

# Trade Policy Review

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The World Trade Organisation (WTO) is a very important intergovernmental organisation that deals with international trade and commerce. In the backdrop of the COVID crisis, UPSC may focus on the protectionist measures taken by several nations and the role of WTO in facilitating international trade.

**In news** India's 7th Trade Policy Review (TPR) began on 6th January 2021, at the WTO

**Placing it in syllabus** Economy

## Dimensions

- What is trade policy review?
- Highlights concerning India
- Atmanirbhar Bharat and import substitution
- Review of Trade agreements
- Global protectionism

## Content

### What is Trade Policy Review (TPR)?

- Trade Policy Reviews are an exercise which is mandated in the WTO agreements.
- **WTO periodically carries out surveillance and evaluation of trade policies** of every member using TPR.
- It involves a comprehensive **peer-review** of WTO member's **national trade policies**. So, TPR is an important mechanism under WTO's monitoring function
- India's last TPR took place in 2015

### **Genesis of Trade Policy Review Mechanism (TPRM)**

- It was founded at the Montreal Mid-Term Review of the Uruguay Round in December 1988
- The mandate of the TPRM was broadened to cover services

trade and intellectual property later in the Marrakesh Agreement 1994.

### ***Objectives of TRPM include:***

- To improve adherence by all Members to rules, disciplines and commitments made under the Multilateral Trade Agreements
- To examine the impact of a Member's trade policies and practices on the multilateral trading system.

### **Highlights concerning India**

The comprehensive report issued by the WTO Secretariat on the occasion, chronicling all major trade and economic initiatives that India took over the last five years, acknowledged that:

- India's **economic growth has been strong** during the review period 2015-2020, **particularly in the services sector**, allowing India to become one of the world's largest economies.
- India has **adopted a comprehensive stabilization and stimulus package** to deal with the impact of the COVID-19 pandemic.
- India has taken robust measures to improve its business and investment environment. These included opening new sectors for **foreign direct investment, increasing the sectoral limit of existing sectors and simplifying other conditions of the FDI policy**.
- Programmes such as Make in India, Digital India, Start-up India, Skill India and Self-Reliant India would promote foreign direct investment and local manufacturing, and to **further integrate into global supply chains**.
- India's adoption of trade facilitation measures resulting from the implementation of the Trade Facilitation Agreement (TFA)

World Trade Organisation (WTO) also said that the other trade-

facilitation initiatives introduced by India since 2015 include:

- introduction of Indian Customs Electronic Gateway (ICEGATE);
- Single Window Interface for Facilitation of Trade (SWIFT);
- New authorised economic operators (AEO) programme
- the Direct Port Delivery and the Direct Port Entry (DPE) facilities;
- the increased use of the Risk Management System (RMS)

In order to deal with the immediate fall-out of the COVID-19 pandemic, India has advocated a short-term package of effective measures at the WTO that includes:

- a **temporary waiver of certain TRIPS provisions** to increase manufacturing capacity and ensure timely and affordable availability of new diagnostics, therapeutics and vaccines for COVID-19;
- a **permanent solution for Public Stockholding (PSH)** for food security purposes to address food security concern;
- a **multilateral initiative that provides for easier access to medical services** under mode-4 to facilitate easier cross-border movement of healthcare professionals.

### ***Objections and concerns raised by WTO members***

- Members urged India to consider **simplifying its rules of origin requirements**
- India's **trade policy had remained largely unchanged** since the previous Review. It was highlighted that India continued **heavy reliance on instruments such as the tariff, export taxes, minimum import prices, import and export restrictions, and licensing.**
- Tariff complexity and uncertainty, the increase in

- tariff rates, tariff preferences, and tariff concessions
- regarding **preferences granted to local suppliers** in government procurements.
- about the **high level of government intervention in the agriculture sector** especially subsidies for certain crops such as sugar, and to farm inputs
- harmonizing India's standards regime with international standards
- **reducing anti-dumping and other trade-remedy measures**

### Atmanirbhar Bharat and import substitution:

The Prime Minister announced a **20 lakh crore stimulus package** under "Atma Nirbhar Bharat" to jump start the economy from Covid-19 crisis. The measures not only included **relief measures for the troubled sectors** but also outlined a new vision for emerging India.

Some economists including Raghuram Rajan point out that **many provisions of the 'Atmanirbhar Bharat' campaign hint towards protectionism by import substitution**. These include:

- Provisions for banning the import of some weapons and platforms to indigenise defense production.
- provision for a separate budget for domestic capital procurement. This would help reduce the defense import bill and encourage domestic production
- INR 500 crore subsidy to support disruption of supply chain of fruits and vegetables
- INR 10,000 crore fund for micro-food enterprises to encourage export of locally made products

But, the government asserts that Atma Nirbhar Bharat is about **improving the resilience of a highly competitive industry**.

According to the government, **Self-reliance implies that product and factor markets are made flexible** in order to allow the Indian economy to adapt to the problems and opportunities of an emerging post-COVID world.

## Review of Trade agreements:

### ***Regional Comprehensive Economic Partnership (RCEP)***

- It is a free trade deal involving the 10 countries of the Association of Southeast Asian Nations (Asean), Australia, China, South Korea, Japan, as well as New Zealand.
- The pact aims to cover the trade in goods and services, as well as investment, intellectual property and dispute resolution.
- Recently, **India decided not to join this agreement.**
- India cited Trade Deficit, Inadequate protection against surges in imports, circumvention of rules of origin, and permanently bringing down import duties on most agricultural commodities to zero as the reasons for backing out.

### ***Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)***

- It is an international organisation of seven nations of South Asia and Southeast Asia
- Fourteen priority sectors of cooperation have been identified and several BIMSTEC centres have been established to focus on those sectors.
- A BIMSTEC free trade agreement is under negotiation.

### ***India-European Free Trade Association (EFTA) Engagement***

- Negotiations on a broad-based Trade and Investment Agreement between the EFTA States and India were officially launched in January 2008.
- After talks resumed in October 2016, four more rounds have taken place.

## **Global Protectionism:**

- The COVID-19 pandemic has **caused widespread economic uncertainty globally**, and coupled with the US-China trade war, has caused countries to adopt protectionist

measures.

- The regulations introduced by nations have taken different forms. But, the underlying **concern is similar** – i.e. to **save homegrown companies**, especially in strategic sectors, **from being acquired by state-backed investors** from other countries.

### ***India has introduced protectionist measures in two ways:***

- By the “Atmanirbhar Bharat” policy to promote local industry and reach self-sufficiency in the near future.
- **FDI** in Indian companies **from border sharing countries now require prior approval** of the Indian government.

### ***Protectionist Measures in the US:***

- In February 2020, the **Foreign Investment Risk Review Modernization Act** came into force in the US.
- It empowers the **Committee on Foreign Investment in the United States (CFIUS)** to address national security concerns regarding foreign exploitation of certain investment structures

### ***Protectionist Measures in the European Union:***

- Members of the European Union including France, Italy, Germany and Spain have adopted **national mechanisms to screen foreign investments**
- European Union has also **encouraged member states to adopt screening mechanisms** for foreign investments which are **likely to affect security or public order**

**Mould your thought:** Enumerate the steps taken by India to promote global trade. Do you think Atma Nirbhar Bharat encourages import substitution for building a self reliant India?

### ***Approach to the answer:***

- Introduction
- Mention the steps taken in Foreign Trade Policy of India

- Aims and need for Atma Nirbhar Bharat
- Evaluate the provisions related to trade
- Conclusion