

BRIEFING PAPER



No. 3/2014

National Foreign Trade Policy of India *Focus on Development Dimensions*

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The National Foreign Trade Policy (NFTP) is one of India's main pillars of trade promotion. Its purpose is to streamline India's domestic policies to meet the supply-side constraints faced by export-oriented sectors and thereby create advantages for such products in destination markets. The NFTP and its annual supplements contain several specifically targeted schemes or policy instruments, which were tailor-made to use trade expansion as an instrument for employment generation.

However, over the last five years, one of the major criticisms of the NFTP has been its lack of inclusiveness as well as its lack of coherence with India's other domestic macroeconomic policies and trade negotiations.

This Briefing Paper reflects the results of a study that was undertaken across various clusters throughout India to garner local perspectives on how to enhance the use of this policy as an instrument for inclusive growth.

Background & Context

With the new NFTP set to be announced later in 2014, there is much anticipation regarding how the newly elected government is likely to address concerns raised on the content as well as implementation of the previous policy.

As they can be best understood in their local context, CUTS had recently undertaken a comprehensive field survey that spanned the north-west, south, north east, north and central regions of India.

The survey covered a wide range of clusters particularly those that are labour-, technology- and research-intensive and having vertical and horizontal linkages with other sectors. The selected clusters were: Bamboo; Gems & Jewellery; Textiles & Garments; Handicrafts; Carpets; Coir; Food processing; and Cars and Auto-Components.

Gaps in the NFTP, 2009-14

One of the primary reasons for the lack of inclusiveness of the previous NFTP is in the manner in which it was implemented. It seemed to presume that increased market access resulting in an increase in exports automatically lead to employment generation.

While indeed the potential for increasing exports is an important criterion to determine the allocation of funds for schemes under this policy, in order to improve the development dimensions of the new policy, the NFTP 2014-19 will benefit from the use of additional criterion to determine the allocation of resources.

With the use of anecdotal evidence, our study was able to identify that the previous policy indeed resulted in new employment generation and wage increases as a result of increased

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exports. However, the survey results highlighted a number of gaps which if addressed in the new policy could aid in improving its development dimensions. Some major gaps are as follows:

- While export generation was a key indicator of the success of this policy, an increased focus on employment generation could have enhanced its development dimension. Export growth, at times, can be attributed to factors such as technological improvement, which, if not accompanied by other enabling factors such as newer market access opportunities, can also have negative implications on employment due to resultant bias towards an increase in demand for highly-skilled services with eventual disparity in employment and wages.
- One of the areas of improvement is the need for improved coordination among relevant local stakeholders in determining trade agenda as the use of schemes in specific states had not taken into consideration local level realities due to a lack of coordination between the Central and state governments and organisations representing the local-level stakeholders.
- Within the scope of measures that can be undertaken for export promotion, trade fairs are an extremely potent mode of connecting credible buyers and sellers across countries. Buyer-seller meets and trade delegations are the most credible channels through which potential buyers can be reached and therefore, more focus needed to be paid on increasing such activities.
- There is a need for increased coordination between relevant government ministries, such as the Department of Agriculture and Cooperation and the Directorate General of Foreign Trade to ensure improved coordination among them.
- There is also a need to add more value to products and services. The current measures in place to encourage the import of goods that play a key role in export

promotion could be useful particularly in sectors such as food processing.

- It was noted that there were insufficient benefit sharing mechanisms as the results of increased export generation through mechanisms put in place by this policy tended to be captured at the top of production chains.

Recommendations for the New Policy

Based on our field research and secondary data analysis, the following are specific recommendations for India's new NFTP:

Institute a sound monitoring and evaluation system

The new policy needs to distinguish export promotion and employment generation. Chapter 3.15 of the existing policy notes that the objective of the Focused Product Scheme is to “incentivise export of such products which have high *export intensity/employment potential*” (emphasis added).

However, the two concepts are not interchangeable and such a distinction in the new policy will be an imperative. The inclusion of a sound monitoring and evaluation system within the policy will then aid in assessing the direct impacts of increased exports on employment.

Engage national and sub-national organisations and actors

One way that the new policy can implement this change is by making modifications in Chapter 1C.3 which outlines the composition of the Board of Trade.

Mandating the inclusion of representatives of local stakeholder groups to this Board will serve a first step in ensuring that this policy reflects the essential inputs from directly affected stakeholders.

Make use of effective branding for better price realisation

Chapter 3.6 of the policy states that the India Brand Equity Fund was set up by the Ministry of Commerce & Industry “to promote and create international awareness of the ‘Made in India’ label.”

This ‘Made in India’ label is too broad in scope and therefore, the new policy should advocate for more specific brands such as in the

case of Darjeeling tea and put in place measures to protect them through more effective use of instruments such as geographical indication.

Implement a whole-of-government approach

Only the Ministry of Commerce & Industry is represented on the Board of Trade. A whole-of-government approach should be in place by mandating the inclusion of other relevant ministries in this body as per Chapter 1C.3 of this policy.

Strengthen value chains by fostering effective regional and global partnerships

Moving up the value chain requires more than technological up-gradation as in Chapter 1B.1 (ii). Other measures under Chapter 4 of the policy that focus on duty exemption and remission schemes make use of negative incentivisation to avail the benefits of imports as they need to prove that “a minimum 15 per cent value addition” has been made. The new policy should adopt a more positive approach.

Make benefit-sharing mechanisms sustainable

While benefit-sharing mechanisms have evolved and are increasingly providing high returns to farmers, artisans, and workers, the linkage between trade and its direct benefits to local communities is not explicit in the policy.

The new policy needs to put in place measures to ensure that all players within the supply-chain of a traded product benefit from increase in its exports. There should be a new chapter articulating the modalities of benefit-sharing mechanisms.

Trade Policy and Trade Negotiations

At present, India’s trade policy is largely isolated from its negotiations of bilateral, regional and multilateral trade agreements. The planning and administration of policy instruments under the NFTP has often been undertaken without sufficient consideration of the sectoral needs that receive preferential market access through such negotiations.

This approach, therefore, enhances market access for certain products through the Trade Policy without identifying the specific sectors or providing trade adjustment assistance to sectors impacted by imports.

Recent studies as well as evidence obtained from our survey indicated that while India has immense trading potential with its neighbouring countries in many sectors and products, most of those products are not included in the list of “focused markets” and “focused products” of its trade policy.

Furthermore, it is rather surprising that none of the South Asian countries are covered under Focused Market Scheme which currently applies to over 125 countries. The new trade policy would benefit from addressing this particular issue.

While India’s strategy to engage in bilateral and regional trade arrangements has aided in ameliorating the negative impacts of trade diversion, the lack of congruence between India’s participation in these free trade agreement and its trade policy have meant that India’s net trade gains has remained below potential.

Box 1: Synergy between Trade and Investment Policies

A major criticism of the previous NFTP that was highlighted during our survey was its lack of congruence with other major domestic macroeconomic policies such as that on investment. The relationship between trade and investment, particularly foreign direct investment, is crucial for any country.

The synchronisation of India’s trade policy with its foreign direct investment (FDI) policy would boost FDI-led exports. For example, there could be mandatory provision for committing exports while allowing FDI.

Foreign firms in India have actually shown higher export performance than their domestic counterparts and past studies have shown this to be true particularly in the Indian manufacturing sector. Developing countries like India, therefore, need to look at export-oriented FDI to strengthen their export competitiveness. Effective regulatory regimes can facilitate such export-oriented FDI.

Box 2: Focus on Markets with High Potential

With regard to the “Focused Market Scheme”, in order to sustain growth in exports, a market diversification strategy keeping with the changing global economic scenario should be adopted with emphasis on tapping into new markets with high potential. To boost exports, India should try to identify potential product groups which can be pushed into its export markets, identify major markets which can absorb such potential products, and select the right kind of manufacturing export units which can undertake the responsibility of entering into those markets. For example, in the case of cut and polished diamonds, potential markets exist in the European Union (EU), Singapore, Malaysia, Turkey, Lebanon and Russia, which are beyond the current major destinations of US, UAE, Hong Kong, Belgium and Israel.

In order to target untapped markets to increase exports the Ministry of Commerce & Industry should provide more incentives to the gems & jewellery sectors for the enhancement of its participation in business to business interactions under the Market Development Assistance scheme.

In addition to this approach of exploring new markets, many respondents noted that the new trade policy would also benefit from a thorough study of market demand profiles of India’s more traditional markets, namely the EU and the US, as they are rapidly changing.

As a result, India’s increased involvement in such preferential trading arrangements has raised concerns over their impact on the domestic economy. The new trade policy will need to give priority to those sectors under the Focused Product Scheme, which are granted better market access by partner countries under India’s preferential trading arrangements.

Conclusions

India’s trade policy should be ‘contextualised’ in respect to specific development dimensions such as new employment generation. This means making it work better for national development.

At the very least, trade should be directed at strengthening value chains through effective regional and global partnerships, generating employment for poverty alleviation, and engaging national and sub-national organisations and actors for policy coherence.

Therefore, instead of only focusing on export promotion, the new trade policy should focus on its development dimensions, such as:

- mainstreaming trade into national development for large-scale job creation, particularly in labour-intensive manufacturing
- promoting two-way trade and investment for generating more and better consumer welfare as almost 60 per cent of India’s imports are used for producing value-added products which are used domestically as well as for exports
- developing an inclusive trade policy for more effective economic governance so that stakeholders have a better buy-in and there is in-built monitoring and evaluation

For the new trade policy to become an effective institution there should be convergence between trade policy and broader economic welfare objectives, with emphasis on skill development and trade adjustment programmes, as well as economic, social and environmental sustainability impact assessments of trade policy.

This Briefing Paper is prepared under the project ‘Development Dimensions of National Foreign Trade Policy of India’ with the support from IPE Global Private Limited on behalf of DFID-India’s Knowledge Partnership Programme. The views expressed here are those of the authors and, therefore, in no way be taken to reflect that of IPE Global Private Limited and Department for International Development, UK.

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