India's Trade: Challenges and Opportunities

drishtiias.com/current-affairs-news-analysis-editorials/news-editorials/12-12-2019/print

This article is based on **"India's bane is its non-competitiveness"**, which was published in The Hindu BusinessLine on 11/12/2019. It highlights the significance of trade and discusses the challenges and missed opportunities for Indian trade.

Traders, throughout history, have sought new markets and been natural globalisers. Spices from India were so valuable in Europe that the voyage of Christopher Columbus to find a shorter sea route to India was financed. The East India Company, too, was formed for trade.

Journey and Impact of Trade

Colonialism and Industrial Revolution

- The benefits of free trade and production based on **comparative advantage** became key tenets of economic theory, leading to **colonisation** as a later consequence.
- **Impact of Industrial Revolution:** With the advent of the **Industrial Revolution,** competitive advantage in industrial production was created through technology and innovation. The first movers and leaders sought global markets and gained disproportionately through trade.

Impact on the East

- **India's impoverishment** began in the 19th Century, with the beginning of the **industrial revolution in England** and the colonisation of India by the East India Company.
- As industrialisation matured in England, **poverty in India became extreme,** with the large-scale destruction of artisanal jobs, especially in textiles, with thriving cities like Dhaka experiencing depopulation.
    - This was captured in the economic writings of Indians at the end of the 19th and the early 20th century, and provided the intellectual underpinning of Swadeshi and Khadi in the freedom struggle.

- In the 20th century, as **Japan industrialised,** it followed the example of England and began to colonise its neighbouring areas — **Korea and western China —** creating a larger captive market for its industrial goods.

Ushering in of Free Trade

- Later, **after World War-II,** the US — as the leader of the West and the pre-eminent global industrial and intellectual power— **promoted free trade.**
- This culminated in the **WTO agreement in 1994,** thereby ending the era where countries, after decolonisation, were trying to industrialise with **infant industry protection,** which had been used successfully in the past.

China's Success vis-a-vis India

China v/s India

- In 1991 — the year of Indian economic reforms and opening up of the country to globalisation — the **per capita incomes of India and China were the same. Technological capacities** were at similar levels.
- China is today the factory of the world. It has eliminated poverty. Its **GDP and per capita incomes are five times that of India.** China chose to craft its own pragmatic path to success.
- China became a **member of the WTO only in 2000,** and that too with difficulty. But this did not slow China's phenomenal rise.

China's Rise and its Impact

- In response to China's rise, an apprehensive US has now got the **G20** to change the formulation in their joint statements **from 'free trade' to 'fair trade'.**
- Trump's unambiguous **'America first' policy** and his **trade hostilities with China** have strong appeal with many Americans.
- Having conquered global markets, China is now the **proponent of free trade** and **globalisation** at World Economic Forum. The **OBOR and the RCEP** are being promoted by China, which is on its way to becoming a superpower.

India's Apprehensions in New Trade Regime

- **India's lost opportunities:** India lost out to China mainly due to absence of reforms and missing out on the manufacturing stage, hopping directly to the service sector for its growth and employment.
    - This (over) reliance of India on service sector proved costly as it impacted its capacity building in manufacturing and absorbed only the skilled and educated labour, leaving behind a vast population.
    - This also impacted India's prowess in global exports and trade, especially in perspective of 'America First' policy and protectionism of the US.
- **RCEP anxiety:** In the run-up to the **RCEP negotiations**, India hardly saw any benefits from joining the RCEP.
    - The experience of India's **FTAs with Asian countries** has shown that the Indian industry has not experienced the anticipated gains as it did not undertake the reforms needed to improve competitiveness.
    - By that implication, joining the **RCEP would pose a problem.** But it would then compel India to undertake requisite reforms and become competitive.
- **Losing to China:** The real loss in this period, however, has been through the g**rowing trade with China.**
    - Growing imports of consumer goods, thermal power plants — and now solar panels and exports of primary products like iron ore and cotton — constitute India's trade with China.
    - All that is imported was being made and can be made in India.
- **Impact of Free Trade:** Globally, there is **stagnant demand in the West,** excess, competitive **manufacturing capacity in China** and huge **growing demand in India.**
    - The logic of free trade is for India's growing demand to be met by China's excess capacity and India's inefficient, non-competitive capacities to close down without the need for the creation of new capacity.
    - Joining the RCEP would only accelerate the process. This may be a major factor in the structural nature of the present severe economic downturn.

Way Forward

- India needs to take a hard look at its choices. Creating global competitiveness and doing all that it takes to do so, including abandoning conventional ways of thinking, cannot be delayed.
- Better-functioning factor markets and reducing costs for businesses are overdue.
- Smarter, creative policies for developing and nurturing the nation's industrial and technological capacities need to be crafted.
- Economic nationalism and greater ambition is the need of the hour.

Drishti Mains Question

India needs to reform its domestic economic policies, to make its trade more competitive, instead of missing out on opportunities of regional trade blocks. Comment. (250 words)