INDIA NEEDS TO REWORK ON ITS RTA STRATEGY TO REVIVE EXPORTS

The global pandemic has wreaked havoc on the world economy and India has unfortunately been one of the worst affected countries right behind the United States. Only last year India was one of the fastest growing emerging economies targeting to become a dollar five trillion economy. But since the onset of the pandemic, the economy suffered a staggering contraction in first quarter during 2020. The depressing figure of 23.9 per cent is a major alteration in India's growth path whose average is at 6.8 per cent. As economic activity across spectrum of sectors has grinded to a halt, negative growth rate has spurred. Even as government expenditure as a share of GDP went up from 11 per cent to 18 per cent, the economy could not be rescued from an expected seven per cent overall contraction, estranged from an average positive growth of seven per cent since delicensing. Infact, the GDP growth this financial year is expected to be the worst post- World War II.

The year 2020 proved to be an adversary of economic growth and prosperity. And yet, contrary to the trajectory observed by other components of GDP, the net exports have risen. For a country like India, which is heavily import- dependent, an unusual improvement in the Balance of Payment has challenged our pessimism. It is largely credited to fall in imports as consumption demand in the economy took a dip. However, this can't help but signal at the role of net exports in ameliorating the current state of the economy. For long, India's net exports have pulled down the GDP due to excessive imports over exports. A reversal of relative shares of exports and imports can positively affect the GDP and simultaneously win us some brownie points as a trading economy.

Even after accounting for shrinking import demands, the net demand for exports stood at Rs.1,17,242 crore rupees in first quarter of Financial Year 2020. India has viewed FTAs (Free Trade Agreements) as an effective tool to maintain a steady Balance of Payments by ensuring stable demand and supply channels abroad. Through FTAs, countries or a group of countries enter into an agreement to reduce or eliminate barriers to trade, abide by terms related to trade of goods and services, provide protection of investors and their stake on partner countries' soil. Economic partnership of such a kind fosters diplomatic cooperation in several domains, evokes historical relationships and develops cultural affinity between varying societies that goes beyond the prospect of billing more dollars and has immense holistic advantages.

Among Asian countries, India has one of the highest number of FTAs in operation, or under negotiation. Empirically, FTAs have helped India's exports find a prosperous and profitable market in partnering countries. For instance, the SAARC countries came together to sign the South Asia Free Trade Agreement (SAFTA), with effective implementation beginning in January, 2006. As per Ministry of Commerce and Industry data the bilateral trade between India and other SAFTA member countries has increased from US$ 6.8 billion in 2005-06 to US$ 28.5 billion in 2018-19. India's trade with SAFTA has grown faster than its total trade with the world, as has also been the case with Comprehensive Economic Cooperation Agreement between India- Asean, and India-Korea. However, trade growth among member nations has been poor. Diplomatic differences between nations and shifting alliances have only added to the trade troubles.

On similar lines, the Association of South East Asian Nations (ASEAN)-India FTA came into effect in the year 2010 and showed signs of a trade boom soon after. The annual trade between India and ASEAN approximated to US$ 84.2 billion in 2019-20. During April 2000 to June 2019, Foreign Direct Investment (FDI) equity inflows into India from ASEAN economies stand at USD 82.5 billion totaling to nearly 20 per cent of all investment inflow in India since 2000. The agreement was recently put under review and being renegotiated with an aim to make it more user-friendly and beneficial to all parties. It is also set to rest concerns regarding the lopsided nature of the agreement. A major point of contention stems from the differential benefits accrued by partnering nations. It is claimed that ASEAN countries have more to gain from this deal than India. Such is the unprofitable nature of some deals that imports from ASEAN have increased at a significantly higher rate than Indian exports to ASEAN, leading to ASEAN's share in India's trade deficit from seven per cent to 12 per cent during 2010-2018.

Further, India-Korea Comprehensive Economic Partnership Agreement (CEPA) has also chipped in to the trade deficit of India by nearly $10.5 billion despite India's exports to Korea seeing a 50 per cent rise in the last six years. Under India-Japan CEPA, not only has trade balance been hurt, but India's trade with Japan has actually fallen by 16 per cent through 2013-17. All these bonafide agreements point at the inability of India to get the best out of these seemingly promising deals. Overall, it is utopian to rely on FTAs to fix the state of manufacturing in India. An advent of export-oriented production process and transportation in the domestic economy could be foreseen with '*Atmanirbhar Bharat*' picking mass approval. Export infrastructure is a must for better facilitation of trade and regional integration via exchange. The average logistics costs in India are about 15 per cent while such costs in developed countries are about eight per cent. This gap can be bridged by attentive improvements in both the hard infrastructure (ports and shipping, railways, roads, airports) and soft infrastructure (telecommunication, business environment and logistics). The review of existing deals to better leverage India's commercial services and soften the blow of imports on the other sector's market share and employment should be undertaken. At the same time, India needs to penetrate into emerging markets of Latin America, Asia, Africa and the Commonwealth states and establish a growing presence for itself.

The World Trade Organisation reported that global trade – which was already slowing in 2019 due to the U.S.-China tariff fight – is projected to plummet by 13 to 32 per cent this year. In an effort to limit the economic distress caused by the pandemic, some countries have started exploring inward trade strategies, abandoning projected trade agreements. As the world is curling into the cocoon of protectionism, India can sharpen its competitive edge to fill the void created by exiting nations. Irrespective of what is happening in the global economy, India needs to focus on its trade policy and think of possible ways to enter new markets and strike agreements with its strategic partners including the United States to wriggle out of the dwindling exports crisis. ■

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