EXPECTATIONS WITH NEW FOREIGN TRADE POLICY 2021-26

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A foreign trade policy provides a set of guidelines that help a country achieve its domestic production and export goals. The Government of India and the Ministry of Commerce and Industry release Foreign Trade Policies (FTP) every five years; the latest FTP (2015-20) came into effect in April 2015. Although the policy expired in April 2021, it has been extended until Sept. 2021. The new FTP 2021-26 will be enforced after this extension ceases. The Indian economy continues to recover from the effects of COVID-19, which had almost every industry grappling and struggling for sustenance. With the advent of vaccination drives and easing of lockdown restrictions, Indian exports have gradually picked up pace.

The government has taken several initiatives over the years to boost the country's exports. One major initiative, popularly known as the 'Production-linked Incentive' (PLI) scheme, was taken to support the manufacturing sector and provide incentives for production. An outlay of Rs. 1.97 lakh crore (US$ 26.47 billion) was allocated for the PLI scheme to boost manufacturing across various sectors, increase exports and generate jobs. India Exim Bank Research insights revealed that 10 PLI sectors exported goods worth US$ 71.9 billion during 2019-20, indicating significant untapped potential. The PLI scheme is expected to boost domestic manufacturing by another US$ 55 billion.

Recent data released by the commerce ministry revealed that India's exports hit the US$ 35.2-billion mark in July 2021, an increase of 34% over July 2019. This growth trend was recorded for a consecutive eight month. Prime Minister Mr. Narendra Modi applauded this achievement and stated that the government aims to meet exports target of US$ 500 billion for FY23 and US$ 1 trillion in the next five years. Therefore, the new policy is eagerly awaited, as it can lend an impetus to India's foreign trades. The UN World Economic Situation and Prospects 2021 report highlighted that while India's economy dipped 9.6% in 2020, it will gradually grow by 7.3% in 2021. According to the United Nations (UN), export is one of the main factors determining economic growth. Indian exporters are anticipating the new FTP to provide a favourable environment by addressing shortcomings of the current FTP 2015-20.

The prime objective of an FTP is to facilitate trade by reducing transaction cost and time. The current FTP 2015-20 was considered progressive because it consolidated various export incentive programmes into broadly two schemes – the Merchandise Exports from India Scheme (MEIS) and Services Exports from India Scheme (SEIS). This consolidation promoted Duty Credit Scrips (DCS), issued by the Director General of Foreign Trade (DGFT), to exporters for them to pay import duties easily. These scrips were issued as an incentive to exporters for boosting their trade. The MEIS and SEIS helped reduce export obligation from 90% to 75% for capital goods sourced from local and permitted manufacturers meeting certain standards to self-certify manufactured goods as 'originating from India'. The FTP also assisted the MSME sector in boosting exports and digitalised the licensing and application processes.

Moreover, the policy had certain limitations, which cropped up from time to time and with the onset of the pandemic hurdles, exporters and related associations have key expectations from the anticipated FTP. The Department of Commerce, through the regional authorities of Directorate General of Foreign Trade (DGFT), has revealed that the new FTP will work in a phased manner to address export constraints, examine the regulatory and operational framework to reduce transaction costs and create a low-cost operating environment through developed logistics and utility infrastructure. The new FTP aims to work with state governments to implement 'District Export Hubs' that will work towards achieving the export goals of each state. To ensure effective implementation of the FTP goals, regular meetings will be held between Industry Associations, Chambers of Commerce and Export Promotion Councils.

Stakeholders and trade associations expect the new FTP (likely to be rolled out from Oct.) to include some of the following aspects:

R&D service exports – The government is planning to add a new section on R&D service exports in the new FTP. This will render special focus on export of R&D services, as it is one of the fastest-growing segments among India's service exports. The government has appointed a technology group to bolster the R&D ecosystem in the country and is also working to promote foreign direct investment (FDI) in the area of R&D services. The current FTP 2015-20 did not emphasise on R&D services and hence, the new FTP is expected to cover the gap.

Enforcing the RoDTEP scheme – The Remission of Duties and Taxes on Exported Products (RoDTEP) scheme will be a key feature of the policy. Incentive rates for this scheme are yet to be announced since implementation in January 2021. The RoDTEP scheme will ensure that exporters receive refunds on embedded taxes and duties that were previously non-recoverable.

E-commerce exports – According to Grant Thornton insights, India's e-commerce sector is the fastest-growing segment and expected to grow to US$ 188 billion by 2025, from about US$ 60 billion in 2020. The new FTP will have a separate chapter on e-commerce. Additionally, it will also have more HSN (Harmonised System of Nomenclature) codes for traded goods, which will help in proper categorisation.

Infrastructure upgrade and digitisation – India needs to invest in upgrading export infrastructure such as ports, warehouses, quality testing and certification centres to stay ahead of technology-advanced countries such as China. An India Industry Report stated that the country plans to spend US$ 1.4 trillion on infrastructure between 2019 and 2023. Similarly, India also needs to adopt modern trade practices that can be implemented through digitisation of export processes. Digitisation of trade procedures will save both time and cost. A QBIS consultancy report revealed that Nhava Sheva, India's largest port, can help importers save Rs. 17 billion (US$ 228.32 million) each year through digitisation and a country-wide digitisation can help save Rs. 65 billion (US$ 872.99 million) annually.

Easy credit – Exporters, especially MSMEs, are facing credit crunch due to limited assistance extended by financial institutions due to inadequate assets in the MSME sector. The policy is expected to address this situation by facilitating alternate credit avenues such as finance technology start-ups. The government is also considering plans to raise borrowing limits at the Export Import Bank of India.

In a July 2021 notice, the government has invited suggestions/inputs from stakeholders to develop the FTP 2021-26. In this regard, e-commerce giants such as Amazon and eBay have recommended the government to lower entry barriers for small businesses, implement end-to-end digitisation and upgrade logistics infrastructure.

Dr. Sunitha Raju, Professor at the Indian Institute of Foreign Trade, highlighted that while the anticipated FTP is more inclined towards a reward mechanism, it should also focus on introducing schemes that will bolster capabilities of Indian companies in areas such as technological upgrade, innovation and product development. This is necessary to address challenges of the emerging global trade environment. She also stated that India's manufacturing sector has not completely leveraged its potential, with most companies falling into an unorganised structure and contributing merely 30% in production and >75% in employment. Manufacturing contributes to ~15% of India's GDP.

Further, as India is a top agriculture producer, it needs to go a long way in developing effective processing units that will prevent crop wastage and improve supply chain, marketing and logistics. Dr. Sunitha continues to highlight that increasing production and export are corelated and hence, the new trade policy frame should also facilitate in addressing these structural constraints in the production realm. Several other experts have also echoed similar views, stating that the new FTP should serve as implementation vehicles rather than policy makers, as this will help in transforming the manufacturing sector into export engines for growth