Seize The Trade Moment

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The article is related to General Studies-Paper-III (Indian Economy)

Indian Express

06 May, 2022

The uncertain global economic environment calls for proactive policy actions to boost exports.

The year 2021 was a record one for trade despite the pandemic. In terms of volumes, merchandise trade rose 9.8 per cent, while in dollar terms, it grew 26 per cent. The value of commercial services trade was also up 15 per cent. India has had a good export run in line with global trends, witnessing record goods exports of $419 billion, while touching $250 billion in services exports.

However, global growth forecasts have now been pared down. World merchandise trade volume is expected to grow at 3 per cent in 2022 (down from 4.7 per cent previously) and 3.4 per cent in 2023 according to the WTO. Note, world merchandise trade volume grew at twice the rate of world GDP at market exchange rates in the two decades before the global financial crisis. However, this ratio between trade and GDP growth will fall to 1.1:1 in 2022 and 2023. Thus, slower global growth, an adverse geopolitical environment, the shadow of recurring waves of the pandemic and prolonged supply chain issues are likely to weigh on export growth this year.

This uncertain global economic environment calls for proactive policy actions as exporters look to tap into newer opportunities. Ukraine and Sri Lanka are major exporters of agricultural products and the vacuum created by their limited presence in global trade will open up agricultural export opportunities for India. This will not only spur overall exports but will also help to support the recovery of the agrarian economy through higher realisations. Apart from Europe, Africa's food security depends on wheat supplies from the two countries at war. As many as 25 African countries import more than one-third of their wheat from Russia and Ukraine and for 15 of them, the share exceeds 50 per cent. Sri Lanka is also a major player in the global tea market and produces around 300 million kg annually. Almost 98 per cent of its annual production is exported. India, the second-largest producer of tea with an annual production of 900 million kg, is in a good position to exploit the opportunity and fill the gap.

Apart from tea and wheat, newer export opportunities have arisen for textiles. Sri Lanka exports $5.42 billion worth of garments and prolonged power cuts in the island nation will hurt its production and export capacity. Major global brands such as Zara and H&M have been reportedly looking towards India since other Asian exporters like Bangladesh, Vietnam and Cambodia lack the capacity to fill the void and Chinese factories are locked up due to a Covid surge.

If India were to tap export opportunities in developed markets, it must do the following. One, work on non-tariff barriers for agricultural trade with a special focus on harmonising the sanitary and phytosanitary (SPS) requirements. SPS barriers can be addressed in various ways including through scientific collaborations for the implementation of sector-specific measures and strengthening the traceability system in supply chains. Two, to support tea exports, traditional tea boards are seeking a greater role and autonomy for optimising the development, promotion, and research in the sector. Quicker implementation of the proposed Tea Promotion and Development Act is of utmost importance.

Three, India must double down on its integration with global supply chains. The commerce ministry has negotiated a slew of trade deals.

This holds the promise of a new pro-trade policy, but India must become a part of the bigger trade pacts and regions. Four, tariff rates for intermediate inputs should be reduced to either zero or should be negligible for India to become an attractive location for assembly activities. Five, India must persist with the creation of an enabling ecosystem that realigns its specialisation patterns towards labour-intensive processes and product lines.

The labour market reforms must be taken to their logical conclusion. Six, a continuous and pro-active FDI policy is also critical as foreign capital and technology are key enablers for entry into global production networks even as local firms play a role as subcontractors and suppliers of intermediate inputs to MNEs.

Lastly, exports could suffer if basic issues such as availability of power and logistical bottlenecks keep rearing their ugly heads. Note, for instance, the huge quantity of coal that awaits evacuation and transportation to power plants operating with low stocks from sheds or washery heads.The Economic Survey 2019 had recommended that low levels of service link costs (costs related to transportation, communication, and other tasks involved in coordinating the activity etc) are prerequisites to strengthen their participation in GVCs. This should not be neglected.

Expected Question (Prelims Exams)

Q. Consider the following statements-

1. After India, Sri Lanka is in the second place in global tea production.
2. In the year 2021, India's export of goods has been worth $ 419 billion.
3. The annual production of tea in India is 900 million kg.

Which of the above statements are correct?

(a) 1 and 2

(b) 2 and 3

(c) 1 and 3

(d) All of the above

Expected Question (Mains Exams)

Q. What steps should be taken by India to tap the export opportunities in the developed markets? Discuss for example. **(250 Words)**

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC main examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.