A New Foreign Trade Policy for India

This editorial is based on* “All Eyes on the New Trade Policy” *which was published in Hindu BusinessLine on 05/05/2022. It talks about the challenges in India’s current foreign trade policy and suggests changes that can be made to the same.

For Prelims: FTAs, Foreign Trade Development and Regulation Act 1992, 1991 Economic Reforms, PLI Schemes, WTO, Special Economic Zone (SEZ), SEIS, MEIS, RoDTEP Scheme.

For Mains: Significance of a Foreign Trade Policy, Need for a New FTP.

The 2021-22 fiscal ended on a cheerful note for India’s international trade; Indian exporters did not just demonstrate Covid resilience but also posted robust growth with record revenues of $419.65 billion, which is being seen as a sign of **exports bouncing back strongly**.

The Free Trade Agreements (FTA) with Australia and UAE are also being touted by policymakers as a gateway for extensive opportunities for Indian entrepreneurs.

However, all these achievements must not let it slide that a new Foreign Trade Policy (FTP) for India is still long awaited. The last FTP was notified in 2015 and a new one was supposed to be introduced in April 2020; since then it has been periodically extended.

The need for a new FTP can’t be over-emphasised given recent geopolitical developments, the thrust on local manufacturing and a direction on bilateral trade conventions.

What is the Significance of a Foreign Trade Policy?

- The Foreign Trade Policy is a legal document, issued by the Government of India, enforceable under the Foreign Trade Development and Regulation Act 1992.
    - Revisited and notified quinquennially since the 1991 economic reforms, the FTP has been the **guiding beacon for all stakeholders**.
- The prime objective of a foreign trade policy is to **facilitate trade by reducing transaction and transit costs and time.**
- A FTP sets out the regulations for cross-border trade and reveals the **government's position on a host of concomitant yet crucial policy variables** such as technology flow, intangibles, and so on.

Why is a New Foreign Trade Policy Important?

- **Clarifying India’s Stand at Global Level:** It is essential to clarify India’s position and alignment with flagship programmes like ‘Local for Global’ and PLI (Production Linked Incentive) schemes, WTO's **ruling against** India's export incentive schemes, an overdue review of the Special Economic Zone (SEZ) **scheme**, changing geographical profiles of India's export basket, and implications of the FTAs.

  - In 2019, a dispute resolution panel of WTO had held that the export incentives under the FTP are violative of India's WTO Commitment.

- **Impact on Export-Oriented Businesses:** Another reason for overhauling the FTP is some export-oriented businesses have been **adversely impacted by certain ad hoc, mistimed, and contradictory changes** to the 2015 FTP
  - The 2015 FTP incentivised exports by issuing duty-credit scrips directly in proportion to exports. However, in 2020 the government limited **the maximum export incentives for goods to Rs. 20 million**, and in 2021, limited them to **Rs. 20 million for services.**
    - Moreover, the changes for service incentives were retrospectively notified in September 2021 to be applied from April 2019.
- **Reduction in Outlays and Incentives:** The annual export incentives — the Merchandise Exports from India Scheme (MEIS) and Services Exports from India Scheme (SEIS) of Rs. 51,012 crore were replaced with the RoDTEP scheme incentive of Rs.12,454 crore.
  - The **remaining Rs. 38,558 crore has been diverted into PLI** to give benefit to a few sectors.
  - Also, earlier there was a **3% export incentive on agriculture implements like tractors, which has been reduced to 0.7%.**
- **Infrastructural Setbacks:**Due to inadequate upgraded export infrastructure such as ports, warehouses and supply chains, the **average turnaround time for ships in India is about three days** while the **world average is 24 hours**.
- **Crisis of MSMEs:** With a contribution of about 29% to the GDP and 40% to international trade, MSMEs are the key players in achieving the ambitious export targets. However, the surge in input and fuel costs are hitting the bottom lines of MSMEs.
  - The **rise in prices of raw materials** such as steel, and plastics along with a **shortage of shipping containers and labour** are making it difficult for the MSMEs to take full advantage of the global increase in demand.

What can be the Possible Amendments in the New FTP?

- **Solving MSMEs' Crisis:** Under the SEIS, an incentive of 3-7% of net foreign exchange earnings is provided to services exporters of notified services in India.
  - **A modification in the minimum cap** for the net foreign exchange earnings eligible to claim under the scheme and **faster GST refunds to global services** are much needed with the new FTP.
  - The government must also **help MSMEs tap the export potential in existing tariff lines** and provide policy support to **raise the number of exporting MSMEs** and increase MSME exports by 50% in 2022-23.
- **More Incentives for Exporters:** The new FTP could benefit exporters if the incentives granted to retail and wholesale traders under the ambit of the MSME category are extended to them as well.
  - The new FTP must **enable exporters to leverage technology** in the field of foreign trade. This will be particularly beneficial for MSMEs to compete with their global peers.
- **Infra Upgrade:** An **efficient and extensive infrastructure network** - warehouses, ports, SEZs, quality testing labs, certification centres etc.- will help exporters stay competitive in a cut-throat market.
  - India needs to **invest in upgrading export infrastructure to** stay ahead of technology-advanced countries such as China.
  - It also needs to adopt **modern trade practices that can be implemented through the digitisation** of export processes. This will save both time and cost.
- **GST Export Benefits:** The **export benefit under the GST is currently outside the purview of FTP** which has resulted in the denial of export benefits to certain classes of exporters.
  - Therefore, there is an urgent need to bridge the gap between the two policies. Furthermore, a **seamless disbursal of GST refunds**, without administrative delays, carries paramount importance.
- **WTO Compliant Schemes:** This should be at the core of the FTP. The WTO works to dissuade governments from heavily subsidising exporters to provide a level playing field to all nations.
  - The Indian government is well aware of the need to stay within the WTO norms and has

already taken significant steps to withdraw subsidy-led schemes.
    - However, more needs to be done at a fundamental level to promote exports and ensure that Indian exports are competitive in the global market.
- **Other Measures:** The policymakers shall urgently **expand the zone of consideration to engage with all stakeholders** such that a consciously-framed and guided policy outlook emerges which **guides both the Centre and private businesses** for the nation's economic progress.
    - These considerations should also factor the contemporary paradigm such as the impelling need for **fuel-import substitution**, leveraging the improvised logistic and **fuelling entrepreneurial drive.**
    - Given the economic hardship caused by the pandemic, the new FTP shall work in a phased manner to **address export constraints**, review the regulatory and operational framework to **reduce the transit costs and** create a **low-cost operating environment** through developed logistics and utility infrastructure.

Drishti Mains Question

"Exports are a vital part of the country's GDP and foreign trade must be given sufficient importance and investment. The upcoming Foreign Trade Policy should take proactive steps to ensure that exports are sustainable for Indian companies and in line with WTO norms." Discuss.

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UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if (2018)

(a) Industrial output fails to keep pace with agricultural output.

(b) Agricultural output fails to keep pace with industrial output.

(c) Poverty and unemployment increase.

(d) Imports grow faster than exports.

Ans: (c)

Q. The SEZ Act, 2005 which came into effect in February 2006 has certain objectives. In this context, consider the following: (2010)

(1) Development of infrastructure facilities.

(2) Promotion of investment from foreign sources.

(3) Promotion of exports of services only.

Which of the above are the objectives of this Act?

(a) 1 and 2 only

(b) 3 only

(c) 2 and 3 only

(d) 1, 2 and 3

Ans: (a)

Q. A “closed economy” is an economy in which (2011)

(a) the money supply is fully controlled

(b) deficit financing takes place

(c) only exports take place

(d) neither exports nor imports take place

Ans: (d)