

Companies look for destinations with stable policy regime and strong trade linkages

At a time when Government of India is providing renewed thrust to economic reforms, global trade experts have some piece of advice for the Indian policymakers. They call for simple, transparent and predictable policy regime to attract new investments and make existing enterprises competitive.

Dr Deborah Elms, Founder and Executive Director of the Asian Trade Centre feels that smart companies want to relocate to those countries that have strong trade linkages with rest of the world, besides a predictable policy regime.

Asian Trade Centre works with governments and companies across the Asia Pacific to design effective trade policies. In an interview to MVIRDC World Trade Center Mumbai, Dr Elms discusses how firms and policy makers should respond to the ongoing pandemic.

Excerpts of the interview:

Q1. How should companies strategize their operations to deal with the current uncertain situation?

I would say that, at a time of extreme economic upheaval, countries and companies need to focus on doing whatever they can to be more competitive. While there may be a general desire to have supply chains, as an example, that are closer to home, for many firms and many sectors, this will not be possible. The costs of having production close to final markets could be too expensive. Thus, while we are headed to a different global outcome than what we might have imagined in, say, 2015, globalization as such is not going away. It may shift in form and format, as firms try to figure out more robust avenues of sourcing and supply. Some companies will no longer exist at all, so new suppliers will need to be found. Consumer demand is likely to be altered for many things, leaving firms that were highly competitive suddenly without demand.

In this general position of upheaval, countries that have excellent trade linkages have a better footprint for the future than those that do not. Good trade agreements can lower the risk and uncertainty for firms for being in these markets. Given a choice, companies that are smart will opt for locations that provide better benefits over those locations that do not. Being out of trade agreements comes at a cost--trade diversion and, especially, investment diversion.

Q2. What are your policy suggestions to government to attract investment and enhance global competitiveness of local firms?

Companies that are desperately seeking an edge want to be located in places with government policies that are simple, easy to understand, and more transparent. They do not want to be located in places that are simply too difficult to do business--with time, resources and energy spent battling everything from business registration to hiring to taxes.

This is not to say that firms want no regulations or that governments should allow unfettered business activities. Firms want certainty about policies. Governments have the right to regulate in the public

interest and for matters of health and safety. Having smart, sensible, clear regulations and a solid policy landscape is critical for being successful in times of economic upheaval.

Q3. Although India has signed around 16 Free Trade Agreements with other countries and trade blocs, there is a general perception that these agreements have not helped Indian exporters enhance their market share in the signatory countries. According to you, what are the steps the Indian government should take to make these agreements effective?

India's participation in existing trade agreements has not improved, overall, the policy environment in India nor have most of the agreements led to changes in the participating partners such that firms get significant new benefits from the existing set of agreements. ASEAN-India, as an example, is nearly impossible for firms to use at all as the rules of origin are too complicated and large swathes of the economy are excluded entirely from commitments, including agriculture. Hence, whatever competitive challenges India might imagine flows from the ASEAN agreement are highly unlikely to be the result of the agreement. Firms may have added India to their own agenda, but it was not because they got any benefits from using ASEAN-India.

This makes it all the more important that India join RCEP as soon as possible. In a highly competitive landscape, firms are looking for opportunities. If India remains out, firms will choose to locate operations inside RCEP economies to take advantage of new trade lanes in Asia for Asia.

Notifications

Press Information Bureau, Government of India

Cabinet approves scheme for formalization of food processing firms

<https://pib.gov.in/PressReleasePage.aspx?PRID=1625320>

Modification in partial credit guarantee scheme

<https://pib.gov.in/PressReleasePage.aspx?PRID=1625321>

Cabinet approves scheme for sustainable development of fisheries sector

<https://pib.gov.in/PressReleasePage.aspx?PRID=1625314>

Cabinet clears MSME credit scheme upto Rs. 3 lakh crore via emergency credit line

<https://pib.gov.in/PressReleasePage.aspx?PRID=1625307>

Updates on COVID-19

<https://pib.gov.in/PressReleasePage.aspx?PRID=1625480>

Minister calls for technology upgradation

<https://pib.gov.in/PressReleasePage.aspx?PRID=1625431>

Daily Bulletin on COVID 19

<https://pib.gov.in/PressReleasePage.aspx?PRID=1625487>