Opinion

How to make India a global export hub

Anuj Sharma | Updated on March 12, 2021

An integrated approach — by interlinking policies on foreign trade, FDI and industry — will help

In the current fiscal, hit by the Covid pandemic, the Indian economy, according to the IMF, is expected to shrink by 10.3 per cent. However, in 2021-22 it has predicted that India will witness a growth of 8.8 per cent.

The path for such a V-shaped recovery has been paved by the Union Budget 2021-22, which has laid emphasis on infrastructure, health, finance and agriculture. However, to consolidate this recovery and to realise the 'Make in India' dream in the short run and 'Make for the world' in the long run, India needs a robust Foreign Trade Policy (FTP) that can support exporters and reverse the pandemic-induced economic downturn.

To achieve export growth, it is important to adopt an integrated approach in the new FTP which is being formulated for implementation from April 1.

India's exports over the last decade have not been too encouraging; since 2011 it has been hovering around $300 billion. India's share in world merchandise exports was 1.5-1.7 per cent during this period, and as percentage of GDP also it has not been encouraging — falling from 17 per cent in 2011 to 12.4 per cent in 2018.

The new FTP needs to tackle several issues.

The existing FTP incentivised exports through schemes such as the Merchandise Exports from India (MEIS) and the Export Promotion Capital Goods (EPCG). Under MEIS, exporters receive duty credit scrip for a percentage of the value of goods exported, which can be used for payment of different taxes and duties. Under the EPCG, exporters can import capital goods at concessional or zero import duty.

However, in 2019, the WTO dispute panel ruled that these schemes violate WTO rules and should be rolled back. Following this, India decided to replace MEIS with the Remission of Duties or Taxes on Export Products (RoDTEP) scheme, under which taxes and duties like *mandi* tax, VAT, coal cess, and excise duty on fuel, which were previously non-refundable, will be refunded.

As it is a humongous task to fix appropriate rates for all product categories, it is important for the government to ensure that the benefits of this scheme is evenly distributed to all important export sectors.

Exporters have complained that this scheme has benefited the textile sector more than any other. Other schemes such as EPCG and advance licensing also need to be overhauled so that they become WTO compatible.

Local manufacturing

To promote local manufacturing in sectors that have the potential to scale up globally, like mobile and electronic equipment, pharma, and textiles, the recently announced Production Linked Incentive (PLI) scheme is a good initiative. Under this, manufacturers will be incentivised by the government on incremental sale of goods based on certain eligibility criteria for five years.

This initiative has been taken at a time when many multinationals are moving out of China. The scheme will motivate them to establish units in India. Many MNCs have started talking to their Indian counterparts for relocation to India. However, since the US-China trade war began, only three out of 56 companies had relocated to India as of October 2019. Vietnam has been a clear winner with 26 companies setting up shop there.

India was not able to attract MNCs moving out of China because the manufacturing sector is beset by many problems. Its contribution in GDP has been 16-17 percent in past decade; in China, its share is about 40 per cent.

Multiple factors such as cost and quality of power, high logistics cost (around 14 per cent compared with the global benchmark of 9 per cent), low labour productivity, insufficient labour reforms and low R&D expenditure have contributed to this poor performance.

To make India a global export hub, from where high value-added technology-intensive products are exported, the interlinking of FTP with FDI and industrial policies is required.

This would help India become a part of global value chain (GVC). In today's GVC, there is dominance of intra-firm trade at the global level.

Further, manufacturing infrastructure also needs to improve significantly. This can be achieved by setting up SEZs for sectors identified under the PLI scheme

The new FTP should help exporters explore the under-tapped markets. India should revive its ties in Africa through trade and investment. The FTP should also find ways of increasing people-to-people cooperation and provide technical support to exporters to understand the legal and business environment.

Also, emphasis must be given to enhancing trade relations with neighbouring countries like Bangladesh and Sri Lanka. Similarly, the 'Act East' policy should be further strengthened.

Since, entering RCEP is out of question, at least in the near future, India should pave the path for meaningful negotiation with the EU for a free trade agreement (FTA). The efforts have been stalled as India wants to start with 'mini deal', whereas the EU is not agreeing for anything less than a full-fledged FTA.

Do away with protectionism

Since 2018, import tariffs for several product categories have been raised. To achieve the goal of 'Atamnirbhar Bharat', the Budget also increased the duties on a few more product categories like mobile handset and auto components. This has been done to develop domestic capabilities in the identified sector. All such protection should be accompanied with a 'sunset' clause.

The government should gradually phase out of import tariff, especially for strategic partners. In the last couple of years, the US has raised the issue of high tariff several times. The US is now India's largest trading partner, in 2019-20 bilateral trade between the two nations stood at $88.75 billion.

As the new Biden regime appears favourable towards India, it is important to resolve tariff issues quickly. Moreover, these protectionist measure could hamper India becoming a part of the global value chain if continued for long.

It is important for policy-makers to realise the economy of a country cannot grow without enhancing its export performance. However, seeing trade policy in isolation — that is, increasing exports through incentives and discouraging imports through tariff and non-tariff barriers — is not correct. Policymakers must help India attract MNCs and, at the same time, strengthen domestic manufacturers to make India a global export hub.

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