CHALLENGES AND OUTLOOK

6.135 The outlook for the trade sector 2009 in India is not very encouraging with IMF projecting a negative growth in world output at -1.3 per cent and World Trade Volume projected to grow at a negative (-) 11.0 per cent. With import demand falling from our major trading partners, India's exports of goods and services is expected to be impacted. The steep fall in petroleum prices and cooling down in the prices of commodities could have a positive effect on the import side and for the industrial sector though moderation in petroleum prices has taken place recently. In 2010, recovery is expected with IMF projections at 1.9 per cent for world output and 0.6 per cent for world trade volume of goods and services. These projections could be revised with improvement in the world economic scenario. The Baltic Dry Index has also shown some signs of recovery in May 2009 after falling below the 1,160 mark in the fourth quarter of 2008. (a level reached last in the last quarter of 2001 the latest year (i.e. 2001) when world trade volume growth was (-)0.4 per cent). While the bailout packages given in different countries and India may have started working, it is too early to predict that the turnaround has taken place.

6.136 The subdued global economic outlook, calls for efforts at both national and international levels to revive growth. While efforts to promote exports are needed, there is a need to guard against protectionist measures originating from our trading partners. We also need to desist from any protectionist tendencies and proceed on the reform path. The G-20 has also stated that "falling demand is exacerbated by growing protectionist pressures and a withdrawal of trade credit. Reinvigorating world trade and investment is essential for restoring global growth. We will not repeat the historic mistakes of protectionism of previous eras". These words should also be reflected in the actions and policies of the major trading countries.

6.137 In the Indian case, besides the short term relief measures and stimulus packages, some fundamental policy changes are needed. For the merchandise trade sector, these include continuation of the reduction in customs and excise duty to make our exports and industry competitive, streamlining of existing export promotion schemes, giving special attention to export infrastructure along with rationalization of port service charges based on services rendered by ports in tune with our competing countries, weeding out unnecessary customs duty exemptions, rationalizing the tax structure including specific duties in a calibrated manner taking into account the specific duty levels in our trading partner countries, checking the proliferation of SEZs, evolving clear-cut policy for beneficial CECAs even with some developed countries instead of just FTAs/PTAs which should be well integrated with our economic and trade policy reforms and the blueprint for possible changes due to WTO negotiations.

6.138 In the services sector a road map of specific policies needs to be drawn not only to overcome the impact of the current global crisis, but also to accelerate the growth of the economy and total exports, as this sector has been showing a steady and promising performance with relatively lesser support compared to merchandise sector. A more systematic approach could increase our dividends from this sector manifold. In particular, one major area where reforms can help in sustaining export growth is domestic regulations. Domestic regulations perform the role of tariffs in regulating services trade. Streamlining many of our domestic regulations like licensing requirements and procedures, qualification requirements and procedures, technical standards and regulatory transparency can help in the growth and export of services. Similarly, negotiating for streamlining domestic regulations in our major trading partners could help in increasing our market access. These along with policies like marketing of services, including "services" in negotiations in different regional and bilateral trading arrangements and successful services negotiations in WTO, could help.