A STUDY ON INDIA'S POLICY REFORMS OF INTERNATIONAL TRADE

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ABSTRACT

In light of the current pandemic apart from an evident health crisis, India along with the rest of the world is also facing Economic crisis. As a result of past lockdowns and social distancing, the global trade and investments have been vastly impacted which led to a fall in India's exports and imports by 29% in March 2020. The disruption of supply chains and demand for products directly impacts the uncertainty and unemployment. This pandemic also stemmed intolerance by many countries towards China, they have also noted the effects of over-dependence on a single country. This presents India with an opportunity to position itself on the global market to replace China in various sectors such as the Pharmaceutical Industry. During this time the trade policy reforms play a vital role to measure our response, a good start would be revising the policies of FDI. We need to improve domestic production and exports and reduce reliance on other countries. This paper is written focusing on the Indian policy framework, it will broadly deal with the policy reforms of International trade and services. The first part of the paper helps understand the measures already taken by the government in the light of the pandemic and reviews their effectiveness. While the second part focuses on suggestions to limit the negative impact and schemes to capitalize the current situation in terms of trade.

***Keywords*: COVID 19, International Trade, Imports, Exports, Policy Reform, Economic Crisis, Pandemic, Free Trade Agreements.

INTRODUCTION

The world, today, is very well integrated making it easier for globalized supply and consumption of international goods and services. In such a time, where huge dependence and reliance has been placed on International Trade, the COVID-19 pandemic came as an utter shock. The entire world has to recover from the aftermath of this pandemic, which can be done through easier financial availability amongst others. Despite there being major improvements in the ease of doing business, among 190 countries all over the globe, India is ranked 77th on the World Bank's Trading Across Borders Index. Also, India's exports and imports fell drastically by 4.8% and 9.1% respectively in 2019-20. Specifically, in March 2020, there has been a serious fall of 29%. This fall is spread across sectors, including the production and supply of high-end goods like petroleum-based goods, readymade fast-fashion garments, leather products including bags and belts, plastic, jewellery, handicrafts, coal and other minerals. Indian imports fell down to around 9 per cent leaving a deficit of 152 billion USD. For the purpose of avoiding the policy vacuum caused by this pandemic in the trade front, the Director-General of foreign trade and the ministry of shipping has taken a few immediate and effective actions. The Director-General of Foreign trade extended the Foreign Trade Policy and Handbook of Procedures for a period of one year up to 31st March 2021. They have also granted extensions, introduced various amendments and trade regulatory measures. One of the most important regulatory measures is the export ban on prominent medical supplies. This was well thought of and adopted as in a largely populated country like India, medicinal supplies and immunity boosters are needed in a humongous quantity in such a situation.

COVID 19 as we all know is most likely to have a huge impact on the Indian Pharmaceutical industry. However, on the other hand, it is also likely to create a huge market for the APIs (Active Pharmaceutical Ingredients) segment of the pharmaceutical industry. Currently, countries all around the globe are dependent on India and China for these APIs. However, the majority of the countries are now specifically dependent on India given the Anti-China sentiment and other such reasons. Countries have also decided against depending on a single country for all their supply-chain processes. However, even though India has its own share of APIs, it is still very much dependent on China as the prices of the intermediaries in China are much cheaper when compared to the ones in India. One of the major reasons for the price gap is advanced technology and government support in China. The Chinese also indulge in using cheaper raw materials such as using cauliflower instead of costlier alternatives, making it both budget and eco- friendly. The Indian manufacturing sector should also focus on making the production eco-friendly by using plant-based substitutes instead of artificial raw materials. For instance, paracetamol, which is every Indian's most consumed medicine, gets its raw materials from China and currently due to COVID -19 affect in Wuhan, the production of the medicine has completely come to a halt. Aggrieved by the same, the Government of India has launched an Rs.10,000/- crore scheme which will majorly focus on providing a 'Production Linked Incentive' for the production of all the APIs which are imported from China.

Despite the pandemic having a huge negative impact on major sectors in the industry, on the bright side, it creates several growth opportunities in the fields of Artificial Intelligence and Machine Learning. Also, many developing countries are coming forward and opting for cryptocurrency and giving much more importance to the cleaner and well-sanitised modes of transport. The New Trade Barriers and the New Global Order will replace traditional barriers and create new jobs respectively. The pandemic has drawn attention to the need for digitalization in every sector and major industries around the world have made it flexible to virtually connect to intermediaries all around the globe.

The post-pandemic phase will be the most difficult with extreme pressure on the governments to make amends to the existing laws to facilitate international trade. India, in specific, should direct its funds to promote investment in India by developing safer transportation, imports and exports. The 'Regional Trade agreements' should be made a priority currently, as it will provide India with incredible access to countries like the United States, EU, New Zealand and Australia. Similarly, various other immediate and effective measures have to be taken to cope with the aftermath of COVID 19.

In this paper, the impact of COVID 19 pandemic on International Trade and Services will very elaborately be explained. The researchers have keenly divided the paper into two aspects for the better understanding of the reader, firstly, the actions taken by the authorities in coping with the pandemic situation is explained and secondly, a way forward i.e., suggestions to deal with the after-effects of the pandemic shall be given.

IMPACT ON INTERNATIONAL TRADE & FOREIGN POLICIES

In the light of the COVID 19 pandemic, as mentioned earlier, declaration of lockdowns has led to a drastic fall in production of goods which required the presence of in-office employees and workers. Manufacturing and production of goods has completely stopped which led to minimal to zero exports which in turn took a toll on the GDP. With low lying budget and no profits, a majority of companies and factories have fired their workers leading to a mass number of unemployed people in the society.

There has been a huge impact on international trade including imports at exports taking a halt. However, supply of goods and services during the lockdown period. Even though, India's trade openness is low compared with ASEAN countries, it is still going to be difficult for it escape recession in the global market. One of India's largest exports is business process outsourcing which is severely affected currently. The Director General of Foreign Trade and the Ministry of shipping have taken immediate measures to cope with the pandemic and has provided with several relaxations and extensions in terms of international trade.[i]

Actions Taken by Director General of Foreign Trade

The Foreign Trade Policy (2015-2020) and Handbook of Procedures (2015-2020) which were both supposed to expire on 31-03-2020 are extended upto 31-03-2021 by the Director General of Foreign Trade to meet the current day requirement and to avoid the policy vacuum caused in the trade front. The DGFT has also decided to introduce various amendments and grant extensions in the validity of period of status certificates, Duty Free Import Authorization and Export Promotion.

A. Export Restrictions on Essential Medical Supplies

In the light of the COVID 19 pandemic, the DGFT in March 2020, has amended the Schedule 2 of the Indian Trade Classification of Export Items, 2018 (ITCHS). The export on essential medical supplies can be explained in a fourfold manner.

Firstly, dealing with the physical essential protection equipment which are of public importance in these times were prohibited. For instance, they have prohibited the exports of respiratory masks, N-95 masks, coveralls and surgical masks. Later, this was amended again and a relief was provided on a few items, however, equipment like the surgical blades, NBR gloves, surgical disposable masks and a few others are strictly prohibited from export. Secondly, another most important and high demand product during the COVID 19 pandemic is the sanitiser. Sanitisers falling under ITCHS Code were also banned on 24th of March, 2020 with immediate effect. Further, on 4th April, 2020 diagnostic kits and other certified reference materials falling under the ITCHS Code have been restricted from export.

Thirdly, there have been restrictions in the export of medicinal supplies as well. The Active Pharmaceutical Ingredients and formulations made from these APIS such as paracetamol, chloramphenicol, tinidazole and 23 other drugs and their formulations were restricted with immediate effect. Later, relaxations have been given to other formulations except paracetamol which still remains to be strictly prohibited from export. Finally, policy with reference to Hydroxycholorquine has been a matter on importance in the majority of the countries suffering from COVID 19. In India, the export policy of HCQ has been amended from free to prohibited. However, the Government of India decided on exporting HCQ to the neighbouring countries and other countries who are in need on humanitarian grounds.

B. Issuance of E-Certificates of Origin

As a result of nation-wide lockdowns and cancellation of transport and courier facilities, issuance of certificates of origin by authorised agencies under India's FTA, PTS, CECA, CEPA have all been temporarily on a halt. In order to ease the situation, it was primarily decided that the certificates will be issued retrospectively and the agencies will issue certificates after the offices will reopen and resume to work. Further, it has been decided that the certificates shall be issued online and when the COVID 19 situation subsides, a hardcopy of the certificate shall be issued with an ink signature along with the e-certificate already provided. It has been declared that all the authorise agencies under FTA, PTA, CECA, CEPA and others shall accept the e-certificates or a physical un-signed certificate and are requested to clear the consignment accordingly.

C. Other Measures to Facilitate Trade

With reference to the problems caused to the exporters due to the local offices being shut due to the COVID19 crisis, the DGFT issued several trade notices which include:

- A one-time condonation as under the EPCGS has been granted after a long delay, this extends the time of receipts of requests til the 31st of March, 2021.
- The Regional Authorities will not insist a valid RCMC from applicants for any kind of incentives till 30th of September, 2020 in cases where RCMCs expire before 31st of March, 2020.
- The importers/ local users are instructed to accept the scanned copies of the pre-registration certificates and other documents required to be submitted by the exporters for application process.

Actions taken by Ministry of Shipping

Similarly, several measures were implemented by the DG- Shipping which can be broadly categorised in the following:

A. Health & Safety Compliance Requirements

The DG-Shipping issued an order in March, 2020 providing a set of instructions to all ports to ensure safety of life, protection of environment and flow of goods during COVID 19 crisis. These instructions included necessary fourteen-day quarantine period for vessels imported from any port in China, quarantine requirements for vessels with confirmed and suspected COVID 19 cases, efficient testing and requirement of submitting all vessels to submit the Maritime Declaration of Health to the concerned health authorities of the port in a minimum of 72 hours before arrival. In case the MDH is either incorrect or seems to be hiding any facts regarding the health conditions of the persons on board, the master is liable to be protected.

B. Port Services

During the lockdown, restrictions were placed on working of non-essential services by the state government, the Ministry of Home Affairs has exempted ports and its operational organisations from the lockdown and clarified that the Ports Wing and its operations come under essential services to ensure timely and regular supply of goods.

Further, due to the restriction in the movement of trucks to and fro from the ports has also been difficult, hence, it was requested to include these trucks under the category of essential services as well as they constitute and help in supply of goods during the pandemic situation. Further, to ease the financial burden, the DG-Shipping has issued an advisory on non-charging of ground rent beyond the free period or for any performance related penalty on cargo in the lockdown period. The Ministry has also issued guidelines to ports with reference to exemptions, permissions on penalties and issues pertaining to force majeure.

CAPITALISATION OF THE CURRENT SITUATION

Opportunities in the Indian Pharmaceutical Industry

Currently, the whole world depends on China & India for their "Active pharmaceutical Ingredients" (APIs) either through contract manufacturing or affiliated firms. The Anti-China sentiment, realisation of hyper globalisation and level of dependance on China supply-chains led to a shift in focus to India. Including developed economies like US is impacted on a large scale as according to a letter sent in 2019 by the "US Senate Finance Committee" to their "Department of Health and Human Services & US Department of Food and Drug Administration". It clearly states that 80% of the US imports of APIs is contributed by China and India.

Many "Nation security establishments" from various countries have always noted the negative affects of relying on China (a single country) for supply-chain purposes. Inspite of their efforts the economic efficiency always had a upper-hand while making such decisions. But this pandemic created a huge wave making every country reconsider their decision and brought the national security dimension forward. This will lead to countries incorporating measures to reduce their dependance on China. Many countries are using CL for the purpose of medicinal requirements while can create huge market for exports. Countries like Canada, Israel and Germany have already walked this path with India is likely to follow. India can easily gain permits for exporting medicines under CL as it is a member of WTO and has a TRIPS compliant patent law. This opportunity provided to India helps it overcome any vulnerabilities which are faced by the Pharmaceutical Industry.

Implementation of dynamic measures- Though India has its fair share of exports of APIs, it is highly dependant on China for it's intermediates used for the production of APIs. Examples of such intermediates include 4 - aminophenol which is used to produce Paracetamol. The price of this tablet spiked by 40% when Wuhan was affected by the COVID 19 and the supply of this intermediate stopped. The scale of the impact was so huge that it led to a temporary restriction on the export of medicines from our country.[ii]

To not face such issues again and also to promote domestic production, The Government of India launched a Rs.10,000 crores scheme in March,2020. In which Rs. 6940 crosses will be used for "production linked incentive" (PLI) over the next 8 years focusing on 53 different APIs which are imported from China in large quantities. Another Rs. 3000 crosses are expected to be invested in building common facilities in 3 API Parks by the private sector. It is estimated this scheme will eventually result in high quantity production leading upto Rs. 46,400 crores. Just the increase in production does not resolve the issue as the China's APIs are estimated to be 35- 40% cheaper than of India's. This difference in percentage is due to several reasons such as government support, average size of SEZs, usage of cheaper raw materials such as cauliflower instead of common and costlier alternatives such as glucose and lactose for the purpose of fermentation but the major role is played by the difference in advancements of technology which leads to cost-effectiveness.

While India aiming at cost-effective technologies it should also opt for greener technologies as producing APIs deals to high rate of pollution according to the "Pollution Control Board of India". To reduce the discoing in the pricing difference India should develop appropriate technologies with the help of public sector universities, mission mode and CSIR laboratories. This is not something new to experiment as already few public universities have tried to produce APIs in a indigenous manner. They have created a method to produce Penicillin from waste fruits, though the patent for the same is pending such technological developments should be encouraged by institutes like "National Research Development Corporation" (NRDC) as

India being the land of agriculture also has tons of waste produce from grains, fruits and vegetables which can be used as raw materials. It results in a environmental friendly and cost-effective way to produce APIs.

Anti-China Sentiment

The COVID 19 pandemic resulted in many companies feeling uncomfortable to continue business with China, they also noticed the impact of depending on a single country for their supply chain. Though China is recovering fast from this pandemic it still has a long way to go to earn their trust. This presents various developing countries, mainly India with the opportunity of positioning themselves in the global market to replace China. It will not be easy to do so in a short period of time. India can face competition from Chinese companies situated in other Asian countries as well. India needs to be competitive enough to attract firms and win investment battles. A first step towards it is portrayed in the form of changes in our FDI policies.

Change in policies to ease trade

It is important to note that the changes in Indian policies should not restrict Greenfield investments while trying to stop opportunistic acquisitions of the companies. Any changes export restrictions should be conscious about its impact on COVID 19 goods and services not just because of the trade policy and opportunities but pro humanitarian purposes as well. The need-of-the-hour liberalization on imports does not limit to medical equipment or medicines but also extends to the service sectors such as hospitality, passenger transport and health & education. But this sector has a high probability of restriction impositions due to health grounds. To help consumers and firms to recover from this economic crisis it is crucial to lower the trade barriers on goods and services which are used as intermediates for the domestic production in India. This will intern reduce the export prices and create a Balance between demand and supply. [iii]

Positive influence on the future

Though this pandemic had an unfortunate effect on the world, it does shed light on several issues which should've already been the focus of discussion. The global market evolves and adapts and a similar impact has been made on the Freight Forwarding sector. The continued automation in various modes of transportation and data analytics will prevail in the near future according to the "Global Freight Forwarding Report". Several opportunities for "Artificial Intelligence and Machine Learning" (AIML) and crypto currency will open up, countries will look at safer and cleaner modes of transportation and stable economics by liberalizing the trade policies. The new trade barriers under the pandemic (NTM) will replace the traditional quotas and barriers. This "New Global Order" will create new jobs and skills along with improving the working standards for the migrant worker. New and updated reforms will be made to deal with the emerging situations.

Post-pandemic the government will also take-up new standards o trade focusing on digital economy, certificates and e-commerce to be up-to-date and to manage the situation through the new value chains. Though the Indian government has already taken several measures regarding the fiscal and monetary aspects, a new perspective for trade policies and economic development will be put forward and respected.

SUGGESTIONS

In this economic crisis we should focus on exporting products which are less flexible to the income changes. As currently the importing nations along with the rest of the world have income fluctuations this will help India to prioritizes these products and to revive trade. Out of the products that India exports dairy products, tobacco and textiles tend to have income elasticities. The procrastinated "Regional Trading Agreements" should be made a priority as it will provide India with an incredible market access to Australia, US, EU, New Zealand and other countries for the purpose of exports. Reduction of NTBs should be given most important consideration as it a huge barrier to trade between developing and developed countries. The government should invest time and boost the trade and domestic production in the areas such as COVID 19 related products and their regulatory approvals, implementation of "electronic Bill of Lading" (eBL), liberation of "Remission of Duties and Taxes on Exported Products" (RoDTEP).

India will face trouble from both the demand and supply side. We rely on other counties for its supply and majority of supply chains are from China. Even on the demand side it is evident that the global demand will see a steep fall in curve for luxury goods, fashion and consumer durable products. Sectors which export textiles, home furnishers and high-end jewellery and gems will be the most impacted. The government is planning to reduce the expenditure including a payment cutdown of the legislators. As the government already stopped the dearness allowance to the pensioners & government employees and MPLAD funds. The central government should also look into pre and post shipment credit tenure and find ways to increase export benefits. Although the RBI has initiated ease in monetary policies with the help of targeted long-term repo operation (TLTRO) amounting upto 50,000 crore to facilitate adequate liquidity, we should focus more on our MSME sector as it contributes to a significant amount of our exports. [iv]

Post-pandemic we need to direct our funds to promote investment in India, facilitated faster mode of transportation such as ports and roads for exports, powers supply and infrastructure efficiency. Which will motivate companies to relocate here as the next best option due to the anti-China sentiment. As the world is beginning to realize its over dependent on China for their production and assembly centres. This is a perfect opportunity for India to represent itself in the global market. India needs to focus on moving up the supply chain by manufacturing its own intermediates which will help generate employment and also helps India in taking a step towards export-driven growth. The government needs to revise the Fiscal Deficit Target (FDT) and let it relax, the current target according to the Union Budget FY 2021-22 is 3.5 per cent but in a similar situation back in 2009 & 2010 the budget was revised to 6.1 & 6.6 percent respectively.

CONCLUSION

In light of the current pandemic apart from evident health crisis, India along with rest of the world is also facing Economic crisis. As a result of past lockdowns and social distancing the global trade and investments are vastly impacted. The supply-chains are disrupted, the demand

and supply for international trade stemmed an immediate shock which led to high rate of unemployment. This crisis came when confidence in multilateralism and globalization as tools for development has been weakened. During this time the trade policy reforms incorporated play a vital role to measure our response. To limit the negative impact on our economy we need reforms that specially to reduce the price of COVID 19 related goods and services and make them easily accessible.

These reforms should focus on coming up with measures which minimize the contact between traders, custom/port officials, transporters and other workers essential for exports. This not only protects the stakeholders but also reduces the spread of the virus through the eBL process by maintaining required assessments to ensure revenue, health and security. It is importance for the government to intervene and overlook the logistic operations and improve it's efficiency as such small issues can disrupt the whole network of distribution. They are vital to stabilise the economy post- pandemic. The rising external debt should be limited as it constitutes the major constraint in the Indian Economic development by understanding ways to increase domestic production and increase exports. The government should continue to explore the ways to stabilise our Economy post-pandemic which in turn will increase the employment rate. In this paper we focused on helping the reader recognise the opportunities that can position India on the global market by replacing China and also ensuring a deep understanding of the policy reforms with regard to trade and services. Which makes them aware of the available schemes and facilities to help them amid this economic crisis.

Though Organisations such as "World Trade Organisation" have made assumption regarding the economy and its recovery, no assumption can be close to accurate as during these unprecedented times the predictions can be made only after the vaccine comes out. We should also take into consideration that developing and third world countries cannot expect help from others as the whole world is in an economic crisis. So, the best way to support each other is to open and amend policies to facilitate easier trade between nations rather than restricting the borders for them.

ENDNOTES

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