

Let's usher in an Amrit Kaal for trade and investment

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Trade was a major feeder of growth for several emerging market economies in East Asia when they clocked 7-8% annual growth rates in the 90s and 2000s. Similarly, as India charts its Amrit Kaal ambitions, trade will be a crucial key to unlocking growth, albeit in the changed geopolitical context of our times. Several encouraging trends in India's external sector are likely to buffer the country in a possibly volatile global environment.

First, India's services exports continue to carve new niches, offering a promising outlook for the country's economic future. The growth of global capability centres (GCCs), Indian arms of foreign firms employing specialists across STEM fields who provide back-end but high-value-added services, is a significant indicator of India's technological advancement. The number of GCCs operating in India has increased from 1,000 in 2016 to 1,600 in 2023 and is expected to reach around 2,100 by 2028, according to some estimates. India's service exports have

always maintained a steady record of 14% growth annually (between 1993 and 2022), more than double the world services export growth of 6.8% over the same period. The robust growth is now accompanied by a change in the quality of services export growth as well (from business process outsourcing or BPOs in the early 1990s to the GCCs of the day). The growth of GCCs also bodes well for productivity growth in the country through the diffusion of processes and technology.

Second, India's strong external position with adequate reserves (covering more than 10 months of imports) and low levels of external debt (at 18.7% of gross domestic product) provide a solid foundation for India's economic stability. This robust position reduces our susceptibility to external shocks. Further, as the *Economic Survey 2023-24* points out, a competitive rupee continues to work in favour of India's balance of payments. In this context, comfortable reserves and low external debt provide adequate backing for trade to grow under a competitive currency.

Third, there is a concerted push for trade diversification. For instance, after a gap of a decade, the new wave of India's trade engagements now focuses on gaining access

to Western and African markets, with the latest editions to our free trade agreement (FTA) basket being the India-Mauritius and India-European Free Trade Association agreements. Further, the share of the top 10 countries in India's merchandise exports has been declining, from a high of 56.6% in 1999-00 to 48.1% in 2023-24, reducing the risk of over-dependence on a few destinations and signalling enhanced regional diversification of exports.

Factors such as a fall in demand from major trade partners, a rise in trade costs, commodity price volatility and trade policy changes by India's partners could pose risks to our external sector. To address these weaknesses, the government has kept a sustained policy focus on trade facilitation, so as to stabilize trade costs. Various initiatives, such as the National Logistics Policy, PM GatiShakti, goods and services tax (GST) implementation, and digital reforms such as the Unified Logistics Interface Platform and Logistics Data Bank have helped improve

India's rank on the World Bank's Logistics Performance Index (LPI) by six places from No. 44 in 2018 to No. 38 in 2023 out of 139 countries. With regard to sea trade, Indian ports' 'median turn around time' (tinyurl.com/yzy5p5s2) has reached 0.9 days, lower than that for the US (1.5 days), Australia (1.7 days) and Singapore (1.0 day).

Similarly, after the roll-out of GST, trucks do not have to wait for hours at state borders, and they benefit from reduced travel time by up to 30%. Trucks now travel on average 300-325km daily, compared to 225km before GST.

The government has also taken a multipronged approach to developing competencies in merchandise trade. For instance,

while schemes such as District as Export Hubs provide an impetus to labour-intensive exports from rural regions, the production-linked incentive (PLI) scheme aids growth in niche and technology-intensive sectors. These schemes also help catalyse India's participation in global value chains

(GVCs). As the survey notes, India's sectoral composition of GVC-related trade has been changing, with medium and high-tech manufacturing and higher value-added services driving participation.

Another area of policy focus is investment facilitation through deregulation and liberalization. The government has established a liberal and transparent policy for foreign direct investment (FDI), with most sectors open to FDI through the automatic route.

The story of India's stable external sector is one of competitive services, strong fundamentals (by way of reserves, minimal external debt and a relatively stable rupee) and diversified trade. Simultaneously, policy levers aim to bridge weaknesses by facilitating trade and investment and incentivising competence-creation in merchandise trade. That our export ambitions are set in a world fraught with political and economic fault-lines, however, can't be overlooked. Rising protectionism and GVC re-alignment have been the norm since the start of a US-China trade war in 2018. India's trade policies, therefore, must respond to geopolitical changes by eliminating measures and procedures that hinder Indian producers from enhancing their competitiveness.

These are the authors' personal views.

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