



Not taking sides

India might have to engage more deeply with the Ukrainian war as the conflict deepens.

Highlights:

1. With a convincing majority of 141 of 193 countries, the UN General Assembly voted for a resolution that deplored in the “strongest terms” Russia’s attack on Ukraine and demanded an immediate withdrawal of Russian troops.
2. The resolution, which was discussed in a rare special emergency session and under the rubric of the “Uniting for Peace” resolution invoked after decades, came as a result of an aborted resolution at the UN Security Council, which Russia, as a permanent member, had vetoed.
3. While the UNGA resolution carries little teeth, it does represent a common stand taken by the international public commons, with 96 countries signing up as co-sponsors of the resolution.
4. Russia rejected the outcome as a political vote that came of severe “pressure” from the U.S. and European countries that were the drivers of the resolution, but it seemed clear that it was isolated on the global stage.
5. Belarus, Eritrea, North Korea and Syria voted against the motion, and 35, including India, abstained.
6. While the resolution also decried the Russian decision to recognise Donetsk and Luhansk as independent states, representatives of member states made it clear that it was the relentless bombing of Ukrainian cities that they could not turn a blind eye to.

Indian Position:

1. India’s abstention, not a surprise, disappointed many western countries that have been lobbying for a shift in the Indian position. In the past week, India has abstained from three votes (including two procedural ones) at the UNSC where it is an elected member, one at the UN Human Rights Council, and another at the IAEA on resolutions critical of Russia.



2. In an explanation of vote (EOV), India's UN representative said that India is calling for dialogue, while officials say that India's abstention has given it room to play a role in diplomacy with Russia and Ukraine.
3. In a sign of some discomfort with Russian actions, the EOV also dropped the earlier references to the "legitimate security interests", and included language on respecting the "territorial sovereignty" of members.
4. India has also sent humanitarian aid to Ukraine although its vote of abstention indicates the Modi government still has many reasons not to vote against Russia, a strategic and defence partner that has stood by India.
5. As the conflict continues, and the global community expresses its disapproval, however, India's desire to remain an "abstentionist" power is being called into question.
6. The Government has also said that it needs to remain on good terms with both sides as its primary focus remains the safe exit of Indians from the conflict zone.

While evacuating Indians is an important priority, it cannot be India's only focus in this crisis, given its aspirations for global leadership and the oft-quoted motto of "Vasudhaiva Kutumbakam". It may become necessary for India to engage more deeply with the conflict in Europe, which is now a global concern.

India should integrate into global value chains

- In late 2019, when India withdrew from the Regional Comprehensive Economic Partnership (RCEP) — a trade agreement involving Southeast Asia, China, Japan, South Korea, Australia, and New Zealand — it was perceived as New Delhi stepping away from global trade.
- The pendulum has now swung, with India concluding a trade agreement with the United Arab Emirates (UAE), and in negotiations with Australia, the United Kingdom (UK), Canada, and Israel.
- The shift reflects the increasingly political character of international commerce.



- Concerns about further dependence on China, particularly given RCEP's lax rules of origin, stand in stark contrast to the prospect of greater integration with more complementary (and friendly) advanced economies.

National objectives in global trade

1. Trade agreements are but one means to what is arguably a more important national objective: Increasing the global share of India's exports.
2. Creating goods and services not just for India, but for the world, is critical to ensuring large-scale employment, wealth creation, and human development that takes fuller advantage of India's favourable demographics.
3. Additionally, as the pandemic has underscored, globally competitive manufacturing is critical to ensuring national resilience, particularly in critical sectors such as health, energy, and digital technologies.

The political power of Exports:

1. China has demonstrated, much as colonial powers did in a prior era, how export power can be leveraged for political purposes.
2. Admittedly, India's quest for exports has faced adverse headwinds. It is not rich in natural resources such as oil and gas. Politics has created further hurdles.
3. India today accounts for around 3% of the world's economy (ranked 6th) yet contributes only about 2.2% of global exports (ranked 12th) and barely 2% of merchandise exports (ranked 14th).
4. Over half of Indian goods exports come from refined petroleum products, gems and jewellery, pharmaceuticals, machinery, organic chemicals, automotive parts, and iron and steel. These are (with few exceptions) not generators of large-scale employment.

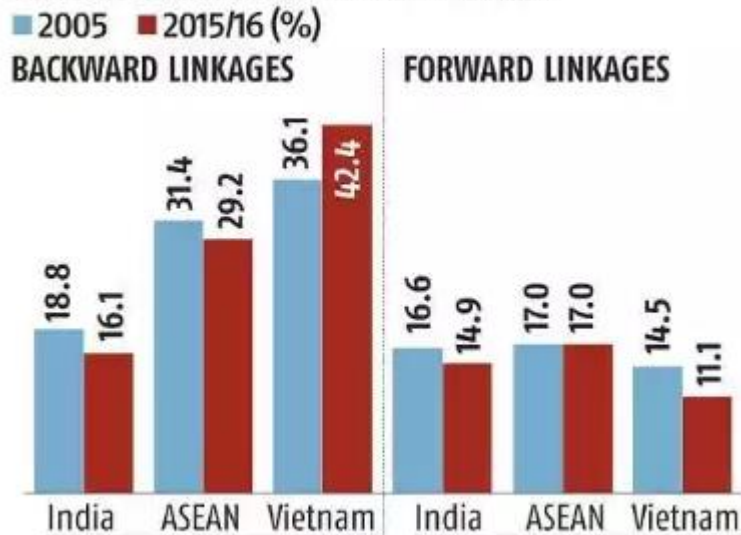
Silver Lining:

1. Today, two developments have collectively created an opportunity to redress India's anaemic exports. First, Beijing's growing assertiveness and economic nationalism have caused some governments to reconsider their dependence on trade integration with China. This extends to the United States (US), Japan, South Korea, Taiwan, UK, and Australia, as well as some European countries.



- Some see Southeast Asia and India as potential alternatives, although they recognise that diverting value chains away from mainland China will take many years, given sunk costs.
- A second factor has been the coronavirus pandemic, which has offered an opportunity for a reset, as trade and supply chains have been disrupted.

INDIA'S GVC PARTICIPATION



Source: Trade in Value Added Database, 2018, OECD.

Challenges of integration into global value chains:

- The challenges are that certain policies intended to promote self-sufficiency, rather paradoxically, risk moving India further away from that objective.
- India consequently faces at least three major obstacles to fully realising its export potential: Restrictions on imports, regulatory uncertainty, and inadequate infrastructure.
- These concerns have been identified both by domestic manufacturers and multinational corporations (MNCs) interested in further investment in India.
- The most immediate challenge involves recognising that increasing exports requires facilitating imports. Final assembly in India necessitates importing raw materials, as well as intermediary goods until full domestic manufacturing ecosystems can be established. After all, China and Germany — which enjoy enormous trade surpluses — are also two of the three largest importers.
- Yet Indian manufacturers confront a series of challenges to importing necessary components, including high import duties, complicated licensing procedures, large penalties, double-taxation on reimports, price controls, and local content requirements in products lacking local suppliers.



6. A second challenge relates to regulatory uncertainty, which deters long-term investment, often with implications for pricing. In certain sectors, customs duties are applied arbitrarily, often to the disadvantage of the Indian private sector.
7. Similarly, the electronics sector — a government priority — faces constantly changing regulations and certification requirements. Local standards are often in conflict with prevailing global norms, creating further disincentives for exports.

Infrastructural constraint: High logistics cost

1. Finally, while India's infrastructure has improved considerably, constraints remain. These extend to port congestion and inadequate dedicated freight corridors, and also such hurdles as a lack of electronic forms for the necessary paperwork.
2. Such factors raise costs, often rendering Indian exports non-competitive. By one reckoning, the real cost of logistics in India is almost twice that of some competitors.
3. There are certainly other challenges, such as inadequate human capital, land, market access, arbitration, and low-interest financing.
4. But facilitating the import of intermediary goods, generating regulatory certainty, and addressing infrastructure bottlenecks would go a long way towards making Indian manufacturing more competitive, relative to its real competition like Vietnam, the Philippines, and Mexico.

Conclusion:

Global value chains are a two-way street: For exports to rise, imports must be facilitated, albeit in a manner that prevents dumping. Creating a self-sufficient manufacturing and export ecosystem cannot happen overnight and will need to be nurtured with policy predictability and efficient infrastructure. Addressing Indian manufacturers' concerns is paramount. In this matter at least, the Covid-19 pandemic and China's belligerence offer perhaps the last opportunity for India to take full advantage of its demographic dividend.