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NEW PAPER:

Indian Trade Policy After the Crisis

India, like China, had a “good” crisis, argues Razeen Sally in a new study. Both have spearheaded exuberant post-crisis recovery in emerging markets. A combination of stable government and roaring growth has given rise to predictions that India will hit annual growth rates of 10 per cent or more. This is India hype, says Sally. Reforms have stalled since 2004, with no prospect of big change. The combination of a barely-reforming government in Delhi and turbulent global economic conditions will make it difficult to maintain existing levels of growth. Geopolitically, India is a rising regional and global power, but it is still a second-tier emerging power, well behind China.

India’s cumulatively substantial trade and FDI liberalisation has narrowed the gap with other developing countries. External protection is now much closer to Chinese and ASEAN levels. But that still leaves significant pockets of protection in agriculture, some industrial products and big-ticket services sectors.

India also has high domestic regulatory barriers – much higher than the east-Asian average – that are an even bigger obstacle to trade and FDI. Indian trade and FDI liberalisation has been overwhelmingly unilateral. But this has stalled since 2004. India is one of the worst offenders in terms of crisis-related protectionist measures, though this does not affect a big chunk of its trade. India is defensive in the WTO, as its Doha Round positions show. It is very active with FTAs, but these are “trade light”, pursued more for foreign-policy than commercial reasons. Indeed, India has the worst-quality FTAs among major Asian FTA players.

To throw some explicitly political observations into the mix: Reform complacency cramps further liberalisation and structural reform – more so in Delhi than in the better-performing states. But a party-political and wider public consensus, supported by open-economy business interests, prevents reform reversal.

Foreign-policy shifts – notably India’s “look west” and “look east” policies – cement cross-border commercial ties. India’s most favourable endowment is its labour abundance. This is the most promising factor to support further external liberalisation and global integration.

India’s challenge is to stimulate further unilateral trade and FDI liberalisation related to domestic structural reforms. That means tackling non-border, but still trade-related, regulatory barriers. These are “second-generation” reforms whose politics can be more challenging than the politics of “first-generation” reforms. The latter involve the reduction and removal of border barriers. This is relatively simple technically and can be done quickly – though politically these measures are rarely easy. The former are all about complex domestic regulation.

These reforms are technically and administratively difficult, and take time to implement. They demand a minimum of capacity across government, especially for implementation and enforcement. Above all, they are politically very sensitive, as they affect entrenched interests that are extremely difficult to dislodge. Nevertheless, the case should be made to take on these reforms – so that they can be pushed through when political opportunities present themselves.

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