

## **Policy Advocacy Note**

### **Foreign Trade Policy of India**

#### **Background**

The first Foreign Trade Policy (FTP) of India was adopted in 2004 by the United Progressive Alliance (UPA) government for the period 2004-09. This policy replaced the Export-Import Policy (EXIM) as an export promotion tool. This advocacy note explores the objectives of the FTP, shares the role played by CUTS through the GRANITE project in appraising the Policy and provides recommendations emerging from the project for making the Policy more effective.

#### **General Objective**

The FTP aims to use trade as a means to generate employment, which in turn would directly translate into increase in welfare of the marginalised sections of the society and poverty alleviation. The policy aims to achieve its ultimate objective of employment generation through two means – increase in exports as a proportion of gross domestic product (GDP) and a greater stress on labour intensive exports such as agriculture, handlooms and handicrafts, spices and marine products.

The policy intends to promote exports through an increase in competitiveness of Indian products in the global market. Towards this goal, the FTP identifies definite areas of export promotion such as agriculture and handloom and handicrafts and incorporates various cross cutting as well as sector specific schemes.

#### **Specific Objectives**

The first FTP set itself a task of almost doubling India's share in global trade from 0.8 percent to 1.5 percent over the period 2004-09. There has been considerable success in this regard with the mentioned share increasing from 0.8 percent to 1.45 percent during the period 2004-08.

The short term objective of the new FTP (2009-14) is to stop and reverse the declining trend in exports caused by the global economic recession and provide extra support to sectors badly affected by it. The Policy's objective is to achieve annual export growth of 15% with annual exports targeted to reach US\$ 200 billion by March 2011.

The Policy intends to return India to the high export growth path of around 25 percent per annum by 2014. It is also expected that India's exports will double by 2014. The policy's long term objective is to double India's share in global trade by 2020 (around 3 percent). These targets will be met through a mix of policy instruments, namely fiscal incentives, institutional changes, procedural simplification, enhanced global market access and diversification of export markets. The three envisaged pillars of the policy are: improvement in infrastructure related to exports, reduction in transaction costs, and provision for full refund of all indirect taxes and levies.

#### **CUTS Role through GRANITE**

Given the ground reality that the national trade policy making process in India is centralised and adequate channels of communication between the grassroots and the policy makers are yet to be established and implemented, CUTS has stepped in to act as a conduit or channel linking those framing the FTP to those affected by it. CUTS has performed three major roles in this regard through the GRANITE project: demystifying the trade policy, taking feedback from those affected by the policy to those implementing it, and communicating this feedback to the formulators so that adequate changes can be made taking into account the demands and needs of the grassroots. Also, recognising that the Indian civil society is still at a evolving stage, especially with respect to effective interventions on issues relating to globalisation and economic

governance and their impact on the livelihoods of the poor as well as other marginalised sections of the society, CUTS has built a network of CSOs across various states in India and helped to develop their capacity to undertake the mentioned interventions.

### **Critique of FTPs**

A major criticism of the first FTP was that it lacked a participatory exercise involving grassroots level stakeholders. It was also felt that only large producers/ exporters were cognisant of various FTP associated schemes. The Policy was lacking in special programmes for small producers/exporters who also failed to take advantage of existing schemes because of low levels of literacy as well as lack of systematic dissemination of information by the government.

Further, Assistance to States for Infrastructure Development for Export (ASIDE) did not function effectively in upgrading infrastructure, blunting the export boosting effect of other schemes. Lack of coordination among various levels of the government in implementing the policy; schemes laying emphasis on providing incentives to exporters without adequate attention to those producing exportables; and lack of coordination among various stakeholders in the supply chain were the other major perceived deficiencies in the Policy.

To some extent, the new FTP (2009-14) has succeeded in overcoming the coordination problems in implementation. It has also sought to reduce the transaction costs involved in activities related to export. But the other mentioned problems remain. The stress on promotion of employment through schemes that target promotion of labour intensive exports is also almost absent in this FTP.

### **Conclusions and Recommendations**

- Special schemes targeted towards small players are the need of the hour.
- Information dissemination mechanisms need to be more extensive and better structured and should provide information in a simple form.
- Schemes should be made less complex and more transparent
- It is important to make sure that problems at all levels in regard to lack of infrastructure are identified, instead of focusing exclusively on infrastructure problems facing exporters.
- The policy making process should be more inclusive and involve consultations with grassroots stakeholders who in turn should be made more aware of the policy through proper information dissemination mechanisms.

In general, the FTP should correct the bias in favour of exporters and provide proper incentives to producers whose decisions impinge directly on export volumes and associated employment. More emphasis on human capital formation of producers could be an important intervention in this regard.

Finally, the FTP should provide a mechanism to achieve better coordination among various stakeholders in the supply chain. For example, exporters often make commitments to farmers without any formal contractual agreements. Not only can government help to link up producers/farmers with exporters but also stimulate the development of solid contractual relationships. The resulting security for producers/farmers should bring about an increase in output produced for exports.