



India's trade policy in the 21st century – flagship dialogue

Centre for Social and Economic Progress (CSEP)
CSEP Research Foundation

6, Dr Jose P Rizal Marg, Chanakyapuri, New Delhi 110021, India

Ph: 011 2415 7600

Speaker(s)

Amita Batra

Professor of Economics, School of International Studies, Jawaharlal Nehru University

Penny Goldberg

Elihu Professor of Economics and Global Affairs and Affiliate of the Economic Growth Center, Yale University

Moderator(s)

Rakesh Mohan

President & Distinguished Fellow, CSEP

Know More Details: <https://csep.org/event/flagship-dialogue-indias-trade-policy-in-the-21st-century/>

Watch the full event video here: <https://youtu.be/ApWiK9v6my0>

The following is an edited and revised transcript from the event. It has been generated by human transcribers and may contain errors. Please check the corresponding video for the original version.

Rakesh Mohan:

Let me welcome everyone to this flagship dialogue from the Centre for social and economic progress. CSEP. The dialogue is between professor Amita Batra of the Jawaharlal Nehru university and professor Penny Goldberg from Yale university. Amita Batra has recently written a book on India's trade policy for the 21st century. So, that is the topic of the seminar, of the webinar, a dialogue. We are very lucky to get both Amita Batra and Penny Goldberg together. So, let me first introduce them and say a little bit about the topic. Amita Batra is the professor of economics and former chairperson of the center for south Asian studies, school of international studies in Jawaharlal Nehru university in Delhi. She has taught also as visiting professor, a visiting fellow at the university of Sydney and the university of Edinburgh. At present she is also a member of the advisory group for G20, finance track agenda. And as all of you would know India is the chair of G20 for this year. There is a great deal of activity going on in that sphere that is in the G20 as a whole. And of course, in the finance track itself. Penny Goldberg is a former colleague of mine from the Jackson school for global affairs at the Yale university. She is also the Elihu professor of economics and global affairs. And an affiliate of economic growth center at the university and of course, at the Jackson school. She was chief economist of the World Bank group between 2018 and 2020. She has also served as the president of the econometry society, vice president of the American economic association and editor in chief of the American economic review. She has also been elected member of the national academy of sciences and also American academy of arts and sciences which those of you would know are really major honors to be elected to those academies. Now, trade policy is indeed a domain that is going to be extremely important. Certainly, for the next decade in India and beyond. There are many difficult issues now coming up with the global slowdown both in terms of growth and in trade. It is also particularly important for India because whereas we had recorded very high growth in the 2000s, 2002 to 12 actually, when our export growth rate was in fact higher than that of China. Even though of course, not in terms of volume. It has stagnated since somewhat, although there are now signs of India's export picking up again. And I am here mainly talking about merchandise exports. Our service exports also continue to do well and they have in fact grown very well in the past year. But nonetheless given that one of India's major problems is employment and therefore, we need to have a much higher growth in merchandise of exports in over the next decade. I will also add emphatically to my knowledge no country has grown consistently at the kind of rate that we would like, that is 7 or 8 or 9% annually which can be more and more difficult given the global slowdown. But to my knowledge no country has grown at these kind of growth rates for 10 or 20 years without very high export growth rate as well. So, that is why I believe that this is among the most important topics for us and for __ and so, I am very, very pleased to host this flagship dialogue. The way this is going to be run is that first Amita will spend some time about 15 minutes or so on giving the key points on the book. The key policy implications of the book. Then Penny will give her comments and after that we will have about little more than half hour 35 minutes or 40 minutes or so of question and answer. I will pose the questions and any of them or both of them can pick up on the questions. Amita you are off. Let me just ask you first to display your book so that people know what we are talking about.

Amita Batra:

Here is the book.

Rakesh Mohan:

Yes. That is 'India's trade policy in the 21st century' and is published by Routledge. Off you go Amita.

Amita Batra:

Thank you, Mohan, and thank you CSEP for organizing this discussion. And giving me the opportunity to talk about my book. The discussion around the subject of trade policy in the 21st century. India's trade policy in the 21st century. Thank you also to Professor Goldberg for making the time in your very busy schedule today to discuss this with me. I will as Dr. Mohan said will be making only a select set of points which I think are the most important and critical to trade policy in the present context. Giving a background of course, but I think these are the points not necessarily all of the points, all of the main points as far as the book is concerned. But critical points to the present context that we are in in terms of shaping India's trade policy. The book of course, talks about as was stated earlier on focused on merchandise trade, goods trade basically. And it is about India's trade policy in the first two decades of this century. The big overarching message and the theme that runs through the book and that comes across in the book and that I emphasize in this book is the extent to which India's trade policy has remained alienated with respect to two major developments as far as global trade context is concerned. The global trade developments in terms of trends – A, and B - in terms of the trade policy instruments as they evolved in the last two decades. Particularly in the last two decades and specifically as they were utilized by other emerging markets to increase their share in global trade and in particular in the most trade dynamic sectors. The first when we talk about global trade developments, we have seen in the first decade starting of course, in the last 1990s a multifold increase as far as global trade is concerned. Especially in the first decade relatively there is a slowdown in the second decade post 2011-12. This global trade that increased in the first decade significantly you see was led by manufactured goods and within manufactured goods by intermediate goods. Also more commonly known as parts and components trade. Significantly underlying this increase in intermediate goods trade was the global value chains or what we have as production fragmentation by large corporations across the world. This was reflected in the dynamism as far as trade is concerned. The most significant sectors in terms of both gains as far as share in trade is concerned as well as amenable to value chain production, our concern is these are or these were basically in terms of electronics, automobiles and in the light manufacturing sector, textiles and clothing. Interestingly enough when we talk about or when we make reference to this increase as far as trade is concerned or we analyze these trends we see that the increase in trade during this time was led by developing countries. As far as developing countries are concerned within this it was led by Asian countries. Asia was in the lead, particularly east Asia was in the lead with China of course being the lead trading partner or emerging as the lead trading partner for almost all economies in the first decade itself by 2008. Where in this picture I mean... of course, there was just to kind of emphasize that when we talk about Asian countries and we talk about China being in the lead we should not forget the other ASEAN countries and other emerging market economies around the world also had registered gains in these dynamic sectors. Some in ASEAN but across the world emerging market economies were registering gains. Where is India as far as this trend is concerned, we see that as far as India's global trade participation is concerned although as it was stated earlier India's global trade integration did increase. We did cross the one percent mark as far as the share in the global trade is concerned in 2008. It increased after that. But for the last decade

and a half it has been almost stagnant around 2% or so. India's share in global trade has remained at around 2% which is very small. In addition to this as far as the main propellant mechanism of global trade or what was basically the cause of the multifold increase in trade is concerned that is GVCs or the global value chains, India's participation has been small in this too. In particular it increased initially, that is in the first decade we did see an increase in India's global value chain participation across all manufactures. But this declined after 2012 and significantly as a variant trend with respect to the other economies, other emerging market economies particularly in ASEAN and Asia, we see that in 2015-16 which is the last date of the database that was available to me at that point of time, at the time of writing this book, India's value chain participation in all manufactures and in specific sectors that is the three dynamic sectors that I have listed earlier was lower than what we started with in the earlier years of the first decade. We were less than in 2015-16 relative to where we were in 2005. If we contrast this with other emerging market economies ASEAN economies as well as what we have seen as a significant or the ASEAN economy that made the most spectacular gains, both in its trade shares as well as in its GVC participation that is Vietnam, this trend is completely at variance with them. While the ASEAN economies did experience a decline in their global value chain participation in the second decade and so did the other economies around the world that is emerging markets economies, it was not lower than where they had started from in the first decade like as in the case of India. In case of Vietnam, it was even more surprising or it was even more surprising or it has been more surprising in the sense that Vietnam has experienced its backward integration with global value chains, at a rate that is higher than any other economy, its gains have been higher than any other economy and it has remained at a higher level relative to all other economies in ASEAN relative to India of course and relative to its own position at the beginning of the decade. So, Vietnam has had a spectacular increase in its trade shares particularly as far as the electronic sector is concerned. Similar gains as far as global value chain participation is concerned have also been made by other emerging market economies as I said that Mexico and eastern and central European economies. When we analyze these economies and the trade policies of these countries., what is it that stands out as far as these emerging market economies are concerned. A significant aspect that I see is in terms of the cooperative arrangements and agreements that these countries entered into initially at the sector level. Sector specific cooperative trade agreements that they all entered into and the advantage that they could gain through these agreements and arrangements in terms of integrating with a proximate global value chain hub. Whether we talk about Thailand in terms of ASEAN what was led by Japan at that point of time and later by China in terms of its very early integration or very early development in terms of the cooperative arrangements. Brand to brand complementarity arrangements for example which was specific to the automobile sector, later developing into or utilization of the CEPT, the common effective preferential tariffs of the ASEAN benefitted in terms of integrating with the automobile value chains as far as Japan is concerned and later on with China. Extended on to other ASEAN economies as well. Mexico as part of NAFTA and now USMCA, central and eastern European economies, accession to the European union. So, it is basically you see it across emerging market economies that is specific to all of these, has been common to all of these as being their participation in such agreements. Which evolved into free trade agreements as we move on in time in the 2000s. and then as we evolve as we move on further into the second decade or the later part of the first decade into the second decade. We also see an evolution as far as these trade agreements themselves are concerned. While initially when we talk about the first decade or the late 1990s

into the first decade as far as characteristics of these cooperative arrangements are concerned, they were basically restricted to tariff reduction or import of inputs exempted from duties. That is the essential line of reform or essential line of change that happened or that was a critical element as far as these cooperative arrangements were concerned. Towards the end when we have in the second decade or when we move from the first to the second decade, we have a change in the character of the FTAs in the sense that they started evolving by incorporating to a very large extent provisions and policies that were beyond just tariff reduction. Tariffs had already been reduced both by GATT as well as by these preferential arrangements earlier on. And now we had the FTAs or trade agreements performing the role that increasingly a weakened WTO was not able to. So, the provisions as far as FTAs were concerned in the first into the second decade or evolving FTAs were basically both what we call as extensive margin as well as intensive margin, greater in number than what the WTO could provide for in order to facilitate trade. Particularly trade in parts and components, multiple border crossing of intermediate goods, so as to facilitate ultimate value addition or value addition at different stages and assembly production at a particular point or another country. As far as these FTA evolving is concerned the inclusion of provisions were both as I said extensive in terms of increasing the number of provisions but also significantly the depth of provisions in these FTAs was far greater than the provisions as they were part of the WTO. So, it was both in terms of greater number of provisions, facilitating the movement of intermediate commodities as well as integration into value chains, also the depth of these provisions. In particular the rules of origin started to evolve around making them simpler, that is value addition rules at different points of time, that were made simpler so as to make cumulative value addition and hence multiple border crossing of the intermediate good is easier for large corporations and ultimately the ultimate assembly. When we look at this picture in terms of emerging market economies and make a comparison with India, we see what is it that India has done with respect to these trade policy instruments that were particularly facilitative of entry into global value chain, integration with value chains and in participating in the most important component as far as global trade is concerned, that is intermediate goods trade. This as far as FTAs are concerned it is not that India did not sign FTAs. We have if you look at the list of FTAs, we have a large number of FTAs. Most will cite 13 as the number. But what is important as far as India is concerned is not the number, but as I said the depth of the FTA agreements. What we see in case of India is a limited number of tariff lines that are liberalized. Invariably we do not come across, in fact I don't think we have any FTAs as far as India is concerned with subscribes to the WTO defined criteria for FTAs in terms of 85% plus liberalization that is substantially all tariff lines being liberalized. One. Two, this has been so because we have had very high tariffs, as far as our domestic tariffs are concerned, our tariffs have basically remained high. Surprisingly what we see when we compare the tariffs as far as India are concerned, the tariffs in the other economies, is a steady increase in India's average applied MFN tariff in the non-agricultural sector over the last decade. Particularly in the last seven or eight years. We have seen tariffs to increase particularly so in comparison, when we make a comparison with the other emerging market economies. And also, when we make a comparison in terms of the duty-free lines on offer as far as the other emerging market economies are concerned. The duty-free lines in case of the other emerging market economies have necessarily been a consequence of their participation in these cooperative arrangements early on. That is what they started with and then they evolved into more regulatory policy comprising FTAs. In addition to this when we talk about these kinds of regulatory policies as far as India is concerned its rules of origin

are highly complex. While I have stated that in the case of other emerging market economies and FTAs as a whole, rule of origin was simplified in order to facilitate multiple border crossing of intermediate goods and value additions. In India's case we have had more complex rules of origin. And we have had a more difficult criteria defining these rules of origin with value addition at each point being much higher. In addition to that in the most recent customs act in 2020, we have also made it procedurally more cumbersome for importers to avail the preferential duty-free or preferential tariffs as far as FTAs are concerned. So, a – we have higher tariffs, b – we do not liberalize substantially as a consequence in our FTAs and c – we make it difficult as far as utilization of FTAs is concerned because the rules of origin certification, the certificate of origin for rules of origin is a cumbersome procedure as far as India is concerned. Made more difficult in the recent times. Second, what we have seen as far as FTA is evolving in the rest of the world are concerned, it is increasingly taking into account these services investment and the goods services and investment linkages as far as trade and value chains are concerned. And prescribing or including provisions that can facilitate these linkages or facilitate all three of these. In India's case we have been stuck as far as services is concerned, focused only on one comparative advantage which we feel is our only comparative advantage, that is for movement of professionals. I think it is time for India or it should have been long back that India should have realized the change that has occurred as far as manufactured goods are concerned and the necessary embedding of services into manufactured goods. And we have started to identify and we should have identified other services that could have given us or where we do have comparative advantage and where we could have negotiated better. Also, in the context of services I think as far as India is concerned it was necessary for India to have done it as a comprehensive package of goods and services rather than parallel or sequential processes in terms of negotiations. Bargaining becomes more difficult when it is done as a sequential process which has been done both in the case of India ASEAN FTA as well as what we also experienced in our negotiations as far as RCEP is concerned. So, the negotiations need not have been in terms of sequential in silos, but should have been combined together to have been argued together. Because I think manufacturing or goods and services combined together is what gives us a better advantage than just services particularly in terms of what we have been arguing for. Furthermore, as far as investment is concerned our model of bilateral investment treaty of 2016... the earlier investment treaties that India had were cancelled in 2015 when we brought in this new model bilateral investment treaty that places the onus of claiming the advantages as far as investment is concerned or even identifying themselves as foreign investment foreign investors on the foreign investor as such. Plus, it does not have a clause as far investor state dispute settlement mechanisms are concerned. These have been the difficult issues in terms of equity and fairness as far as our model BIT that was issued or that was introduced in 2016 is concerned. A huge correction that is required here. Again, in comparison our next point that I would like to highlight as far as India's FTAs are concerned is in terms of support mechanism. In all other countries that we see in east Asia, you have had state bring in support mechanism for MSMEs in particular so as to make them or enable them to understand the provisions as far as FTAs are concerned to help create, reskilling and retraining boards so as to be able to train and retrain labor that is displaced from the sectors that are losing sectors and make them more employable in the winning sectors. That kind of a support mechanism either in terms of facilitating participation in FTAs, utilization of FTAs, understanding the legality of the text, understanding rules of origin, being able to utilize rules of origin or certificates of origin issuance, none of that is something that India has been able to

create as a separate forum, where individual enterprise or individual small and medium enterprises can really approach to be able to make the best utilization as far as FTAs are concerned. Finally, what we have as far as FTAs are concerned is in terms of our oft repeated argument that India has incurred deficit because of its earlier FTAs and hence we do not wish to go ahead with FTAs that have already been undertaken with let us say ASEAN. The trend was in terms of post FTA India's deficit with ASEAN increasing. I have heard many policy makers in recent times too say that as far as these trends are concerned it kind of discourages India to move forward with its free trade agreements. However, as I said, if you have higher tariffs to begin with, incurring a deficit with lowering tariffs when we move in for preferential trade agreements is a foregone conclusion. So, a prior to entering into any trade agreement would require India to lower its tariffs as a whole on an average as far as non-agricultural sector is concerned and particularly so as far as the specific more dynamic sectors where we wish to integrate in value chains are concerned. Next, just to highlight the most recent instance that we have had as far as trade agreements are concerned which is in the form of RCEP where India has not been able to negotiate or India walked out or India withdrew in the last round as far as these negotiations were concerned and hence India does not participate or is not a participant as far as RCEP is concerned and often given argument in this case which I go into detail as far as the book is concerned is that, we have agreements with all countries, participant countries as far as RCEP is concerned, be it ASEAN, Japan, Korea, Australia, New Zealand. Australia New Zealand we do not yet have an agreement FTA, a full-fledged FTA. We only have an early harvest scheme. In addition, it needs to be understood that a larger mega regional trade agreement allows rules of origin that bring in, the common rules of origin and common rules of origin that allow for cumulative value addition across member economies and that is an advantage that goes only to the member economies of the RCEP and not to those who will have individual or bilateral FTAs with member economies. That is one part of it. The other argument that is also discussed in detail in the book is that where we do want to have bilateral agreements over and above or beyond the mega regional, beyond the plurilateral, it is very important that the bilateral FTA be deeper than what the mega regional or what the plurilateral allows us. Invariably or sometimes the plurilateral does get caught in allowing for flexibilities that is the lowest common denominator given the differential levels of development across membership of a larger agreement. Neither of this hold as far as India's FTA with either ASEAN or the other member economies of the RCEP are concerned. Therefore, I think it is a lost opportunity as far as RCEP is concerned. My last point if I may, that is in terms of the dynamic context that we are in today as far as the global context is concerned. When you look at the India's... as I said India's participation in global value chains has been low, India has not really been able to take the advantage as far as shifting global value... shifting value chains from China are concerned both in the wake of the global financial crisis and in the period after that. The emerging evidence that we have or the evidence that we have as far as post or in the wake of US-China trade tensions are concerned India has been a very marginal beneficiary of the shifts that have happened in these two waves of value change shifts. In fact, if you look at the first phase in the post global financial crisis period, India was considered to be one of the potential gainers and the lead gainers potentially as far as value chain shifts were concerned. But this did not happen. Again, reasons being multiple. But in terms of main agreements facilitative instruments as far as trade agreements are concerned and higher tariffs continuing to be a major obstacle as far as shifting value chains are concerned. Something that we continue to see today. Similarly, as far as the US-China trade tensions are concerned even after that India was not

able to really avail of the gains in terms of the China plus one strategy that started to gain momentum at that time. Now we are in... it is another opportunity that India has for making the best of what is happening in terms of a more activated plus one strategy that the large corporations are adopting across the world. Both post pandemic as well as in the wake of the Ukraine crisis I think it has become a very significant opportunity that India has. Priors remain as far as tariffs are concerned, trade agreements are concerned. But I think what one also has to remember at this time is that this is also a time when there is a flux or there is a certain dynamism in terms of both factors that are leading to a bundling off, that is a re-bundling of value chains consolidation, back to regionalization. And there are also similar factors that are probably going to lead to another not necessarily wave, but also going to lead to unbundling. AI, robotics, enable distant monitoring of the value chains. So, that is another possibility that is also emerging. So, we have a combination of factors at this point of time both on account of geopolitical factors, the pandemic that has happened, technological shifts that are happening in terms of factors that lead to greater bundling at one end but also greater unbundling at one end. So, the possibilities of value chain increase and integration with value chain remains as far as India is concerned and we can continue to have gains as far as integration with global value chains is concerned. That is something that we need to continue to strive for. Just the last point that I would like to make here in terms of what India needs to do. I think I have already highlighted FTAs tariffs etc. but I think the big thing here has to be in terms of India not interpreting the objective of self-reliance as completely inward or more protectionist policies here on. Thank you.

Rakesh Mohan:

Thank you very much Amita. That was really a tour of force on your book which is always very difficult to cover a whole book in a short time as you did. But it was really pretty comprehensive and lots of food for thought in the context of current trade policies. Penny, can I ask you to now go ahead with your comments?

Penny Goldberg:

First of all, thank you very much Rakesh and thank you Amita for inviting me to discuss the book. This is a topic that is close to my heart. The book does an excellent job of giving an overview of main issues. As Rakesh said summarizing the book in 15 minutes is an impossible task. There is a lot of substance in the book. One thing that I particularly liked is that it strikes a fine balance between summarizing global trends and going into great detail in explaining what and how India has failed to participate in global value chains. As anyone who has worked on trade policy knows the devil is in the details when it comes to trade negotiations. And the book provides many details about how these trade agreements are structured and how India has failed to negotiate its path to higher trade participation. I will abstain from giving very specific comments on the details of the book both because this would be impossible in the time we have, because I think Amita may have much more expertise in this area than I do. I am not an expert on the Indian economy. But by my own interest in India dates back to the 90s when India implemented a major trade liberalization and I studied this trade liberalization with my co-authors. What we found is that the trade liberalization had positive effects on product innovation, so we approach the topic more from the point of view how the trade liberalization, how did access to cheaper imports to import of capital goods and better technology, how did it influence innovation rather than the perspective of export growth. And then when trade growth

stalled around 2012-2013 as Rakesh pointed out, I started wondering what had happened in India. So, the book answers exactly this question. So, what happened and why India stopped promoting trade? There is one question I found myself asking repeatedly in the past years. And I kept asking myself while reading the book was why did India decide to take this direction. As Amita pointed out this is not an isolated case where India failed to reach a good deal in one particular trade agreement or where policy makers made some mistakes. It is natural to make mistakes but when one reads the book it becomes quite clear that this is a matter of a policy choice, a choice away from trade and towards other policies. My general question for me and perhaps the audience and this is perhaps something we can talk about more later is why did India choose to go down this path, especially given that other economies in Asia as Amita pointed out decided to take a very different direction. And again, as evidence suggests the growth miracles that we witnessed in the previous three decades were all associated with very fast export growth. So, this is a puzzle to me and I would love to discuss this. Probably this is Amita's next book on why this happened. When we comment on the global trends and especially the slowdown of trade and of global value chains and again this is something we may want to come back later, many organizations, many trade economies have been emphasizing the slowdown of trade. But actually, if you look at the data, the slowdown is driven primarily by China to a lesser extent by India as you pointed out, India is too small in trade to matter in aggregate statistics. So, it is mainly China. As China has moved towards a strategy of dual circulation, emphasizing domestic demand rather than exports their participation in global value chains decreased and that also affected the global statistics. However, if you look at the rest of the world, if you look at other countries and especially in east Asia, until very recently trade kept growing. Especially trade in global value chains and this is especially true for trade in parts and components which is a very good measure of global value chains. So, until very recently I would have said this slowdown of trade is not necessarily a necessity dictated by technological trends. Now the policy environment has changed dramatically in the last few months. And so, we may be facing a very different picture in the next few years, in the next few decades. Now let me come to the main comment on the book which is going to be a general comment. So, the book is generally a positive analysis. So, it lays out all the values if I may say, of India to promote trade and both in terms of global value chain participation but also in terms of engaging trade instruments that have been important in trade policy in recent years. So, it is a very positive analysis, it lays out all these issues. There is however a strong normative undercurrent in the book. The normative part is the premise that ultimately the goal is to increase exports and especially merchandise exports. And Amita talked a little bit about this at the end that just promoting growth in services is not sufficient. We should bundle that with growth in merchandise exports. As you know, I am a trade economist. I believe trade is very important. But I would like to challenge this premise and especially I would like to challenge it in the face of new global challenges that we face right now. We had planned to discuss this book last fall. Since last fall there have been dramatic changes in the United States in the United States policy. Where we have witnessed a very strong departure from multilateralism. Now, this is not new, this started many years before. It started I would say around 2015-16 with increasing concerns about trade. It is not specific to the United States. It also applies certainly to Britain with Brexit but also to some skepticism is also evident in other European countries. So, in general in many advanced countries we see much more skepticism towards global trade. So, I am not convinced that the opportunities that were available to low and middle income countries in previous decades are going to be available to

countries in the decades to come. Some countries have managed to already position themselves very well. Like Vietnam, Malaysia, Thailand. Others like India have failed to do so. One valid question one may ask is, has the ship already sailed. Is it too late for India to catch up? I might have given a different answer if we had this conversation a few months ago. But given the current changes in the US and in the global environment, I am increasingly skeptical that especially trade the way that was conducted in the previous decades can be the engine of growth for many developing countries. I think this is an issue. I very much believe in what Rakesh said that fast growth has always been associated with fast export growth. However, I am not quite sure that this is going to be feasible in the decades to come. One more thought on this. When the trade tensions between the US and China rose in 2018, when the US first imposed tariffs, first on aluminum and then on many goods from China and then China retaliated, there was great anxiety about these developments in the US and also in Europe. There was great anxiety about the future of trade. But in many developing countries there was true euphoria that applies to many countries in Latin America but also to Asia. The expectation was that these countries would fill the gap. That these countries will take advantage of the tensions between the US and China, to take the place of China. So, many countries saw a great opportunity there. Now, I have studied these developments with in some work with my co-authors. What we found is that indeed many countries took advantage of the situation and increased their exports. So, we cannot make any general statements about welfare. But they did increase their exports. In fact, they increased their exports so much that global trade in the products targeted by the tariffs increased. Now, if you ask which countries benefitted from these changes you see the usual suspects. Vietnam, Malaysia, but also many European, many east European countries. Mexico is one of the great beneficiaries. India was certainly not one of them. So, India did not benefit. Was not hurt by these trade tensions but also it did not benefit. This is very much consistent with everything Amita says in the book that India had not positioned itself to take advantage of these opportunities that came up. Moreover, in the work we did, we asked the question. So, why did these countries benefit. Is it because they were lucky and they happen to be specializing in products that were targeted by the tariffs? And the answer was no, it was not really the product specialization that accounts for the success. It was more country specific characteristics and in fact there are various indications that the countries that benefitted the most were countries that were already well integrated in the world trading system through deep trade agreements, for example. So, as global value chains were getting reshuffled and they were repositioning themselves, there were certain countries that were able to take advantage of this situation. India was not one of them. So, again this lines up perfectly with everything that the book said. So, that raises the question perhaps if India takes the next necessary steps, it can now take advantage of new opportunities that may arise because these tensions with China have escalated to a full not just trade war, to a full economic war. So, can India now be the plus one in the China plus one world. There again, I am a little skeptical. Not only with regard to India, but with regard to any other country that it can play the role of plus one. Let me tell you and offer you a few thoughts why I think this is the case. All these FTAs and the trade and the bilateral trade agreements and the original trade agreements that played such an important role in the development of global value chain and I fully agree with Amita that without these FTAs this regional trade agreement global value chains might not have been able to function as well. All these though took place at the time when countries had embraced multilateralism and when the world trade organization kept expanding by admitting new members, many of them developing countries. So, all this was anchored in multilateralism. And that played a very

important role. In many cases these regional agreements were used to reinforce rules that the WTO had adopted and it was easier to extend them because the countries were more similar and perhaps have more similar interests. This is very different now. So, now we have, I think most people would agree, we have a general departure for multilateralism and we still see the formation of many regional trade agreements. Especially in Asia, we also have other plurilateral agreements across many countries all over the globe. But it seems that the primary objective there is to discriminate against countries that are excluded from these agreements rather than integrate the members. This is a very different mindset. I am not sure that any country is going to benefit from this, including India. It puts it in a very precarious situation, so it may be able to take advantage of the current environment for the next year. But it may find itself in a very different position in a few years. One of the reasons for that is, I do not think that advanced countries will allow a second shock from a developing country to take place. Many people in the United States talk from the China shock. So, the fact that the imports from China put a lot of pressure on labor markets in advanced countries. I do not think that the mindset in advanced countries and especially in the US right now is one that would ever allow a country like India or developing countries to take the role of China in the past with potentially similar consequences on local labor markets. I think we are in a very different position right now. So, this is my main concern. It is not just what India does, it is also what the US does. What other countries does. It takes two to tango and in trade it takes many more to dance and here there seems to be generally a mindset away from globalization for which I wouldn't blame just India. Finally, a last point I want make, regards the role of services. So, I think this the general global environment is very bad news for developing countries. Because trade is vital to their growth. That said, I think conditional on being a middle income country or a low income country, India may have it much better than other countries. And the reason is India is a large country by virtue of its population, by virtue of its geographic area, by virtue of economic size. So, that means that the domestic market can play a much more important role than the foreign market. This is not to downplay the role of trade. But I still think that the domestic market could be the engine of growth in India. Here services could play a very important role. Perhaps one day we will manage to solve the current tensions and embrace trade again. And if this happens one day, I think the new frontier is going to be trade in services. This is the area that still remains highly restricted, this is the area that has the potential for enormous growth. In that area India has an enormous comparative advantage partly because it is the population that speaks English, is well familiar with norms and cultures of other countries, it is an extremely diverse country almost as diverse as the United States. This is a huge benefit when you trade in services. And finally, it has embraced the digital economy and this is also going to become important in the future. So, I think this is the new frontier, I think liberalization in the service sector or fast growth in the service sector is even less dependable right now given the current policy environment and trade in merchandise goods. But one day this may be the new frontier. There is a lot of potential for encouraging service trade within the domestic country by eliminating domestic barriers to trade. This could be one step towards one day being more successful in international trade. What is the downside of such a strategy? Well, the downside is, it is not going to lead to the fast growth Rakesh talked about. It may contribute to the growth of Indian economy, but one would not expect the growth miracle that China has experienced in the last few decades. To close on a pessimistic note, I am not sure this growth miracle is feasible any more. I mean, one bleak interpretation of what the United States did in the last year is we embraced trade, we embraced free trade with developing countries as long

as the developing countries remain poor. If they manage to eliminate extreme poverty as China did and rise very fast then we hit the brake. And then we make sure they don't grow any faster. If I were an Indian policy maker I would... that kind of lesson would give me a pause. So, I don't think that we can count on the lucrative US or European market of the past to play the same role they played in the past. So, I will stop here and I hope we can discuss some of these issues more.

Rakesh Mohan:

Thank you very, very much indeed Penny for that very thoughtful and comprehensive response and of course, giving a much more of a global view and taking much more account of the current trends in global trade, the role of the US, the changing policy stance of the US and of course, the US-China tensions and the retreat of multilateralism. So, let me start my questions with... in fact taking off from just where you left... in terms of the... you are quite right I think that the kind of boom in European and American demand for goods that came essentially from Asia, not just China, but all of ASEAN and of course, Korea and much earlier Japan will not happen in the future. Now, I imagine that apart from changing stance, it has also given the demographic expectations for the developed countries that there will be slowdown in demand and also therefore for trade for imports. So, my question really is however, that most projections as of now, but of course, they would be changing and the most recent global economic prospect report from World Bank is sort of consistent with what you are saying. But what I want to say is that Asian countries that is China plus ASEAN plus Korea in particular plus south Asia as a whole maybe expected to grow at 4 or 5% year over the next 10 or 20 years possibly. Now, their weight is completely different than what it was 20 years ago. And the combined weight will start approaching US and Europe put together. So, my question to both of you is, is this the kind of scenario... isn't it too pessimistic and perhaps thinking too much of US and Europe as the drivers rather than Asia which has about 4 billion people who will presumably be buying all the usual stuff for 20 years. So, why shouldn't we think that trade in goods will keep increasing of course, at a slower pace that it did earlier. But in that context is it correct to say that India has missed the bus for labor using manufacturing exports. Who would like to go first? Amita?

Amita Batra:

Thank you. Thank you, penny, for your very, very comprehensive comments and bringing the discussion to the current, the present scenario that we are in. I agree with you on some points. But I also differ with you on the extreme doom and gloom that you predict as far as global trade is concerned. To some extent I agree with what Rakesh is saying in terms of looking at Asia as a region that should be expected to deliver. And that is the region that we should be looking at. It is something that I have written and which is going to come out tomorrow in my column. But what I would like to do here is, two or three points that I would like to take up. One, when you talk about retreat from multilateralism, that is something that started in 2017-18. We started to see, in fact, the entire FTAs becoming deeper and taking up provisions that were never ever part of what the WTO subscribed or prescribed by itself was revealing in terms of the strength of the WTO depleting over time. We have seen this happening over the last decade. So, multilateralism has been on the retreat I think for a long time now. FTAs have survived, FTAs have allowed trade to survive during this time irrespective of what happened to multilateralism. What we are seeing now in terms of the US and EU, I think is a response to

geopolitics in the sense of as you say they are not going to allow developing countries to take a position of a major power. It is a power competition I would say which is more political and is being played out in the economic arena. We are looking at developments like the inflation reduction act, protectionism as far as that is under the umbrella of the IRA, you have protectionism in the US, you also have protectionism in EU or EU becoming more and more protectionist. We have all of that. But I think we need to point out at this time what is happening in Asia and what has happened in Asia let us say during the pandemic. The revival of trade in the last quarter of the first year of pandemic was an account of the Asian economies. They were the lead economies as far as trade at that time was concerned. Today what we are looking at as far as Asia is concerned is two regional mega trade agreements that they are going to be taking forward. I think we are also looking at more and more European economies that are inclined to participate in the other mega regional which is the comprehensive and progressive trans-pacific partnership, the CPTPP. Both of these by the way, whether we talk about the RCEP the regional comprehensive economic partnership, which is ASEAN plus the other economies in the east Asian region, Australia and New Zealand combined or we talk about the CPTPP are in fact in alignment with the WTO. They have defined... when we talk about IRA or when we talk about the other issues as far as EU is concerned, I think there the violation of the prescribed WTO provisions is happening. But that is not happening as far as Asian region is concerned. So, with multilateral, multilateral system prescribing the kind of trade agreements that are happening that we are looking at as far as Asia is concerned, I think Asia is going to retain the dynamism, the belief in trade and will continue to be the centrepiece as far as global trade is concerned. That is something that we should be looking at and that is something that India should be looking at as far as its alignments are concerned rather than looking at west which is becoming more and more selfish and protectionist I would say in this war with China. It is also important I think for India to align with Asia at this time because if we don't one RCEP is where China is and other China's application to CPTPP, of course, if we keep China in the waiting room forever that is a different thing. Otherwise, it is going to be China making the rules this side. This is going to emerge as a major trading block in that sense. Because these countries, if you look at the ASEAN economies are also the ones that benefitted or are benefitting from the plus one shift that is happening from China to the maximum extent possible. A lot of the firms that are in China find it advantageous to be in the ASEAN countries today and are shifting to these. The other bit in terms of the larger global pessimism that you talk about in terms of trade not being in the same format or value chain, parts and components, intermediates etc. I have a slightly different view point there. Yes, the west wants to create these supply chains on its own for example the IRA and the electrical vehicle stuff that they are envisioning for themselves today in north America. But the capabilities in terms of being able to do all of that on their own through the kind of resources that they are thinking about in terms of Canadian reserves as far as critical minerals are concerned, I think starting from scratch is going to be very difficult and a time consuming activity. So, it is not going to happen overnight. I don't see it happening in the short or medium term. Long run, yes. Maybe. As far as Asia is concerned the value chains that are in China continue to be in China. We are still talking about a China plus one. Nobody is talking about a complete displacement as far as China is concerned or an ___ shift from China. I think there is a certain stickiness, sunk costs that have been incurred as far as placing the entire network that we have of supply chains in China are concerned. The maximum that can be affordable at this time I think, given the pandemic, the bankruptcies, given the kind of financial turmoil that we are looking at, is probably going to be shifts at the shortest distance

possible within ASEAN. So, that is the probable scenario I would envision happening or unfolding in the region, globally and even if you look at, we kind of extend it and take it back to the earlier decade, it is east Asia that was leading the way as far as parts and components trade are concerned. The complexity of the value chains just before you have a retreat by the United States and so on, it was really an increasing percentage or proportion of trade that was happening between the north American value chain and the European value chain, less so as far as European is concerned. But more so as far as north America is concerned with east Asia. It was interregional in that case was more intra-regional in case of Asia was always more, although it was led by China. I think it will continue to be led by China even now.

Rakesh Mohan:

Can we ask Penny now to...

Amita Batra:

In that sense differing views and probably...

Rakesh Mohan:

This is actually very interesting. That is exactly what a dialogue is for, to get different views and of course, find middle ground if possible. But otherwise, it is certainly a good idea to get different views.

Penny Goldberg:

Both of you raised the issue of Asia. I guess you agree with my gloom and doom, I won't say prediction, because it is a prediction condition on policy. And my prediction is that if we continue down this policy path, this is going... we are going to have a retreat from globalism. But the hope is that this is not going to persist. But you are both saying so this may apply to Europe and the United States, but the dynamism is in Asia. I agree with that. But there are two different ways one can think about Asia. The first is, to emphasize the plus one mindset which is wicked great pretty much as it is but India takes or some other country takes the place of China. In my view this is not going to be a very promising path. The other one I think Amita this was your comment, is that Asia focuses on trade with itself. In that setting China is going to be important. Even for demand purposes as Rakesh mentioned, demographics are changing. China is a very large market which can be the source of very high demand. I guess what I am very skeptical about is if we have a simultaneous decoupling of China in the US and in India and the rest of Asia, this is going to be very hard to argue that trade can keep growing when China is completely cut out. Now if we have a setting where there is a lot of trade with Asia including China that is a different story. But I think geopolitics are there very important as well. I mean India stayed away from RCEP and again I know Amita you are critical of all this. But I agree that if India were to embrace trade within Asia including China that could be a very different story. I just think this is perhaps even a less likely than the US turning around.

Rakesh Mohan:

Just on the doom and gloom part Penny and Amita, the measures like climate change generated measures like CBAM is that going to affect global trade. First Penny and then maybe Amita I can ask you on an effect on India.

Penny Goldberg:

Again, my answer would be the devil is in the details. It is how this CBAM would be implemented. In principle it could kill trade with low-income countries. Not just CBAM, if you think about the current labor and environmental standards and we may want them for good reasons. I am not saying that we shouldn't care about labor environmental standards. But we should be aware of the fact that they would imply much less trade with low-income countries that may have a very hard time meeting the standards. I think actually Amita that you are kind of cautious in your book when it comes to these issues. You warn that we may not want to completely embrace trade for example with the European union or Britain because it is not clear it is in the interest of India right now. Again, in the long run all these things may have a very positive effect. Even on the Indian economy. One reason that we often want trade reform or participation in trade agreements, it is a way to discipline domestic interest and domestic lobbyists to the extent that one wants to push for labor standards or environmental standards in India. It might be easier to do it through trade agreements. But if the pace is too fast, if these measures are too drastic then they can kill trade with these in lower income countries including India. In general, they could have huge implications for comparative advantage. It is essentially you put a huge tax on products that are produced with heavy polluting techniques. So, if it were truly implemented as in the textbook, it would have huge implications. Now my prediction is it would not... people would find a compromise and it would not be implemented as advertised.

Rakesh Mohan:

Amita, would you like to?

Amita Batra:

Very briefly. I think one of course, as Penny states that difficult to implement given the technical and methodological challenges that there are in being able to calculate the carbon emissions as far as imports are concerned. That is one part of it. I think it is not made out to be so, but inherently it has protectionist elements in it. Because what CBAM ultimately leads to is the rest of the world or those who want to trade with EU, having similar or EU conforming climate policies. Basically, carbon emission norms should be similar to, at the same level, they should upgrade themselves. Given the fact that you have a least developed economies or developing countries not coming up to that level or their capabilities to transition to that particular level being limited at the moment, yes, it has a protectionist element in the sense that it will impact trade with these economies. Also, I think the five or six product sector categories that have been identified under CBAM are clearly targeting... may not be actual targeting... but ultimately it is targeting the products that are exported by developing countries. So, it is a very clear outcome that we are likely to see if it is implemented in the form that it has been proposed or passed in 2022 which is going to be decreased trade with developing countries including that with India. Though I think India's share is very small as far as some of these commodities are concerned to exports to EU in that sense.

Rakesh Mohan:

One issue Amita that you emphasize is the role of FTAs now to the extent that in a sense the world is dividing itself into the regional trading blocks. So, you have the EU of course, the USMCA what used to be a NAFTA and of course, RCEP in Asia and now the CPTPP. To the extent that India is not part of any of these. Would you agree Penny that Amita's argument that it is difficult to be part of, active part of global value chains unless you have these deep FTAs

or RTAs to be member of these FTAs or RTAs and therefore would it be correct to say that if you are not part of any of these then indeed it will be very difficult for India to expect a large trade expansion or export expansion in goods.

Penny Goldberg:

I fully agree that FTA has played a very important role in the rise of global value chains and if you take the optimistic part of my comments which is that the future maybe in trading services, there are deep agreements are going to become even more important. So, yes, I think this is crucial. Now, let me point out that the same issue is being debated in the United States from the American point of view because the United States are not participating in these agreements either. So, I think the one point that you made and you have me almost convinced is, that the future is not in trying to penetrate the previously lucrative markets of the United States and Europe. I don't see the future there but there maybe future in Asia. So, all these trade agreements and deep FTAs we are talking about we should be focusing on Asia. I think to the extent that you want an optimistic view of the future of trade, this is what the future is. I agree with that. But again, I think all these FTAs, some of them are not really confined to Asia, like CPTPP. RCEP, is you know India has not participated there. So, I think the mindset would have to change to be one where we embrace FTAs but we focus mostly on Asia and countries with which we have enough in common so that these big issues regarding CBAM labor standards environmental standards to not become obstacles to the formation of the FTAs.

Rakesh Mohan:

I was just giving your point of view Amita, would you want to comment on it?

Amita Batra:

This is I believe that we have to be a part of some of the other mega retro agreements and as I said the Asian mega regional agreement are the ones that are really operating and they are going by the multilateral rules. Also, when we say CPTPP, we are not joining RCEP because there is China. China of course, has applied to CPTPP as well. We haven't. I think we have to make a move to participate in either one of these. CPTPP is a higher grade trade agreement. More difficult for us to accede to that. RCEP was easier, we didn't do that. But I think a prior to joining any of these FTAs is to reduce our tariffs. Until unless we do that, we cannot be talking about what is the starting point for all FTAs which is substantially all trades to be liberalized. I have seen that we have had a steady increase in our average applied MFN tariffs. That is a little... not little... but that is a big contradiction when we want to trade, but we do not want to bring in imports at lower tariffs still. Because that is what gives us competitiveness ultimately.

Penny Goldberg:

Just to reinforce this point, apart from the competitiveness it is a good idea to reduce tariffs because you increase competition. You put some discipline on the domestic economy, you put in some discipline on domestic prices. Even as I noted before just imports have their own advantages. We import technology, cheaper capital goods, that also promotes growth. So, independently of promoting export growth, reducing tariffs should be the first step. But the big question I think for the global economy right now is, do we envision a trading system without China where China is completely excluded. This is the question that the US faces right now. And to a certain extent India faces as well.

Rakesh Mohan:

On tariffs, I have often said that why do economists not make the case much more strongly. The import tariff is exactly equivalent to export tariffs. And it is then easier to see that look is harmful to you.

Penny Goldberg:

Academic work has made this point. At least in the US. Surveys show that people don't know what the tariff is. So, we talk about tariffs, but they don't even understand what the tariff is. So, there is a huge gap between what we say as trade economists or economists more generally and what the public understands about trade policies.

Rakesh Mohan:

So let me ask myself almost last question before I go to some of the audience questions. One thing that has happened in the world is increase in industrial policy including in the United States on particularly on semiconductors and I assume some other things as well which I am not aware of. But it is in the garb of the inflation reduction act and other measures. So, what is being argued by many people here in the policy making circles or advising policy making circles is that – look everyone is doing it. So should we. This has taken shape in the very large so called production linked incentives scheme. Where what the government has been doing is to make some calculations somehow of how Indian industry is handicapped relative to Vietnam and China and then they make some calculations of the chosen I think 14 sectors so far, with actually giving a subsidy with certain conditions this production linked incentives that is the incentive is linked to certain amounts of incremental new investment in that particular sector. And incremental production which are all specified. Now, I don't want to go into the details of that because that is too India-specific. But first Amita given what you have said in your book and also what you said here, do you have a view on this in the sense that before we can join FTAs or RTAs this is what we have to do. As we get to do this better then maybe we can join the FTAs and RTAs.

Amita Batra:

I don't think it is like before we join the FTAs, we should be doing this. That is one. Two, the rest of the world doing it and we are also doing it, therefore I think is also... it is not a correct... the parallel is not correct, I think. The rest of the world, yes, there is an increase as far as industrial policies are concerned. Subsidies are being given etc. IRA as you said. But there they are defining some very select sectors in the name of whether it is national security or what. So, critical products there are being defined in a very selective manner. Unlike that as far as India is concerned, I think 14 sectors for now, but there was a recent statement saying that we are willing to expand, if need be, to other sectors as well. Even in these 14 sectors we have not just got sectors where we feel that we need to reduce critically our dependence on some other economy and therefore develop our own production, be self-reliant in that or reduce our dependency on another economy. What we are doing is we are probably extending subsidies to many sectors that cannot be justified on I think this kind of a sound ground. That is the second point that I would like to make. Comparisons with the others. A third point is that we cannot be giving subsidies at the same time we are talking about local content rules at the same time be increasing tariffs on inputs in those sectors. Because that becomes all in all protectionist completely where you are trying to go to the old 1970, 60s argument in terms of doing things

domestically building the entire supply chains on your own behind protectionist walls. In fact, when I was kind of looking up things just to kind of update myself before this discussion, I looked up the tariffs in the electrical equipment sector for India. And I observed that in the list, when I wrote the book and submitted in 2020 and between then and now you have got an increase as far as average applied MFN tariffs in the electrical equipment sector are concerned. Mobile telephones and electronic equipment are something where we are trying to make our cases for PLI's success. So, if that is what we do in terms of increasing the average MFN tariffs in that particular sector while we give subsidies, while we emphasize or impose local content rules, then I think we are not doing the right thing. I also feel that in this case the objective should be defined very clearly in terms of exports, the proportion of sales that should go as exports. Because that is where the competitiveness issues come in and that is where the import tariffs then will start to be reflected.

Rakesh Mohan:

Now the problem there is you are trying to follow WTO rules which is why they haven't done it. But let me go to Penny on just on this issue, not so much on India. But how true is it that many countries are now doing industrial policies which they were not doing say in the last two or three decades whether it is China, whether it is Vietnam, whether it is Korea or whoever. Of course, United States.

Penny Goldberg:

As Amita was speaking I thought that I could take her comments and apply them to US. Because many of these points apply very much, not all of them, but many apply to the current US policy. So, let me start by saying I am not... I am perhaps one of the few economists who are not ideologically opposed to subsidies. I think there are cases where you can find the justification for subsidies for example, when there are externalities. So, when we talk about green transitions, green energy transitions for example or addressing climate change, there I think subsidies are very much needed. Carbon tax maybe great but carbon tax is very hard to implement in many settings and so subsidies may be the second best. So, I think there are many cases where one can justify the subsidies. I also think that they have been used more extensively than people think even in the past three decades without the label industrial subsidy, but they are used. So, I am not fundamentally opposed to them. I think the whole problem with industrial subsidies is that it is industrial policy and that is one reason economists are critical, it works very well when it works. But it can lead to huge disasters when it doesn't. It is very hard to tell when it will work or when it doesn't. It is not that we have a checklist where we can figure out what is going to be promising and what is not. I think one lesson perhaps we can draw from China as I heard this many times from Chinese policy makers and the point seems plausible to me is that the reason their policies were successful was not because they picked the right sectors, in many cases they didn't. But it is because of the way they implemented them. They started at small scale and gradually, if the policy proved successful then they scaled them up. So, in particular they started at the regional level and if a policy proved successful then they would apply to more regions or to the national level, if not they will scrap it. They engage in a lot of experimentation and little by little they figured out what to do. I am not sure this kind of strategy is feasible in a democracy. So, in the United States the thinking is often now we are in power, now we can do something now. Let us go all in and that leads to very big initiatives that

may fail. So, I think it is a very tough question. It is very hard to know in advance what is going to work.

Rakesh Mohan:

Thank you. We have about 10 minutes left. I have some questions from the zoom audience. First one very Indian specific from Ajay Chhibber who was the deputy director general of the UNDP and he is also in the World Bank for most of his career. He is worked in from the Washington DC. But he is very specific India question. The government announced a new export policy last week. It would be good to have the author's views on this policy in __ instruments and viability. Is it feasible for India to achieve the target they have announced of two trillion dollar exports by 2030 given that 22-23 was around 750 billion? Amita this is for you.

Amita Batra:

I can't say whether 2030 this policy will lead us to that much. But as we have listed in this discussion that the global trade context has changed so much. And the trade policy of today I think needs to take all these into account and then formulate policies. None of which I really find as far as the state policy is concerned. All that we find is little bit of tinkering and changes that probably align the trade policy or our trade measures with what the WTO requirements are. It is small measures, it is procedural measures, largely that have been changed, reconfigured in some of the other manner. I don't think there is an underlying or a broader overarching vision that a trade policy needs to have at this point of time given the context that we are in globally.

Rakesh Mohan:

Let me put a harder question to you Amita. If we did things that you are suggesting, can we reach two trillion by 2030?

Amita Batra:

Sorry. Again, I am not going to give it in numbers. But I think we need to do some of these definitely. because the short run may have a lot of these global slowdowns and things like that. But a medium term long run vision for our trade policy is in... we need to start thinking about these things and doing some of these certainly.

Rakesh Mohan:

So, what other general question... an India specific question I am turning it into a general question. This is from Jaideep **Dhadhavi**. There is currently because of all the things that are happening in the world there is a move towards trying to make rupee a prominent trade currency. And do bilateral trade deals so that you can trade in rupees. I mean the general question as well as the rupee, the bilateral trade deals in a country's own currency. Penny first. Let me ask you have you thought about that. Have you come across those kinds of arrangements?

Penny Goldberg:

I think very recently we had this discussion in the context of __. My view is that it takes a lot of time for a currency to establish its credibility. So, I don't think that we are going to see any changes anytime soon. Certainly not in the coming decade.

Rakesh Mohan:

What about bilateral deals where you are just doing it with a few countries? That you say you are going to allow rupee trade or your own currency trade.

Penny Goldberg:

I am not sure. I think it would complicate the deals to a considerable extent having just one currency to translate all numbers into. It is much more straightforward. So, from that point of view, from a logistical point of view it would be easier to stick with the current approach.

Rakesh Mohan:

Amita.

Amita Batra:

I would agree with that. To establish convertibility of a currency, international convertibility requires a lot of other measures which I don't think we have in place. Bilateral deals, limited amount of trade that can happen in rupee terms, yes, possible. But all trade, bilaterally also, I am not so sure.

Rakesh Mohan:

Ok. Thank you. There is a question from Zaidi Sattar. I am just mentioning it because we have already covered it. I will just read it out since he has bothered to send it. If Europe and US don't look like large markets for the future, how about Asia and Pacific because by 2050 or earlier Asian GDP would exceed 50% of world GDP. I think we have covered that pretty well. But I thought I would read out the question which I think he must have put in before we covered the issue. Now, there is one issue that actually, this is also kind of related in a general fashion to the trade policy. Although it doesn't say so. The question is from Manjari Mahajan and she says that there are many silos in policy at work here. For instance, how is trade policy being discussed separately from other parts of the economy. Part of what allowed China and ASEAN countries to be successful in exports is that prior investments in human development, health and education, over the population. Shouldn't one of the points of discussion for India be not only tariff reductions etc. but also simultaneous investments in public health and primary education.

Penny Goldberg:

I can briefly say I completely agree. Actually, I think Amita hinted this in the book when she talks about domestic policy. So, for example, the small scale industrial reservation policies and their implication of this policy for trade. But the other big issue is investments in human capital. So especially if we talk about services trade in the future. It would take a major training of the population. So, of course, there are also other reasons to pursue such investments but successful trade participation, yes, it does require skill upgrading. So, at the minimum I would emphasize that.

Amita Batra:

I would agree with that. In that context I will add a little one more point to that. One of course, is the services that Penny emphasizes. That is the kind of services that are being talked of in the context of digitalization etc. where we can excel and where we have a comparative advantage at present. All of that requires not just primary education but it requires skills of tertiary education and above. So, for us I think that set of services is probably not going to serve the purpose as far as our employment question is concerned, where we should I think focus on. And even in that context it is very important that therefore we start thinking about the embedded services as far as manufactured goods are concerned. And start thinking about trade policy as well as negotiating trade agreements on that basis looking for comparative advantages in those services that are combined with goods today. Apart from that, yes, of course, there is no doubt that as far as investment in human capital and both in terms of education and health is concerned, contributes to building capital for any economy. It is a strength to any economy and should be done.

Rakesh Mohan:

Thank you Amita. Manjari Mahajan, thank you for that question and just to put it in an institutional plug, which is why one of our main areas of work is indeed human development, right now concentrating much more on health policy. I hope we will also start working in education policy because it is absolutely right that even the availability of industrial labor what many industrialists tell me is, they have difficulty finding. I find it very hard to believe because there are only 15 million or so people employed in organized manufacturing. But still, many of the industry people tell me that it is difficult for them to find skilled labor. I don't know if that is true because they certainly say so. On these embedding services in the manufacturing, I would look also slightly differently. But often used to say in the US actually was that it is true that the share of imported cars has gone up tremendously in United States say compared to 40 years ago. But lot of value added is after the car shows up at the port. A huge number of dealerships all across the country and of course, then repair shops etc. this is one of the things that is not often understood and we know that for clothing particularly that the CIF price of a garment is a fraction of what it is sold at in any European or US department store. So, I think that one of the things countries miss when they are talking about particularly finished goods imports is that there is still huge amount of value added in the importing country. Which is often not talked about. It now remains for me to thank you very much Amita for taking the trouble. As you know I have appreciated your work and particularly the book very much. Unfortunately, there are not that many people working on trade currently. I am hoping that we can expand this group and if there is anyone in the audience who can give us funding for it, we will do it at a large scale. But more seriously, we will do it actually at CSEP and taking account of many of the issues that have been addressed in this. Because as has been discussed quite comprehensively in this dialogue, the world is indeed changing very fast in terms of the global economic situation, global economic governance, governance of trade and so on. So, we really have to be much more fleet-footed in terms of policy on how to address all of these issues. And Penny thank you very, very much indeed for taking the time, getting up early in the morning to be in this dialogue. If I got up the same time as you must have got up, I wouldn't be very clear in what I would say. Because I am a late riser but a late sleeper.

Penny Goldberg:

Thank you. I actually learnt plenty from this conversation. So, thank you for that.

Rakesh Mohan:

Thank you Penny and I hope that we can continue our association in some form and we will probably get back to you as we can start some work on trade. And we also thank my colleagues Trishna and Malvika Sharad from our communications team who have done all the background work that goes on to putting up such a zoom seminar. Thank you.

Amita Batra:

Thank you, Dr. Mohan, thank you Penny.