

INDIAN TRADE POLICIES IN THE WAKE OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS

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Power point presentation at the Indian Economy and Update Conference sponsored by the Australia South Asia Research Centre, Australian National University, Canberra Australia on Thursday, 17 Sept 2009

Outline

- (1) The state of trade liberalization before the crisis : around FY 06/07
- (2) Global turbulence and India's trade since FY 07
- (3) Policy reactions: the exchange rate
- (4) Policy reactions: manufacturing
- (5) Policy reactions: agriculture
- (6) Policy reactions: the oil and gas sector
- (7) Policy reactions: fertilizers
- (8) Policy reactions: anti-dumping
- (9) The crisis and future policies

(1) The state of trade liberalization before the crisis : around FY 06/07

- **Manufacturing**
 - Nearly all QRs gone
 - Low tariffs : on average <10%
 - Rapidly growing exports
- **Agriculture**
 - Aggregate implicit protection low or only mildly positive
 - BUT prohibitive “just in case” tariffs
 - Continuing role of STEs (e.g. FCI & NAFED)
 - Continuing & growing input subsidies
 - Continuing use of export controls and export subsidies
- **Services trade**
 - Rapid growth of IT & outsourcing exports in a free trade policy environment

- **Indian trade policy liberalization: the main exceptions**

- Agriculture

- Oil & gas

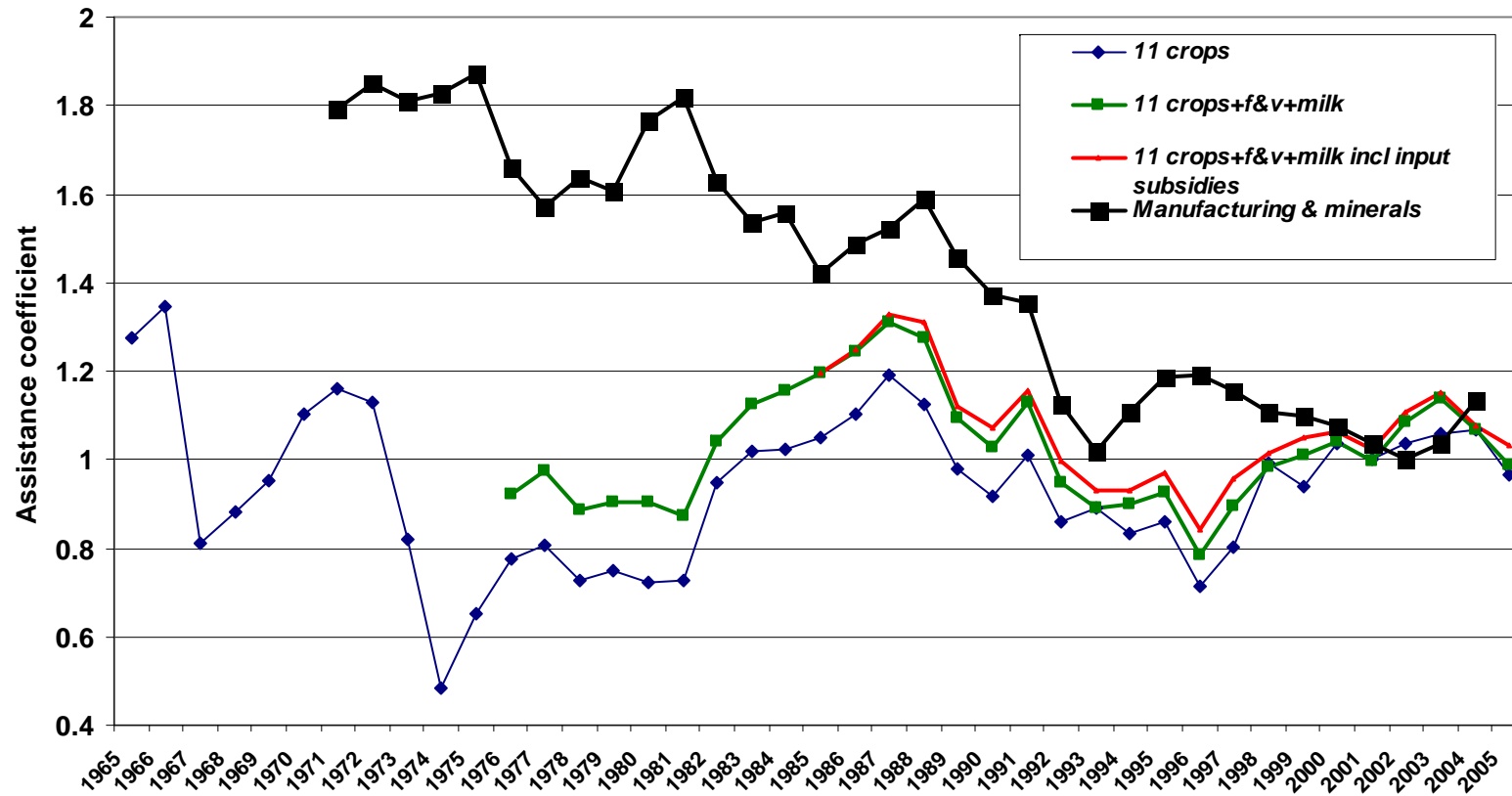
- Fertilizers

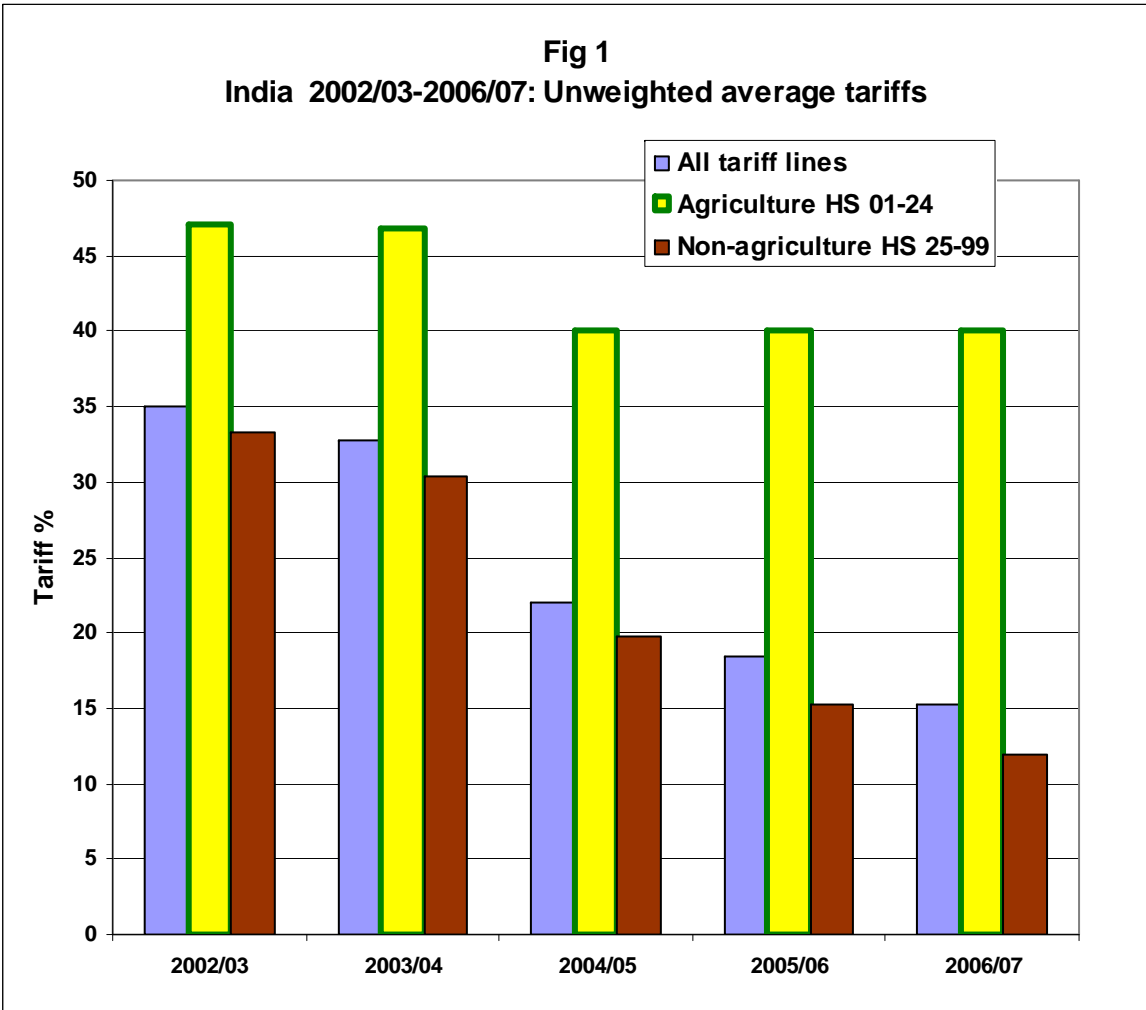
- Textiles and clothing

- The auto sector

- Anti-dumping

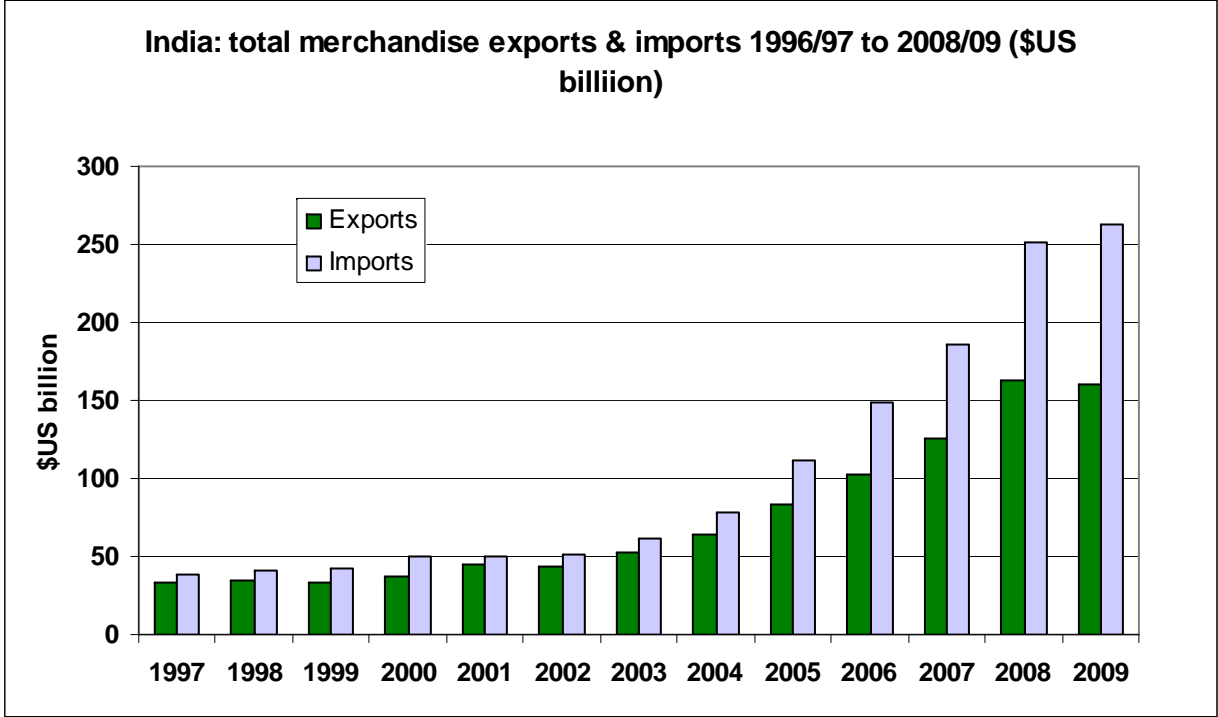
India 1965-2005: Assistance for ag & livestock sectors versus assistance for manufacturing & mining sectors



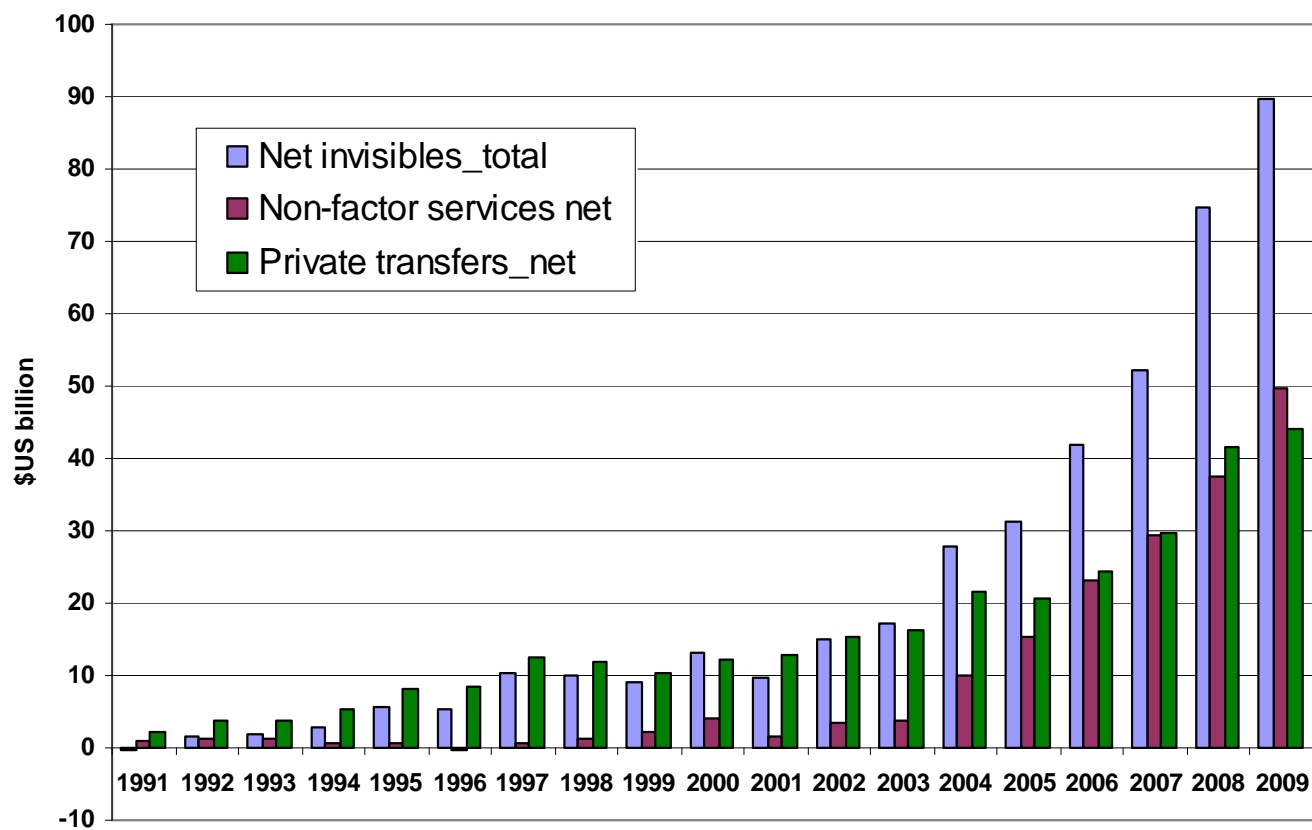


(2) Global turbulence and India's trade since FY 07

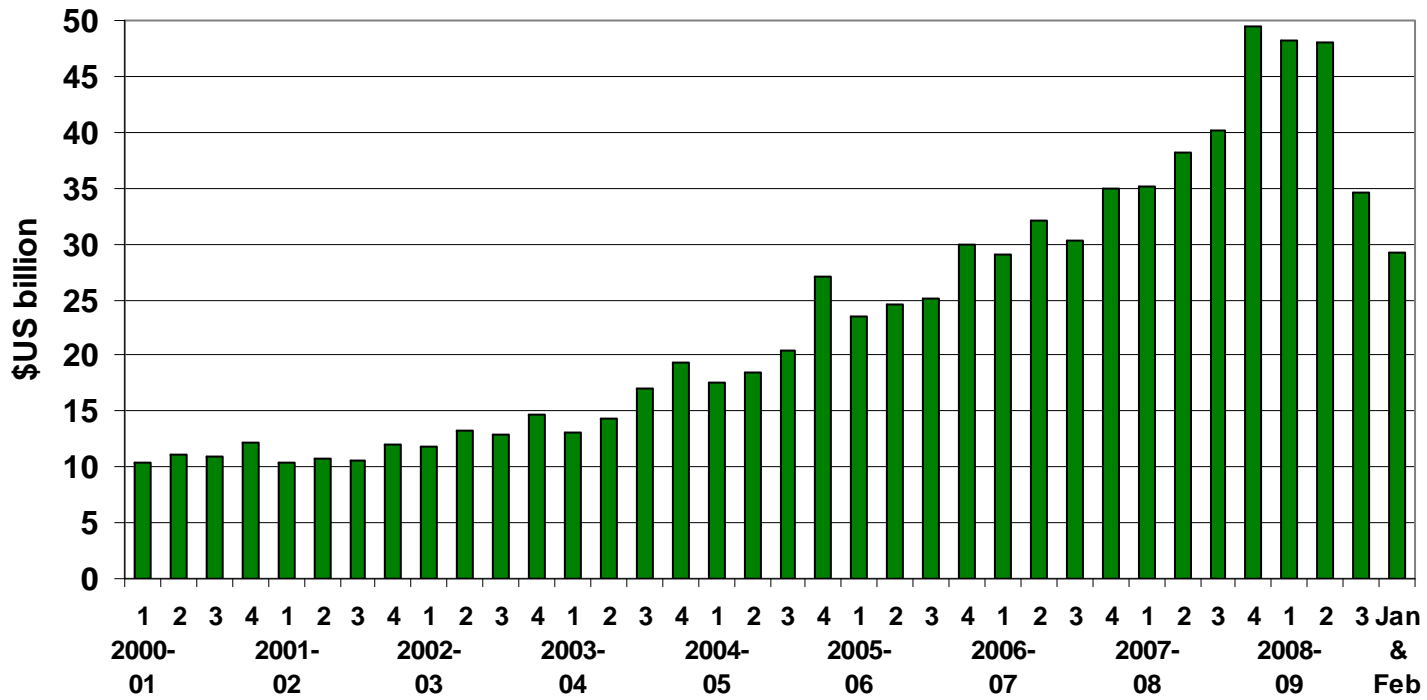
- **Exports and imports: boom and collapse**
- **Oil and gas: extreme world price instability**
- **The link to other commodities: urea**
- **The link to ag and mineral commodities**



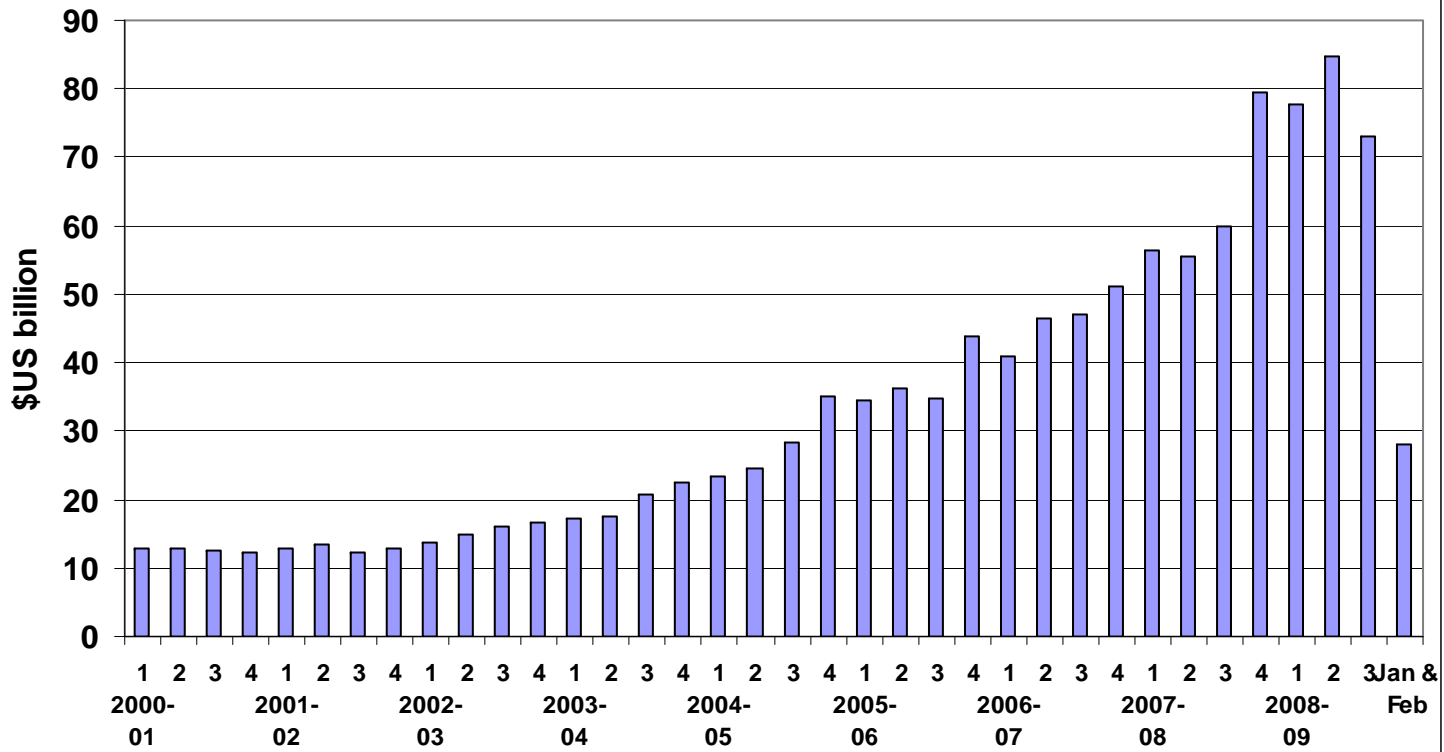
India FY 1991 -2009: Net invisibles



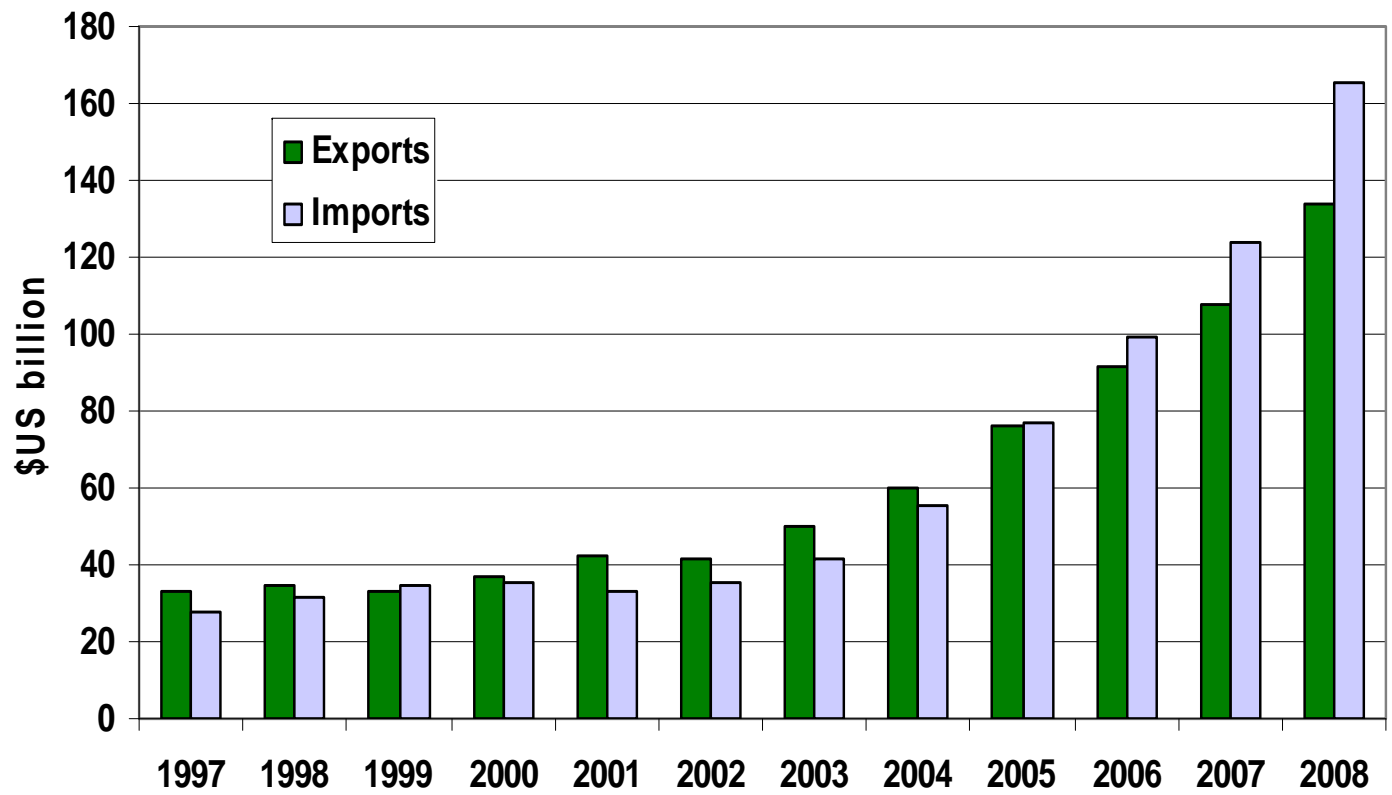
India total merchandise exports quarterly FY 2000- 2001 to 2008-09 (\$US billion)



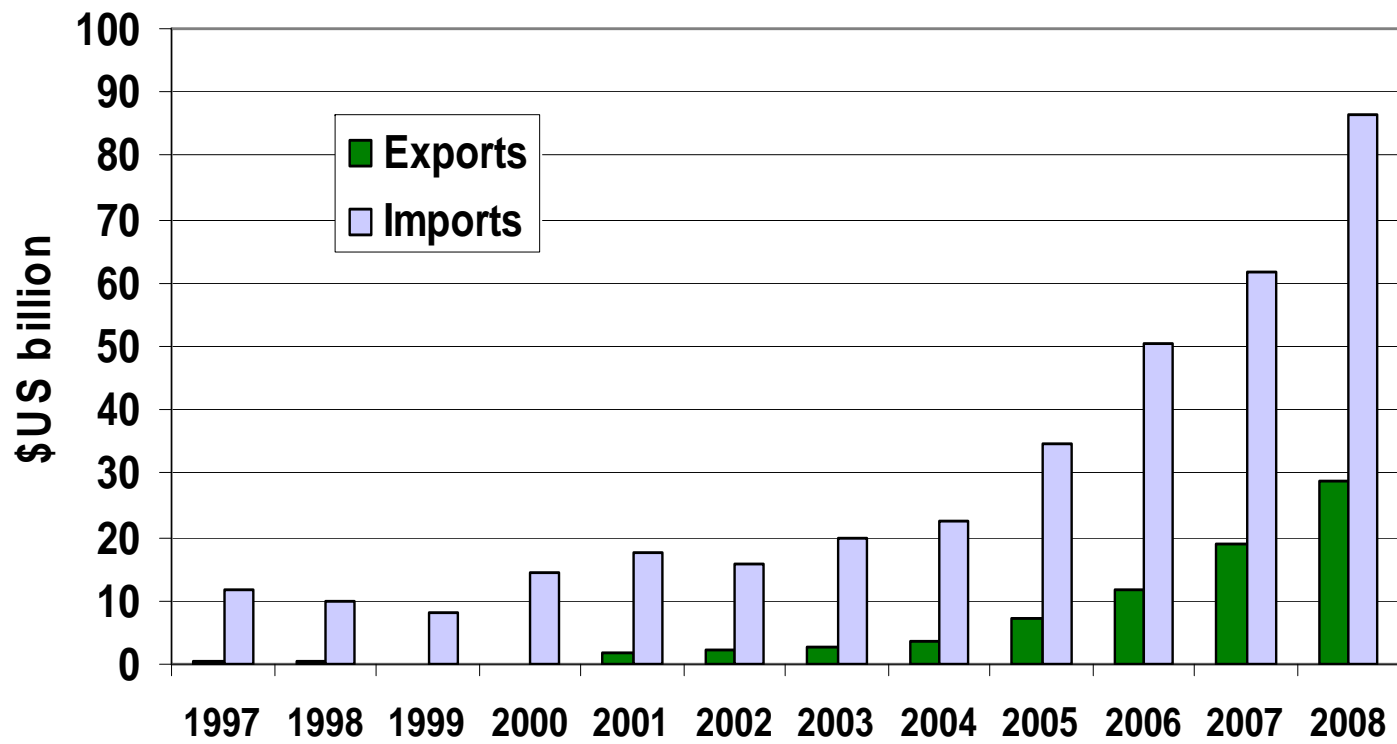
India: total merchandise imports quarterly 2000/01-2008/09



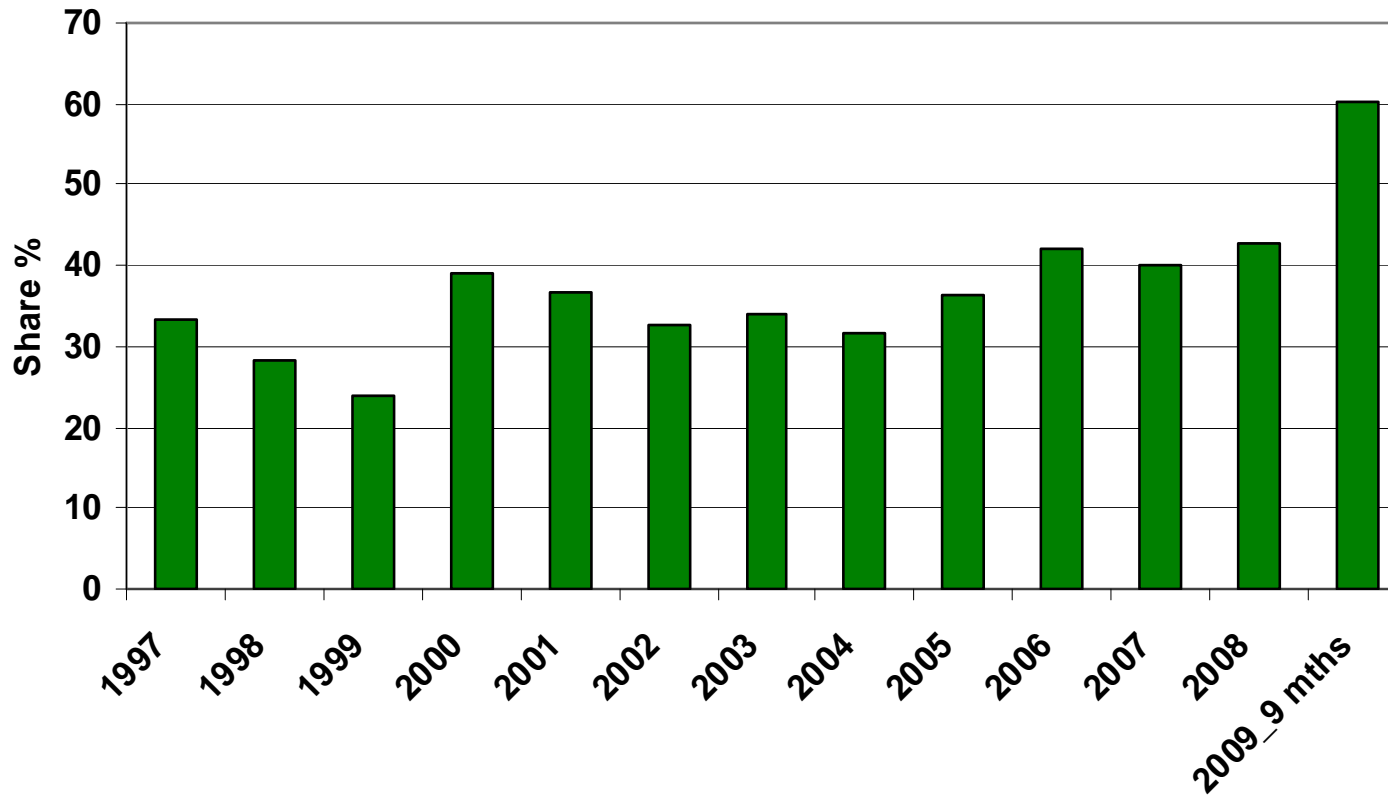
India: Total merchandise exports & imports net of HS 27, 1996/97 to 2007/08



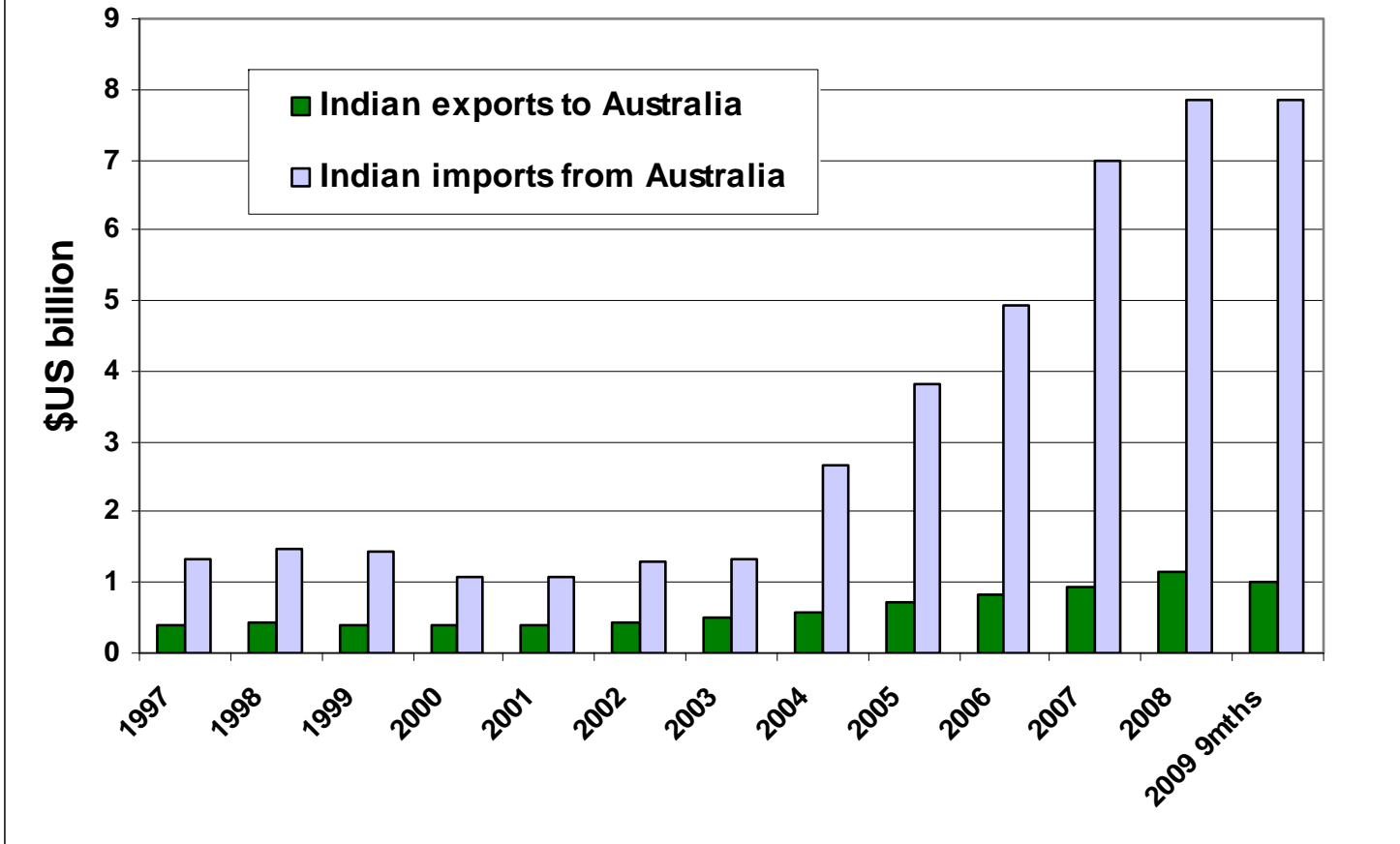
India: HS 27 (mineral fuels) exports and imports 1996/97 to 2007/08 (\$US billion)



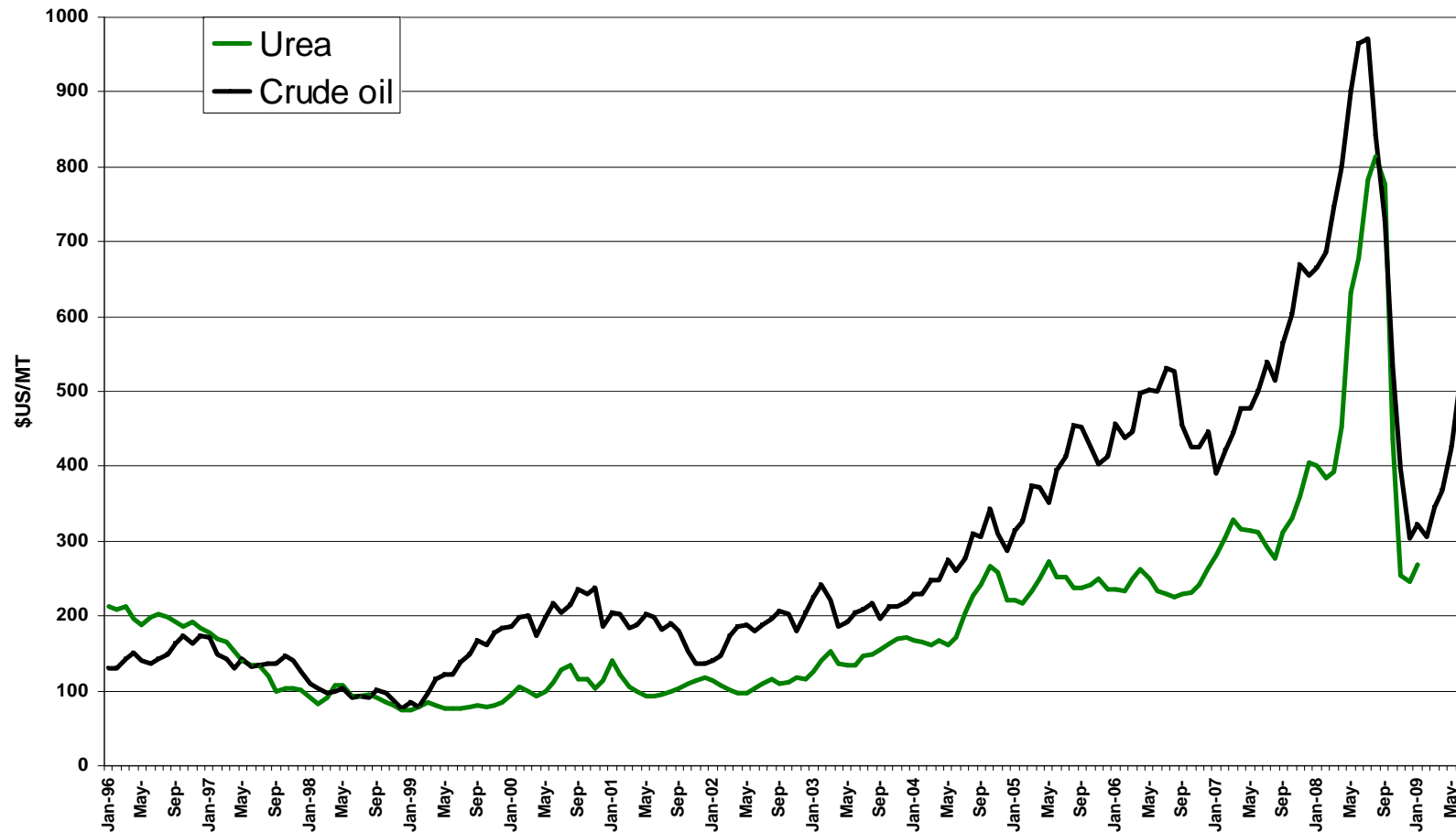
**Share of POL net imports in total non-POL exports
FY 1996/97 to 2008/09**



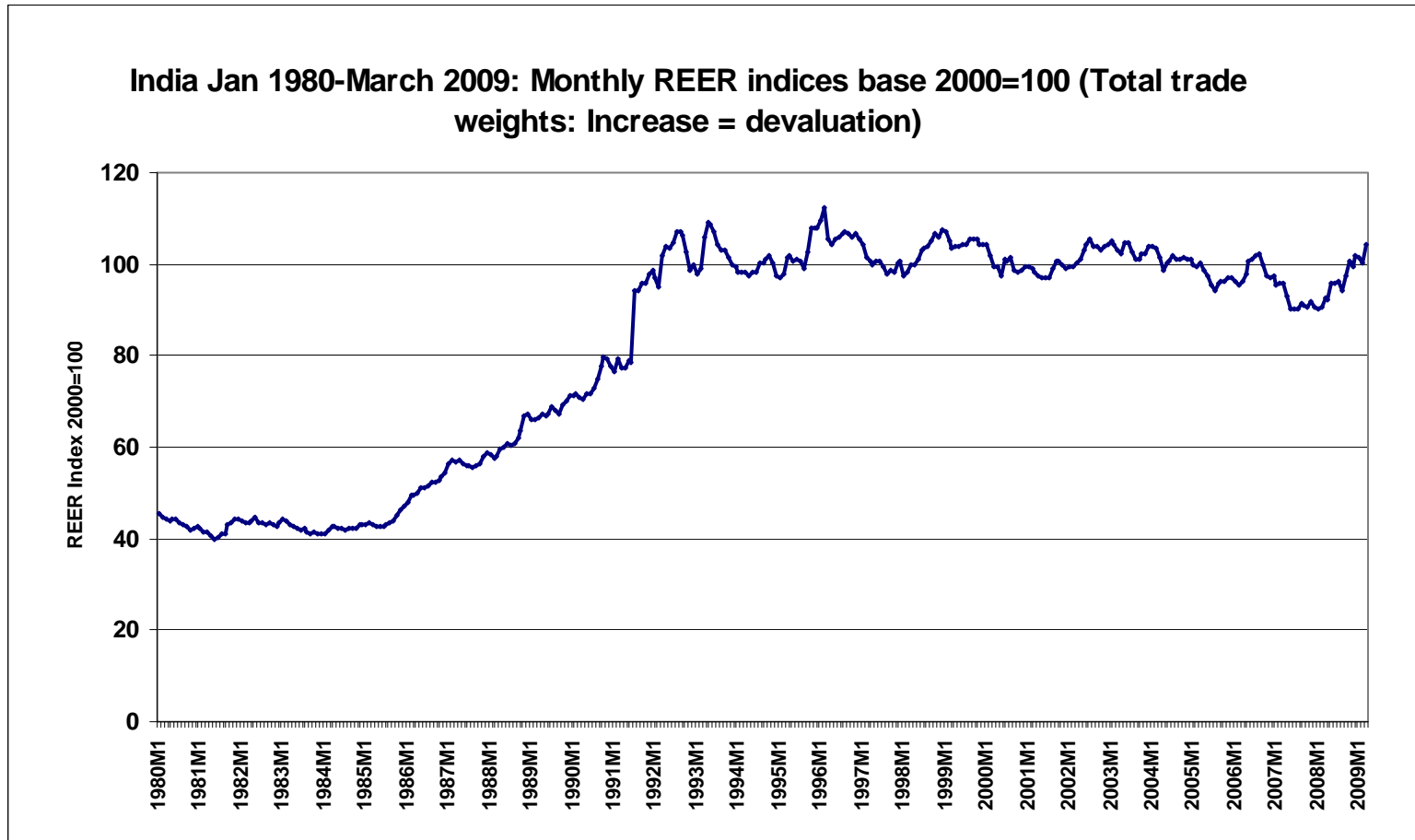
Indian trade with Australia 1996/97 -2008/09



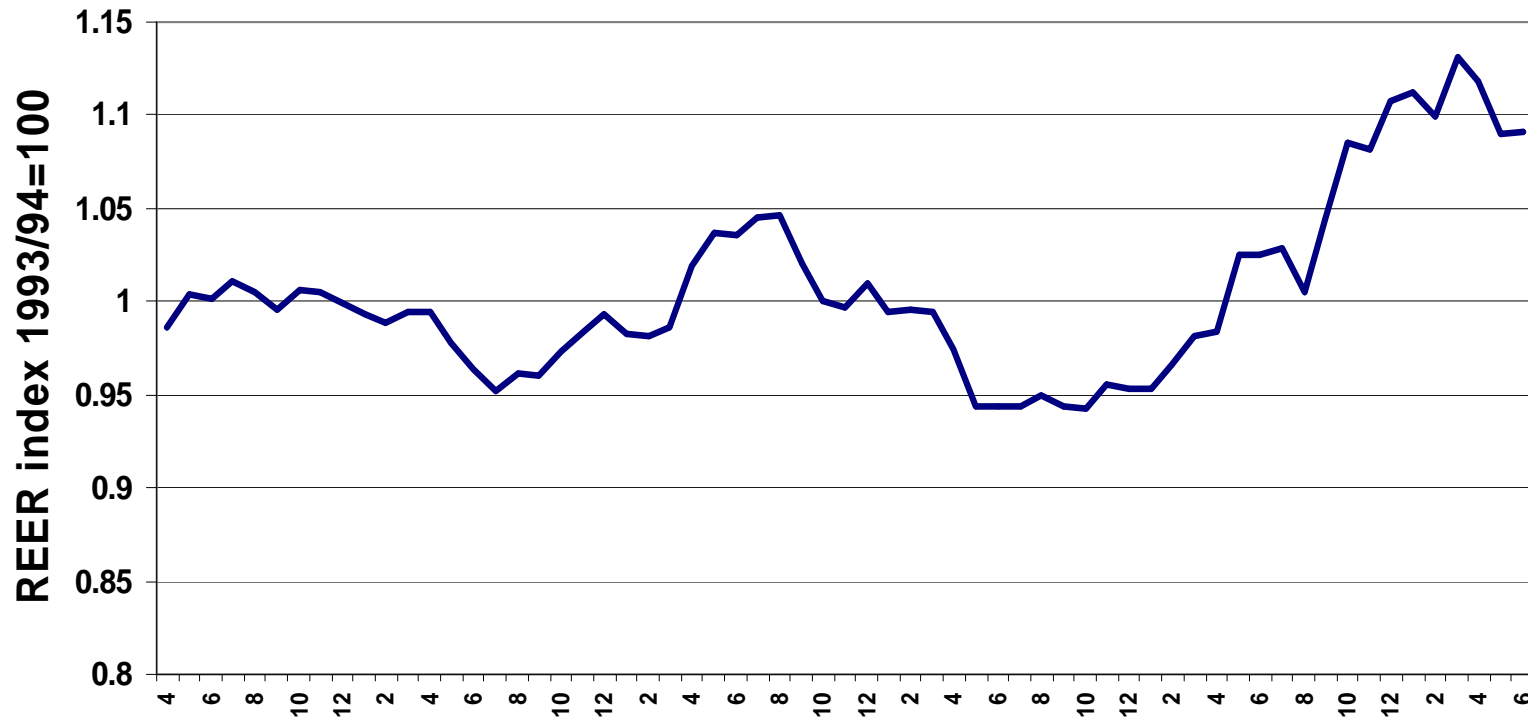
World crude oil and urea prices (monthly averages) Jan 1996-June 2009



(3) Policy reactions: the exchange rate



India: REER index Apl 04 to June 09 (Increase=devaluation)



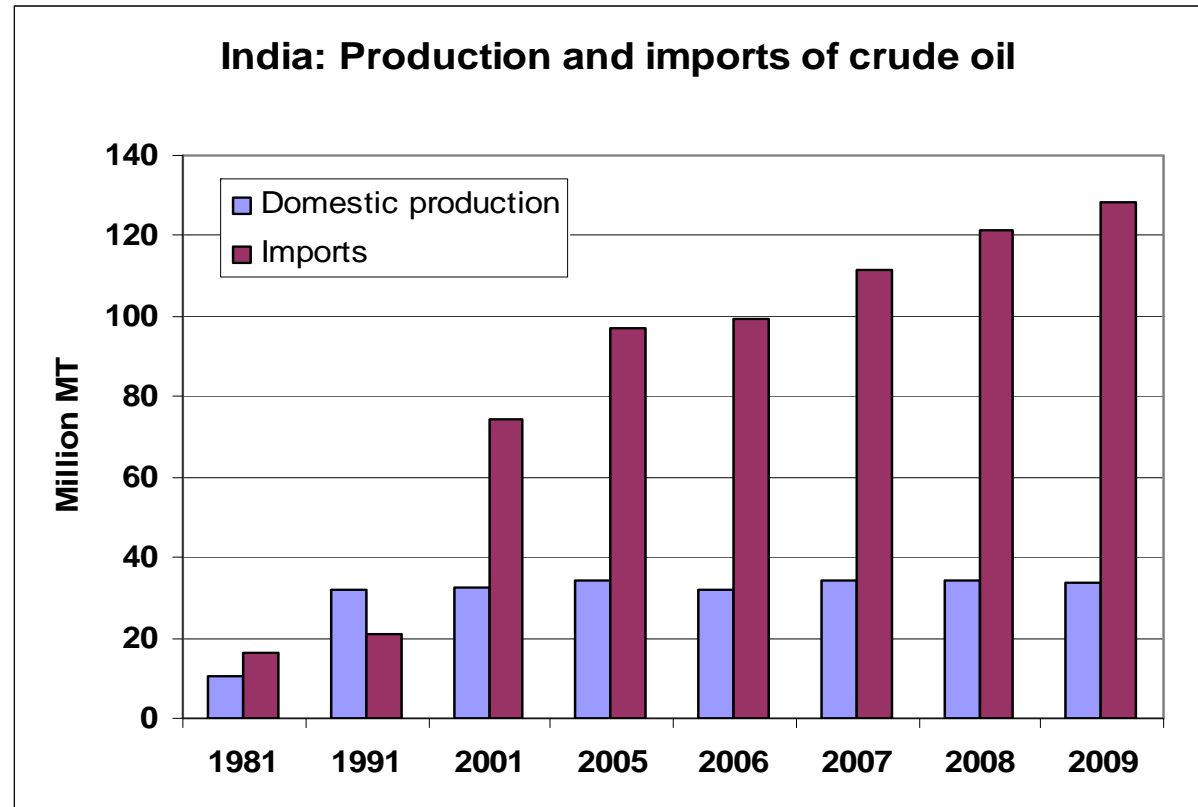
(4) Policy reactions: manufacturing

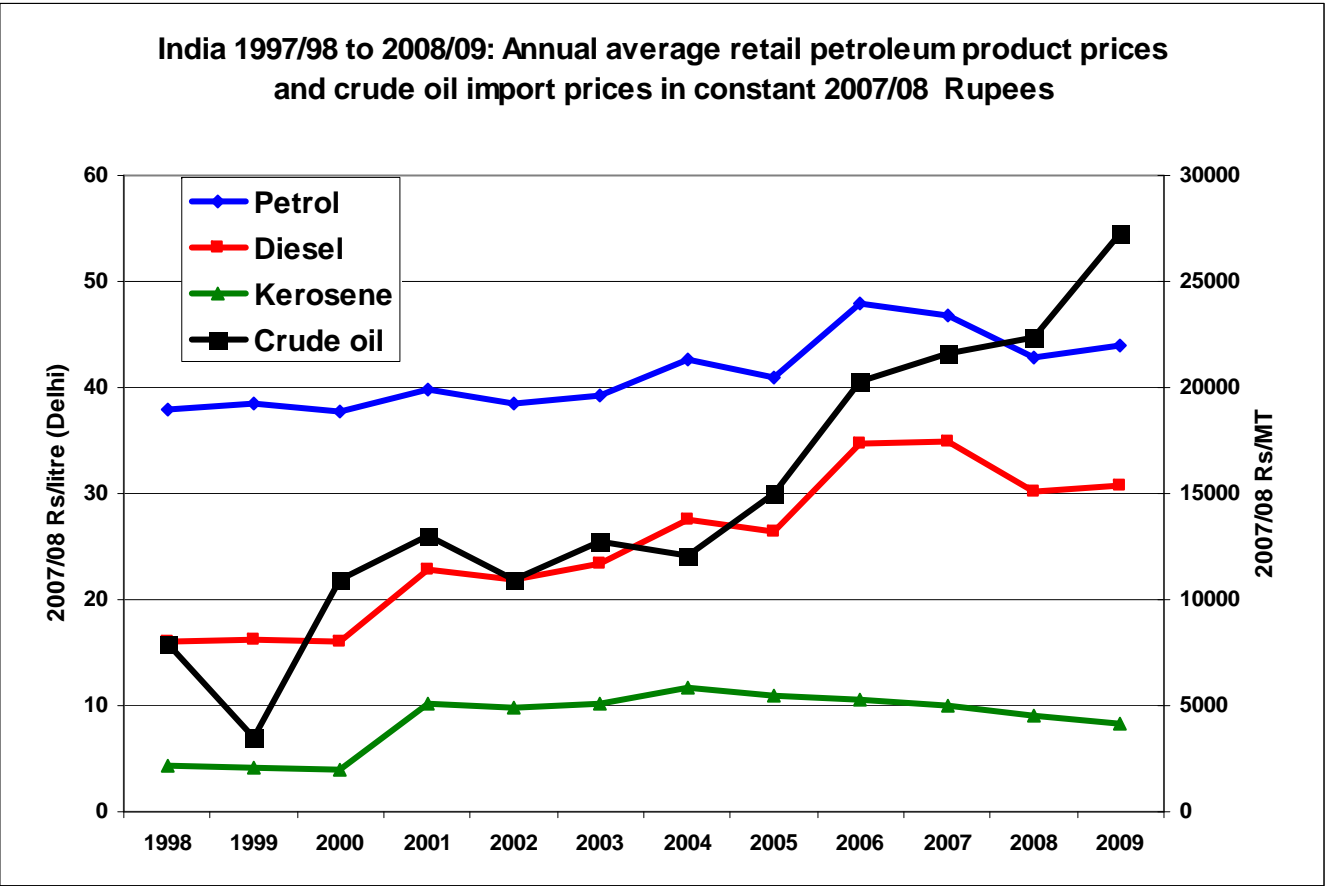
- During the export and domestic boom years: trade liberalization facilitated. Little resistance to the FY 03-FY 08 tariff reduction program
- Reemergence of protectionist/interventionist pressures during FY 09 largely pre-empted by Rupee devaluation
- No serious backtracking in the 2008 budget, or in the 2009 interim & final budgets
- But no further progress either: the principal exceptions to open non-interventionist trade policies in manufacturing remain viz:
 - Prohibitive specific tariffs protecting low value textiles and garments
 - Prohibitive auto tariffs ...still 60%
 - Fertilizer production... highly distortionary policies continue (see below)
 - Anti-dumping....the joker in the pack. See below

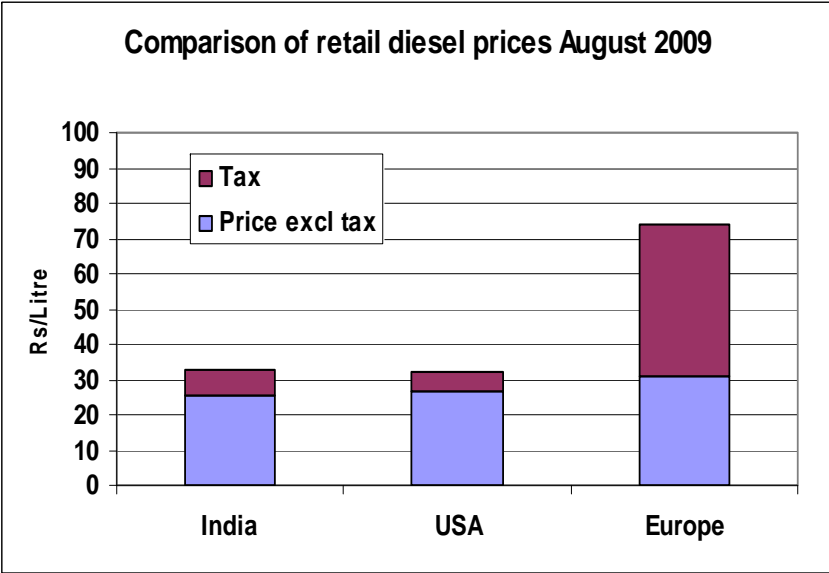
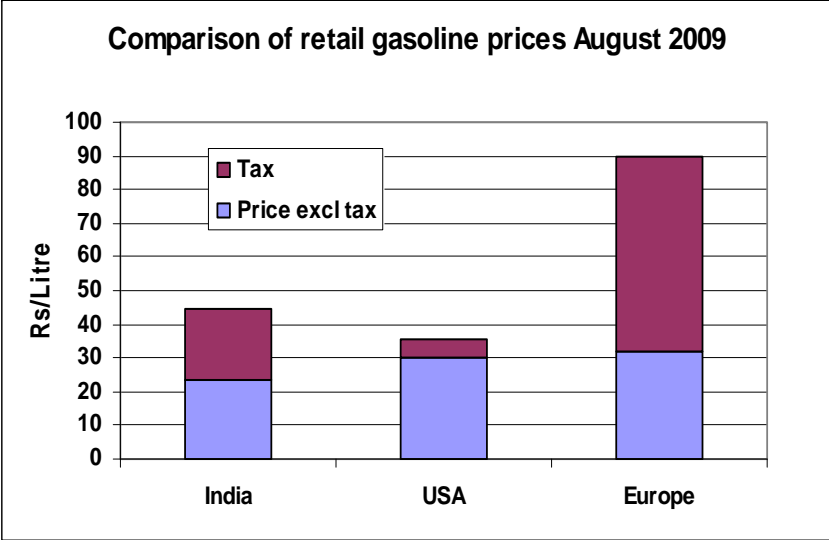
(5) Policy reactions: agriculture

- Continuing overriding objective: domestic availability and domestic price stability
- To achieve these objectives highly interventionist policies continued and became more marked during the 2007 & 2008 commodity world price boom and collapse. These have included:
 - Export controls on exportables (e.g. rice) to insulate domestic markets from world price increases. India's controls in turn exacerbated world price instability and hurt some of its neighbours (in particular Bangladesh)
 - Drastic tariff reductions on importables (e.g. palm oil) to insulate domestic markets. These reductions also exacerbated world price instability
 - Large changes in applied tariffs & the use of export controls and subsidies to stabilize domestic markets (e.g. especially sugar markets)
- Continued very large and growing agricultural input subsidies, especially for fertilizers and electricity

(6) Policy reactions: the oil and gas sector



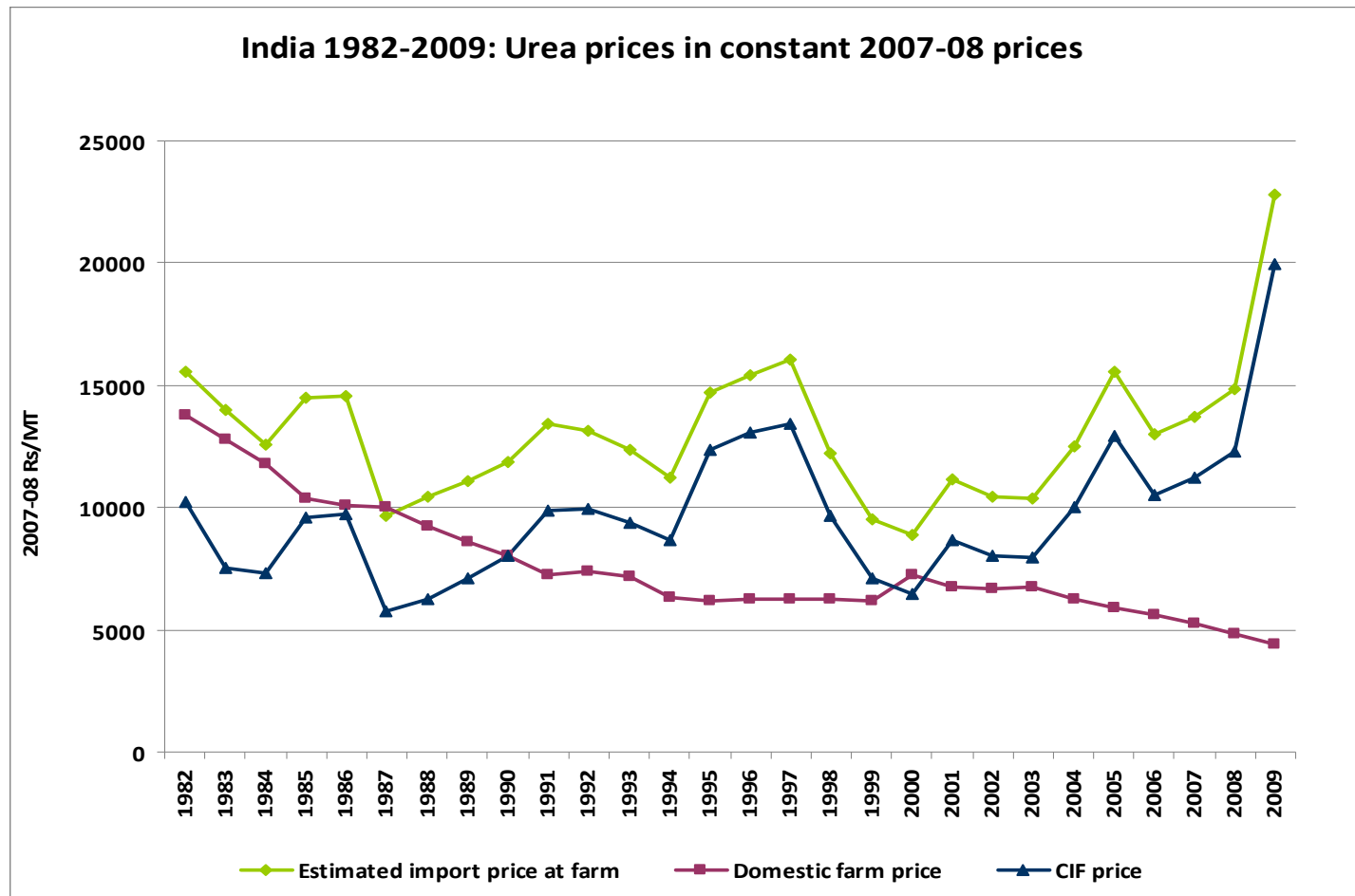




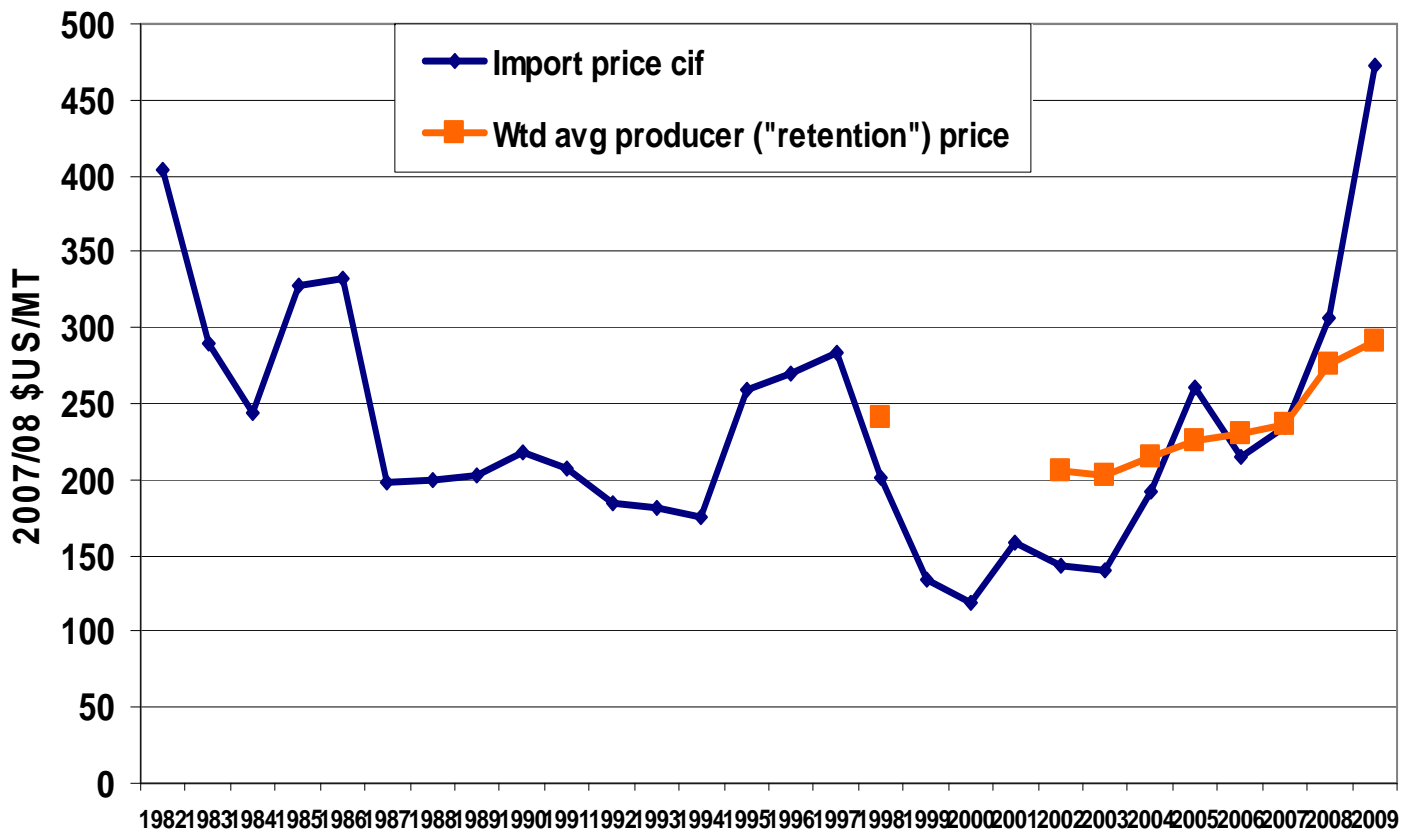
GOI 2008/09: Net revenue from petroleum sector

| | Rs Crore | \$US billion | % GDP |
|--------------------------|----------|-----------------|-------|
| Customs & excise revenue | 78373 | 18.3 | 1.59 |
| Oil bonds | -71313 | -16.7 | -1.45 |
| "Upstream Assistance" | -31979 | -7.5 | -0.65 |
| Net revenue | -24919 | -5.8 | -0.51 |

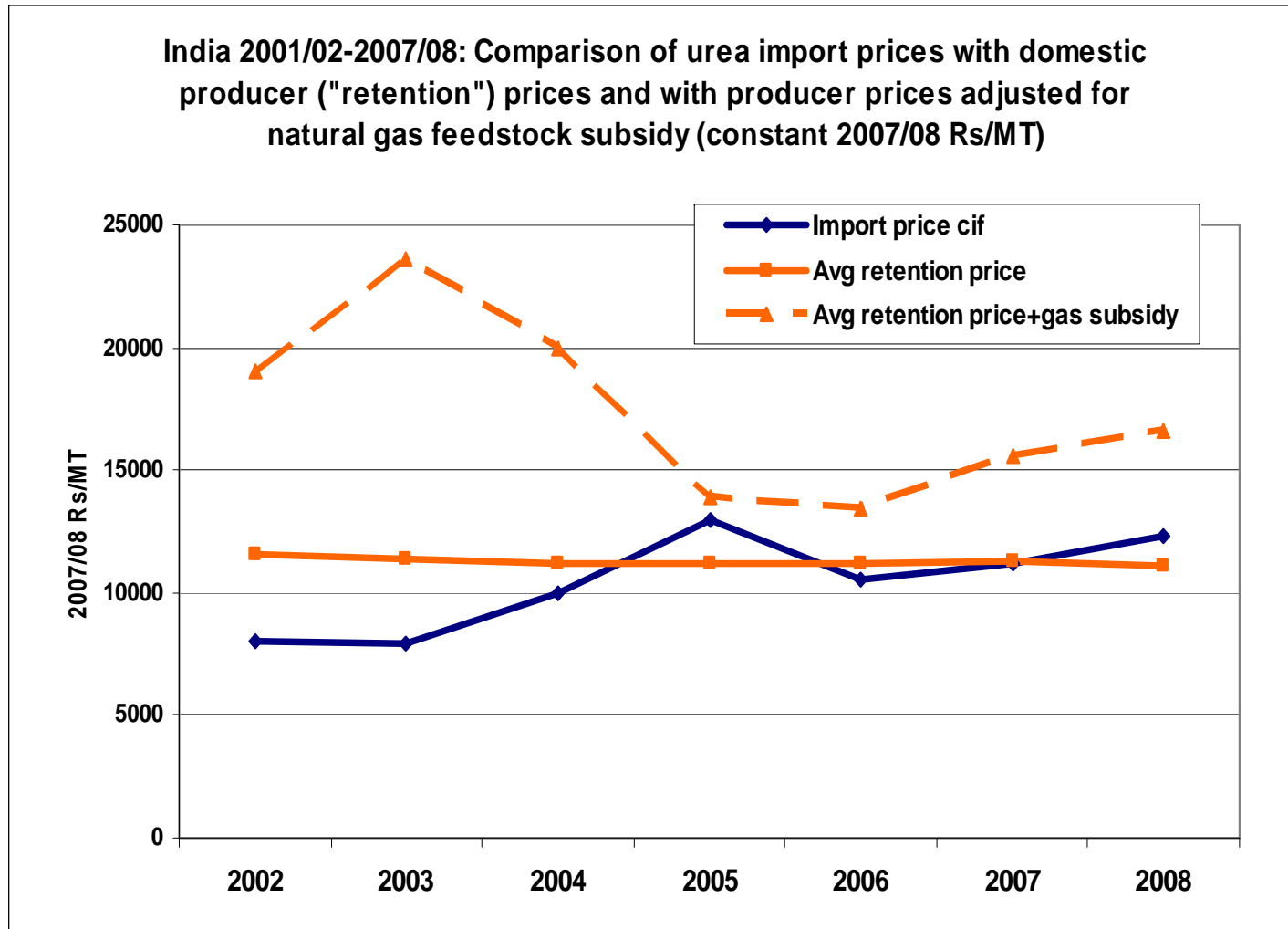
(7) Policy reactions: fertilizers



India FY 1982-FY 2009: Comparison of domestic urea producer prices with import prices (in constant 2007/08 \$US)



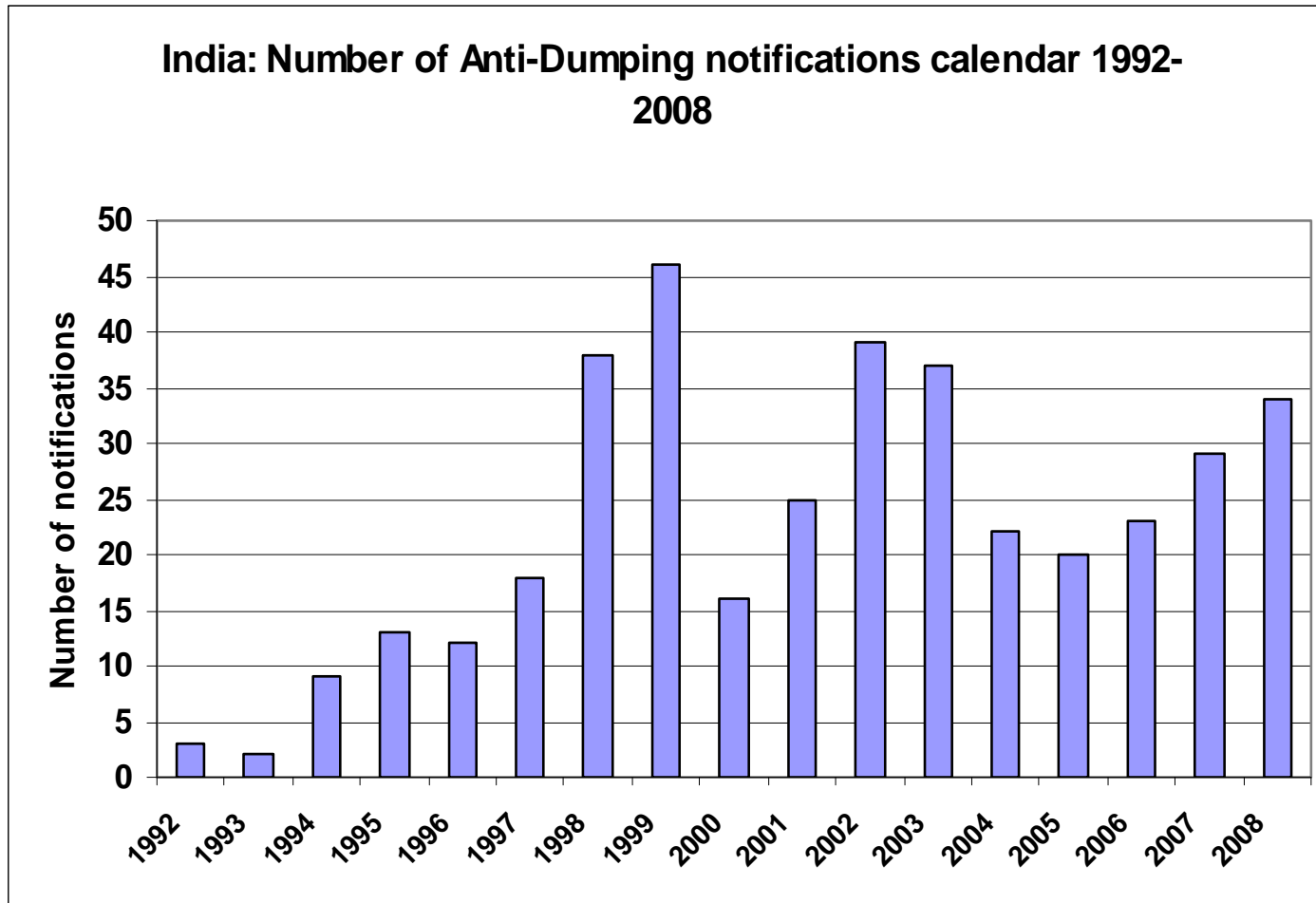
India 2001/02-2007/08: Comparison of urea import prices with domestic producer ("retention") prices and with producer prices adjusted for natural gas feedstock subsidy (constant 2007/08 Rs/MT)



Fertilizer subsidies 2008/09

| | Rs crore | \$US billion | % of GDP |
|-------------------------------------------|--------------|--------------|-------------|
| Domestic urea | 16516 | 3.7 | 0.33 |
| Imported urea | 10981 | 2.5 | 0.22 |
| "Decontrolled" complex fertilizers | 48351 | 10.8 | 0.98 |
| Total budgetary subsidy | 75848 | 17.0 | 1.54 |
| Fertilizer bonds | 20000 | 4.5 | 0.41 |
| TOTAL official subsidy | 95848 | 21.4 | 1.94 |
| Gas feedstock subsidy | ? | ? | ? |

(8) Policy reactions: anti-dumping



**Indian AD measures in
definitive force**

July 1 to Dec 31 2008

| Countries affected | No of measures |
|---------------------------|-----------------------|
| China | 38 |
| Korea | 17 |
| EU | 17 |
| Bulagaria | 17 |
| Taipei | 13 |
| USA | 12 |
| 18 others | 54 |

WTO: no of new AD initiations July 1- Dec 31 09

| | |
|--------------|------------|
| India | 42 |
| Brazil | 16 |
| China | 11 |
| Turkey | 10 |
| Argentina | 9 |
| EU | 9 |
| Indonesia | 6 |
| Ukraine | 4 |
| Pakistan | 3 |
| USA | 3 |
| Australia | 2 |
| Colombia | 2 |
| Canada | 1 |
| Korea | 1 |
| Mexico | 1 |
| TOTAL | 120 |

(9) The crisis and future policies

- Manufacturing...remains open & serious backtracking averted, but needed reforms delayed: especially T&C, autos, & fertilizer sectors. But it's encouraging that on the whole open policies have continued in petrochemicals (*caveat...anti-dumping!!*)
- Ag...serious long term set back for needed trade lib, including on the export side
- Petroleum and natural gas: If world crude prices stay at or above \$70/barrel & unless there are large new discoveries of crude &/or natural gas, something will have to give. The 2008/09 subsidies and even the prospective 2009/10 subsidies are just too big.
- Fertilizer: a long term well recognized problem. Huge distortions and huge subsidies. As with POL, if world crude and therefore world nitrogenous fertilizer prices stay high something will have to give. In this case it has to involve real increases in the farm price & major reforms to the domestic industry
- Anti-dumping: the joker in the pack. How protective?...nobody really knows. Serious attention and serious study is badly needed
- Excellent exchange rate management by the RBI: has helped fend off counter productive QRs & tariff increases. Flexible ex rate management is now politically acceptable ...a revolution compared to attitudes 20 years ago.