

Eastern promises

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India's foreign trade policy is increasingly focusing on Asian markets

By Kumar Anshuman

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When the Rubber Bill (intended to amend the Rubber Act, 1947) was presented in Parliament on August 7, the Opposition did not let it through. The reason was, it was presented by Prithviraj Chavan, minister of state for parliamentary affairs, and not any minister of commerce and industry, which is the ministry concerned.

Anand Sharma, minister of commerce and industry, and Jyotiraditya Scindia, minister of state, were on more important missions the day the bill was presented. Sharma was in Seoul, where he signed a comprehensive economic partnership agreement (CEPA) with South Korea, and Scindia was in Indonesia discussing bilateral trade. Their hectic schedules reflected the changing priorities in India's foreign trade policy and the more aggressive stand it has been taking of late in improving trade.

Under the CEPA with Korea, tariffs will be reduced or eliminated on 93 per cent of Korea's tariff lines and 85 per cent of India's tariff lines. It will facilitate trade in services by easing movement of independent professional and contractual service suppliers. The two countries agreed to protect each other's investments to improve bilateral investments. "It will provide a boost to India's services sector in the long run," says Professor Rajan Sudesh Ratna of Centre for WTO Studies. "In the short run, while India will have access to the cheaper auto components from Korea, exporting our services will be a little difficult because of the language problem." Chandrajit Banerjee, director general, Confederation of Indian Industry, says India has a comparative advantage in services, such as IT/ITeS and educational services.

The shift in the foreign trade policy began on August 31, 2004, when the last UPA government announced the foreign trade policy (FTP) for 2004-09 laying out the objectives and strategies. Two main objectives were doubling India's share in global trade in five years and making trade an effective instrument of economic growth by giving a thrust to employment generation.

It was a major step in stabilising India's foreign trade regime and putting its exports on a high-growth trajectory. During 2004-08, the exports grew at an average annual rate of around 25 per cent, from \$63.8 billion in 2003-04 to \$163 billion in 2007-08. Despite the global financial crisis, the growth continued into the first half of 2008-09, at the rate of around 31 per cent between April and September. After that it plunged, as the demand continued to contract. However, India managed a growth of 3.5 per cent in dollar terms and

16.9 per cent in rupee terms for 2008-09. More importantly, its share in global trade grew from 0.8 per cent in 2003 to 1.4 per cent in 2008. The next foreign trade policy (for 2009-2014) will be unveiled on August 27.

A significant aspect of the changed foreign policy is the increasing importance of the east. "In the wake of economic slowdown there is definitely a need to diversify our export market. If you see, 70 per cent of our exports are still to the advanced countries," says Dr Rashmi Banga, senior economist, United Nations Conference on Trade and Development (UNCTAD).

India signed a free trade agreement with Association of South East Asian Nations (ASEAN) on August 13. The accord takes effect on January 1, 2010 and is expected to reduce India's dependency on the US and European Union. According to UNCTAD research, the agreement will increase India's total export by 31 per cent. "We have to remember that the agreement is not an agreement in goods alone. It would eventually cover services and investment, too," says Dr Amit Mitra, secretary general, FICCI.

It was feared that low or no duty on plantation crops would prompt a deluge of imports from ASEAN members, making Indian farmers vulnerable to competition. The government addressed it by including 489 items from agriculture, textiles and chemicals in the negative list. They will be kept out of the duty reduction.

Sri Lanka and India have completed talks on improving bilateral trade and a CEPA will be signed soon. Talks with Thailand, Malaysia, Mauritius and Japan are in progress and are expected to bear fruit in two years. With Singapore, India already has a Comprehensive Economic Cooperation Agreement.

Apparently, India will be in some kind of agreement with all the major eastern economies except China in two to three years. "Eastern countries are highly outward looking economies and an agreement with them would mean a significant opening of Indian market to competition," says Prof. Shashank Priya of Centre for WTO Studies. "They also share a kind of synergy with India in terms of products and services."

Does it mean India prefers bilateral agreements to multilateral ones, especially in the Asian region? "We have no choice. It has been forced upon us," says Prof. Ratna. "If all the other countries are getting into FTAs depending on their own interests, we shouldn't be waiting to see the impact on our own market."

Some experts feel that bilateral agreements will pave the way for multilateral agreements. "Bilateral agreements are always a stepping stone towards multilateral agreements," says Banga. "If you have an agreement with a few countries of a group, it becomes easier to further structure the rules for the others."

The failure of South Asian Free Trade Agreement (SAFTA), however, was a major setback. The blame is put on India and Pakistan for political rivalry gaining upper hand over regional interests. SAFTA can be successful only if there is mutual trust and political stability. "It is a chicken-and-egg situation," says Banga. "Whether political stability will lead to better trade facilitation or better trade facilitation would lead to political stability."

With the exception of SAFTA, developments in the east indicate a political and economic

consolidation with India emerging as a strong player. The resilience shown by the eastern economies in dealing with the economic crisis has further facilitated the associations. And India will be one of the major beneficiaries of this power shift.

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