



Delhi Policy Group

Advancing India's Rise as a Leading Power



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PM's Welcome Export Initiative

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V. S. Seshadri

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Author

Dr. V.S. Seshadri, I.F.S (Retd.), Senior Fellow for International Trade, Delhi Policy Group

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Cover Photograph:

The Prime Minister interacting with Heads of Indian Missions abroad and stakeholders of the trade and commerce sector, through videoconferencing, August 6, 2021. Source: pmindia.gov.in

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Delhi Policy Group

Core 5A, 1st Floor,
India Habitat Centre,
Lodhi Road, New Delhi- 110003
www.delhipolicygroup.org

PM's Welcome Export Initiative

by
V. S. Seshadri

The singular focus that exports received at Prime Minister Narendra Modi's interaction with various stakeholders on August 6, 2021 was the first of its kind¹. That he decided to do this at a time when the prospects for the country's merchandise exports look somewhat brighter may appear politically opportune, but such articulation was most welcome and long awaited. For the first time, if the rest of the year does not disappoint, India's exports could end up edging closer to US 400 bn, after remaining stagnant at around US\$ 300 bn for the entire decade of 2011-20.

PM Modi laid emphasis on setting export ambitions and goals and encouraged all stakeholders to play a major role in achieving them. That he contextualised this clear vision and roadmap for the future of the country as part of the celebrations of the 75th anniversary of independence made it particularly significant.



The Prime Minister interacting with Heads of Indian Missions abroad and stakeholders of the trade and commerce sector, through videoconferencing, August 6, 2021. Source: pmindia.gov.in

Furthermore, the Prime Minister pressed all the right buttons in his remarks. He emphasised four aspects for increasing exports - producing qualitatively

¹ <https://pib.gov.in/PressReleaseDetail.aspx?PRID=1743394>

competitive products, strengthening transport and logistics, promoting exports and access in international markets, and the government's readiness to extend facilitation and support - each of which are critical. Making it clear that Atmanirbhar Bharat should also foster global quality and efficiency, he was also categorical that it should go beyond satisfying domestic needs and produce global champions and exports. He cited the example of the mobile phone sector, and how the production linked incentive (PLI) schemes were beginning to show results.

Prime Minister Modi called for a detailed and holistic plan to accelerate the export push through both product diversification and creation of new markets. Indian products need to be identified for their quality and reliability. He underlined the need to secure a larger share of the global value chains, while also building a seamless and high quality supply chain within the country. Building new relationships and partnerships between exporters who are better aware of overseas markets and MSMEs, start-ups, farmers and other stakeholders was also emphasised.

Additionally, what was most appropriate was the emphasis he placed on the role of Indian missions abroad acting as a bridge between the markets and India's trade and industry, which is often overlooked. The presence of the External Affairs Minister and several heads of India's diplomatic missions at the on line interaction, along with the Commerce Minister, senior government officials and trade and industry representatives, gave this interaction a holistic character. PM Modi called upon the heads of missions to identify select new products that can find a ready market in their countries of accreditation, and also involve the Indian diaspora in extending the reach.

Such high level direction was much awaited. A sustained GDP growth of 8% plus in the coming years will simply not be forthcoming unless exports begin to register significantly higher growth rates. Reaching the goal of a US\$ 5 trillion economy will take that much longer. A strong export performance also necessitates a return to greater economic competitiveness and high quality value addition. Export promotion has to become an overarching and coordinated government priority, and not just that of any single ministry or state. A clear prime ministerial direction and exhortation are essential for achieving this synergy.

It is significant that PM Modi also highlighted the scrapping of the retrospective tax regime while underlining the importance of predictability and consistency in policy. This will be particularly welcomed by investors, both present and prospective.

What is now required is the drawing up of a detailed plan that weaves together the four broad elements of the PM's remarks on export promotion. Here, another element that the PM highlighted in his independence day address last year is of vital importance. Undertaking value addition within the country is far more crucial than merely exporting raw materials and primary products. Exporting cotton, metal ores, metals in primary form, naphtha, primary polymers, leather or marine fisheries no doubt require capacities and fetch some returns. But exporting their value added products yield far more gains and employment generation, even as this demands more competitiveness, meeting exacting international quality standards and catering to consumer choices².

The Indian government is exuding confidence about reaching an export figure of US\$ 400 bn during this fiscal on the basis that exports for the first four months through July 2021 have already reached US\$ 131bn. This will be welcome if it materialises, but is far from assured. The sharp increase in exports in recent months could well have been due to short term pent up demand, a steep rise in commodity prices since November 2020 and the lack of adequate domestic demand, particularly from the SMEs. So, whether the surge will be sustained remains to be seen.

Most certainly, the increase does not emanate from a burst in domestic competitiveness in this short span of economic recovery. Even the Prime Minister only referred to an insurance cover initiative and a future, WTO compliant, export incentive scheme, presumably the RoDTEP scheme³ that is yet to be rolled out. Indeed, exporters are still calling⁴ for an early

² A focussed study in this regard in respect of the aluminium sector can be seen at https://www.delhipolicygroup.org/uploads_dpg/publication_file/indias-aluminium-industry-pathways-for-aatmanirbharta-2298.pdf

³ Stands for Remission of duties and taxes on export products

⁴ See for example the newsitem <https://www.thehindu.com/business/Industry/exports-up-4791-in-july-to-3517-bn/article35681279.ece>

announcement of this scheme which was to have come into force on January 1, 2021 but is still undergoing a vetting process.

Nonetheless, two sectors still stand out. These relate to exports of pharmaceuticals and mobile phones that have done well despite the pandemic disruption. They also point to possible benefits that can accrue if the PLI schemes launched in recent months in a variety of new areas are well implemented. While some commentators have questioned a return to industrial policies, the time is most opportune for such targeted interventions. Even the United States has recently taken steps⁵⁶ to boost domestic production in four sectors deemed vital to the supply chain: semiconductors, batteries, specialised minerals and pharmaceutical ingredients. When the leading exporting nation and manufacturer in the world describes itself as a socialist market economy with Chinese characteristics, and is heavily involved in providing subsidies, making import interventions and a general lack of transparency, notwithstanding WTO rules, other countries have no option but to take appropriate remedial steps.

The Prime Minister also drew attention to the huge potential that exists in respect of exports of farm and agro-processed products. Several of our agricultural products, including rice and sugar, did particularly well during the pandemic affected 2020-21. PM Modi cited the specific example of how exports of honey improved significantly, with targeted focus.

Drawing up a comprehensive export plan also requires devising an FTA strategy for India. With RCEP out of the reckoning, reviewing FTAs with ASEAN as well as with Japan and Korea need following up. As for consideration of further FTAs, Australia, the UK and the European Union already figure in India's priority list in view of the many complementarities with their economies. More potential candidates require identification. The FTA strategy should include an offensive plan in terms of making market access demands on trade partners that bring gains for India's exports, including in areas of emerging strength that cover PLI products. Such demands should focus not just on tariff reductions but also on non-tariff issues, including mutual recognition of standards. As for agriculture, we may have to offer limited market access to trade partners in

⁵ <https://www.whitehouse.gov/wp-content/uploads/2021/06/100-day-supply-chain-review-report.pdf>

⁶ <https://www.wsj.com/articles/subsidies-chips-china-state-aid-biden-11627565906>

certain sensitive areas in the form of tariff rate quotas, but these will need to be carefully negotiated. On coverage of WTO-plus areas as well, India will need a clear but flexible strategy. Further, we must identify potentially losing domestic sectors under the FTAs and identify ways of restructuring them or offering trade adjustment support.

Finally, India needs to expeditiously arrive at an agreement with the US on the many pending bilateral trade issues. Restoration of GSP for India should be a priority for India. A recent study by this author⁷ has clearly brought out that the trade loss from GSP withdrawal has been far from negligible. The US remains India's single largest export destination, and nurturing these ties to mutual advantage makes not only economic but also strategic sense in the present context.

It may well be that the Prime Minister may return to the theme of promoting exports in his forthcoming Independence Day address. This writer would certainly endorse giving it such a national priority.

⁷ https://www.delhipolicygroup.org/uploads_dpg/publication_file/review-of-indias-exports-to-the-us-in-2020-need-for-a-vanijya-bharat-2774.pdf



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New Delhi - 110003
India

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