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India's Export Competitiveness, Prospects & Challenges: The Role of Trade Policy

Good Evening to All. Let me begin by thanking CUTS and FICCI for giving me this opportunity and privilege to be here to address a gathering of distinguished faces. It is indeed a pleasure for me to be here talking on a subject which has become very relevant these days particularly in the context that we are at the anvil of preparing a new foreign trade policy and therefore it becomes important that there is an adequate amount of mental regurgitation on the subject. And it is also important because we are talking about exports, which is significant part of economic policy and it is increasingly becoming more significant in the last few years. And therefore it gives me a pleasure because this is an opportunity of getting inputs and feedback from a gathering which is very well aware of the issue.

In the last few years, exports or for that matter international trade in the context of India has played a very significant role in India's economic development. Today we are trading, if you include services as well, beyond a trillion dollars (an import of about 490 billion; export of about 310 billion; about 148 billion of services exports and 90 billion of services imports). So it is about a trillion that we trade from India and into India. And that makes a very significant part of our receipts and outgoes. It is therefore important that the export or international trade policy is contextualised rather than being simply an agglomeration of instruments as it has been traditionally perceived so far.

Exports are no more a function of surpluses as they used to be may be about ten years ago. They are essentially well thought out strategized activities and there are companies and firms exclusively involved in manufacturing for exports or rendering services for exports and therefore exports have become an inherent part of preparing for a successful, sustainable and vibrant economic policy. In the context of India, import plays an equally significant role because if you analyse the import figures you will soon recognise that more than about 60 per cent of imports actually get into manufacturing. So they are essential imports, with, Petroleum finding its place of pride in the list of imports. Besides, there are whole lot of intermediates and raw materials which constitute the import basket that we have. Having recognised that imports are very important for India's manufacturing and exports, the first question that occurs to my mind is, what Mr. Mehta said, to what extent should we monitor these imports and to what extent should we substitute these imports? This is a big manufacturing challenge before us. Imports have been recognised to constitute a significant part of our manufacturing policy till we are able to substitute or till we are able to find alternatives or till we are able to produce domestically.

We have not had a significant role to play in creation of value chains and in a sense we seem to have lost the bus several years ago. But it is increasingly being felt that this is perhaps, though late, an important time to find a toehold in value chains particularly in regional value chains. Therefore institutional engagements which are being pursued by India have a significant focus on finding toehold on some of these value chains. But if you look at some of the trade that happens between the regions of South Asia, you would recognise that they are very well constructed value chains where India plays a very significant role. But out of South Asia we have not had a concerted effort at being part of these value chains.

In order to become part of these value chains you would have to look at many other facets of manufacturing and services which would require a policy push on a different paradigm than the one which we have been following so far. One of the areas which I can very well mention here is the whole issue of rules of origin in our preferential trading. If you want to attain a position on regional or global value chains you have to significantly take a position on diluting your defensive armour around rules of origin and traditionally we have always looked at manufacturing as a very defensive pursuit and therefore this whole issue of rules of origin has not been adequately looked into. We need to necessarily dilute rules of origin. Dilution of rules of origin or product specific regulations has to be looked at in the context of country's strength and weaknesses. That kind of amalgam has not necessarily happened. Because traditionally taking the defensive approach in the pre-1991 we have always looked at opening up in a stance where we have tried to protect industries or segments where we thought we were extremely sensitive. So we need to take a different approach.

Now let me come back to the foreign trade policy and how export competitiveness needs to be addressed not necessarily through instruments alone but in a broader context. First of all, I think we need to recognise that exports are a necessary ingredient of our economic policy. Once you recognise that, it becomes imperative that the whole dimension of exports needs to be mainstreamed in the governance process itself. Most of the departments, excluding Department of Commerce and Information Technology, are just not geared for exports. It is important that we mainstream the concept of exports in the governance process. This clearly means that we need to work on an agenda where, particularly, departments relating to merchandise recognise that they produce not only for the domestic market but also for the global market, which means we are talking of scales and that is perhaps one single aspect of our manufacturing policy which requires the greatest attention. Because we are producing on

small scales and consequently paying greater fixed costs and not being able to play prices are perhaps the major reason why we are not internationally competitive in many areas.

We have done studies through our FTA partners; we found that in many of the areas we were not export competitive. Competitiveness comes out of two major aspects: one is the fundamental aspect of your economy's strength which gives you inherent competitiveness; the other which comes out of the front end of competitiveness, which is the transaction. There is tremendous amount of need for working on issues of infrastructure, connectivity, management of ports and so on. Therefore, it is not necessarily possible to find export competitiveness in a large part of product segment until we address some of these fundamental issues. Till that time we need to work on strategy for exports.

The traditional Indian markets have been the EU and US. The 2008 crisis clearly gave a signal that kind of persistence with two markets was not safe enough. And therefore this whole business of diversification started; diversification both in terms of destinations and diversification in terms of product segments and products within segments. After five years we clearly see there is a clear trend in the area of diversification. You look at Africa where we have a significant rate of growth in terms of exports. You look at South East Asia and ASEAN there has been a significant rise in exports to these territories. So diversification has helped but there is a significant amount of further diversification required which means we are talking of territories which are in CIS, East Asia, Middle East, West Asia and Latin America. Latin America is one territory where we have not been able to make the right kind of impact so far despite the fact that there is a clear recognition that this territory has a huge amount of promise.

So you have a territorial diversification and then look at the product diversification. Traditionally, India's strength has been reflected in textiles, leather, garments, engineering goods, pharmaceuticals and so on. Diversification in products can essentially be in two ways: one is looking at new areas of product segments and this is clearly visible if you look at textile. Over the last several years India seems to be losing its competitiveness when it comes to traditional textiles. Because there are several other countries for example Bangladesh, Vietnam etc. who have shown a very promising growth. So you have a situation where your traditional strengths are diluting or diminishing and therefore new areas of products need to be found. And that is where for example in textile this whole concept of technical textiles is important. This can be seen in several product segments where the markets have played themselves in a manner that firms are diversifying into new product sub-segments obviously driven by the effectiveness for those sub-segments.

If you look at pharmaceuticals, traditionally we have been exporting APIs (Active Pharmaceutical Ingredients). Today the export basket of India on pharmaceuticals contains about 55 per cent of formulations and roughly 45 per cent of active ingredients. At one point in time we used to export about 60 per cent of APIs but today China has overtaken. Market forces have themselves played in a manner that this kind of a diversification has happened. Now what is important here is that we bring in value into the diversification. If you look at the engineering products, traditionally India has been exporting low technology engineering products. In the current engineering export basket there has been a significant rise of high technology products in the engineering segment and therefore this automatic diversification into higher value add has happened.

If you look at value add, ultimately you have to recognise that if we were to talk about manufacturing at the low levels of value and we don't have scales then we are talking of losing propositions because that is where there are countries like China which will score over us. And therefore our perspective is that we should be talking about manufacturing and exports at a higher levels of value and therefore get greater value add out of this manufacturing and export. This strategy needs to be worked on over a long period of time. Unless we operate on scales, the mass production is unlikely to give us the benefits. And therefore it is also important that we look at issues of technology, product design, research and development and so on.

Let us take the argument on strategy further. Globally protectionism has become more sensitive. With multilateral trade negotiations, with trade formations restructuring themselves, what is happening is that countries are becoming increasingly protective towards those trading partners who are not within the ambit of their trade relations. So, new kinds of enclaves on trade are being constituted. If you look at NAFTA and EUs agreements with some other trading partners and so on, you clearly discern that the whole business of enclavisation leads to some kind of a tierisation of relationships and that means that despite your best efforts you could still be excluded out of a trade transaction. This can happen through two routes, one being the FTA route which is legitimate, the other way is through the non-tariff barriers, an area which has been addressed by the WTO mechanism through SPS agreement, TBT agreement and import control procedures and so on. But if you go deeper into trading partners' regimes you clearly find that there is an evolving trend of non-tariff barrier regime, where every other day there is new notification, particularly, coming from the developed world.

On the one hand these notifications are arising out of the multilateral rules framework which is justifiable, but there is a lot happening outside the multilateral rules framework. One of the solutions to this issue is to adapt by improving our own capacities, which is possible in the area of SPS and TBT.

Now let us move on to standards. Standards is one area which has not been adequately looked by us despite that today we have about 60,000 standards which are all voluntary in nature, specifically made available by the BIS. If you look at mandatory standards they are above 80 or so. This clearly shows that the focus on standards has not been adequate. Standards work both ways. Standards can help you in graduating to a higher value product and standards can also keep you out of a market. Standards can also come to you as a protection against imports. What matters is that how our industries can be adequately equipped to deal with standards related situations. This is where we have to do a lot of work. Because we have to operate on the upper ends of the value chain or at least the higher middle ends of the value chain, standards will be an inherent part of this strategy. It is also a sure way of consumer protection. And therefore a greater attention is required on standards.

While talking about value added exports let us now look at the issue of branding. A country's brand essentially brings in the strength of the specificities that country offer for a product area. What is important is how the trade policy can help these brands to achieve what they could in the global or regional context. Therefore, the export strategy or policy needs to look at this.

Services sector is a very significant area which has, hitherto, been a one trick pony. We have exports of about 148 billion US dollars in services, about 90 per cent of it has come out of IT

based services. Clearly showing there is a huge need for diversification. This diversification can have two approaches: one could be an approach of going sector by sector; second could be where we can piggyback on our strength in IT. The second strategy is more appropriate because you have more inherent strength in IT and therefore riding on that strength makes a lot of sense. But if you want to score in trading services then it is extremely important that we look at our regulatory structures and that is where a huge amount of work is required. We have identified around 8-9 service areas which we could call as potentially winning service areas, some of them are, Information technology, telecom, health care, tourism, logistics, professional services, entertainment services etc.

Having identified these areas what is important is to see how the relatively archaic regulatory structure may not allow us to unleash our export potential. If we expect to enter into markets we have to be equally liberal in letting other's into our markets. This is an area which requires significant amount of debate in the country. In a few professional services like chartered accountancy, legal services and others, clearly we have huge potential. But if that potential has to be harnessed there are two actions which will be required. One is to look at how market access has to be strategized and how will we respond to consequent flow of market access. And more importantly what are the regulatory barriers which are coming in the way and how do we remove those barriers and how do we unleash the potential. This is an area which requires reforms across the governance architecture in at least 10-12 departments.

States needs to get mainstreamed into the export objectives. Exports play an important part in our economic policy, it makes sense that we also look at incentivisation, or promotion or encouragement to the states in the context of their contribution to exports.

Before I conclude, let me mention a few words on FTA's. Sometimes an impression is carried that FTA's are inherently wrong or inherently in the negative interest of the country. This is a misimpression and this needs to be addressed. What is important is that FTA's offer an institutional mechanism to trade. How good or bad it is, will depend upon two factors. One is what we have negotiated and second is how best we have utilised it. The second aspect is more important. Does my industry know that there is an FTA and they can take advantage of that FTA if they want to be a part of that value chain. This is an area where a huge amount of work needs to be done. An analysis has been done by some agency which shows that the India-Korea FTA has been utilised only about 20 per cent. It means that most of the trade that is happening between these two countries is happening on MFN basis and not on preferential trade basis. With just 20 per cent of FTA there is so much of trade imbalance between the two countries. So criticising the FTA for that may not be a valid argument. It is important to see whether there is an inherent competitiveness between the products which are being traded on both sides.

India is likely to be adversely affected by mega FTAs such as the US-led Trans-Pacific Partnership agreement and, in this context, successful negotiations of the Regional Comprehensive Economic Partnership agreement in the Asia-Pacific region can be a potential game changer. RCEP is an extremely important agreement for India. It will make a lot of sense if we study the rules architecture in RCEP and take advantage of it, which might mitigate the damages which have occurred in the case of bilateral trade agreements.

I would like to close at this stage by thanking you all once again.