New Trade Policy

What is the need for new trade policy?

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- The technological and socio-economic changes are re-defining the very concepts of productivity and employment.
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- Developing country firms no longer have the luxury of time to slowly adapt to change.e.gIt took several years to complete the transition from VHS to DVD in India in 1990s but a rapid transition happened from DVD to new media.
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- A new group of young middle-class consumers is defining consumer patterns globally and is highly adaptive to new products and technologies.
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- Automation and artificial intelligence are increasing in the production of goods and services.
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- Therefore India needs to seriously review its overall trade strategy, both in terms of trade promotion schemes and activities, as well as the design of trade agreements and negotiating priorities going forward.
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What are the drawbacks of current policy?

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- Trade promotion schemes in India essentially amount to rewarding businesses with incentives after the export activity. This design is flawed because,
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1. It means that the trade promotion incentives are not designed to help a firm attain export competitivenessbut reward already successful exporters to improve their margins from trade.
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2. It is not designed for strategic interventions based on value-addition and employment achieved by the firm. Thus itreduces the current regime to being an immediate-term measure rather than a longer-term programme.
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- Trade promotion activities remain confined to the traditional ‘trade fairs’.
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- India’s trade promotion environment has not invested in low-cost manufacturing facilities for the development of prototypes.
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- Neither in marketing support for such new products and innovations targeting a global customer base.
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- Thedesigns of India’s existing trade agreements are archaic.
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- The Indian narrative around trade negotiations remain fixated on tariffs that are increasingly less important for market access gains. The new barriers are related to technical and quality standards.
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- India has been relatively less successful in leveraging this strength to attract foreign direct investment and associated technology transfers to emerge as a global production hub.
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- MNCs attracted by the size of the Indian consumer base often do not expand operations in India to serve as one of their major manufacturing locations.
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- The ability to do all this well and fairly quickly would determine India’s ability to undertake structural change and push for longer-term competitiveness in the first half of this century.
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What should be done?

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- Being successful at globalisation requires the ability to undertake structural change i.e to move human resources and capital from under-performing or dying sectors and re-employ them in more competitive activities.
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- e.g Asia could sustain higher growth in the 1990s and 2000s largely due to their better ability to make structural changes.

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- A trade policy designed to foster successful structural change would have to have the following features
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1. It should reward value-addition, and promote employment in activities with higher returns to labouri.e more productive sectors.
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2. It should promote investment in innovation and new product development and help such products find a global market.
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3. It should ensure fair market access for Indian products subject to stringent technological and quality standards in global markets.
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4. It should leverage domestic economies of scale to attract FDI in sectors with higher returns to labour.
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