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About the Author

Ambassador Hardeep Singh Puri served as India's permanent representative to the United Nations in Geneva and New York. He served as a member and chair of nine dispute settlement panels of the GATT and WTO between 1982 and 2007. Between 1988 and 1991, he was the coordinator of the Multilateral Trade Negotiations Project of the UN Development Program and UN Conference on Trade and Development, which advised developing countries in the Uruguay Round. During a career spanning thirty-nine years, he held senior positions in the Indian Ministry of External Affairs, including as secretary for economic relations, as well as important diplomatic posts in Brazil, Japan, Sri Lanka, and the United Kingdom.

Summary

India faces significant challenges in the area of trade policy—the global economic slowdown, increasing protectionism, the stalled mega-trade deals that could in time be revived, and perhaps more important, its own domestic preoccupations. For India to achieve its policy objectives, the government and industry, particularly the manufacturing sector, must prepare for opportunities and greater engagement in an evolving multilateral trade arena. India's priorities should include taking policy measures to conform to global standards and supporting the World Trade Organization (WTO) to relaunch multilateral negotiations.

The Goal

- India's Foreign Trade Policy aims to (1) increase the country's share of global trade from the current 2.1 percent to 3.5 percent and (2) double its exports to $900 billion by 2020.
- However, India faces myriad obstacles: lack of full understanding of trade policy and its potential benefits, a poorly developed manufacturing sector, unsatisfactory results from regional trade agreements, and constrained relationships, including with its main trading partners.
- India's trade policy framework must be supported by economic reforms that result in an open, competitive, and technologically innovative Indian economy.
- The share of manufacturing in the gross domestic product needs to rise through efficient implementation of schemes such as the Make in India initiative.
- U.S. capital and innovation needs to work hand-in-hand with Indian resources and entrepreneurship.

How to Get There

- **Create an enduring global partnership with India's major trading partners, particularly the United States.** The two countries, along with other countries, must work to break down barriers to the movement of goods and services and support deeper integration into global supply chains.

- **Actively and enthusiastically participate in the Regional Comprehensive Economic Partnership and seek to join the Asia-Pacific Economic Cooperation.** Given that India is not party to any mega-trade deals (and may never be), this would be an important part of a positive trade policy agenda.
- **Immediately adjust to global standards on technical barriers to trade and sanitary and phytosanitary measures.** With some trade deals currently on hold or not moving forward in their current form, India, particularly industry, has valuable time to conform to these standards.
- **Revive the primacy of the multilateral trading system.** This revival is in India's national interest since the country is best served by most-favored-nation treatment, largely provided by the multilateral trading systems anchored in the WTO. Unlike outside plurilateral arrangements, the WTO offers the best possible setting for pursuing a development-based trade agenda.

Introduction

According to Singapore's former prime minister Goh Chok Tong, India currently has the potential to jump-start a stagnating global economy—similar to the way China did ten years ago.[1] But given that India faces massive developmental challenges, is this a realistic assessment? With 1.3 billion people and a $2 trillion economy,[2] the country has more poor people than those in all the sub-Saharan countries put together.[3] Between 1991 and 2013, India's economy produced only 140 million jobs—a fraction of the more than 300 million required;[4] and while 1 million people are currently entering the workforce every month,[5] the presence of 17.7 million unemployed people is a time bomb no government can ignore.[6]

In comparison, China has lifted hundreds of millions of its citizens out of poverty, raising per capita income from $873 in 1999 to $8,027 in 2015.[7] The strength of China's manufacturing sector and a favorable global trade policy setting made this remarkable transformation possible. In 1995, when China entered the WTO, its exports were about $149 billion,[8] with a trade surplus of nearly $20 billion.[9] By 2014, China's exports had risen to $2.3 trillion,[10] with a surplus of $382 billion.[11] China's economic growth accounted for more than three-quarters of global poverty reduction, allowing the world to reach the United Nations Millennium Development Goal of halving global poverty by 2015.[12]

Is India capable of performing similar feats of economic growth and integration into the global economy? Can its manufacturing sector become a major producer of jobs and tradable goods? Can it take advantage of whatever opportunities the fitfully evolving global trading architecture may offer?

The Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP)—while both have collapsed—are not the only manifestations of this evolving architecture. Various regional and subregional free trade agreements (FTAs) are already in place or likely to evolve. To maximize opportunities within this environment, India will have to overcome significant trade policy challenges: domestic issues; the evolving global situation; and the need for a positive trade policy agenda, as perhaps the only viable way for India to enhance its economic relationship with major trading partners. The United States—by far the world's largest economy—will continue to set the global trade policy agenda, and the United States itself will have to rework some of its trade policy objectives in light of recent developments.

These notwithstanding, the United States will still determine the trade agenda even if a vacuum in leadership is created at the WTO. India could, if it acts wisely and in an enterprising manner, take advantage of that vacuum.

The Indian Conundrum

The greatest challenge to the development of a strong trade policy in India is its poorly developed manufacturing sector. Although it grew after India embarked on focused economic liberalization in 1991, the manufacturing share of the gross domestic product (GDP) has since fallen to 16.2 percent in 2015–2016—about what it was in 1989–1990 (16.4 percent).[13] The question of how to substantially augment the share of manufacturing is a tough one with no easy answers. Constraints include the limited availability of power and land, lack of access to technology, low productivity, the rising cost of labor, and difficulties doing business. Progress has been made, but it has been insufficient. By far the most serious impediment to the revival of the manufacturing sector is the scarcity of land.

The greatest challenge to the development of a strong trade policy in India is its poorly developed manufacturing sector.

In the past decade, India signed FTAs with the Association of Southeast Asian Nations (ASEAN*)*, the Republic of Korea, Japan, and Malaysia. However, some insiders admit that India's trade partners have gained more from these agreements than India has.[14]

India's experience with regional trade agreements (RTAs) has been less than satisfactory because of the lack of competitiveness of its manufacturing sector and the lack of innovation and investment in sectors such as textiles, garments, and pharmaceuticals. This has resulted in little enthusiasm for adopting a more activist trade policy posture within the government, think tanks, and the trade policy community. Doubts about the attractiveness of international trade agreements grow stronger when global concerns over immigration cause other countries to reject India's demand for the freer movement of professionals (Mode 4 of the General Agreement on Trade in Services [GATS]).

Notwithstanding these challenges and doubts, joining RTAs could bring immeasurable benefits to India. Perhaps most importantly, it would make the country's goods and services more competitive, because it would force Indian industry to adjust to international standards in technical barriers to trade and sanitary and phytosanitary restrictions—an invaluable asset in the long run.

The real challenge in India, as in several other countries, is the lack of full understanding of the benefits of trade liberalization, policy paralysis, and consequently the lack of political will. Crafting a successful trade policy requires an understanding of geopolitics and global economic trends and the ability to negotiate to advantage. Effective negotiating is possible only if decisionmakers have the confidence and capacity to execute the necessary corresponding domestic reforms—some of which require painful adjustments.

Over the years, India has paid insufficient attention to the value of trade policy. In 1996, for example, it was clear that the end of quotas under the Multi-Fiber Arrangement in 2005 would benefit the more competitive exporting developing countries and that the modernization of India's domestic industry was therefore critical. Many policy actions the Bharatiya Janata Party government undertook in 2016, such as the enhanced duty drawback scheme, had been suggested in 1996. Policy paralysis, lack of will, and perhaps even lack of full understanding prevented the required steps from being taken in 1996. Had timely action been taken, India's share of global trade in textiles and clothing would have become much larger. Instead, Bangladesh, China, and Vietnam were the big beneficiaries of the end of the quota regime. Between 2000 and 2014, China's share of global exports rose from 10 percent to 36 percent in textiles and from 18 percent to 39 percent in garments.[15]

India cannot serve its economic interests by remaining indifferent to or totally resisting global trade policy developments and the mega-trading blocs that may develop. As Jawaharlal Nehru University Professor Biswajit Dhar notes, "In the long run, no major economy can remain uninfluenced by them because the discriminatory rules regime will have consequences on trade with even nonmember economies."[16]

Thus, the key challenge for Indian trade policy is how to revive the moribund, multilateral trading system anchored in the WTO. It may be in India's interest to encourage shifts back to the WTO, discouraging trade liberalization through just the RTAs and FTAs.

To effect such a change, India's trade policy needs to be bold and imaginative. It should start intensive and wide-ranging consultations among trading countries within the WTO. Depending on the outcome of the consultations, it should put forward concrete proposals for kick-starting negotiations in the WTO, placing the onus on the developed countries to react to India's proposals. Proposals may have to deal with the thorny issues of agriculture, Mode 4 of GATS, and some plurilateral agreements, such as the Information Technology Agreement (ITA-2), government procurement, and dispute settlement.

India's trade policy needs to be bold and imaginative. It should start intensive and wide-ranging consultations among trading countries within the WTO.

India's interest is in most-favored-nation (MFN) trade and the security and predictability associated with the multilateral trading system anchored in the WTO. Ensuring both requires that India not be viewed as a spoiler, as it currently is, in Geneva.

India's Past and Present Approaches to Trade Agreements

In 1982, the United States made a determined push to get trade in services included in the General Agreement on Tariffs and Trade (GATT), which was essentially a legal framework covering trade in goods and the imposition of border measures (tariff and nontariff). A discussion between William Brock (the U.S. trade representative) and Shivraj Patil (the Indian minister of state for commerce) at the 1982 GATT Ministerial Meeting is worth recalling. Representing the United States were Michael Smith (the U.S. ambassador to GATT) and Andrew Stoler (who later became a deputy director-general at the WTO). On the Indian side were the late Abid Hussein (then commerce secretary), B. L. Das (India's ambassador to GATT), and the author of this paper. After a brief exchange of pleasantries, Brock enquired, "Mr. Minister, what is India's position on services?" Patil said, "Nonnegotiable." "In that case," responded Brock, "I don't see why I should be wasting your time and mine." That was the India of Indira Gandhi. India's firm stand resulted in a diluted ministerial decision. Given that services account for nearly 57 percent of India's GDP today, it is arguable whether India made the right decision at the time.

In contrast, at the 2015 WTO Ministerial Conference in Nairobi, the Indian representative sat through the deliberations of the select group, acquiesced in the evolution of the package outcome, and then expressed disappointment after the results were gaveled. The WTO operates on the basis of consensus. Any country can block the outcome if it considers it unacceptable.[17]

Successive rounds of trade liberalization under the GATT and the WTO have resulted in the lowering of MFN tariffs, although there is still a significant differential between the bound and effective rates. In 1990–1991, for instance, the highest Indian tariff stood at 355 percent, and the weighted average tariff stood at 87 percent.[18] By 1996–1997, these tariffs had fallen to 52 percent and 22 percent, respectively. Reductions in tariffs and the removal of quantitative restrictions and other nontariff barriers help expand trade, but they cannot ensure that manufacturing facilities do not move to locations with more attractive tax regimes or seek larger markets offshore. Vietnam, for instance, offers twenty-year tax holidays to new investors. Incentives and what the Chinese have been able to accomplish constitute a major trade policy challenge, not only for India but for several other countries as well, including the United States.

India's Recent Trade Policy

Announcing a new Foreign Trade Policy in April 2015, Prime Minister Narendra Modi's government said it wished to increase India's share of global trade from 2.1 percent to 3.5 percent and double exports (to $900 billion) by 2020.[19] The policy seeks to integrate the government's Make in India and Digital India initiatives.

Modi elaborated on his thinking and set out a clear road map at a speech in Washington in June 2016:

> We will continue to strengthen the "Make in India" initiative. It is not intended for only manufacturing for the domestic market or import substitution. It is as much about making world-class products and services for the whole globe. That is why, for us, improvements towards free trade are important. It is very important for us that developed countries open their markets, not only to goods from countries like India but also to services. I see this as a win-win proposition for the U.S. and for India. India is the future human resource powerhouse of the world with a young hard-working population. In my vision, a partnership between American capital and innovation, and Indian human resources and entrepreneurship can be very powerful. I am convinced we can strengthen both our economies through such partnership.[20]

This bold statement, especially in the wake of exports declining for seventeen consecutive months since December 2014, needs to be acted on.[21] But to do so effectively, the government will need to continually assess how these priorities (for example, the partnership between American capital and innovation and Indian resources and entrepreneurship) are playing out within evolving global trends.

Implementation of India's major schemes will require foreign direct investment and a comprehensive rebooting and rejuvenation of India's manufacturing sector.

Implementation of India's major schemes—the Smart City Project, Make in India, Skill India Program, and Digital India—will require foreign direct investment and a comprehensive rebooting and rejuvenation of India's manufacturing sector. The Modi government has made a good start. In 2015, India attracted more foreign direct investment (FDI) than China and the United States, tripling greenfield FDI, which reached an estimated $63 billion.[22] Indeed, India became the leading country in the world for greenfield FDI, overtaking the United States ($59.6 billion) and China ($56.6 billion).

The Make in India initiative, however, has possibly run into international headwinds caused by recession, protectionism, and technological developments, such as automation and 3D printing. As a result, Make in India may only affect the Indian market, specifically the defense sector.

Relations With the United States

The United States is by far India's largest single country trading partner. Bilateral trade in goods increased from a modest $5.6 billion in 1990 to $66.9 billion in 2014.[23] The value of commercially traded services stood at about $58.8 billion in 2012. During Modi's first ministerial visit to the United States in 2014, the two sides set a target of $500 billion a year in trade in goods and services, without setting a deadline.

Subsequently, on June 8, 2016, Modi addressed a joint session of the U.S. Congress: "Our relationship has overcome the hesitations of history," he said, adding "in every sector of India's march forward, I see the U.S. as an indispensable partner." The trade and economic component of the relationship between the two countries must occupy pride of place, along with issues relating to foreign and security policy, in fashioning a meaningful bilateral strategic partnership.

The importance the two countries attach to enhancing economic and trade ties is reflected in paragraph 29 of the joint statement released after Modi's 2016 visit to the United States:

> In order to substantially increase bilateral trade, they pledged to explore new opportunities to break down barriers to the movement of goods and services, and support deeper integration into global supply chains, thereby creating jobs and generating prosperity in both economies.[24]

However, the lofty ideals and pronouncements of heads of state and governments do not by themselves translate into meaningful cooperation and bilateral engagement in the real world of trade negotiations. The strategic convergence the two countries are seeking does not percolate down to the trade segment, which, at its core, continues to be adversarial. The United States has been in the driver's seat, pushing for aggressive trade liberalization, the opening of markets, and mega-trading blocs based on WTO plus commitments.

Regional Trade Agreements Relevant for India

Trans-Pacific Partnership

The TPP is a trade agreement among twelve Pacific Rim countries (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam). The agreement was expected to be completed in 2012; after protracted negotiations, it was signed on February 4, 2016. However, newly elected U.S. President Donald Trump, who had been critical of the TPP throughout the election period, has already abandoned the agreement. It would have come into force when all twelve signatories ratified it or, after two years have passed, when members representing 85 percent of the GDP of signatories ratified it (see table 1). Given that the United States accounts for 68 percent of the group's total GDP, ratification will not be possible without its signature.[25]

Table 1: Gross Domestic Product of TPP Signatories

Pacific Rim Country	GDP 2015 (billions, U.S. Dollars)
Australia	1,339
Brunei	13
Canada	1,550
Chile	240
Japan	4,123
Malaysia	296
Mexico	1,144
New Zealand	173
Peru	189
Singapore	293
United States	18,036
Vietnam	193

Source: The World Bank, World Development Indicators database, accessed February 2017, http://databank.worldbank.org/data/download/GDP.pdf.

Given that the United States gave its president "fast-track" approval—which means that Congress could reject or approve the agreement without separately considering each provision—the likelihood of a U.S. signature was low in any case. The TPP figured prominently in the U.S. presidential campaign. Democratic candidate Hillary Clinton supported TPP as secretary of state, but under pressure from her primary opponent, Bernie Sanders, a socialist from Vermont, she expressed grave reservations about the agreement and swore to protect American jobs. Republicans have traditionally advocated for free trade, including the TPP; but Trump based his campaign on hostility toward international trade agreements and partners, particularly Mexico and China. His central argument was that such agreements export American jobs, particularly manufacturing jobs. He denounced the TPP.

The same antitrade and antiglobalization rhetoric seen in the U.S. presidential campaign echoed arguments in the Brexit debate. Even if the "Remain" vote had won, half of the British electorate clearly felt alienated. The financial crisis of 2008 and its aftermath of slow growth in developed economies intensified inequities in the sharing of gains and losses, exacerbating inequality and national-level divisions between the better educated and economically well-off and the rest of the population. Both Brexit and the current U.S. stance on trade essentially reflect the inability of advanced industrial countries to cope with slow rates of economic growth.

Given that the United States has rejected the TPP, the agreement will be delayed indefinitely. After some time, however, the United States and other countries could seek to renegotiate some of its terms. The prospects for finding agreement on whether and how to accommodate new demands by the United States (and other countries) are difficult to predict.

There is more bad news for the TPP. A 2016 report by the International Trade Commission (ITC) finds that the U.S. trade deficit with FTA partners increased by $141 billion (418 percent) from 1989 to 2015.[26] The U.S. trade deficit with all non-FTA partners decreased by $46 billion (6 percent) since 2005. Coming from the ITC, which has traditionally supported FTAs, the report set off alarm bells.

Although the TPP will not be implemented in its current form, it is worth analyzing how India would fare if it would be. In a study prepared for the U.S.-India Business Council (USIBC), C. Fred Bergsten of the Peterson Institute for International Economics argued strongly in favor of India trying to negotiate its entry into the TPP:

> India's competitiveness problem is compounded by its absence from the world's new megaregional trade agreements, especially the Trans-Pacific Partnership (TPP) but also the Transatlantic Trade and Investment Partnership (TTIP). If China and the rest of the Asia-Pacific Economic Cooperation (APEC) forum join a second stage of the TPP that continues to exclude India, India's annual export losses will approach $50 billion. India is being left behind by the world trading system.[27]

India could enjoy export gains of more than $500 billion a year (a 60 percent increase, more than any other country) from joining an expanded TPP or participating in the comprehensive Free Trade Area of the Asia Pacific that APEC is now considering.[28] India's national income would expand by a whopping 4 percent (more than $200 billion) as a result.[29] India could further increase its exports by participating in the major plurilateral negotiations on services, environmental goods, and government procurement now taking place at the WTO.

India could further increase its exports by participating in the major plurilateral negotiations on services, environmental goods, and government procurement now taking place at the WTO.

The intersection between trade policy and electoral politics invariably produces fault lines. Globalization and trade liberalization produce both winners and losers. Decisionmakers reach out to unconvinced sections by extolling the virtues of the proposed trade deal often by exaggerating the potential benefits.

In 1993, Gary Hufbauer and Jeffrey Schott of the Peterson Institute projected that the North American Free Trade Agreement (NAFTA) would lead to a rising U.S. trade surplus with Mexico that would create 170,000 net new jobs a year in the United States. Less than two years after NAFTA's implementation, Hufbauer recognized that his job projections had been totally wrong, noting that "The best figure for the job effect of NAFTA is approximately zero. . . . The lesson for me is to stay away from job forecasting."[30]

The TPP seeks to influence international trade in three ways: by reducing or eliminating tariffs on qualifying products among member countries, regulating the role of state-owned enterprises, and achieving regulatory coherence on an unprecedented scale among its members. Negotiating partners expressed an interest in comprehensively reducing barriers to trade in goods (including agricultural goods) and services, as well as rates and disciplines on a wide range of topics (including new policy issues that neither the WTO nor existing FTAs cover). All these changes would affect India's external trade in ways that are difficult to forecast.

Some Indian commentators have argued off the record that India should aspire to join the TPP. But India was not asked to join the TPP and, even if the agreement was to move forward, would unlikely be invited in the coming years under the current circumstances. The agreement's delay (if not death) gives India breathing space to take corrective domestic actions to manage the consequences of a revised or revived TPP and thereby increase the likelihood of joining a revised TPP at some stage. This provides a best-case scenario for India.

Asia-Pacific Economic Cooperation

APEC is a forum for twenty-one Pacific Rim member economies that promotes free trade throughout the Asia Pacific region. India is not a member. A report by the Asia Policy Society Institute suggests why it is an ideal time for India to join APEC and illustrates the benefits of and possible obstacles to its membership.[31]

India's membership in APEC would benefit the government's development programs, which rely heavily on "greater access to foreign markets, investment sources, and value chains to bolster manufacturing and create jobs at home,"[32] and prepare Indian entrepreneurs and businesses for the changing global economy. An impressive growth rate, coupled with Modi's persistent efforts at public economic diplomacy in the region and beyond, have given India "hope that it can finally succeed in attaining membership after nearly two decades of disappointment."[33] Joining APEC could be difficult, however, given the reservations of some members who perceive India's policies as insufficiently supportive of more open trade and greater regional integration.

India's membership in APEC would benefit the government's development programs.

APEC itself would also benefit from India's participation in the forum, as its members would have better access to the country's labor supply and investment opportunities and to a consumer market that includes a rapidly expanding middle class of 200 million people by 2020 and 475 million by 2030.[34]

Transatlantic Trade and Investment Partnership

In terms of ambition and sheer audacity of scale, the TTIP could be ranked at the level of the proposed TPP.

> The Transatlantic Trade and Investment Partnership (T-TIP) is an ambitious, comprehensive, and high-standard trade and investment agreement being negotiated between the United States and the European Union (EU). T-TIP will help unlock opportunity for American families, workers, businesses, farmers and ranchers through increased access to European markets for Made-in-America goods and services. This will help to promote U.S. international competitiveness, jobs and growth.[35]

Britain's decision to leave the European Union effectively put the TTIP on hold in its present form. The partnership will require renegotiation. Nevertheless, it would be useful for India's Ministry of Commerce to review the chapters on the environment, labor standards, government procurement, state-owned enterprises, and nontariff barriers to at least determine what the country is up against and so that India's industry can be encouraged to upgrade. India has again been granted valuable breathing space, which its industrial sector should not waste.

Regional Comprehensive Economic Partnership

Launched in Cambodia on December 20, 2012, the RCEP is an FTA between ASEAN and its FTA partners (Australia, Brunei, China, Cambodia, India, Indonesia, Japan, the Republic of Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam). The sixteen participating countries account for almost half the world's population, 30 percent of global GDP, and 25 percent of world exports.[36] RCEP seeks to achieve a modern, comprehensive, high-quality, and mutually beneficial economic partnership agreement that will cover trade in goods, services, investment, economic and technical cooperation, intellectual property, competition, and dispute settlement.

India is participating in the RCEP negotiations but appears to be doing so with extreme caution. While there are perhaps valid reasons for this, India should be more forthright because of the following:

- Environmental and labor standards are not big issues in this agreement.

- The agreement gives India an excellent opportunity to negotiate with China, which it has found difficult to do bilaterally.
- India would have to recalibrate its demands on the movement of professionals (Mode 4), so that its partners respond positively.
- India could include some common objectives on environment and nontariff barriers that would not be part of the dispute settlement but would instead be "best-endeavor" clauses.

A Road Map for India

India and the United States were among the original signatories to the GATT in 1947. That agreement's preamble encapsulates the rationale for trade policy, which continues to be as valid today as it was then. The first of its two paragraphs cites the goals of "raising standards of living, ensuring full employment, and steadily growing volume of real income."[37] The second cites modalities for achieving them, including "reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce."

For most of the first thirty years of its existence, the multilateral trading system comprised a negotiated framework of rights and obligations governing trade in goods. It set border measures for both tariff and nontariff barriers. The Tokyo Round (1973–1979), the seventh round of multilateral trade negotiations, reduced tariffs and resulted in a number of stand-alone agreements on nontariff barriers. The fragmentation of the trade system dates back to this round of talks. Member countries could accede to the Tokyo Round agreements on an à la carte basis. India chose to do just that, acceding to only some of these agreements.[38]

India found comfort in MFN trade, which became an article of faith—the only exception being the Generalized System of Preferences, a scheme that extended concessions and preferences on a unilateral basis. As long as India benefitted, it liked the scheme. The minute India became subject to conditions and found itself excluded, it protested, albeit without much success.

For valid reasons, India has found it difficult to accept the inclusion of issues relating to Trade-Related Aspects of Intellectual Property Rights (TRIPs), the environment, labor standards, and investment and regulatory matters. India has therefore found it difficult to accede to FTAs, which are invariably designed and operated on a WTO plus basis. India's problem today is not with TRIPs per se in the WTO, but with what is known as WTO TRIPs-plus standards. India is now fully compliant with WTO TRIPs standards.

The dilemma now is that the WTO is moribund, and developed countries are unwilling to pursue issues except on their terms. Action is therefore shifting to plurilateral agreements in the WTO and RTAs/FTAs. India is a player in neither; it is not a party to either the plurilateral Trade in Services Agreement (TiSA) or the ITA-2 being negotiated at the WTO, although its interests are at stake in both areas.

At the heart of the trade policy differences between the United States and India is intellectual property. India recognizes the need to reward creativity, innovation, and inventions and to balance that against the requirements of public good. The United States allows multinational drug companies to rake in large profits, as part of a healthcare system that is unaffordable even for the average American citizen. India, on the other hand, is the world's leading manufacturer and supplier of generic drugs. There was therefore understandable concern when the USIBC reported in its submission to the U.S. trade representative that India had given an assurance that it would no longer resort to compulsory licensing. India flatly denied it had provided such an assurance, recalling that it had resorted to compulsory licensing only once. The USIBC's clarification of April 14, 2016, is interesting:

> USIBC recognizes and supports the Government of India's sovereign right to issue a compulsory license (CL). However, in order to attract investments that are imperative for innovation to thrive in India, the Council and its members seek transparency, consistency and clarity in the legislation and circumstances under which such compulsory licenses can be issued so as to enable well-informed business decisions.
>
> Innovation is the bedrock of Prime Minister Modi's vision for Make in India, Start Up India, and Digital India. USIBC and its members commend the Government of India for its openness to engage in dialogue with the industry in a manner that will grow the economy and bring superior innovation to the lives of Indians. [39]

In May 2016, the government of India released a new intellectual property rights policy. However, if innovation needs to be promoted, perhaps India should have unveiled an innovation incentivization policy, as intellectual property rights are the flip side of the innovation coin. The new policy does not seek to delineate the elements that would promote and incentivize innovation and help release the creative potential and energies of India's youth, especially graduates of the Indian institutes of technology and other leading educational and research institutions. It is not clear how the policy would (1) preserve and promote India's preeminent position as the pharmacy of the world or ensure that India continues to produce drugs and pharmaceuticals of high quality at competitive prices and thus play a role in promoting the basic right to health; (2) protect the right to use the flexibilities under the TRIPs agreement, especially with regard to the issuance of compulsory licensing related to public health; or (3) protect, promote, and enhance India's genetic resources, prevent biopiracy, and protect traditional knowledge and folklore.

If innovation needs to be promoted, perhaps India should have unveiled an innovation incentivization policy, as intellectual property rights are the flip side of the innovation coin.

A Positive Trade Policy Agenda

There is overwhelming evidence that trade has contributed to global prosperity, raised standards of living, and contributed to steadily growing real income.[40] Globalization, however, produces both winners and losers. Trade produces prosperity but also inequality; it can have devastating effects on the manufacturing sector if it is subjected to subsidized or dumped products and exchange rate manipulation. Although the trading system provides remedies against unfair trade practices, little can be done if predatory pricing is institutionally entrenched, when entire systems do not work on the basis of market prices and it is difficult to determine where state subsidization ends and enterprise dumping begins.

Trade and foreign policies must by and large be in sync.

Developments in global trade policy confront Indian policymakers with some hard choices.[41] An ostrich-like switch-off mode can only exacerbate the country's problems. A good starting point would be to establish how India went so badly wrong in entering into trade agreements that are so low on ambition and counterproductive to its interests. It is axiomatic that if an FTA results in trade expansion but is in the interest of one partner, it is a badly negotiated agreement. A series of badly negotiated agreements should result in the sacking of trade negotiators, not a turn away from free trade.

India's ill-conceived trade pacts have resulted in inverted duty structures, high import duties on raw materials and intermediates, and lower duties on finished goods that discourage the production and exports of value added items.[42] The Modi government has been bold in conceptual clarity, but it appears to be handicapped by its inward-looking bureaucracy.

There has to be inner consistency and harmony between the objectives of policy and the implementing modalities. It is not possible to want to increase the share of global trade and create millions of jobs by turning one's back on trade policy or relying on a trade policy that isolates India from the major trading arrangements globally taking shape.

Trade and foreign policies must by and large be in sync. The world of trade policy requires give and take. Negotiations for an FTA with the European Union have been languishing since 2007. The European Union is India's largest trading partner, accounting for 13 percent of India's total share of goods and services. A good indicator of a country's external engagements is whether its foreign and trade policies reinforce each other. India has struggled with a foreign policy segment that seeks strategic content with its trading partners and a trade policy segment that is more circumspect and inward-looking, often for good reason.

Conceptual clarity is also required regarding actions that could broadly be categorized as trade promotion and actions that would fall under the rubric of trade policy. India's merchandise exports have a narrow account for 78 percent of total exports, and manufacturing exports are rapidly losing competitiveness,[43] primarily because of a poor logistics infrastructure and weak trade facilitation.

India's experiment with special economic zones (SEZs) did not take off. The establishment of free ports or other schemes need to be considered on the merits.[44] One might be forgiven for asking why free ports would succeed if SEZs failed or why the Chinese can organize themselves more effectively than other countries. Meanwhile, a key problem at hand is India's Supreme Court notice to the center and some states on returning unused SEZ land that belonged to farmers.[45] The governments must consider whether to improve or revise the policy.

Under the rubric of trade policy come issues like the real effective exchange rate and the global trading architecture. India has not compensated for its declining exports to the European Union and the United States with increases elsewhere. Clearly, the trade policy bureaucracy has some explaining to do.

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India should take advantage of delays in the TPP and TTIP to set its domestic house in order and register as a major trading nation. If it does not, the prime minister's grand plan to increase annual trade turnover with the United States to $500 billion and raise India's share of global trade to 3.5 percent will ring hollow.

India should revive the multilateral trade negotiations at the WTO. Doing so requires farsightedness on India's part as well as compromises in some of the positions it has taken on agriculture, Mode 4 of GATS, ITA-2, and government procurement. Its offers can be conditional, putting the onus of taking them forward on India's major developed country partners and the concessions they are willing to grant India. At the end of the day, India's interests are better served by the WTO and MFN trade than by the myriad RTAs and FTAs.

India does not appear to have any option other than to autonomously adjust to world standards on technical barriers to trade, sanitary/phytosanitary standards, and environmental and regulatory standards and to engage in crisis-mode upgrading of the physical infrastructure that is crucial to trade. Unless the industrial sector steps up and assumes responsibility for meeting world standards, there will be limits to what the government can do in terms of improving the country's infrastructure.

The Trade Facilitation Agreement of the WTO—to which India is now a signatory and the cabinet has now approved—would appear to provide the guiding framework within which the required actions can be taken. India needs to work on a road map on a war footing that can bring its goods and services into conformity with the highest standards on technical barriers to trade; sanitary/phytosanitary rules; labeling, packaging, customs, clearance, and freight procedures; and the best or next-best environmental and labor regulations.

Undertaking these actions will require hard decisions, some adjustment costs, and even pain in the short and medium term. These actions are inescapable, however, if India's manufacturing sector is to be given a fighting chance of competing in the global market place. Action is required on the part of both government and industry and related stakeholders.

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