

A new era of trade



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Trump's actions have implications for global arrangements. India needs to adapt and respond

THE RECENT MEETING between Prime Minister Narendra Modi and President Donald Trump addressed wide-ranging issues, including the setting of ambitious targets for bilateral trade. The meeting took place against the backdrop of growing apprehensions over heightened global uncertainty, caused, in part, by the disruptive actions of the US President. India had to carefully navigate this trip, which came at a time when old norms of trade and governance are being rejected and new ones are yet to take full shape. As stated by Trump, the US will have fair and reciprocal plans for trade and tariffs.

In order to take forward the idea of "Mission 500", India and the US have agreed to go in for a multi-sector Bilateral Trade Agreement (BTA) by the fall of 2025, keeping in view the broader framework of COMPACT (Catalysing Opportunities for Military Partnership, Accelerated Commerce and Technology). The countries are poised to move to a "mega partnership for prosperity" as emphasised by PM Modi. But to achieve the ambitious \$500-billion trade target by 2030, substantive efforts will be required.

Strong intra-industry trade potential exists in key sectors where both countries can engage in simultaneous imports and exports of similar product groups, thereby offering a greater variety of choices to consumers. Such trade dynamics are particularly promising in chemical products, machinery and automobiles. The US is also poised to strengthen its position in trade segments such as plastics, base metals and precision instruments, whereas India is likely to lead in sectors like vegetable products, processed foods, and stone and plaster. These sectors may help to narrow the trade deficit. While the bilateral trade imbalance remains a structural issue, it can be effectively moderated through a sustained expansion in trade, fostering deeper economic interdependence between the two nations.

The BTA will aim to adapt an integrated approach for deepening trade across the goods and services sector. ABTA is a comparatively less complex trade arrangement be-

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tween two partners, designed to align their broad trade policy objectives while addressing geopolitical considerations and commitments to the WTO. In contrast to an FTA, a BTA functions within a more limited framework, primarily focusing on tariff reductions, easing non-tariff barriers and facilitating trade between the contracting parties.

The agreement is inherently flexible as it does not adhere to the principle of covering "substantially all trade" and incorporates simplified Rules of Origin (RoO). BTAs operate as exceptions to the MFN principle, fostering preferential trading arrangements tailored to the strategic interests of the signatories. The negotiation process for a BTA is relatively straightforward, typically centring on select industries while ensuring compliance with WTO regulations. The BTA will also look into the vital aspects of reducing tariffs and non-tariff barriers (NTBs), market access and supply chain-related issues.

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The Trump administration's actions are moving the global trading arrangement away from MFN. The details, of course, are yet to be

worked out but there are fundamental questions that the world trading system will have to address. As expected, earlier this month, Beijing has already approached the WTO against the 10 per cent additional ad valorem duties applied on all goods originating in China. This, China says, is inconsistent with US MFN obligations under Article I:1 of the GATT and US tariff obligations under Article II:1(a). Further, China has identified these measures in excess of US-bound rates in its Schedule of Concessions and Commitments annexed to the GATT.

As we move forward, we need to appreciate three key issues.

First, for a robust trade partnership, quick response and adaptation at multiple levels from India will be crucial. The PM has demonstrated this remarkably well. But the rest of the state establishment needs to innovate and rediscover their instruments and possibilities. The PMO will have to lead this through a new system, imbued with greater dynamism. I had dwelt on some of these dimensions earlier (IE, January 23, 'Doing business with Trump').

Second, India should draw out a strategy to comprehensively leverage COMPACT to overcome NTBs and enhance market access for Indian products. This would also include learning about additional and new trade instruments that our trade partners bank on. For instance, the US imposes tariff rate quotas that permit a specified quantity of imported merchandise to be entered at a reduced rate of duty during the quota period. Once the tariff-rate quota limit is reached, goods can still enter but at a higher rate of duty.

Third, India should also simultaneously work on, with other like-minded countries of the Global South, a larger narrative of MFN and tariff reciprocity. Moving away from MFN would imply breaking down the current trade governance framework, which is essential for a more stable, predictable, coherent and all-inclusive global trade architecture.

The writer is director general, RIS. Views are personal

