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Asia-Pacific Forum 2016
“Advancing trade and investment liberalization in the Asia-Pacific”
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 boarders 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 Boarders**: Launch of ICEGATE portal made exporting and importing easier. This has bearing on simplifying borderer 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.