

Brainstorming Meeting
Development Dimensions of the National Foreign Trade Policy of India
31 January, 2014
New Delhi, India
Report

1. Introduction

CUTS International is implementing a project entitled 'Development Dimensions of the National Foreign Trade Policy of India' with support from the Department for International Development, UK and IPE Global. The Brainstorming meeting this project was held in New Delhi on 31 January, 2014, with the objective of discussing the proposed methodology of the study with relevant stakeholders and experts.

2. Welcome

2.1 Welcome Remarks were given by Bipul Chatterjee, Deputy Executive Director, CUTS International and Cedrik Schurich, Head India Trade Policy Unit, Department for International Development, UK/BHC, New Delhi

2.2 Bipul Chatterjee, Executive Director of CUTS International and explained the objectives of the project and pointed out certain areas which the study would touch upon. He remarked that although the annual Exim policy was replaced by the National foreign Trade Policy (NFTP) for the first time in 2004, the current NFTP 2009-2014, suggested by the government appears to be a collection of schemes to promote exports and aid exporters and lacked the necessary features to make it more holistic and distinguish it from its predecessor, and overlooked vital linkages with other macroeconomic policies. He hoped to include changes by lobbying the government. He stated the objectives of the current policy are to enhance export and generate employment. While exports are faring well, he expressed his concern over the employment generation and hoped a better trade policy would be in effect later this year which would focus on developmental dimensions of trade and include a monitoring and review mechanism. He also mentioned that import promotion schemes should be given the same importance accorded to export promotion schemes.

2.3 Cedrik Schurich, Head, India Trade Policy Unit of Department for International Development, UK/BHC explained the importance of this study which though India-centric, could still enable the application of its findings to other low income countries like Ethiopia, Kenya, etc. He felt that in the case of India's NFTP there is a perceptible element of industrial policy which is making a return even in the international development community. He remarked that effective governance will be the key factor in optimizing what he termed as 'smart developmental policies'. He also identified that economies that are stuck in low value commodity baskets are likely to be poorer; in effect there is a direct correlation between the countries exports and the per capita GDP. Hence the results and findings of the study being conducted in India will impact policy development that will benefit other countries.

3. Presentation on the Methodology of the CUTS Study

3.1 Vinitha Johnson, Assistant Policy Analyst, CUTS International, presented the methodology that the CUTS study will be following. She pointed out that the need of the hour is to promote exports, improve the productive capacity of the enterprises and to resolve the infrastructural bottlenecks in the process of export. Therefore we need an export policy that can synchronise with other macroeconomic policy instruments.

She also pointed out that one of the steps that government took to boost manufacturing exports was to institute a working group to increase productivity of both capital intensive and labor intensive production sectors. They have recognised the lack of statistics in service exports; they have started to look at areas and channels to effectively track services exports. They are also looking at means to boost MSME's exports. She recognised that the project would have to address the remedial measures which have already been applied by the government in order to better identify the areas in which the beneficial measures could be better applied.

She stated that the goal of the project is to study the feasibility of pursuing multiple objectives through trade policy and to reflect development dimensions of trade policy. The core objectives of the study are to assess the existing schemes under NFTP and to see if we can make it more inclusive; to examine interfaces with other macroeconomic policies; to have a monitoring and evaluation strategy. The five gaps that we are trying to address upfront for the NFTP are: how inclusive are the schemes; coordination with external trade negotiations; linkages between NFTP and FDI policy better macroeconomic coherence; channels through which NFTP can facilitate up the value chain.

She stated that the nomenclature of the project is the developmental dimensions of the NFTP. The connection between trade and development is quite wide. China presents one of the examples of how countries have addressed the interface between trade and development. China effectively managed the transition from primary products to manufactured products. They managed to employ over 80 million Chinese people, of whom 60 per cent are from rural areas. However, she noted that best practices in one country cannot always be easily replicated in other countries without adaptation.

She stated few methods through which NFTP gaps would be addressed: interview with key informants; gap analysis of schemes, cluster development, economic corridor development, value-chain analysis; monitoring and evaluation strategy.

4. Discussion

4.1 Discussion session was chair by Shovan Ray, Professor of Indira Gandhi Institute of Development Research, Mumbai and the Designated Discussants were Manab Majumdar, Assistant Secretary General, Federation of Indian Chambers of Commerce and Industry; Santanu Mukherjee, Senior Attorney & IPR-Competition Lead, The Associated Chambers of Commerce and Industry of India and Abhishek Tayal, Joint Director, Federation of Indian Export Organisations

4.2 Manab Majumdar, Assistant Secretary General, FICCI, began by stating the importance of the NFTP in the overall economic policy of India. On the topic of attribution error he remarked that this has been a longstanding challenge for policy makers which can be

addressed by having in place some control variables. He expressed that the study may face a time constraint to properly address the linkage of the NFTP with other macroeconomic factors. On the point of coordination between NFTP and FDI, more research is required into this area. He also made one observation that annual supplement of the NFTP is essential to accommodate the dynamic nature of international trade and economics. While touching on the value-chain component of the methodology, he recommended the use of existing business process analysis to supplement the study in the interest of saving time.

4.3 Abhishek Tayal, Joint Director, Federation of Indian Export Organisation (FIEO), stated that the objective of current FTP (2009-14) was to double our exports both in goods and services. By the year 2008-09 the exports in goods were \$ 189 billion and in services were \$ 106 billion. Currently they have come to \$ 306 billion in goods and \$ 146 billion in services. Although we have not doubled our exports, we cannot reject the policy for not achieving its intended objectives. He also mentioned that MSMEs are the largest contributor to India's exports. We have to look that whatever policy we have at the moment its benefit is assessable to the MSMEs. The basic constraints with MSMEs are the lack of financial resources. As far as international trade is concerned, enormous resources are required for international marketing. He remarked that FIEO has already suggested that an Export Development Fund should be constituted in order to better provide marketing support to MSMEs. He denied the fact that ASIDE funds were not given equally to all the states. In fact, the other states did not utilise the ASIDE funds.

4.4 S.K. Hazari, Managing Director, Shosova Properties Private Limited, stated that India's exports are not competitive in certain sectors due to various issues, one of which was 'trade costs'. For example, most of the ports in India are inefficient and the charges charged by them make the shipment unviable before the goods are shipped itself. For example, freight in India for 2 kms costs as much as 500 km in other countries does. Demurrage is payable both at the port of loading and the port of discharge, this adds to the landed cost of the product. He suggested that we need to start studying how best to assess demand overseas. He also suggested that if trade negotiations are done by MEA, it will have a much more long term view, keeping brand India in place. Talking about branding he stated that India needs to draw lessons from other countries like Sri Lanka. He further pointed out that cold storage facilities are badly lacking in India and as a result we are unable to ship agricultural products. Further, power for the operation of the cold storage facilities is not provided by the government. We need to address this in any way possible. There should be coordination of different ministries and different industries.

4.5 Santanu Mukherjee, Senior Attorney & IPR-Competition Lead, Government Affairs, recommended that the project's focus should be on areas that are of prime importance as the entire scope may not be completed in the given timeline. Additionally, the new government may face time constraints to discuss drafting of a fresh set of policy measure hence the focus should be on those areas which would find ready acceptance. Speaking from the perspective of the telecom industry he advocated for more focus on such infrastructure capacity building as it would boost the participation of MSMEs in the value chain and also reach out towards the broader goals of the economic policy. He also noted the importance of studying the ease

with which MSMEs were able to participate in the process of development of standards. He also noted that the FTP should deal with interfaces with intellectual property, particularly, innovation, and the development of R&D through linkages between academia-government and industry.

4.6 Pritam Banerjee, Senior Director, Corporate Public Policy (South Asia), Deutsche Post DHL, disagreed with Abhishek Tayal's statement that SME's optimally utilise and benefit from the schemes in the National Foreign Trade Policy. Contrary to it, Pritam Banerjee commented that there are only few SMEs that utilise the funds. He further pointed out that the benefits to the SMEs are given on the basis of volume of exports. As a result, large exporters will get large bigger pie of the cake. He addressed the reason for SMEs in India being unable to participate actively in the supply chain owing to the high trade costs involved. The entire process from production to transport, to accessing the export market in abroad is full of different elements of transaction costs. Due to these transaction costs being so high, the majority of MSMEs have never considered participating in the global market. They produce primarily for the domestic market only.

4.7 Geethanjali Natraj, Policy Head-Trade & Investment, IPE Global Private Limited, suggested that there is a need to synchronise our FDI policy with the foreign trade policy. She stated that there is a complete mismatch between where FDI is coming in and key export items. Considering the top 5 items of India's exports (i.e. engineering goods, gems and jewellery, electronic goods, pharmaceuticals and textiles) it can be observed that FDI in India overlooks these items and is mainly coming in IT, infrastructure, telecom and financial services. She suggested that export obligation for FDI can be implemented effectively only if FDI starts coming into the key export items of India.

4.8 Nilanjan Banik, Consultant, CUTS International, Kolkata pointed out that a study shows there is a change in the composition and direction of Indian trade. Presently, one of the major exports is petroleum products although India has been one of the major importers of crude oil. He remarked that one needs to verify whether the shift in the composition and direction of trade is occurring by design or by external factors. He found out that recession in the west could be a reason for emergence of countries like China, UAE and Malaysia as major trade partners of India. An observation he made was about the need for labour market reforms and business transparency.

4.9 Ullas Menon, Secretary General, UPASI, proposed creation of sector-specific provisions advocating for differentiation between various sectors and the extent to which the schemes are applicable to these sectors. Taking the case of the plantation industry which has been hurt by the policy to allow duty free import of goods intended for re-export. This scheme is useful to the manufacturing sector but due to lack of controls and measures governing value addition it has impacted the local plantation industry which has seen its share in India's export erode from 15% to less than half a percent over the years. Not only has this no one seemed to care that many statutes are adding to the costs in this industry.

4.10 Maurizio Cellini, First Counsellor, Trade & Economic Affairs, Delegation of the

European Union to India, spoke about the importance of trade agreements in the Indian context which are influenced by political will and choice as in the case of the WTO. Hence there is a need to bring to discussion the direction of the development of trade agreements over time and also which trade agreements will benefit India.

4.11 Prathyush TP, Assistant Director, Spices Board, Ministry of Commerce & Industry, commented that the advantage of the export promotion schemes are being utilised by the larger players of an industry sector while the smaller players and MSMEs are unable to benefit. He advocated for the creation of provisions to specifically promote the MSMEs and small players to take larger part in the export share. Secondly, in case of the re-export industry, lack of quality norms enforcement is negatively impacting the local procedures as in case of spice industry. Quality norms should be fixed with the participation of the local farmers.

5. Brainstorming among the Participants

Some of the important points as well as questions that came during the discussion are mentioned below:

- Import aspect of trade has been neglected and should be addressed in this policy. This is essential not only for consumer welfare, but also for facilitating the import of intermediary products so that value can be added to them before exporting or for local consumption. This aspect could critically impact the extent to which MSMEs can be integrated into the value-chain.
- Control variables are required to address attribution error.
- Bipul Chatterjee, CUTS International asserted that there is a need to undertake a sustainability impact assessment of our trade policy, as is being currently done in the European Union. He also noted that it is essential to study the extent to which traditional sectors have been revived under the current range of schemes/policies and to identify the cases in which additional support may be required.
- Sanchita Chatterjee, Aditya Birla Group, pointed out that the purpose of the policy is defeated if the systems and procedures attached to it fail to work properly. For instance exporters unable to trace or track a scheme, issue of consistency in classification of products under different schemes.
- Joseph George, CUTS International, argued in favour of inclusion of South Asian countries in Focus Market Schemes. He also had the view that it is an irony that any of the South Asian LDCs are not covered under Focus Market Schemes which currently span and apply to over 125 countries – he provided a pertinent example of the case where Guatemala had been included under the Focus Market Scheme, but Bangladesh had been excluded.
- The movement in trade is definitely towards technology-intensive production. This is because of the increasing proliferation of 3D printing, low-cost robotics, assembly line manufacturing etc. The FTP should look towards this changing future scenario and there is a need to identify the country's competency areas and

focus on developing them instead of chasing the low-cost labour capital value chain.