New FTP holds promise but needs some tweaks

Export optimism underpins India's new foreign trade policy (FTP). The March 31 FTP launch meeting painted an ambition of $2 trillion in exports by 2030, building on the post-Covid-19 rebound in exports — implying a compound annual dollar growth of almost 15% over the next seven years, at a time when world trade is slowing, and the world's two largest economies are turning inward.

Despite the excitement in India, it is sobering to see India's recent export success in comparison to China and Vietnam. Between 2016 and 2022, India improved its world goods market share from 1.6% to 1.8%, while China's rose from 13.1% to 14.4%, and Vietnam's from 1.1% to 1.5%. India continues to be a leader in the export of services, particularly cross-border commercial services, as world trade in digital services continues to climb.


Sanjay Kathuria


TG Srinivasan

There are a few notable positives in the new FTP — some new and some a continuation of the old. First, there is a continued shift from incentives to tax remission, after the Merchandise Exports from India Scheme (MEIS) was successfully challenged by the United States at the World Trade Organization (WTO) in 2019.

The WTO-compliant scheme, Remission of Duties and Taxes for Exported Products, operational since January 2021, refunds taxes and duties, including those in the prior stages of production. Second, the policy provides a framework for cross-border e-commerce, a welcome new step, doubling allowed exports up to ₹10 lakh by courier per consignment. However, Indian exports will be limited by the importing countries' limits for courier consignments. If there is a coordinated effort among trading partners, it can unleash opportunities, among others, for South Asian regional trade and benefit millions of micro, small, and medium enterprises (MSMEs) in the region. Third, the new FTP carries forward behind-the-border reforms to reduce trade costs. It builds on the National Logistics Policy (announced in September 2022, aiming to reduce logistics costs to the world average by 2030). Increasing digitisation of innumerable processes will improve transparency and speed, support traders, and help better monitoring of trade flows.

Included in the new policy are a few promising moonshots, a welcome spirit of adventurism in trade policy. Three moonshots to note are trade settlements in rupees, enabling "merchanting trade" hubs in India (goods moving between countries without touching the Indian border) and district-level export hubs to induce more MSME exports. Several countries have already opened up special rupee accounts in Indian banks to settle transactions in ₹, potentially easing pressure on the rupee. In South Asia, Sri Lanka and Bangladesh could benefit from such arrangements. If implemented well, with efficient export-support services, some districts might be able to capitalise on the export hubs idea.

THE NEW FOREIGN TRADE POLICY, WHICH CAME INTO FORCE ON APRIL 1, DOES NOT FULLY RECOGNISE THE OPPORTUNITY THAT INDIA IS NOW PRESENTED WITH

But there are some limitations as well. There is a lack of adequate recognition of the context and the remarkable opportunity for India at this juncture. Western democracies' desire to contain China's trade and technological progress or, more broadly, diversify their supply chains, presents India with significant prospects of capturing a share of the resultant diversification-driven investment. This is not acknowledged, and nor is, therefore, the urgency of attracting investment that may still be in a search mode — a mode that may not last forever.

Similarly, upcoming challenges are not considered, nor their possible impact on India's trade. Important among these are the European Union and other countries' carbon tax proposals that can hurt India's exports in carbon-intensive sectors, such as steel and cement; and the remarkable and unanticipated progress in generative Artificial Intelligence that may erode India's traditional strength in several professional services, while also creating new opportunities.

Another limitation is the lopsided nature of the FTP, which focuses mostly on exports. The spirit of mercantilism dominates, with no hint that the government is considering a lowering of import tariff barriers. Import tariffs, although increasing since 2014-15, rose decisively in 2018-19 (as Arvind Panagariya has argued) — when average duties increased from 13.7% to 17.7%, and the share of tariff lines with 15% or higher duty rose from 19.4% to 33.2%. In 2021, the last year for which WTO tariff profile rates are available, average tariffs and the share of higher duty tariff lines increased further, to 18.3% and 37.7%, respectively. Such widespread and significant increases in tariffs are inimical to increasing shares in global value chains.

Tactical tweaks to FTP as the world environment evolves (the new FTP has no end date, and all changes will cumulate and be notified from time to time) are necessary, but cannot constitute a medium-term strategy to prepare India to face the many impending challenges.

The new FTP could have done better. It does not fully recognise the remarkable opportunity that India is now presented with. Nor does it acknowledge the fact that a global supply chain shift towards India will not happen by default. It is not explicitly strategic in addressing emerging challenges, or in providing a vision to reverse protectionism. It is doubtful if signing not-so-deep bilateral free trade agreements alone could propel India's foreign trade to the $2 trillion goal by 2030. Should all these issues get recognised, India may need a new FTP sooner rather than later.

Sanjay Kathuria is a senior visiting fellow, Centre for Policy Research, adjunct professor at Georgetown and Ashoka Universities, and global fellow, Wilson Center. TG Srinivasan is a senior visiting fellow, Centre for Policy Research

The views expressed are personal