleared for export is only half the story. Also needed is assured entry or access for the product in the country to which it is exported and a buyer on the other side. India's embassies abroad have commercial wings whose task is to help Indian exporters find prospective trade partners. They also facilitate visits of Indian trade delegations, and undertake participation in trade fairs or hold other promotional events like buyer-seller meets. In management speak, they can be of great help on the marketing end even as Missions also provide useful inputs to the government, including the Ministry of Commerce, on policy issues.

Each market is unique, and the strategy to deal with it will need to be carefully crafted. Product strategies will have to be different for different markets. How you promote and sell in Japan is very different from the USA or Europe. For example, several Indian pharma companies that have been quite successful in the West have not done well in Japan where the exporter has to pay close attention to every aspect, even packaging and presentation. Thus, the Indian pharma company Lupin, for example, has been able to do better than others because they have investment in Japan and a Japan dedicated facility in Goa matching their standards. Similarly, TCS and Mitsubishi have collaborated to set up a Japan dedicated IT services centre in Pune that is known to be facilitating greater access into that market. Some markets need greater gestation time and trust building both of which need cultivation. Here again, Indian Missions abroad can be a good source of advice and information. Also perhaps Indian management institutions could develop some case studies of successful export collaboration.

The other aspect relates to access in foreign markets, what the entry norms and tariffs are, and how predictable they are. This needs some understanding of multilateral trade rules, and how they have evolved over the years.

International Trading Framework

The international trading system is regulated by the World Trade Organisation (WTO) of which India is a founder member. It came into being in 1995, but its precursor, GATT, was in existence from 1947. It sets down rules regarding how goods or services from one party will be treated in the hands of another that brings predictability and stability to trade. For prospective managers, particularly those who may have to deal with foreign markets, be it relating to trade or investment or intellectual property rights, it is very important that there is a good understanding of international trade rules. While a full appreciation of the corpus of WTO agreements can easily cover a semester's course, what are noteworthy are two simple but fundamental principles: The Most Favoured Nation or MFN treatment, and National Treatment.

The MFN treatment means that every WTO member will give the product of every other WTO member, say A, the same treatment that it accords to other WTO members B or C. There will be no discrimination shown between members. The National Treatment principle specifies that after the entry of member A's product into country B, after the payment of border customs duties, there will be no discrimination between the imported product from A and any like local product in country B. It cannot, for example, be explained away that for a local product a lower standard is acceptable, but a higher standard is necessary for an imported product. Nor can a higher rate of internal tax, like GST, be levied on an imported product than that applicable on the like domestic product.

There are also WTO rules regarding customs tariffs, subsidisation, dumping, product standards and regulations, and trade facilitation aspects. In the case of trade in services, again there are rules regarding the regulatory framework and market access. WTO also prescribes minimum standards for intellectual property rights: patents, trademarks, copyrights, commercial designs, industrial secrets, and integrated circuits.

The jewel in the crown of WTO is its dispute settlement mechanism that has mandatory jurisdiction. Suppose there is a trade dispute between countries A and B who are members of WTO; any of them can approach the Dispute Settlement Body (DSB) of WTO that immediately leads to consultations. If the issue cannot be thus resolved, it then goes for adjudication before a Panel. The Panel holds hearings, and then submits its findings to DSB. The Panel's report has to be adopted by the DSB whose membership is all WTO members. The unique feature of DSB is that it works on the principle of 'negative consensus.' Only if there is a consensus against the adoption of the Panel's report will it be voted down. Otherwise the report is carried. A consensus against the report is most unlikely and so far, in the history of WTO, no Panel report has been overturned. There is, however, also an appellate stage which also operates on the same negative consensus principle.

India itself has used the DSB 21 times as a complainant, and has been a respondent on 22 occasions. India has won in some disputes and lost in others. But the DSB has by now generally won the confidence of the WTO membership that it is a fair process. Importantly, it has also not shied away from ruling against developed countries. Of course, DSB is only at the level of state to state. If a company or commercial entity is adversely affected because of some arbitrary action taken by another WTO member country that is against WTO rules, then the company will have to get the government of India to lodge a case against that WTO member, and seek redressal.

The WTO is also meant to be progressively evolving, including in the direction of the further liberalisation of tariffs and market access for services. In 2001, the Doha round of trade negotiations was launched with this objective. However, even after so many years of negotiations, there is now, more or less, a stalemate. WTO members are unable to reach a consensus, with wide differences between developed and several of the developing member countries particularly about the liberalisation of trade in agriculture products and in the progressive elimination of subsidies granted to domestic producers. The only agreement they have so far been able to work out has been on trade facilitation that has now become operational.

India has played a prominent role in the discussions and negotiations in GATT, and later in WTO. It was able to do this despite its relatively low share of world trade because it was able to build coalitions with developing countries with similar interests. But, with many developing countries enhancing their trade levels, their interests are now more varied, and getting like-minded countries together has become not so easy. From this point of view, again, India having a larger share in world trade becomes crucial because influence comes with share.

The Evolving FTA Framework Complements International Trade Rules

Another aspect to note is that international trade rules are evolving even outside of WTO. In fact, WTO itself allows two or more countries to come together and form a free trade area or regional trading arrangement or a customs union, subject of course to some conditions. In such a case, the members of the FTA or an RTA get an exemption from the application of the MFN principle of non-discrimination. They can give more favourable treatment to the RTA members. The European Union is a prime example of an RTA which is also a customs union. The North American Free Trade agreement (NAFTA) is another. And, India itself has, over the years signed FTAs with several countries and regions, including with Sri Lanka, Singapore, Malaysia, Korea, Japan, ASEAN as a whole, and South Asia as a whole, etc. India is also in the process of negotiating some more: with Thailand, Indonesia, the European Union, etc., as well as a mega FTA with all South East Asian and East Asian countries, called the Regional Comprehensive Economic Partnership (RCEP).

Thus, if anyone wants to know about market access conditions for the products of their enterprise in any other country, he will not only have to check that country's WTO commitments but also the commitments it may have entered into in its RTAs or FTAs, including if any with India.

Some details about RCEP may be necessary here. It is proposed that there will be a FTA of sixteen countries: the ten ASEAN member countries as well as Australia, China, Japan, Korea, New Zealand and India. Its scope is intended to be comprehensive, including merchandise goods, services, IPRs, and a few other areas. Nineteen rounds of negotiations have already been held among the participating countries, with the last round being held in July 2017 in Hyderabad, India. The negotiations are now in the fifth year, and considerable progress has been made even as the most challenging part of the negotiations - which will relate to market access - lie ahead. If successfully concluded, the agreement will cover half the world population, 30 percent of world GDP, and a quarter of world trade. This regional grouping has several countries, including China, whose economies are some of the most competitive in the world. A great deal of planning and strategising by India will be essential to ensure that the final outcome is balanced, and will secure it commensurate benefits[7].

It can well be asked why India should join RCEP if the negotiations are challenging. Here we come back to India's role, and what it aspires for in the global comity and in the regional neighbourhood. India enjoys strategic and security partnerships with many countries in the Asia Pacific region. However, somehow, economic inter-linkages have not kept pace. RCEP could enable this 'catch up' to happen, and help build a further layer of integration with East and South East Asian countries on the economic front. It can also lend more substance to the 'Act East' policy of the government. But success in respect of all this is predicated upon focused efforts being made to deliver on competitive exports. Politically, external challenge like

RCEP could perhaps help to drive internal consensus for giving trade preparedness a higher priority.

Current Outlook for International Trade

The general outlook for international trade at present looks somewhat dim because recovery after the slowdown has been patchy. China's growth slowing down has also contributed. In recent months, the new Trump administration has also taken an 'America first' approach. President Trump's first decision on assuming office in January this year was to get the USA out of the 12 member Trans-Pacific Partnership agreement - another mega FTA that had been concluded under US leadership under President Obama. President Trump has also forced Canada and Mexico to agree to a renegotiation of NAFTA on which negotiations have already commenced. His administration has also expressed a distinct preference for bilateral agreements. Trade was also a major issue for discussion when the Indian Prime Minister visited the USA earlier this year, with the USA pushing for a higher level of protection for IPRs, apart from other market access issues. India itself has a complaint about its IT professionals not being given visas for fulfilling short term contracts. So, the trade world is only getting tougher. Many even wonder if globalisation is on the retreat. In these challenging times, it is important that both policy makers and the industry work together closely to strategise and devise ways forward. The valuable role that prospective managers can contribute to this effort in the coming years is all too evident.

Notes :

[1] An earlier review in 2009 of India's trade trends by this author may be seen in the article, 'The changing face of India's external trade', *Economic and Political Weekly*, pgs.43-49, August 29, 2009, Vol. XLIV, No.35.

[2] See the article 'India's exports: Loss of Global Export Competitiveness', by Geetima Das and Rajiv Kumar, *Economic and Political Weekly*, August 22, 2015, Vol. L No.34.

[3] The author has examined in detail the implementation of India's FTAs with the Republic of Korea, Japan, and Singapore. These reports were prepared under the aegis of the ASEAN-India Centre of the Research and Information System for Developing Countries (RIS), and can be accessed from www.ris.org.in

[4] India's imports from China in 2016-17 was US$ 61.28 billion while India's exports to China totalled US$10.20 billion in the same year. The resulting trade deficit was almost one half of India's overall trade deficit. At issue here is also the various tariff and non-

tariff barriers that Indian goods face in entering the Chinese market. Nisha Taneja et al., have examined the trade between the two countries, and dwelt on the potential available for increasing export to China that could include attracting Chinese investments in India. The article titled 'India's trade deficit with China: how to bridge the gap' appeared in the *Economic and Political Weekly*, July 11, 2015, Vol. L No. 28. Most recently, following a meeting between India's Commerce Minister Suresh Prabhu and his Chinese counterpart Zhong Shan in Manila, on 9 September 2017, the two countries have reportedly agreed to set up product/sector specific working groups to promote India's exports and bilateral trade.

[5] See the news item 'Go for value addition to lower steel imports', which appeared in *The Indian Express*, 30th August 2017. The Steel Minister, Chaudhry Birender Singh, has said that India should cut down its dependence on special steel product imports through value addition, and form joint ventures with global leaders for technological know-how.

[6] See in relation to the USFDA observation, an analytical news column by Deepak Patel, on 'To improve report cards, comprehensive reform must for drug makers', *The Indian Express*, 29 August 2017.

[7] The author has examined the proposed RCEP agreement in some detail in Discussion Paper No # 209 titled, ' Regional Comprehensive Economic Partnership : Need for a strategy' which can be accessed at www.ris.org.in

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