

Linking trade with Domestic Policy Reforms: Building Consensus for Coherent move towards Economic Growth

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Move in Trade Policy Frameworks

- Under the auspices of the General Agreement on Tariffs and Trade (GATT) negotiations, the international community has made great strides in lowering tariff barriers to trade.
- However, as tariff barriers have fallen, attention has shifted to the use of domestic policy (e.g., environmental policy, labor standards, or competition policy) as a secondary trade barriers.

Move in Trade Policy Frameworks

- So much so that trade and domestic policies seems substitutes
- Countries form trade agreements to lower their respective trade barriers but encounter incentives to distort their domestic policies as a secondary trade barrier
- These policies are not perfect substitutes, implying that a ranking of policies is possible.

Move in Trade Policy Frameworks

- Jagdish Bhagwati and Ramaswami (1963) formalized these ideas; literature in the 1960's and 1970's on the optimal unilateral setting of trade and domestic policies in open economies in the presence of market failures.
- For example, in a non-cooperative framework, a large country with monopoly power in trade and a domestic tax/subsidy scheme to tackle the domestic distortion, while enacting a suitable tariff for the trade distortion.

Move in Trade Policy Frameworks

- Need is for a cooperative environment
- Demonstrate that they have important implications for International Agreements.
- Limited enforcement power prevents countries from implementing a fully efficient set of trade and domestic policies
- Cooperate fully over domestic policies to avoid distortions.

State of Play

- India has signed 11 FTAs and 5 limited PTAs and is negotiating 17 FTAs, including the expansion of some of the existing FTAs/PTAs.
- India's FTA partner countries have not significantly displaced other markets as India's largest trading partners indicating that trade diversion has been limited.
- Under each of these FTAs, there has been a significant increase in overall trade, in both exports and imports, although imports have increased at a faster pace.

New Economic Opportunity

- Exports by \$500 billion would significantly contribute to Modi's goal of creating 12 million new jobs annually
- To meet this employment target, India needs the manufacturing sector to increase sharply(target 25% of GDP and \$ 1 trillion Mnf sector size) by 2025 .
- But the current share of manufacturing is very small, less than 16 percent of GDP.

Quantum Jump in India's Doing Business Rank

- During the Modi Govt., radical reforms undertaken to create level playing fields in the manufacturing sector
- India's rank in doing business jumped up 12 places between 2015 (Rank 142) and 2016 (Rank 130).
- Global ranking improved due to spectacular advancement in accessing electricity, paying taxes, trading across borders and enforcing contracts.

How it Improved?

- **Getting Electricity:** getting faster and cheaper commercial connection
- **Paying Taxes:** Introducing an electronic system for paying employee state insurance contribution
- **Trading Across Borders:** Launch of ICEGATE portal made exporting and importing easier. This has bearing on simplifying boarder and documentary procedures
- **Enforcing contracts:** Creating dedicated divisions to resolve commercial cases
- Many of these reforms are implemented in Indian metropolis and to spread to other parts of the country

Trade Across Borders

- There are 3 elements underlying this indicator, namely, the number of documents required for imports and exports, cost of export and import and the time taken for export and import.
- Ranking in the segment has improved significantly since 2014
- In terms of documentary compliance, export sector has performed better than the import sectors during the period
- Cost of exports declined by 10.8% by last year (\$102 in 2016 to \$92 in 2017)
- For both exports and imports, time taken for documentary compliance has declined considerably

Improved situation in Electricity Reforms

- Reducing procedures, time and cost in getting access to electric connection
- **Procedure:** Number of documents declined to 5 in 2016 from 7 in 2015
- **Time:** Number of days to get access to electricity has done down to 45.9 in 2017 from 101.8 in 2015
- **Reduce Cost:** As a per cent of per capita income, cost of accessing electricity has declined to 133.2% 2016 from 611.6% in 2014

Sectors Requires Further in Reforms

- There are grey areas where strategic reforms have to be carried out
- Getting credit is a difficult area despite the government's efforts at financial inclusion
- Further improvement is required for 'starting business' in India
- There could more efforts required to improve policies to improve 'construction permit

Way Forward

- India has undertaken a host of autonomous reforms
- Simplify laws and procedures and streamline fees and formalities dealing with release and clearance of goods;
- Ensure greater transparency in trade law administration; and
- Enhance and initiate measures for border cooperation and free movement of transit goods.