



RACE IAS

Editorial

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This is India's moment of reckoning



Context:

There have been arguments both in favor of and against India's neutral stance in the ongoing Russia-Ukraine conflict,

Talk of nuclear threats have alarmed as well. Regardless of provocations and causes, however justifiable they may seem to be, violence and consequent loss of human lives are deeply regrettable and avoidable.

In this article, let us analyze the significance of **India's neutral stance from the geo-economic perspective.**

Back to the Cold War era of two dominant power blocs:

The Russia-Ukraine conflict is a global geo-economic conflict that threatens to hark back to the Cold War era of two dominant power blocs.

Nations that did not condemn the **Russian aggression** in the United Nations constitute **more than half the world's population** but a quarter of the world economy versus nations that condemned Russia, account for three-quarters of the global economy.

The former, the Russia-China bloc, are large producers with rising consuming power while the latter, the western bloc, are today's large consumers.

Any new curtain that descends between these two blocs and divides them will cause major upheavals to the **entwined global economic equilibrium.**

Conflict and a reshaping:

The Russia-Ukraine conflict portends a reshaping of the world order.

1. Ever since the **fall of the Berlin Wall in 1989**, a paradigm of free societies, frictionless borders and open economies evolved to be the governing order in many nations.
2. This catalyzed freer movement of people, goods, services and capital across the world.
3. **Global trade and per capita GDP nearly doubled** in this period, marking an era of general peace and prosperity.
4. Societies and economies in the world became **intertwined closely in the pursuit of shared global prosperity.**
5. Such **tight inter-dependence** among nations will lead to fewer conflicts and promote peace, was the established wisdom.

6. The Russia-Ukraine conflict has dismantled this wisdom. If interconnectedness and trade among nations were mutually beneficial, then it follows that its disruption and blockade will be mutually harmful.
7. Retaliatory economic sanctions imposed on Russia have hurt all nations, albeit some more than the others.
8. Egyptians are reeling from **food shortages** due to their dependence on Russian and Ukrainian wheat, Germans suffer from **high costs of heating in winter** due to their **dependence on Russian gas**.
9. Americans face a shortage of electric cars due to unavailability of car batteries that are **dependent on Russian nickel**.
10. Sri Lankans have taken to the streets on economic woes and Indian farmers run the risk of high fertilizer prices **triggered by a global shortage**.

'Global Village', a lived reality:

1. 'Global Village' is not just an academic term but a lived reality for the nearly eight billion people on the planet.
2. This **'Global Village'** was built on the foundation of advanced transportation networks, cemented with the U.S. dollar as the reserve currency and fenced by integrated payment systems.
3. Any disruption to this delicate balance runs the risk of plunging the 'Global Village' into **disequilibrium and derailing the lives of all**.
4. India too has benefited enormously from being an active participant in this interconnected world, with a tripling of trade (as share of GDP) in the last three decades and providing vast numbers of jobs.
5. Trade with other nations should and will always be an integral cornerstone of India's economic future.
6. **A reversal towards isolationism and protectionism** will be foolhardy and calamitous for India.

Needed, ties on either side:

1. With India's robust external sector, a **flourishing trading relationship** with many nations and tremendous potential to expand trade, such bilateral arrangements are unsustainable, unwieldy, and perilous.
2. Opportunities to buy discounted oil or commodities may be enticing but if it entails a prolonged departure from the established order of dollar-based trade settlement or **jeopardizes established trading relationships** with

western bloc markets, it can have **longer term implications for India's export potential.**

3. In the long run, India stands to gain more from unfettered access to the western bloc markets for Indian exports under the **established trading order** than from discounted commodities purchased under **new bilateral currency arrangements** that seek to **create a new and parallel global trade structure.**

Social harmony is a must:

1. Just as it is in India's best interests to balance the current geo-economic equilibrium, it is also imperative for India **to maintain its domestic social equilibrium.**
2. To be a large-scale producing nation, India needs millions of factories with hundreds of millions of people of all religions and castes across all States to work together.
3. **Social harmony is the edifice of economic prosperity.** Fanning mutual distrust, hate and anger among citizens, causing social disharmony is a shameful slide to perdition.

Way Ahead for India:

1. India thus needs not just a **non-aligned doctrine** for the looming new world order but also a **non-disruptive geo-economic policy** that seeks to maintain the current global economic equilibrium.
2. By the dint of its sheer size and scale, India can be both a large producer and a consumer.
3. With rising inflation, volatile crude oil prices, global uncertainty, weak domestic private investment and deteriorating fiscal situation, expanded external trade in the changed global situation presents the best opportunity to salvage India's economy and **create large numbers of jobs for our youth and women.**
4. To best utilised this opportunity, India needs not just cordial relationships with nations on either side of the new divide but also a **stable and established global economic environment.**
5. It is important for India **to adopt a strategic economic self-interest doctrine within the larger paradigm of its non-alignment foreign policy.**

Conclusion:

As Mahatma Gandhi's nation, India must be a committed and relentless apostle of **peace and non-violence**, both at home and in the world. India can emerge as the harbinger of peace, harmony and prosperity in this new world.

The **reshaping and realignment of the world order** will be a unique opportunity for India to reassess its foreign policy, economic policy and geo-political strategy and don the mantle of global leadership.

Strengthening India's global economic might through a cautious geo-economic strategy in the aftermath of the Russia-Ukraine conflict can potentially mark a pivotal turn in India's economic history.

India can be the fulcrum of this new global order, as a peaceful democracy with economic prosperity.

A Prospective Analysis of Countertrading

In view of the mounting pressure created by the **sanctions on Russia**, which **disrupted both India's receipts and payments in dollar for its trade with Russia**, the Reserve Bank of India (RBI) is working together with its Russian counterpart for creating a **framework for sustaining bilateral trade and banking operations**, likely through **greater use of rupee** in international transactions.

India in the past too, has accepted and made payments in rupee for its trade with several countries including **Russia, Nepal, Iran, Bangladesh, and a few east European countries**.

Given the vulnerabilities of the existing trade and financial settlement mechanisms to the **sanctions imposed by the US**, and the difficulties in trading with countries facing foreign exchange crises or balance of payments difficulties, there is a need to outline an **alternative framework for facilitating transactions with such countries**. **Countertrading** could be one such effective way.

What is Countertrading?

- Countertrade is basically a **barter or a quasi-barter arrangement** that explicitly links import and export transactions. It has emerged as an important mode of international transactions for **countries facing currency or cross-border payment challenges**.

- Countertrade is an alternative means to structuring an international sale when conventional means of payment are complex or nonexistent. The most common form of countertrade is **bartering**.

What is Its Significance?

- Countertrade presents an effective way of:
 - **Mitigating risks posed by protective trade policies** like sanctions, currency restrictions, non-tariff barriers, etc
 - Dealing with **challenges associated with outward remittances of foreign exchange**, where conventional means of payment is non-existent or complex for a variety of reasons
 - Tackling **challenges in securing supply of strategic mineral resources** where India has significant import dependence.

What is India's Status on Countertrades?

- **Barter Trade Agreement with Iraq:** India has entered into several types of countertrade arrangements in the past, including a barter trade agreement with Iraq under the 'oil-for-food' programme wherein Iraq agreed to facilitate daily delivery of a fixed quantity of oil to India at a fixed price in exchange for exports of rice and wheat from India.
- **Counter Purchase Agreement with Malaysia:** India also entered into a counter purchase agreement with Malaysia wherein a rail construction project was undertaken by IRCON (Indian Railway Construction) International Ltd. in Malaysia, for which the Malaysian government made payments to IRCON through the supply of palm oil of equivalent value to India.
- **Buyback Arrangement Soviet Union:** Another was a buyback arrangement with the erstwhile Soviet Union wherein the National Textiles Corporation Ltd. (NTC) of India bought 200 sophisticated looms, in return for a buyback commitment by the Soviet Union to purchase 75% of the textile produced from the looms.
- **Clearing Arrangement with Iran:** India also had a clearing arrangement with Iran wherein a Rupee payment mechanism was established between India and Iran in 2012 under which the Rupee accumulated from payments for imports by India was utilised for payment for exports of products, projects and services to Iran.

- **Debt-for-Goods Arrangement with Vietnam:** There was also a debt-for-goods arrangement with Vietnam wherein **India Exim Bank extended a Commercial Line of Credit to Vietnam** and in return, the **Food Corporation of India imported rice from Vietnam** and paid to IDBI/India Exim Bank for the imports.

What is a Debt-for-Goods Arrangement?

- A debt-for-goods model is a countertrade transaction wherein a **country avails itself of funding for a development project**, and full or partial repayment of the debt is through **exchange of goods or services to the lender country**.
- For the **lender country**, such a model can provide **avenues for exports of high value-added goods** and services tied to the development financing, while also **helping secure the supply of key raw materials** through imports from the borrower country.
- For the **borrower country**, such a model **helps in financing critical infrastructure** development, **without depletion of scarce forex resources**.

What about a Countertrade Policy?

- In spite of several countertrade transactions over the years, there is **no definitive policy for countertrade in India**.
- Several countries like the **Philippines, Indonesia and China have comprehensive countertrade policies** that have helped secure imports of critical items even in the wake of growing uncertainties.
 - A type of countertrade, **debt-for-goods, has especially been used by China** for securing important raw materials and promoting value-added exports.

What Challenges are Associated with Countertrade?

- One of the main challenges with countertrade is that the goods identified for countertrade by partner countries **may not have sufficient demand in India**.
- The value of a deal—the goods being exchanged—may be uncertain, causing **significant price volatility**.
- Countertrading has a **time-consuming nature** as in any unconventional tactic. There will be haggling over the good trades, hence a **long, drawn-out negotiation until all parties are satisfied**.

- There will be **higher transaction costs** including brokerage. Costs can quickly add up, especially while looking for a buyer for the goods, commissions to middlemen, and more.
- **Logistical issues** are also likely to exist, especially if commodities are involved.
- Greater uncertainty on the value of the goods being traded and **uncertainty on the quality of the goods.**

What can be the Way Forward?

- **A Countertrade Policy:** In light of the heightened uncertainty and pronounced need for an alternative mechanism for trade, a framework for countertrade could be developed for India, **with provisions for a debt-for-goods model.**
 - **India Exim Bank's** recent study has identified **30 countries to start with**, where a countertrade mechanism under the debt-for-goods model would be prudent.
 - These are resource rich countries that face restrictions on outward remittances of foreign currency, or are under debt distress or facing high risk of debt distress.
 - The countries include; **Nigeria, Libya, Venezuela, Iran, Republic of Congo, Sudan, Yemen, Zambia, Tanzania, Mozambique, Belarus, Fiji, Nicaragua, Cuba, Syria, and Lebanon**, among others.
- **Addressing Money Matters:** The countertrade policy for India could be an **umbrella arrangement, including a mechanism for local currency trade**, but not limited to it.
 - The policy could have a multipronged vision ranging from **mitigating currency related risks** related to international trade, to **extending development finance assistance** to the needy developing countries without depleting their scarce forex reserves; and **augmenting exports to lesser explored geographies** having potential to trade with India but facing forex challenges.
 - Countertrade mechanism would also be worth **contemplating from the perspective of securing repayments** in the developmental partnership programmes of the government of India, typically in resource abundant countries.

- **Switch Trade Model:** There should also be provision for a switch trade model in India's countertrade policy.
- Under a switch trading model, an international trading house can be engaged to serve as an intermediary for offtake of the product and concomitant payment for settling the exports leg of the transaction.

Conclusion

The international **trading regime with the dollar** at the pivot has made trade settlements susceptible to actions by the US. India has taken a strong stand of safeguarding its economic interests, even amid the growing clout for suspending trade relations with certain countries. It must bolster its stand through a comprehensive mechanism for circumventing the challenges to trade settlements.

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