



Confederation of Indian Industry

Interactive Session of the CII Trade Policy Committee

With

Prof. Heribert Dieter

28th April 2022, New Delhi

Background

Prof. Heribert Dieter, Senior Fellow at the German Institute for International and Security Affairs, along with Mr. Peter Rimmele, Resident Representative, and Mr. Pankaj Madan, Advisor and Team Leader – Programmes, both from the India Office of Konrad-Adenauer-Stiftung (KAS) had met Mr. Chandrajit Banerjee, Director General, Confederation of Indian Industry (CII) in New Delhi on 22nd November 2021. Other representatives from CII including the Deputy Director General and Chief Economist were also present during this meeting. During the meeting, it was suggested that an interaction between Prof. Dieter and the CII Trade Policy Committee could be organised during the next visit of the Professor to India.

Points of Discussion during the interaction with CII Trade Policy Committee

Mr Bharat Joshi, Member of the CII National Council, Co-Chairman, CII National Committee on Logistics and CII National Committee on Railways (Transport) and Director, Associated Container Terminals Limited / J-Curve Ventures gave the Welcome Remarks.

He extended a warm welcome to Prof. Dieter and said that the CII Trade Policy Committee could take advantage of Prof. Dieter's presence in Delhi for the Raisina Dialogue.

He also gave a very special welcome to Dr Badri Narayanan Gopalakrishnan Head of Trade, Commerce and Strategic Economic Dialogue, NITI Aayog, Government of India, and to all the members of the CII Trade Policy Committee who were present.

Some of the points made by Mr. Joshi:

- The global trading regime is passing through a turbulent phase for quite some time. Without going back too far but starting with the big trade war involving USA and China (during Mr. Donald Trump's presidency), followed by US withdrawal from the TPP; BREXIT in Europe; and the COVID pandemic induced global trade supply chain disruption. To add here, India's sudden pull out of RCEP in November 2019.

- Putting all these factors together, and now the war between Russia and Ukraine has further adversely impacted the global trading environment. Though the situation is steadily getting back to new “normal”, the pandemic was far from over. There was still a lot of uncertainty, and the geo-political system was rapidly changing.
- In the midst of all this, India has recovered strongly, particularly on the international trade front. This year (financial year ending 31st March 2022) India achieved historical milestone of US\$ 418 bn of merchandise trade. In services too we have almost touched US\$ 250bn of export, which is an all-time high.
- This has given lot of confidence to Government of India, which is getting reflected into the trade negotiating stance. India has adopted a new FTA strategy, which are based on three new features – timely conclusion, more aggressive approach for goods market access and open to negotiate new issues such as sustainability, procurement, digital economy etc. These issues were never part of India’s trade agreement in the past.
- India has concluded FTAs with UAE and Australia, negotiating with UK and Canada and likely to relaunch our trade talks with the EU in the coming weeks. All these are very welcome change in our approach of engaging with the world while at the same time strengthening domestic manufacturing under the theme of “Atma-Nirbhar Bharat”.
- He also touched upon the current state of affairs at the WTO. Since the Ministerial is coming in the month of June, it is high time for us to work collectively to strengthen the multilateral trading system under the aegis of WTO, which is facing the existential crisis.

Points made by Dr Badri Narayanan Gopalakrishnan:

- The debilitating blow of the Covid-19 pandemic had pushed the global economy into a contraction phase. The IMF had predicted a rebound for Indian economy with a growth rate of 8.8% in 2021. But the second wave of Covid-19 (in April – May 2021) dented the prospects of a strong recovery. The economy was already slowing down when the pandemic hit the country in March 2020.
- The government was looking to achieve a sustainable recovery through self-reliance as envisaged in the Atmanirbhar Bharat initiative. The Atmanirbhar Bharat campaign has exacerbated the view that India is increasingly becoming a protectionist closed market economy. Self-reliance is not about a protectionist approach but strengthening the manufacturing ecosystem to enable India to become an integral part of global value chains.
- Besides boosting the domestic production under Atmanirbhar Bharat plan, it is also looking at opportunities to export through Free Trade Agreements with developed countries and emerging markets.

- In this context, the India-UK trade pact was one of the most important agreements. The deal envisages doubling of bilateral trade between the two countries by 2030. The nations have also started working towards a comprehensive free-trade agreement, for which discussions are expected to commence soon.
- In the past decade, India signed FTAs with the Association of Southeast Asian Nations (ASEAN), the Republic of Korea, Japan, and Malaysia.
- However, it was largely believed that India's trade partners have gained more from these agreements than India.
- More recently India has signed FTAs with UAE and Australia. Other bilateral trade pacts are being negotiated are with the U.K., European Union, Canada, and Israel.
- With Australia, India has managed to completely shield its dairy sector from any tariff reduction under the FTA while excluding most sensitive agriculture items.
- It is important to review and renegotiate existing trade agreements that are not producing intended results.
- FTA negotiations should include terms and conditions to introduce more transparency and predictability in terms of Non-Tariff Barriers to ensure a less cumbersome compliance procedure.

Some of the views put forth by Prof. Dieter during the meeting:

- International Trade needs rules to prevent abuse. The characteristics of multilateral trading system are: a) No discrimination in favour of domestic products over foreign products and; b) to put automatic mechanisms in place to reduce trade barriers. This is an important clause of GATT that evolved as part of the post war trading regime.
- Governments have an interest to facilitate trade.
- Trade agreements often have opaque rules. The WTO was formed in the year 1995 and China was admitted to WTO in 2001. China has a very non-transparent system of providing subsidies to companies. It distorts competition.
- China submitted its CPTPP application in 2021, after two years of signaling its interest in joining the pact. But the gap between Chinese policies and CPTPP standards is large and may be unbridgeable in areas such as labour, State Owned Enterprises, and digital trade. Without substantial changes in Chinese policies, long transition periods for implementing CPTPP reforms, or

exemptions from specific provisions, it is hard to see how China can become a member

- WTO needs to be modernised but no country is eager to modernise it. China is the biggest problem for the WTO.
- Protected regime of trade creates a comfort zone for companies – this is counter-productive in the long term, as it makes companies less competitive.
- There is increasing protectionism among major economies of the world since the onset of the COVID pandemic.
- The response of the Western economies (USA, EU, U.K etc.) to the Ukraine – Russia conflict has been knee-jerk and is probably unsustainable. The sanctions announced against Russia could be ineffective as Europe's dependence on Russian oil and gas for its energy requirements is huge, and there is no credible alternative as yet.
- The focus on renewable energy (Glasgow COP 26) by developed economies during an energy crisis, as created by the Ukraine-Russia conflict only shows the huge gap in energy requirements and what is produced through renewables.

He espoused the concept of Pluralateralism: this would enable MSMEs to benefit from the rules of trade and make them globally competitive.

This was followed by a very interesting interactive session between members. Subjects such as Trade and Sustainable Development issues at the WTO, and the European Union's proposed Carbon Border Adjustment Mechanism which is discriminatory towards developing economies were discussed.

Mr. Bharat Joshi thanked Prof. Dieter and Dr. Gopalakrishnan for their insights on international trade policy, and the challenges which global trade is facing due to the current extraordinary situation on account of the COVID pandemic and the volatile geo-political scenario.

Mr. Joshi also thanked CII and KAS for organizing this Session.

The interaction was followed by networking dinner.

List of Participants

| <u>S. No.</u> | <u>Name</u> | <u>Organization</u> |
|---------------|--------------------------------------|---|
| 1 | Prof. Heribert Dieter | German Institute for International and Security Affairs |
| 2 | Bharat Joshi | J-Curve Ventures |
| 3 | Dr Badri Narayanan Gopalakrishnan | NITI Aayog |
| 4 | Sunil Jha | ICICI Bank |
| 5 | Amitabh Baxi | Novartis |
| 6 | Naresh Verma | Refrigeration & Air-conditioning Manufacturers Association |
| 7 | H V Pant | Refrigeration & Air-conditioning Manufacturers Association |
| 8 | Sushil Rajput | Bharat Forge Ltd. |
| 9 | Arpit Kumar | NITI Aayog |
| 10 | Vishnu Das Gupta | NITI Aayog |
| 11 | Mohit Sippy | U.K. High Commission |
| 12 | Ashish Chandra | Luthra & Luthra Partners |
| 13 | Nalin Kohli | Araina Enterprises |
| 14 | R V Anuradha | Clarus Law Associates |
| 15 | Ajay Sharma | Quality Council of India |
| 16 | Pankaj Madan | Konrad-Adenauer-Stiftung |
| 17 | Ashish Gupta | Konrad-Adenauer-Stiftung |
| 18 | Ranjit Jabbi | CII |
| 19 | Pranav Kumar | CII |
| 20 | Vijay Kashyap | CII |