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CII
Confederation of Indian Industry

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Focus: International Trade Policy

Message from Director General

Formulating India's New Foreign Trade Policy

India has crossed the export milestone of USD 400 billion for goods in March 2022, a multidimensional effort from many stakeholders including the Government of India, different agencies, manufacturers, exporters, and small and medium enterprises. With this landmark target being achieved, India is now looking forward to actioning a target of USD 1 trillion by 2030. A similar aspirational target is being outlined for services exports, both of which will greatly enhance India's external engagement.

The proposed foreign trade policy aims to address many challenges arising from different issues such as the increased global pressure to address trade policy uncertainties, the need for alignment with the self-reliance mission, Aatmanirbhar Bharat Abhiyan, and the fragile global economic environment. There is a need to foster a sustainable policy environment and regime which connects rules, procedures and incentives for exports and imports with other initiatives such as Make in India, Digital India, and Skill India.

The aim should be to diversify India's exports while strengthening the governance architecture for India's global trade engagements. Additionally, digitalisation has pushed through global transformation of trade leading to complex intricacies in international transactions. Therefore, a holistic approach has become more important than ever, and Indian policymakers must focus on streamlining and synergising trade policy objectives with other policy initiatives.

There also exists a need for stronger policy guidance and a clear direction for future trade agreements. The benefits of FTAs must be communicated and explained to the Industry, so that it can prepare itself for future trade deals. India's future external engagements should be focused on either signing FTAs with the consumption economies (the US, EU, Britain) or having access to low-cost raw material, inputs and intermediate, to enable the production of goods for export. India can further explore avenues for tapping trade opportunities with leading economies using services FTA.

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Additionally, the rapid digitisation of global production, trade and consumption of goods and services has had a profound impact on the trade competitiveness of countries, fuelling the need for robust digital skills, infrastructure, and capabilities. Here, India should push for export of technical goods and services. The government must work on building its digital capabilities and infrastructure in key export sectors, with a focus on enhancing India's trade competitiveness by developing digital infrastructure for trade while building digital skills in tradeable sectors.

There is a need for stronger policy guidance and a clear direction for future trade agreements. The benefits of FTAs must be communicated and explained to the Industry, so that it can prepare itself for future trade deals. India's future external engagements should be focused on either signing FTAs with the consumption economies (the US, EU, Britain) or having access to low-cost raw material, inputs and intermediate, to enable the production of goods for export. India can further explore avenues for tapping trade opportunities with leading economies using services FTA.

Further, India may work to increase the share of technology content in exports by leveraging advanced technologies (Big Data Analytics, IoT, and Blockchain) for evidence-based and informed trade policy decisions. These efforts can also be aligned with the country's domestic and multilateral trade negotiations. To achieve this objective, it is critical to preserve the policy space in its regional and multilateral trade negotiations, in key areas such as data localisation and cross-border data flows.

Going forward, policymakers can leverage and disseminate the merits of free and fair trade as it is beneficial for all. At the same time, it is important to ensure and provide a level playing field to both domestic and foreign producers to manufacture in India and export to the world markets. To this end, the key deliverables of the foreign trade policy must be inclusive of the ambitions of an evolving India, fulfilling the growing demands of the country's agricultural, manufacturing, and services sector while also creating a multiplier effect in the economy through enhanced trade. ■

Chandrajit Banerjee
Director General
Confederation of Indian Industry

Enhancing India's Exports Potential

Interview of Vir S Advani, Chairman, CII National Committee on EXIM and Vice Chairman & Managing Director, Blue Star Ltd

Vir S Advani

India's exports have surged and have already crossed USD 335 billion in April 2021 to January 2022, which is a huge jump of 46% over the same period last year. The country has achieved USD 400 billion of goods exports in the current financial year, the highest ever export performance after several years of moderate to no growth. What can be India's target over the longer term for exports?

Exports are an important growth factor for any economy. We have seen how several countries, including Japan in the post-World War 2 period, then South Korea and China after 2000, and now Vietnam, have leveraged exports for faster growth. India too can deploy exports as a robust tool to catalyse growth and create millions of new job opportunities.

Global conditions have been subdued over the recent past which has led to India's exports remaining around USD 300 billion for some years. The pandemic led to a sharp contraction of over 5% in the volume of world merchandise trade in 2020. In 2021, we saw this global trade growth go up by almost 11%.

> By 2030, India can reach goods exports of about USD 1 trillion and we should work towards achieving it.

The demand for goods have remained intact as pent up consumption has been rising post the pandemic.

The Government too has been addressing issues such as ease of doing business and trade facilitation and this has helped processes at the borders, reducing costs and time taken to export.

India surpassed the target of USD 400 billion of merchandise exports in 2021-22. Coming to India's exports target, we believe that by 2030, India can reach goods exports of about USD 1 trillion and we should work towards achieving it.

India has a diverse exports profile, the top 5 products consisting of fuels, gems & jewelry, pharma, machinery and organic chemicals, which have contributed about 38% to total exports in January to October 2021. If we are to look at 1 USD trillion dollars worth of exports by 2030, which are

the products with high potential that the country should focus on?

Apart from the products that you just mentioned, some others in the top export categories for India are electrical machinery, vehicles, and iron and steel. One product that did really well in the past year is cereals, where our rice exports went up considerably.

If we look closely at these 10 months of the calendar year, we find that the large exports which expanded the fastest were iron and steel which almost doubled, fuels which rode on the back of rising prices, and cotton. Gems and jewelry, aluminium products and automotives were the other fast-growing sectors.

CII did an exercise to identify some products that would have high potential for boosting our goods exports and we have highlighted about 13 product categories that can contribute to the trillion dollar target.

These include vehicles, various textile categories, electronics, machinery and chemicals. India already has strong manufacturing capabilities in these 13 sectors and in fact, these were among the fastest growing exports for the country in 2021 at a time when global trade was rising. It shows that India is capable of building up manufacturing capacities to address world demand.

Exports is a mission that requires strong actions and policies from the Government and also manufacturing capabilities from Industry. How do you think the two can come together to build exports?

Exports is a joint effort and requires strategies on many dimensions by many stakeholders. Ministries dealing with specific products and state governments for building infrastructure and ensuring faster processes have a critical role to play.

Let me mention two priorities that we must keep in mind while considering expanding exports.

First, our import policies must be addressed together with the export strategy, as many components are imported at many points in the export value chain. There is a need to calibrate import duties and ensure that it is conducive to making Indian manufactured products competitive in global markets.

Since we are not alone in addressing the export markets, we also have to see what other countries are doing and where they get their competitive advantage from.

Secondly, the role of global corporations is very critical in expanding exports. Large manufacturers establish global value chain systems, producing inputs in multiple countries and bringing them together in different locations for assembling or integrating the final product. In India, the presence of such foreign firms needs to rise, so that India can effectively become a part of such global value chains.

As you mentioned, the international market scenario is one side of the overall trade equation. Where do we need to focus on to gain market access?

Our export markets should be strategically targeted. Some considerations while focusing on specific countries would be its overall GDP size, its export values and its population. CII has done a study that shows that over half the USD 1 trillion export target can be achieved by focusing on just 41 countries.

CII in its export strategy paper has outlined four areas to open up market access.

First, trade agreements need to be taken up. Many of our competitor nations have FTAs with their key markets which offer them lower customs duties. It is good that the Government is relooking its FTA strategy with trade negotiations underway with the UK, the EU, Australia, UAE and other countries which are traditionally our markets. We need to also iron out non-tariff barriers with those countries where we have FTAs such as ASEAN countries, Japan, etc.

Second, to attract global investors from many countries, India should build in investment agreements in its trade agreements.

Third, it is essential to provide a conducive investment climate for foreign investors. Other countries do offer incentives and tax breaks to attract large global investors. I think the PLI schemes for 14 sectors will work towards this as we have seen in the mobile phone sector.

Finally, it is important to market India effectively, build the India brand globally and undertake extensive campaigns overseas. Currently, we have many agencies promoting individual products which does not serve the purpose.

But while we do all this, how do we make our goods more competitive in the international markets? How do we ensure that Indian goods meet the

quality standards and have the required certifications that are accepted globally? What else is hampering our exports?

Manufacturing competitiveness is really the key to boosting exports. India is fortunate that we have wide domestic manufacturing capabilities, abundant workforce, and good access to raw materials. Where we lose out is in logistics costs, fast clearances and approvals, cost of credit, cost of power and other such added costs.

The Government has come out with the Remission of Duties and Tariffs on Exported Products scheme or RodTEP that is compliant with WTO requirements. However, this does not extend to all products and we have requested the Government to make this more effective.

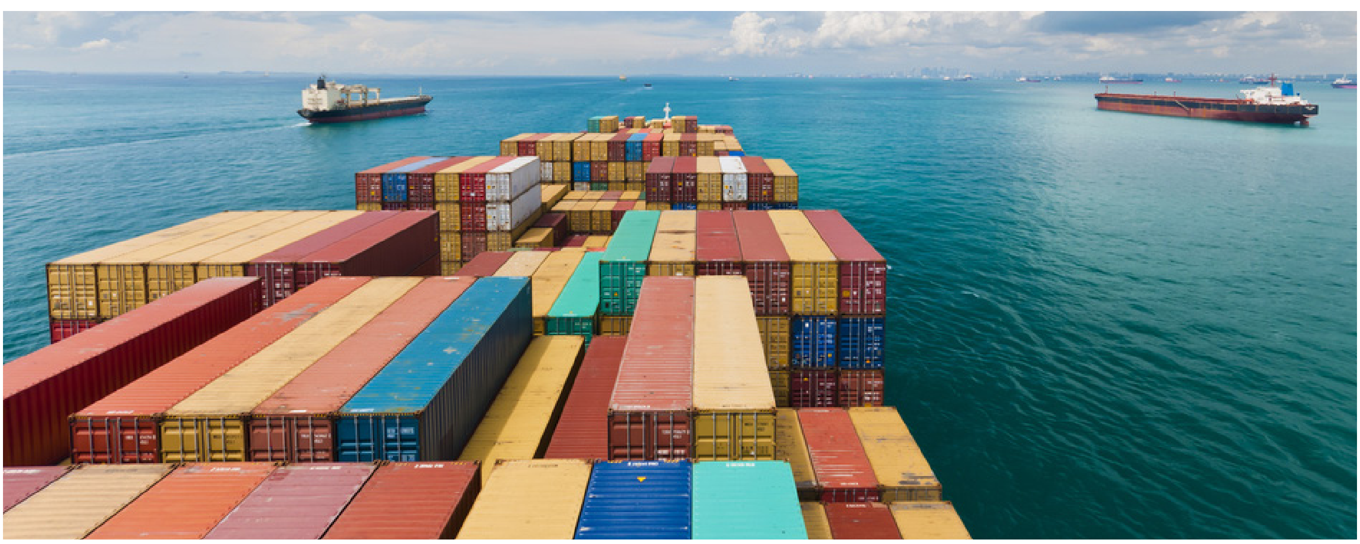
To build manufacturing competitiveness, CII has highlighted ease of doing business, cost of doing business, promoting special economic zones and export credit.

On trade facilitation there is a lot that can be done on risk management systems, authorized economic operators, direct port delivery and other areas.

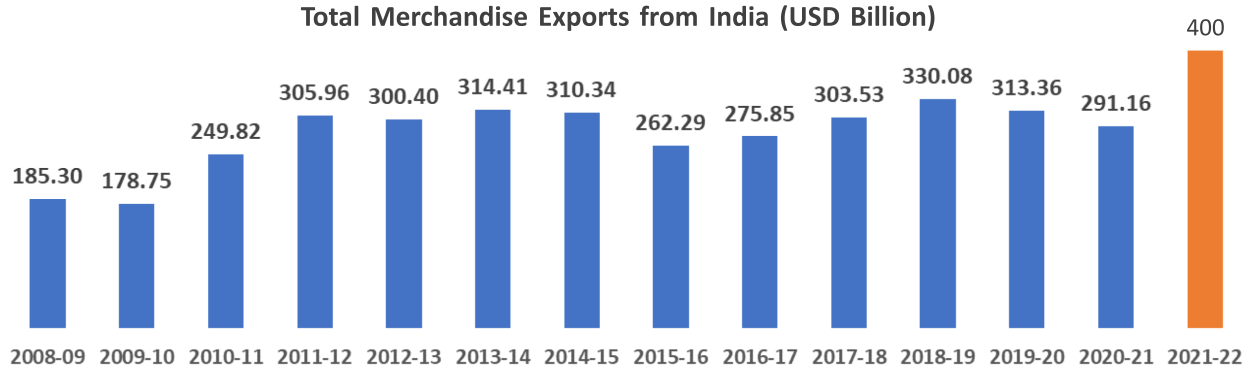
A key issue is that of standards and certifications which take a lot of time and costs. Testing and certification facilities that meet global standards should be made readily available for manufacturers-exporters across the country.

We need to enhance the participation of Indian SMEs in exports. What would your advice be to a new company that wants to explore the global market? Is there any way that it can find buyers for its products? What would it need to do to locate specific markets?

My advice would be to have a good product first of all. Innovation, design and specifications are what buyers look for to begin with. Once you are convinced about your product, it is good to check the size of the country markets and the applicable tariff rates. Participating in exhibitions overseas or in B2B platforms can help as well. CII has also initiated a market facilitation service that can be availed to study a market and find potential buyers. ■



Merchandise Trade



Source: Department of Commerce, Government of India

Top 5 Identified Product Categories for Export Promotion

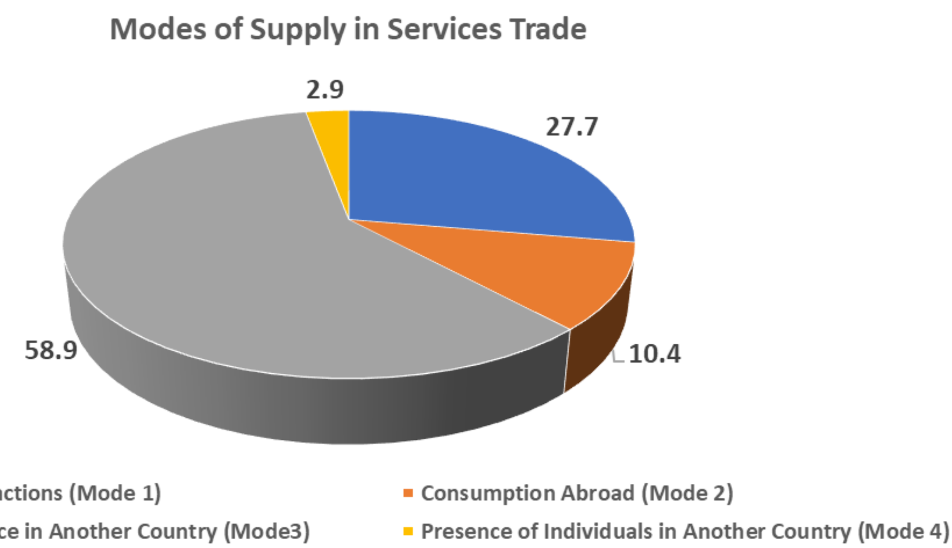
Product code	Product label	India's exports 2019, USD bn	India's share in world exports 2019, %	Estimated share in 2030, %	India's potential exports in 2030, USD bn
'85	Electronics machinery and equipment; parts thereof	14.9	0.55	5	171.58
'84	Machinery, mechanical appliances; parts thereof	21.2	0.96	3	71.07
'87	Vehicles other than railway or tramway rolling stock; parts thereof	17.4	1.16	3	53.14
'30	Pharmaceutical products	16.2	2.62	4	32.63
'39	Plastics and articles thereof	7.4	1.19	3	20.78
	TOTAL (15 identified sectors)	133			520.84
Emerging Sectors – defence products, sustainability, and digital technology					

Selected Countries for Export Promotion

Country	Population, million	GDP USD billion	Exports USD billion, Top 40	India's exports, 2021 USD billion	Potential exports 2030, USD billion
Advanced economies					
USA	335	21433	2377	71.2	217
Japan	125	5149	1084	6.1	29
Germany	80	3862	2004	9.5	55
France	68	2717	969	6.1	26
UK	67	2833	903	10.4	36
Emerging economies					
China	1398	14340	2490	23	82
Indonesia	275	1120	250	8.1	25
Mexico	130	1269	492	4.2	12
Brazil	213	1877	291	6.3	18
TOTAL				**145**	**500**

Source: CII Calculations

Services Trade



Source: WTO Estimates (2019)

Note: World Trade is calculated as the average of world exports and world imports

Composition of India's services exports as a percentage of total service exports

	2011	2012	2013	2014	2015	2016	2017
Other business services	29.34	33.37	31.64	31.64	33.1	34.46	34.71
Computer and Information services	34.61	33.43	35.01	34.20	34.99	32.91	31.02
Travel	13.48	12.73	12.48	12.86	13.88	14.23	16.11
Transport	13.47	12.41	11.47	12.14	9.46	9.63	10.00
Financial services	4.76	3.79	4.32	3.69	3.53	3.22	2.64
Insurance and pension services	1.97	1.60	1.45	1.49	1.31	1.35	1.45
Construction	0.64	0.65	0.83	1.05	0.98	1.32	1.35
Telecommunications services	1.25	1.15	1.48	1.41	1.38	1.47	1.27
Personal, cultural, and recreation services	0.16	0.33	0.49	0.56	0.61	0.63	0.60
Use of intellectual property, n.i.e.	0.23	0.23	0.30	0.43	0.31	0.33	0.39
Audio-visual and related services	0.11	0.21	0.34	0.27	0.23	0.26	0.26
Goods-related services	0.00	0.09	0.17	0.25	0.21	0.18	0.20

Note: n.i.e. is not included elsewhere

Source: WTO

Key CII Recommendations

Issue I: Standards

Standards need to be made a core component of India's export strategy and not be seen as an import control measure. The new approach to standards needs to be developed in tandem with the development of a market facilitation cell, helping industry navigate FTAs and focusing on leveraging RTAs and increasing FTA utilization.

Recommendation

- The Government to consider developing schemes which can support industries in increasing the level of standards so that export markets of interest can be accessed. Additionally, exploring signing of Mutual Recognition Agreements (MRAs) with countries where Indian products can be exported should also be considered.

Issue II: Shortages of containers

One of the key issues facing the exporters is shortages of containers at ports because of which there are bottlenecks pertaining to inventory supply, blank sailing, and port congestion. As a transcending effect, exporters have to pay more in freight charges as the maritime supply-chain is stressed because of rising international demand and a shortage of containers.

Recommendations

- A digital platform/portal to be developed which brings together all shipping lines and displays the freight rates as well as container vessel status on a real time basis.
- Shipping Lines to be urged to maintain a particular Minimum Inventory Level (MIL) in India to feed the country's Export demand, and not to move empty containers out of India.
- Fast track mechanism needs to be developed for clearances, examination, testing, quarantine, to facilitate trade of perishable and non-perishable cargo. The

definition of “perishable” also needs to be expanded to include time sensitive products such as apparel, leather, handicrafts and others.

- Direct Port Entry (DPE) and Direct Port Delivery (DPD) facility to be provided at ports to improve In-land transport efficiency and reduce unnecessary detention charges. Faster import clearances will free up containers to be stuffed with merchandise for export.
- The crisis of container shortage can be dealt with by using refurbished after-life containers. The Government to incentivise R&D through grants and tax cuts for design and innovation in containerisation.
- Invite private investment to start new shipping companies. Development of Transhipment Capacity is the need of the hour.

Issue III: Extension of RoDTEP benefits to key sectors and products

While it is a relief that the Remission of Duties and Taxes on Exported Products (RoDTEP) rates have been announced, the rates have not considered various key sectors and products including Chapters 27 (petroleum products), 28 (organic chemicals), 29 (inorganic chemicals), 30 (pharmaceuticals), 72 (Iron and Steel), 73 (Articles of Iron and Steel) and also exports of SEZs/EOUs. For sustaining India’s export competitiveness, it is important to extend the RoDTEP benefits to other sectors. Also, the rates of some of the included products needs to be reconsidered.

Recommendations

- Chapters 72 and 73 comprise value-added engineering products and most of the manufacturers and exporters of these value-added engineering products are from the MSME sector and its non-inclusion in the scheme is curtailing their growth prospects. Further, the exclusion of Chapters 27, 28, 29 and 30 deprives the exporters of products including the petroleum, organic and inorganic chemicals and pharmaceutical sectors of a level playing field, vis-a-vis global manufacturers. These are highly regulated sectors and therefore calls for huge capital investment for setting up manufacturing infrastructure.
- SEZs/EOUs contribute to over 30% of country’s exports and are bearing the high unrebated taxes

and duties and also procure domestic inputs while they avail some exemptions only at the discretion of the respective state policies. The exclusion of these units from RoDTEP Scheme will render these exports at a disadvantageous position by not remitting the other domestic taxes borne by these units vis-à-vis DTA manufacturers.

- Therefore, there is a need to revisit the guidelines of RoDTEP scheme and include these sectors/segments under its purview.

Issue IV: Simplification and integration of EXIM processes and procedures

Simplification and integration at various stages of EXIM activities to meet the procedural requirements of different departments and ministries under different acts is the need of the hour to reduce the transaction costs of the exporters and importers and thereby increase their competitiveness in the international markets.

Recommendations

- ICGATE and DGFT portal to be integrated with EDPMS for seamless flow of data and dispensing separate submissions. Also, the entire responsibility of duty schemes to be given to one agency and the entire database to be made available digitally.
- The PAN application can be used to carry out all updates regarding the applicant as the IEC, GST and BIN number, all have the PAN number. Also, there is need for an enabling provision at the customs end to modify the EDI shipping bills when uploading under intimation to DGFT portal.
- All refunds/benefits as prescribed under the respective schemes may be given in one go to an exporter for easy operation and reduction of time. Further, miscellaneous payments through e-MPS tab may be modified to capture all the details of the exporter such as IEC number, name etc. for proper reconciliation.
- A single cut-off point to be identified to extend all eligible refunds/benefits. To bring equity, commission may be allowed for FTP schemes and a single FOB Value to be kept for claiming benefits.

Issue V: Need for a stable and predictable tariff regime for MNCs

MNCs entering India to be part of Global Value Chains (GVCs) seek a predictable, stable and rational tariff regime. A high tariff regime with an unpredictable path is a significant deterrent for GVCs. Imposition of tariffs on an ad-hoc basis, without detailed consultation with the Industry and the nodal Ministry, offsets the advantages of incentive schemes such as the Production Linked Incentive (PLI) Scheme. It increases India's disadvantage vis-à-vis competing destinations such as Vietnam, China, Thailand and Mexico.

Recommendations

- Those sectors, which are part of PLI Scheme or where India needs to build export strength, should have globally competitive, comparable and stable tariffs.
- Every effort should be made to ensure that India's customs duties are not higher than those in competing economies, especially in Asia.

Issue VI: Export credit

Export credit outstanding is very low as a proportion of total non-food bank credit outstanding which attests to the lack of access to funds. The Export Import Bank of India is also a key provider of funds to exporters through letters of credit, pre and post shipment advance and buyers' credit. However, as average lending rates in India are higher than that in other emerging economies, Indian exports are rendered uncompetitive.

Recommendations

- Continue Interest Equalisation Scheme (IES) for exporters and manufacturer-exporters and also expand IES to include all exporters instead of only MSME with the objective of creating jobs. Also, to ensure that IES reaches out to more enterprises through information awareness.
- Increase overall allocation to the scheme to enable more enterprises to access the funds and raise LIBOR-spread capping on External Commercial Borrowings.
- Release pending claims of ECGC at the earliest and reduce insurance costs for exports under ECGC. Enable Exim Bank of India to lend more by increasing its capital and permitting enhanced lending limits.

The manufacturing endeavour set by the Government to achieve USD 1 trillion merchandise exports by FY30 necessitates actions on multiple fronts of which, ease of logistics movement and cost of movement are priority areas having constructive impact. A targeted export connectivity infrastructure, multimodal transport options and the right mix of transportation modes should be strategically built to foster a resilient trade environment and fabricating a diversified global supply chain network to confront the challenges of today and building the path for future trade growth.

Sanjay Budhia
Co-Chairman, CII National Committee on EXIM and Managing Director, Patton International Ltd

As the world contends with a rapidly changing trade landscape, the role of unobstructed trade and investment has been further heightened for global economies to achieve their full economic potential. In spite of the current volatile scenario, India's export surge by 25.41 percent in February 2022 to USD 57.03 bn, over the same month last year, emphatically demonstrates India's inherent manufacturing strengths, entrepreneurial dynamism, and agility in conforming to global demands. A holistic and aggressive exercise to meet standards and quality certifications for international markets, coupled with the right infrastructure and trade facilitation measures could further develop India's manufacturing and export capabilities.

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