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The trade landscape, as we know it, is
changing: Is India prepared?

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Throughout the pandemic, the stupendous performance of exports supported India's recovery when other major growth engines lost steam. The question that everyone asking is, can exports sustainably contribute to India's GDP and help it achieve its ambition of becoming a US\$5 trillion economy? There is optimism that exports can grow much faster, especially in services. Not to mention, the young, skilled, and English-speaking workforce of India is an added advantage. India can ride the benefits of the digitisation drive across the globe and boost technology exports and IT services, where it has a comparative advantage.¹ Further, the country presents a huge potential and opportunities as an export hub and investment destination in the light of the "China Plus One" strategy in the manufacturing space.

The government too has been pushing the export growth agenda with rising infrastructural spending, boosting domestic manufacturing with the production-linked incentive scheme and priority-sector lending, and reforming tax and regulatory reforms. Moreover, the government recognises the importance of trade and has been tapping into trading opportunities with preferential trade agreements and partnerships. After a decade, India is on a free trade deal signing spree. It has recently signed Free Trade Agreements (FTAs) with the UAE, Australia, and Mauritius, while FTAs with Israel, the UK, Canada, and the European Union are in the pipeline. India's participation in the quad alliance to secure supply chains in critical areas, such as semiconductors and 5G telecom technologies, is a significant step towards building domestic capabilities to become global suppliers.²

While the government believes export's share in GDP must rise to at least 20 percent for India to become a US\$5 trillion economy by 2026-27,³ according to its own estimates, exports will likely reach US\$1 trillion by 2030.⁴ For an economy that is primarily driven by domestic demand, relying on a sustained contribution of exports to GDP is questionable. Exports' contribution can dramatically change, both positively and negatively. External shocks, such as global economic slowdown, fluctuating valuation of foreign currencies, and changes in policies by importing countries, on which India has no control makes it a difficult sector to rely on.

More importantly, the trade landscape itself is changing dramatically with three defining drivers shaping trade of the future—technology, geopolitics and global exigencies, and climate change.

Technology transformation and digitisation are at the core of Industry 4.0, which is not only revolutionising how businesses manufacture and transact, but also redefining trade. As highlighted in a Deloitte report, **Industry 4.0 has become Trade 4.0** where 'supply chains have fundamentally shifted from traditional, linear ones to integrated digital supply networks characterised by multidirectional, always-on communication amongst the nodes of a network. These changes are causing the emergence of an ever-complicated trade ecosystem that comes with a slew of new trade-related challenges.'⁵ We delve into this in detail throughout the article.

The second driver is the combination of geopolitical developments and global exigencies that are influencing trade relationships and constantly changing the trade basket. Over the past few years, the US-China trade conflicts, rising nationalism and anti-globalisation sentiments amongst a few advanced nations, the global pandemic, and the Russia-Ukraine crisis have resulted in severe supply chain disruptions, while trade volume has plateaued (Chart 1). Prolonged pains of disruptions have compelled nations and multinationals to lay emphasis on resilience, diversification, and securing supply chains. Consequently, nations are focusing on carrying out reshoring activities, increasing self-sufficiency, and decreasing import dependencies. According to a report released by the European Chamber of Commerce in China, about 23 percent of the respondents are considering moving their current or planned investments away from China. Its persistent zero-tolerance policy (with reference to the infection spread) has hampered operations across the country; the loss of diversity amongst the Chinese workforce is affecting innovation.⁶

¹ <https://www.meity.gov.in/it-export#:~:text=Indian%20technology%20exports%20are%20set,a%20y%20Do%2Dy%20growth%20of%202.6%25.>

² <https://economictimes.indiatimes.com/news/india/quad-alliance-joins-hands-to-secure-semiconductor-5g-tech-supply-chains/articleshow/86522479.cms>

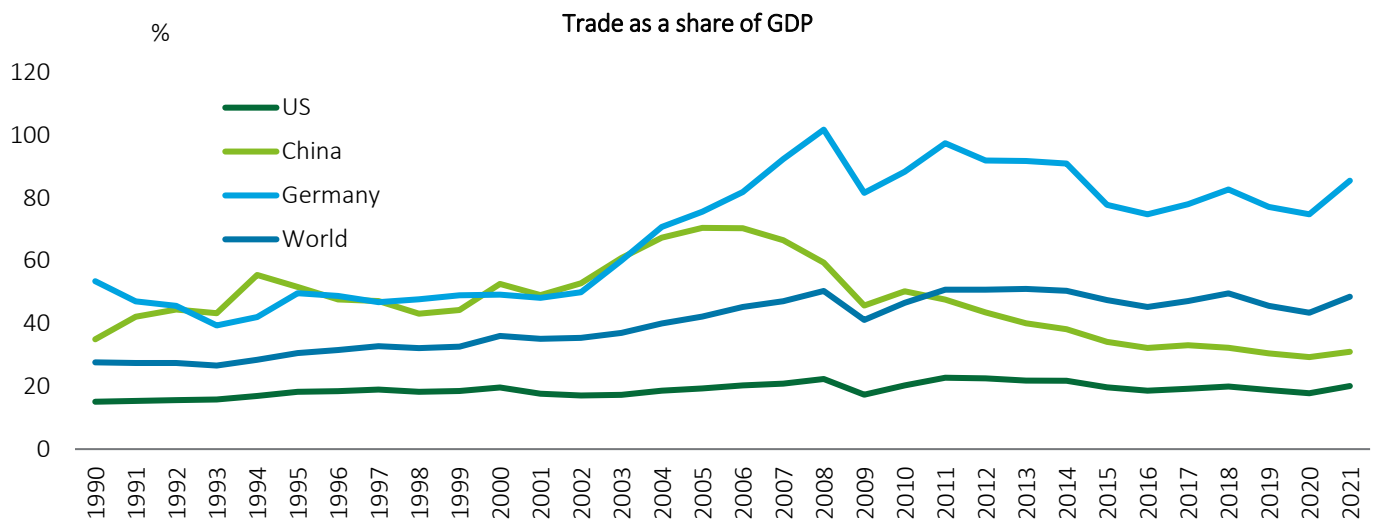
³ https://www.business-standard.com/article/economy-policy/imf-corrects-maths-says-india-to-be-5-trillion-economy-by-fy27-122051901704_1.html#:~:text=However%2C%20new%20numbers%20put%20up,trillion%20economy%20by%202024%2D25

⁴ <https://theprint.in/economy/indias-exports-may-rise-to-usd-1-trillion-by-2030-piyush-goyal/968993/>

⁵ <https://www2.deloitte.com/us/en/insights/industry/public-sector/trade-4-0-government-opportunity.html>

⁶ <https://www.bloomberg.com/news/articles/2022-06-20/nearly-one-in-four-european-firms-consider-shifting-out-of-china>

Chart 1: World trade growth tilts downwards on global macroeconomic factors



Source: Trade here refers to the sum of exports to and imports from the world, IMF, sourced from Haver Analytics

However, the quest to rethink supply chains is also translating into friend shoring with supply chains moving to ally countries because of deliberate policy initiatives. The WTO has warned that this rising phenomenon may have a negative impact on global growth, instigate inflationary pressure, and increase income disparity between advanced countries and low-income countries by restricting the supply of essential raw materials and threatening vital industries.⁷

The third driver is the willingness amongst policymakers across the globe to adopt climate-friendly policies and procedures for lowering carbon footprint. The Centre for Global Development estimates that carbon emission numbers, amounting to nearly 63 percent of the global carbon emission, are highly skewed towards developing nations.⁸ As developing economies grow in terms of output and population, per capita carbon emissions are likely to rise that may put the onus to lower carbon footprint on these countries. The impact on international policies and diverging interests between advanced economies and emerging economies is likely to influence trade patterns and composition.

These have significant implications on how the trade basket changes and comparative advantages shift. For instance, one can notice the jump in certain categories of goods in the export and import baskets in India over the past year (Chart 2).

⁷ <https://www.project-syndicate.org/commentary/friend-shoring-higher-costs-and-more-conflict-without-resilience-by-raghuram-rajn-2022-06?barrier=accesspaylog>

⁸ <https://www.cgdev.org/media/developing-countries-are-responsible-63-percent-current-carbon-emissions>

Chart 2: Shifts in trade observed post geopolitical tensions



Note: Increase in values also includes the effect of the price rise (due to the disruption) and not just the quantity.

Source: Havers Analytics

The three drivers will be critical in redefining the trade landscape. We focus on the role of technology in trade and how it can help nations deal with disruptions and uncertainties. We will also discuss how India can prepare for digital-led trade growth.

Trade 4.0: Technology revolutionising trade

Industry 4.0 is transforming the trade of goods and services globally in more ways than ever and will continue to do so. While several changes are already visible and much anticipated, a few might be somewhat distant. As trade takes multiple leaps forward to Trade 4.0 with changing technology, it is redefining (and will continue to do so) the following areas:

- What we trade that entails:
 - A shift away from physical to digitisable goods, such as books and music records
 - Increased demand for time-sensitive goods, such as fast fashion and perishable goods (as coordination and tracking becomes efficient with AI and blockchain)
 - Rejigged demand for certain commodities, and intermediate and finished goods; for example, increased demand for plastics and resins (because of increasing use of 3D printing technology and the need for printing material)
 - Higher trade of products requiring certification and labelling (as digitisation reduces verification, regulatory, and compliance costs)
 - Increased demand for digital services, such as trade of fintech, e-commerce, health-tech, and ed-tech across geographies (using blockchain and robotics)
- How we trade as digitisation involves:
 - Transforming supply chains and making them less complex
 - Interconnecting countries through various online channels
- Who trades what as technology is:
 - Likely modifying comparative advantages of nations, and changing relevance of geographical presence and resources
 - Automating processes, thereby reorienting the need for resources
 - Compelling corporates to re-evaluate merits of current supply chains
 - Increasing visibility of products and services by emerging and low-income countries, which could not realise their trade potential

In the era of Trade 4.0, digitisation is also democratising new possibilities for a more inclusive trading system. Some of these possibilities are mentioned below:

- Promoting MSME participation in exports due to compliance simplifications, reduced operation costs, and easy entry of MSMEs in global trade through online channels
- Increasing women's participation with easier access to information and the reduced need for face-to-face interactions that digital trade facilitates
- Improving penetration of e-commerce amongst small agricultural producers, local producers, and consumers living in remote areas and allowing access beyond their local markets
- Increasing networking opportunities through connectivity and helping in improving skills

India's readiness to Trade 4.0

As Trade 4.0 gathers momentum globally, it presents India a great opportunity. Certain advantages will help the Indian industry to adopt Trade 4.0.

It is said that services is the new oil and the technology services sector is at the centre of the Trade 4.0 revolution. India has demonstrated a **comparative advantage in the technology services sector**. Backed by skilled talent and infrastructural facilities (such as the 5G rollout), India's services export has increased rapidly over the past decade with computer services comprising ~49 percent of the total exports in FY2021.⁹ India can benefit from the changing trade landscape and by capturing a greater share of global technology services.

For instance, the rise of **global in-house centres** has put India on the global map and pushed the boundaries of innovation to remain ahead of global competition.¹⁰ Evolving from being a 'service provider', India has leapfrogged to be the 'value creator' by building a high-quality workforce and infrastructure of the future.

Not to mention, the vibrant start-up ecosystem will play an important role as well. India is the third-largest **start-up ecosystem** in the world after the US and China. It is bolstering growth of the new-age entrepreneurial class of India that is agile, risk-taking, and innovating. Investment in this sector will be integral to the adoption of the Trade 4.0 revolution.

The government's role as the **creator, facilitator, enforcer, and negotiator** will be critical in India's progress towards the Trade 4.0 revolution.¹¹ The country will need investment in physical and digital infrastructure. Human capital will be key and the government must prepare its people with the right skills by collaborating with globally recognised universities and international institutes to ensure quality delivery of transformative services. These will enable an efficient flow of people, products, and services, thereby reducing cost of doing business and ensuring economies of scale. Policies and initiatives such as the creation of India Stack, the release of a national blockchain strategy in December 2021, plans to use blockchain applications for e-governance, the data protection bill, and the RBI's announcement to issue blockchain-backed digital rupee in the 2022 Union Budget will be the building blocks of Trade 4.0. A well-planned FDI strategy focusing on capital investments in the sunrise and export-oriented sectors, and persuading global MNCs to set up their regional headquarters in India could go a long way in increasing India's trade participation.

At the same time, as Trade 4.0 evolves, the government must ensure it protects its industry (from anti-dumping or commodity subsidisation) and citizens (by upholding safety standards and protecting consumers). For that, it needs to establish an adequate regulatory framework for trade policy measures, enforce laws and policies and adjudicate disputes efficiently, and keep pace with innovations and disruptions they are causing. Trade 4.0 will necessitate jurisdiction and laws to strengthen international patent rights; re-design intellectual property and its protection; ensure privacy and personal data/consumer protection; impose web content restriction and competition policy; and develop cybersecurity to deter non-compliance and fraudulent behaviour. Not to mention, as India gears towards export-led growth, it must ensure inclusive development of the disadvantaged sectors of the economy by forging new partnerships and trade agreements that provide greater access to markets and resources. This will be achieved by building strong trade relationships with partnering nations (as India is already doing by engaging in several FTAs) and positioning the country in sectors where it has a strong comparative advantage. These sectors include fintech, healthcare, technology, and education.

The Indian industry will also have to adapt to the new trade ecosystem. Adapting to the changing nature of cross-border transactions, identifying the right market, managing real-time inventories, increasing online presence, and tapping into customer preferences will require Indian businesses to unlearn old methods and learn new techniques of doing trade. Taking advantage of and adopting emerging technologies will be key. For instance, big data analytics will help identify customers and planning demand, whereas AI and smart robots will help reduce transport, logistics, and inventory costs. While basic electronics systems will reduce the time spent on customs compliance, IoT and blockchain may simplify verification and certification procedures. India will need to

⁹ <https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap03.pdf>

¹⁰ <https://www2.deloitte.com/content/dam/Deloitte/in/Documents/strategy/in-strategy-global-in-house-centre-next-frontier-noexp.pdf>

¹¹ India's FDI opportunity, through an investors lenses – a survey report, Deloitte Touche Tohmatsu India LLP, September 2021, <https://www2.deloitte.com/content/dam/Deloitte/in/Documents/finance/in-fa-India's-FDI-Opportunity-Deloitte-surveyreport-noexp.pdf>

be prepared for cyber challenges and policy changes in areas related to trade, protection of customer data, and dispute settlement mechanisms.

As trade evolves with digitisation, it will give India opportunities to explore markets beyond domestic boundaries and integrate more closely with the global trade. Currently, India's export accounts for only 2.1 percent of the global exports of goods and services; its share in global merchandise exports is even smaller at 1.7 percent.¹² Given the dominance of Global Value Chain (GVC) exports in overall exports, no country can sustain a rapid growth in exports without improving its GVC participation. Trade 4.0 will help India increase its participation in and move up the global value chain through delivering quality products and services using advanced technology.

¹² <https://www.adb.org/sites/default/files/publication/665781/sawp-79-enhancing-participation-gvcs-india.pdf>

Connect with us

Dr. Rumki Majumdar

Economist, Deloitte India

rumajumdar@deloitte.com

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