Editorial

Economic Pro-activism: Need of the Hour for India

India needs to take a pro-active note of its diminishing trade access and declining hold on economic rule-making prerogatives in view of the mega regional trade agreements like the Trans Pacific Partnership (TPP) under negotiation and the China centric or other plurilateral agencies like Asia Infrastructure Investment Bank-AIIB coming up fast in the economic arena. When the Trans Pacific Partnership (TPP) Agreement, currently under negotiation, would see the light of the day, sometime next year, the tariff preferences available to India in those countries would erode. The TPP aims to eliminate tariffs for all TPP partners, inter se, on almost all goods traded by them among themselves. These wide-ranging tariff withdrawals for TPP partners will affect export prospects of those countries that currently enjoy zero or preferential duties in TPP member countries and would be outside the TPP. For instance, India is also a beneficiary of the US Generalized System of Preferences (GSP) scheme, available to the developing countries, and is availing duty free access for almost 5000 export items. This advantage would get nullified, when the developed TPP members like Japan or Brunei would also begin to get duty free access for the same products, which they are not getting as yet.

India has already been suffering seriously from stagnating exports and high trade deficit. Therefore, declining trade access for our exports needs is to be taken seriously. In our latest foreign trade policy, declared in April, 2015, we have aimed to double our merchandise and service exports. But, our exports are stagnant and have fallen short of meeting very modest targets, in case of merchandise exports since last two years. The tariff preferences are not at stake in the US market alone, but, in most of these 12 TPP partners. The 12 TPP members are the US, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, and India has preferential market access to several of these countries, including the US. India has comprehensive economic cooperation agreements covering trade in goods, services and investments with Japan, Malaysia and Singapore. It also has goods FTAs with Chile and Peru and also avails preferential access in domestic markets of Brunei and Vietnam through its FTA with the ASEAN. Substantial export volumes would be lost when these preferential accesses would get neutralized in post-TPP era. Moreover, India's existing agreements with most TPP members are limited in coverage with large negative lists of products exempt from tariff cuts on either side, and thereby many Indian exports are ineligible for duty-free access in TPP member markets under its existing agreements, which would then be unable to find access there against zero-duty access for the same products in those markets, posing serious threat to sustain all such exports. So, whenever the Trans Pacific Partnership (TPP) would come into effect, host of Indian exports would be negatively impacted to a major extent. The US Senate has already voted in favour of the fast-track Trade Promotion Authority (TPA) in June 2015, to enable President Barack Obama to formalize the Trans Pacific Partnership (TPP) which means that the deal would be inked soon. Though, India would not be alone facing this disadvantage. China, Pakistan, Bangladesh, Sri Lanka and other non-members of TPP would also be adversely affected.

Vietnam, being a TPP-member would enjoy duty free access to one of the largest textile and apparel markets i.e. the US, and also elsewhere, rendering other non-member apparel exporting countries in a disadvantageous position, reducing their competitiveness in the global market. Indian companies may partly off-set this disadvantage by establishing capacities in Vietnam to derive benefits of the TPP. China has already begun investing fast in Vietnam to derive benefits of the TPP. As per media reports, some companies in India are also evaluating the investment scenario in Vietnam. Aditya Birla group is one of them, which is reported to be considering investment in Vietnam in the weaving and dying segments of the industry and the Welspun group is also reported to be considering investment in Vietnam.

Beside the tariff preference erosion, India should also take an early and even more serious cognizance of fresh standards that this agreement (TPP) would institutionalize in all member economies and markets. Especially, the sanitary and phyto-sanitary measures, which include the standards for safety and health of plants, animals, humans and the environment, would be very stringent. Most TPP countries are hyper-sensitive about these standards and would be very strict in insisting on their compliance. Exports to the TPP markets thereafter would need to comply with these stringent and non-negotiable sanitary and phyto-sanitary standards. Therefore, it would be a major challenge for non-TPP exporters like India to upgrade the quality of their products in line with the TPP market standards. It would not be easy to obtain the knowledge of these standards, incorporate them and develop domestic certification capacities for compliance of these higher standards for exports to TPP countries.

In addition to merchandise exports to the TPP countries, sustaining services exports, where India has a trade surplus, would be another challenge. The TPP is going to establish new standards in several areas connected with the conduct of trade in goods and services, and also in investments which may affect India's outbound direct investment. These would indeed pervade all major domestic services like finance, telecommunication and e-commerce enabling seamless trade and would include uniform rules for government procurement, enhanced competition policies, higher (TRIPS plus) standards for protecting intellectual property and proprietary knowledge of undisclosed information; more level playing rules for settling disputes between investors and member governments, with new regulations and enhanced norms for management of labour and environment. Therefore, the TPP may set stringent norms for the conduct of world trade which are most likely to scuttle India's market access abroad, and the other mega-agreements in the pipe line like the Transatlantic Trade and Investment Partnership (TTIP) and Pacific Alliance may also follow many of these standards. Project exports would also be affected with the emergence of China centric and China controlled outfits like AIIB. Moreover, the WTO-plus plurilateral trade and investment measures should not be allowed to undermine multilateralism. Standards are already being incorporated in the bilateral agreements being signed by TPP members with other countries such as the Australia-China and the Canada-EU agreements. Therefore, India should not wait to get caught unawares. Moreover, the services trade, where India has an edge, should not be allowed to erode. Especially when, in the new Foreign Trade Policy (FTP), the government has reflected greater reliance over services and has even set a combined target for merchandise and services exports. So, it is high time India revisits its strategy to meet the ambitious FTP targets.

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