Article

Opportunities and Challenges in India's International Trade

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Abstract

The momentum generated by a significant rise in India's exports in 2021-22 needs to be sustained despite the prevailing geopolitical and geoeconomic tensions. Indian industry also needs to come forward and fully avail of the recent initiatives launched by the government to build a strong and competitive export capacity and address the high level of trade deficit that India currently faces. It will also strengthen the economic security of the nation. For this goal to be realised, however, it is important to secure a conducive international trading framework. India is actively engaged in this task--both multilaterally on WTO reforms and bilaterally with friendly trade partners for concluding Free Trade Agreements (FTAs). Further, India is discussing with its leading trade partner, the United States, several unsettled trade issues. Negotiations are also underway on the different pillars of the Indo-Pacific Economic Framework (IPEF). All these are intricate issues and in some ways interrelated. Some of them may also come up in the G-20 under India's chairmanship. If successfully handled, all of them could also help buttress India's export effort.

As India celebrates the 75th anniversary of its Independence, it has also become the fifth-largest economy in the world. There are estimations that it could become the third-largest economy in less than a decade[1], bypassing Japan and Germany, if it maintains reasonably high rates of real growth through this period. This *inter alia* requires India to strengthen its position in international trade and work for easier access to world markets for its goods and services.

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There can be little doubt that faster economic growth of the country in a sustained manner at around 8 percent or more will come about only if India's exports show greater dynamism. Doing well on the export front would also be a measure of the country's competitiveness. With unemployment a significant domestic issue, it makes sense if such increased exports can also come from labour and skill intensive manufacturing. For this to happen, however, it is important that every effort is made to ensure competitiveness of the exported product. The product should be competitive not only at the production end but also when it reaches the consumer. This requires competitive logistics, easy and cost-effective shipping options and a trade-facilitative environment. There would also be cases where competitiveness can emerge with greater economies of scale. Exports that depend on imports, including in respect of products involved in supply chains, also require quick and easy clearance of inputs.

Equally important is the scaling down of imports, particularly of items that can be competitively produced in India or for which there can be effective substitutes. With merchandise imports valued at 145 percent of exports, and imports showing higher rates of increase, the trade deficit on the goods front is unlikely to be bridged significantly by the surplus on the services side. The initiative to raise domestic production of toys has brought down imports substantially and has also helped increase exports.[2] This is a useful example that can bring about similar transformation in other areas. India has to also find ways to reduce strategic imports and, where possible, diversify their sources to make the country less economically vulnerable, such as in the case of certain pharmaceutical intermediaries or critical minerals.

India's Trade Performance

India's merchandise exports have shown some dynamism in recent years, after stagnating at around USD 300 bn during the entire decade of 2011-2021. They rose by 44.5 percent to reach USD 422 bn in 2021-22 compared to the previous year. Moreover, in the first six months of fiscal 2022-23, they rose by a further 15.5 percent compared to the same period in 2021-22, even as the prospects for the next few months look somewhat uncertain[3] due to adverse global conditions arising from the Ukraine conflict.[4] From an export of USD 44.56 bn in 2000-2001, India's goods exports have since grown by over nine times and have vastly expanded, both sectorally and in terms of markets. Yet, globally, India fares rather modestly, ranking 21st among exporting nations with only a 1.6 percent share in global exports in 2020, as per the World Trade Organization (WTO) data.

India's goods imports have expanded faster than exports. From USD 50.54 bn in 2000-01 they grew twelve times to USD 613 bn in 2021-22, resulting in a large trade deficit. The deficit has grown largely due to the country's dependence on imports for energy fuels, fertilisers, edible oil, electronic items, gold and advanced machinery. With energy, fertiliser, food and other commodity prices ruling high during the first six months of 2022-23, imports have continued to grow in value, rising by 37.89 percent to USD 379 bn, as against USD 274.5 bn during the same period in the previous year. This indicates that the trade deficit in the current fiscal could be even higher. At the global level, India's imports in 2020 was 14th in rank with 2.1 percent share in global imports.

India's performance in trade in commercial services has been better. From an export of USD 17.8 bn and 22nd rank in the world in 2000, India's services exports have rapidly grown to USD 203 bn in 2020, which pegs it at the seventh position in the world with a 4.1 percent global share. Notably, India which had a trade deficit in services in 2000, has been running a surplus for several years. Its imports of services in this period grew from USD 19.9 bn in 2000 to USD 153 bn in 2020 with a 3.3 percent share globally. The concern in trade in services relates to the rather narrow reliance on computers, IT services, and 'other business services', as well as on a few western markets.

Domestic Policies and Initiatives

Several initiatives have been launched by the government to attract investments and boost domestic manufacturing. The Production Linked Incentive (PLI) schemes launched in March 2020 covers 14 sectors, including bulk drugs, electronics, medical devices, white goods, auto products, batteries, specialty steel and drones. If all of them become operational, they could significantly help in enhancing exports and reducing imports. The government has also launched an initiative for setting up seven mega textile parks in the country to help create value chains -- from spinning to garment-- at one location that could bring greater competitiveness to this sector and create employment.

The recent announcement about a revision in the semiconductor manufacturing programme with uniform fiscal support of 50 percent of the project cost, with a view to attracting investments, is another bold initiative[5] at a time when a handful of companies with manufacturing capacities in this strategic area are being wooed by several countries, including the developed countries, with attractive packages. The Union Cabinet also approved on 21st September this year the national logistics policy which seeks to reduce logistics costs, improve India's global ranking in logistics and help secure a larger share of global trade.[6]

Therefore, several initiatives have been launched which can deliver a more competitive economy, boost exports and help reduce unnecessary imports. However, as cautioned by some,[7] it is important to have clarity that the incentives or subsidies offered by the Government, such as in the PLI scheme, are temporary measures to facilitate the move towards higher competitiveness and must not become permanent and rent-seeking. Moreover, there has to be close coordination between the various central ministries involved to ensure export competitiveness is pursued with a missionary zeal by all concerned and not left only to the Commerce Department. There has to be a recognition that the country's strong export performance is a key element in furthering the economic security of the nation.

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Yet another area that the country has not adequately explored, in terms of having operational mechanisms for enforcement, is in ensuring that cheap and sub-standard goods imports are not permitted. WTO rules require that there is no discrimination in setting standards and regulations between domestic and imported products. While this needs to be adhered to, it should be possible to give domestic small and medium-scale sectors adequate time before the higher standards and regulations kick in. Such mechanisms, however, need institutional infrastructure for regulating standards and carrying out conformity assessment tests in each sector. While such institutions and research bodies do exist in several areas in the country, they need strengthening with adequate testing and other infrastructure facilities. They also require stronger coordination under the overall leadership of the Bureau of Indian Standards. In the final analysis, as seen from the examples of developed countries or even China, tariffs cannot be the only tool for ensuring fair protection to domestic industry. Ensuring quality imports will be no less important. In a few areas, such as steel and toys, the government has come up with new initiatives. They need to be extended to other areas.

What the foregoing has dwelt upon are largely domestic policy and production-related challenges and opportunities concerning trade and its regulation. But to promote export growth, India also needs to secure competitive and easy access to third-country markets not only in terms of low or zero tariffs but also in the form of effectively dealing with the non-tariff barriers faced by Indian exporters in several markets. Similarly, to be able to regulate imports and create adequate opportunities for domestic industry and agriculture sectors to grow, trade rules have to remain flexible to provide adequate policy space. Several challenges are looming in this context in the form of ongoing or forthcoming trade negotiations, particularly in the course of the next one or two years. We shall deal with them in this essay under three broad heads:

Tariffs cannot be the only tool for ensuring fair protection to domestic industry.

- On the multilateral front;
- On the Free Trade Area (FTA) front;
- Taking the bilateral trade dialogue forward with the US, India's largest export partner, and working towards joining and developing the Indo-Pacific Economic Framework (IPEF).

The case of the United States is taken up separately not only because the US is our single largest trade partner but also because it is unlikely that any FTA will come about between the two countries, at least in the near term. Current US political dynamics do not appear favourable towards fresh FTAs to be signed involving grant of market access. India, too, may not be in a position at present to agree to possible demands from the US even if the latter were to change its position on concluding fresh FTAs in general.

Challenges and Opportunities on the Multilateral Front

The twelfth WTO Ministerial conference (MC-12) was held in June this year, after almost five years. The positive part was that it was able to come up with decisions on certain pending issues, such as finalising certain portions of the fisheries subsidies agreement that have been under negotiations for over two decades. It also agreed to grant temporary waiver from WTO rules on intellectual property in respect of COVID related vaccines, even though the outcomes were somewhat less than what the developing countries had proposed. But on a host of other issues, including the longdelayed matter of public stockholding for food security purposes that is of particular importance to India, decision was kept in abeyance for the future.[8] Additionally, the ministerial has also given the go-ahead for WTO reforms that can bring about substantial changes in the organisation and its working as well as in rulemaking. During the next year and more, therefore, there could be a plethora of meetings taking place *inter alia* on the following topics, each of which will be of particular importance to India:

- WTO reform to improve all its functions;
- Negotiations on the remainder of the fishery agreement in respect of those subsidies that facilitate overfishing and overcapacity building;
- Permanent agreement on public stockholding, for food security purposes;
- An Intellectual Property Rights (IPR) waiver in respect of diagnostics and therapeutics related to COVID-19 treatment.

While each of the foregoing topics comes with its own issues and peculiarities, and India will need to be actively engaged in every one of them to safeguard its interests and objectives, the most complex and challenging could be WTO reform. The MC-12 mandate for the negotiations is a rather brief para[9] which, while reaffirming the foundational principles of the WTO, leaves the discussion on the scope for reform wide open. The only guidance given is that the work shall be member-driven, open, transparent, inclusive, and must address the needs of all members, including that of development.

EU's Proposals for WTO Reform

The European Union, a key proponent for WTO reform, has already pitched for a root and branch reform of the WTO, stating that only a full reboot is the way to remain relevant and reactive to 21st century challenges.[10] Last year the EU had published a detailed paper on WTO reform covering all its three functions, namely, the negotiating function, the dispute settlement function and the monitoring function.[11] Expectedly, these reform proposals did not go into the issue of why the negotiations on the Doha Development Agenda, on which developing countries had placed great expectations, failed and for which the resistance from the developed countries to reduce their domestic subsidies to the agriculture sector and liberalise market access as per the Doha agenda, stood in the way of making progress. Rather it ascribed the reasons for a crisis like situation that has emerged within the WTO to, among others, difficulties in reaching a consensus among 164 members. In doing so, it overlooked the current differences in global balance of power, disagreements about flexibilities for developing countries, the role of China whose market opening did not correspond to its weight in the trading system, and the effective paralysis of the dispute settlement system due to the blocking of appointments to the Appellate Body by the United States. The EU also took the position that sustainability of the economies as part of the green transition will need to be reflected in the WTO's work across the board.

On the negotiating function, the EU's proposals included establishing new rules on digital trade, services regulation and investment facilitation, areas in which plurilateral negotiations have been underway. It further sought a way to integrate plurilateral agreements into the WTO but avoided free-riding to non-participants in the plurilateral exercise. It proposed tightening of rules on industrial subsidies, introducing disciplines on state-owned enterprises and other aspects that could bring about competitive neutrality and level playing field among members, China being a key focus here. The EU also sought to address the imbalances between the members' Uruguay round commitments and the existing reality in respect of market access. But on market access negotiations the EU did not see any immediate priority except for certain sectoral initiatives such as in health and climate mitigation goods (areas of its interest). On trade in services, it considered the rules for the digital economy to be a priority ahead of even negotiations on services themselves. On agriculture, it held that negotiations on market access did not seem likely for the time being, and that they needed to be part of a wider set of market access negotiations where the conditions for balance did not seem to be present. This too was a self-serving assessment.

As for restoring the dispute settlement system to its full functioning status along with the Appellate Body (AB), the EU suggested reform of certain adjudicative approaches with the role of AB limited to addressing legal issues raised on appeal, cases to be decided on merit and mandatory timelines to be respected both by the dispute settlement panels and the AB. It, however, favoured retention of the negative consensus rule in the adoption of AB reports, keeping AB independent, and maintaining the central role of dispute settlement in providing security and predictability to the multilateral trading system.

On improvement of WTO's monitoring function, the EU proposals included tightening the notification obligations of members under the various WTO agreements and their compliance, widening the scope for the WTO Secretariat to produce monitoring reports and reviewing, and deciding which WTO bodies and committees should be strengthened or downsized. The EU also favoured a strengthening of the role of the Committee on Trade and Environment and enhancing its role in policy deliberations, in line with its emphasis on according higher importance to sustainability issues in WTO's work. The EU argued for the role of the Director General of the WTO to be more proactive and visible and favored a greater role for the WTO Secretariat in preparing analytical reports. Finally, the EU proposed a more effective stakeholder engagement in WTO's work, including by businesses, NGOs and civil society groups.

Proposals by India, the African Group

In July this year, after MC-12, India, the African Group, Cuba and Pakistan jointly submitted a concept paper[12] to the WTO, giving their suggestions for reform identifying issues that needed to be addressed if the WTO was to be strengthened in a balanced manner. On several aspects, their suggestions were in contrast to the EU proposals.

This group of developing countries contended that the core principles of the multilateral trading system needed to be preserved and that laws and regulations that mandated unilateral actions on trade issues that were WTO-inconsistent would have to be amended (reference probably to some provisions in the US Trade Act such as Section 301). They underlined that the principle of consensus should prevail in WTO decision-making and provisions in the Marrakesh agreement of the WTO as to how plurilateral agreements can be included as part of the WTO should be respected. Plurilaterals should not change the fundamental multilateral architecture of the WTO. As for special and differential treatment (S&D) for developing countries, they argued that the per capita GDP gap between developed and developing countries had only widened over the years and this necessitated the preservation and continuation of S&D provisions in the present and future agreements. They preferred the retention of the self-designation process practised in the WTO for according developing country status. They also detailed a set of development issues that were part of the Doha round and whose importance continued to be paramount (such as the imbalances in domestic support provisions in the WTO Agriculture agreement, the need for public stockholding for food security, implementation issues relating to Uruguay Round agreements that had been identified by developing countries, etc.), and which needed to be addressed.

As for reform of the dispute settlement system, they also agreed that restoration of the AB was a priority and underlined the retention of its essential features, including the two-tier system, automaticity in the launch of dispute settlement proceedings and decision making on AB reports by negative consensus. They, however, expressed concern about the affordability and access to the dispute settlement system for developing countries. Regarding reforms in the monitoring function, they submitted that no additional transparency and notification obligations were required under the existing agreements since developing countries were finding even the present obligations onerous. They further submitted that there was no need for any change in the functioning of the WTO committees or other bodies that were working well. There was also no need to enhance the role of the WTO Secretariat or to give enhanced roles to other stakeholders or NGOs in the WTO which was a member driven organisation. Further, the WTO was never conceived to be a forum that would define or change the economic models of members and government policies were at times required to address market failures.

Wide Differences in Proposals for WTO Reform

From the foregoing, it is evident that there are significant differences between the aims, ambitions and priorities of the two proposals. Only in respect of reform of the dispute settlement system there is a degree of commonality and arriving at a consensus on other issues would be challenging. Even on reform of the dispute settlement system, the US has not revealed its cards and an agreement may not be easy. In the coming months, it can be expected that there would be several more proposals tabled on each of the issues by various WTO members. Progress would be sought to be made so that the next ministerial, expected to be held in 2024, can arrive at a decision. Considering the stakes involved in ensuring that the eventual WTO reforms would be development friendly and that other pending issues like public stockholding for food security purposes or the remaining issues in the fishery negotiations would be favourably resolved, India would have to strive hard along with other like-minded countries in the WTO and build issue-based coalitions. Some of these issues may also get considered in G-20 meetings. India could leverage its position as the G-20 Chair in raising greater awareness about the development concerns of the developing countries.

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Challenges and Opportunities on the FTA Front

India began signing FTAs starting from its own neighbourhood. The first FTA was concluded with Sri Lanka that came into force in April 2000. India also became a party to the South Asian Free Trade Area (SAFTA) in 2006. Beyond South Asia, India's Look East policy led to exploring closer economic engagement with the dynamic East and South East Asian countries. This led to the signing of FTAs with Singapore (2005), ASEAN (2010), the Republic of Korea (2010), Malaysia (2011) and Japan (2011) in rapid succession.

However, the 2011-20 decade did not see any new FTA being concluded with other partner countries, even though FTA negotiations were held with several economies, including developed ones such as the European Union. This was also a decade when India's exports did not show much growth, as in the previous decade, and languished at a level of around USD 300 bn. Even in respect of the Regional Comprehensive Economic Partnership (RCEP) negotiations, comprising ASEAN and its six dialogue partners, including India, in which India participated from 2013 up to 2019, India decided to finally not join the regional pact on the ground that the final deal was not fully reflective of its interests and that some of its proposals were not fully taken into account. Furthermore, assessing that some of India's earlier FTAs did not deliver commensurate gains for it, India had also called for a review of its FTAs with Korea, Japan and the ASEAN.

India's exports continue to face unequal access terms in several markets, both in tariffs and non-tariff related matters.

Fresh initiative on FTAs

The hesitation in concluding more FTAs has undergone a change from 2021 onwards with a fresh initiative that includes the revival of some of the earlier negotiations. The compulsions for this move are not far to seek. With less than 20 percent of India's trade covered by earlier FTAs, and with no market access negotiations on the horizon multilaterally, India's exports continue to face unequal access terms in several markets, both in tariffs and non-tariff related matters, compared to competitors having FTA arrangements in those markets. FTAs are also seen promoting supply chains that have become an important avenue for promoting value-added exports.

The results of this fresh initiative are bearing fruit. Already a Comprehensive Economic Partnership Agreement (CEPA) has been concluded with the UAE (India-UAE Comprehensive Economic Partnership Agreement – IUCEPA) earlier this year which came into force on 1st May 2022. Further, an interim deal with Australia titled India-Australia Economic Cooperation and Trade Agreement (IAECTA) has been signed, which could come into force once approved by the Australian Parliament. This agreement, after further negotiations, is also expected to be concluded as a comprehensive economic cooperation agreement. Negotiations have also started or revived with the UK, Canada, the European Union, Israel, the Gulf Cooperation Council (GCC) and a few others. Some of them are also expected to get concluded in the coming few months. The proposed FTA with the EU, whose revived negotiations have just begun, is slated for finalisation by 2024. Most recently, it has been decided that India and Bangladesh would begin negotiations on an FTA, which could expand the coverage significantly beyond what is provided for in the SAFTA.

There are also certain new approaches that have been taken by India in the agreements reached with the UAE and Australia.[13] In both these cases, India will have free access to practically all of its partner's markets within a short time-frame, even as India's own market opening commitments will also be higher compared to earlier FTAs. On the rules of origin, again the level of local value addition to be eligible for the FTA concessions would be generally higher. Tariff tools such as tariff rate quotas have also been introduced in sensitive areas, something that was absent earlier. Safeguard provisions too have been strengthened. Government procurement and digital trade have also found inclusion in the IUCEPA, which may similarly find added in the eventual Comprehensive Economic Partnership Agreement (CEPA) with Australia.

Reviews of the existing FTAs with ASEAN, Korea and Japan are important to ensure they bring commensurate benefits.

However, India's negotiations with developed economies like Canada, the UK and the EU may also see the introduction of issues such as labour and environment that figure in their FTAs with other countries. This will present new challenges for India that has generally opposed inclusion of such non-trade issues either multilaterally or in bilateral trade agreements. Whether they will also be subjected to dispute settlement clauses or will be couched in best endeavour terms is not clear. To what extent they will concord with India's domestic laws or policies is another concern. Negotiating them will require carefully crafted strategies.[14]

In brief, therefore, even on the FTA front, the next several months extending up to 2024, could see several intricate negotiations taking place that can present significant challenges. Similarly, reviews of the existing FTAs with ASEAN, Korea and Japan are important to ensure they bring commensurate benefits. But if successfully managed, they could all open up market access opportunities for Indian exports. Furthermore, they will make India a more attractive investment destination with greater ease of doing business.

Challenges and Opportunities in the US Market

The United States is India's largest trade partner both in respect of merchandise goods and trade in commercial services. Importantly, on both accounts, the trade is also in India's favour. Bilateral two-way merchandise trade between the two countries totalled USD 119 bn in 2021-22 going also past the USD 100 bn mark for the first time. Among India's top ten merchandise trade partners, only trade with the US is in India's favour, with the surplus going up to USD 32.8 bn in 2021-22. India's own goods exports to the US increased to USD 76.1 bn in 2021-22 registering a 47.4 percent increase over the previous year's export of USD 51.8 bn and recording an 18.04 percent share in India's overall exports. Seen from 2015-16 onwards, when India's exports were USD 40.33 bn, the compound annual growth rate (CAGR) of India's exports amounts to 11.16 percent over this six year period. This dynamism was evident right from 2011-12 onwards when India's overall exports stagnated at around USD 300 bn but its exports to the US rose from USD 35 bn to over USD 50 bn in 2020-21. As per US trade figures for 2021, India was the tenth largest import source with imports from India registering USD 73.3 bn.

India's merchandise imports from the US rose even more sharply than India's exports to the US. It increased by 50 percent, reaching USD 43.3 bn in 2021-22 from USD 28.9 bn in 2020-21. Seen from 2015-16 onwards, when these imports stood at USD 21.78 bn, the CAGR during the six-year period works out to be 12.13 percent. The share of US in India's overall imports, which was 4.79 percent has also gone up to 7.07 percent over this period and it ranks third among India's import sources, after China and the UAE. As per US trade figures, India was its tenth largest export partner in 2021, with a share of 2.3 percent in its total exports. As for the bilateral two-way services trade between India and the US, as per US figures, they grew steadily from USD 25.15 bn to USD 53.3 bn between 2010 and 2019 that marked a CAGR of 8.7 percent during this period. Trade, however, witnessed a decline of 20.7 percent in 2020 to USD 42.26 bn affected by COVID conditions. Recovery in 2021 was only partial with bilateral trade amounting to USD 45.7 bn.

Imports into the US from India were USD 15.3 bn in 2010, accounting for a 3.5 percent share of US's total services imports. They grew to USD 29.7 bn by 2019, taking India's share also to 5.02 percent. The CAGR during this nine-year period was 7.7 percent. They declined to USD 25.9 bn in Covid impacted 2020 but recovered almost fully in 2021, recording USD 28.99 bn. India is US's fifth largest import source for services. Exports from the US to India were USD 9.9 bn in 2010 but rose to USD 23.6 bn in 2019, registering an even higher CAGR of 10.13 percent during this period. They declined, however, to USD 16.4 bn in 2020, hit by Covid conditions, and did not show much recovery the following year when they reached USD 16.7 bn. India is the tenth largest export destination for services trade for the US.

Two key pending issues are affecting India's goods exports to the US. India's exports of certain steel and aluminium products to the United States have been affected following the imposition of 25 percent and 10 percent additional duties by the US with effect from 18th March 2018 on grounds of economic security under Section 232 of the US Trade Act. India's exports of steel items, in particular, have been adversely affected. While a few countries were exempted from these duties after having been given quotas during the Trump administration, the Biden administration has arrived at new agreements with the EU, Japan and the UK in the last one year and has also exempted Ukraine from its application.

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The second pending issue that has affected India's exports relates to the restoration of Generalized System of Trade (GSP), which was terminated by the US in June 2019 for India on the ground that it had failed 'to provide the United States with assurances that it will provide equitable and reasonable access to its markets in numerous sectors'. There was also at that time a proposal mooted by the US that countries that had more than 0.5 percent of world trade or was a member of the G-20 should not be eligible to be called a developing country. It does not appear that the Biden administration shares any of these views. When the restoration of GSP was taken up in the Trade Policy Forum meeting held in November 2021 the US side had responded that it could be considered, as warranted, in relation to the eligibility criteria as determined by the US Congress. The bills seeking to renew the GSP programme are still doing the rounds in the US Congress, even as the earlier authorisation for the entire programme applicable to all eligible countries lapsed at the end of 2020.[15]

The India-US Trade Policy Forum (TPF), headed by the Minister for Commerce and Industry and the US Trade Representative, has been a very useful ministerial-level forum in addressing bilateral trade and related issues. It last met in November 2021 when the United States Trade Representative (USTR) Katherine Tai visited India. This TPF meeting discussed the entire range of pending market access, regulatory and other issues concerning each side. While there was no immediate outcome, the TPF tasked the five working groups under it -- on agriculture, non-agricultural goods, services, intellectual property and investment -- to develop plans for action by March 2022, and for the senior officials from both sides to identify specific trade outcomes by the middle of the year.

Further to the TPF meeting, the two sides have made progress and signed the framework agreement on agriculture market access. India's mango and pomegranate exports were to start from January–February 2022 and pomegranate aril exports from April 2022. Exports of alfalfa hay and cherries from the US were to begin to be exported from April 2022. In addition, India conveyed its readiness to provide market access to US pork. It is, however, not clear if the TPF working groups that were to have met have done so and developed their plans for action. There are indications that the next TPF meeting will be held before the end of this year, perhaps after the US congressional mid-term elections, which has been a restraining factor behind the Biden Administration taking initiatives on trade matters. It will be important for India to get the two pending issues addressed satisfactorily, as also the long pending issue of concluding a comprehensive agreement.

The Indo-Pacific Economic Framework (IPEF) Initiative

The USTR's trade agenda for 2022 noted that the US and India will collaborate on building a resilient supply chain and promoting a transparent rule-based system for market economies. The Quad countries like Australia and Japan have also shown keenness in building supply chain resilience together in a range of areas, including critical minerals. It would be in India's interest to be open and facilitative in attracting US companies wanting to diversify production sites to locations other than China with a view to reducing their supply chain vulnerabilities. In this regard, the Indo-Pacific Economic Framework (IPEF) initiative launched by the US and thirteen other countries, including India, is of particular relevance. At its formal launch in May this year in Tokyo, which was also attended by Prime Minister Modi, the details about the IPEF and its four pillars -- the trade pillar, the supply chain pillar, the green energy and infrastructure pillar and the clean economy pillar -- were still sketchy. It also became evident that, in line with Biden Administration's priorities, market access will not form part of its agenda.

The first ministerial meeting of the IPEF held in Los Angeles from September 8th-9th spelt out the specific initiatives and commitments that the IPEF countries will pursue under the four identified pillars. India, which signed onto three of the four pillars, however, chose not to sign on to the Trade pillar, availing of the flexibility under IPEF which allows each partner country to choose which pillar they wished to be part of. India indicated that while it was comfortable with the outcomes of the other three pillars, details were still emerging in respect of the trade pillar, particularly on commitments required on environment, labour, digital trade and public procurement. While it will continue its engagement on the trade pillar, it may decide on signing on to it at a later stage.[16]

The Indo-Pacific Economic Framework (IPEF) initiative launched by the US and thirteen other countries, including India, is of particular relevance.

The first rounds of negotiations on detailing the initiatives and working out agreements on specific aspects in respect of each pillar of the IPEF could be expected to commence soon. It would be in India's interest to be actively involved since the broad direction and thrust behind this new regional framework, particularly in relation to supply chains and critical minerals that have gained particular importance in the adoption and use of new technologies, would work in India's favour. Moreover, being not part of RCEP or of APEC, this is an opportunity for India that needs to be fully utilised to become economically engaged with this dynamic region. That said, it would also require very careful handling to ensure that the required commitments do not unduly constrain domestic policy space or detract from internally determined priorities.

Concluding Thoughts

This paper has attempted to capture the various opportunities and challenges before India in the next few years on the international trade front. On the domestic side, the primary focus has to be on increasing exports and limiting unnecessary imports. This can come about only through a rapid expansion of domestic manufacturing, strengthening product competitiveness, improving quality standards and regulatory mechanisms for their enforcement and ensuring a trade facilitative and logistically cost-effective environment. The momentum generated by a significant rise in exports in 2021-22 is opportune. It needs to be sustained and taken forward, notwithstanding some setbacks we see as a result of the Ukraine conflict. The Indian industry also needs to come forward and make every effort to fully avail of the various initiatives launched by the government, both in respect of manufacturing and in terms of infrastructure and logistics. Indeed, building a well-configured, strong and competitive export capacity will not only address the large trade deficit that India currently faces but also contribute towards the economic security of the nation.

The other aspect highlighted in this analysis are the various discussions and negotiations that India is currently involved in both multilaterally in the WTO, and bilaterally with friendly trade partners in respect of concluding FTAs. Additionally, the issues pending in respect of India's trade with the United States, which is India's top trade partner, have been briefly flagged, apart from the negotiations that may commence soon in the different pillars of IPEF. All these are intricate and, in some ways, interrelated, since certain issues (like digital trade, environment, labour, etc.,) are common between them and commitments made in one negotiation could affect another. Some of these issues such as WTO reform could also come up in the G-20 summit to be hosted by India next year. There are likely to be many challenges in this regard in the next few years but which, if successfully handled, could open up market access opportunities that would help buttress India's export effort.

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