Foreign Trade Policy Statement

Contents

EXECUTIVE SUMMARY

Vision, Mission and Objectives

1. The Foreign Trade Policy Statement explains the vision, goals and objectives underpinning the Foreign Trade Policy for the period 2015-2020. It describes the market and product strategy envisaged and the measures required not just for export promotion but also for the enhancement of the entire trade ecosystem.

2. The vision is to make India a significant participant in world trade by the year 2020 and to enable the country to assume a position of leadership in the international trade discourse. Government aims to increase India's exports of merchandise and services from USD 465.9 billion in 2013-14 to approximately USD 900 billion by 2019-20 and to raise India's share in world exports from 2 percent to 3.5 percent.

3. The FTP for 2015-2020 seeks to provide a stable and sustainable policy environment for foreign trade in merchandise and services; link rules, procedures and incentives for exports and imports with other initiatives such as 'Make in India', 'Digital India' and 'Skills India' to create an 'Export Promotion Mission'; promote the diversification of India's export basket by helping various sectors of the Indian economy to gain global competitiveness; create an architecture for India's global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India's products and contributing to the 'Make in India' initiative; and to provide a mechanism for regular appraisal in order to rationalise imports and reduce the trade imbalance.

'Whole-of-Government' Approach & Role of State/UT Governments

4. Foreign trade today plays a significant part in India's economy, so much so that foreign trade policy deserves a special focus and dedicated attention as a key constituent of India's economic policies. Foreign trade policy can neither be formulated nor implemented by any one department in isolation. Going forward, a 'whole-of-government' approach will be required.

5. A major path breaking initiative taken by the Department of Commerce, which can have far reaching benefits if properly executed, is to mainstream State and Union Territory (UT) Governments and various Departments and Ministries of the Government of India in the process of international trade. State/UT Governments can play a crucial role in promoting exports and rationalising non-essential imports. Many of the State Governments have nominated Export Commissioners. The Department of Commerce is also helping State Governments to prepare export strategies. An Export Promotion Mission will be constituted to provide an institutional framework to work with State Governments to boost India's exports. Senior officials have been appointed as designated focal points for exports and imports in several Central Government departments.

Addressing In-House Challenges

6. The state of the external environment undoubtedly will be crucial and new features of the global trading landscape such as mega regional agreements and global value chains will profoundly affect India's trade. The biggest challenge, however, is to address constraints within the country such as infrastructure bottlenecks, high transaction costs, complex procedures, constraints in manufacturing and inadequate diversification in our services exports. We have to address these issues anyway despite the external factors, many of which are imponderables outside our control.

Making export promotion schemes more focused while rationalizing imports

7. Winners and potential winners have been identified separately from amongst industrial and agricultural products in order to make the export promotion schemes more focused and effective. At the same time, an institutional mechanism for continuous import appraisal has been put in place to ensure coordinated and rational import policies in various sectors.

The Multilateral Trading System and India

8. The need to ensure that the FTP is aligned with both India's interests in the negotiations, as well its obligations and commitments under various WTO Agreements has been an important consideration in framing this Policy.

9. In the ongoing Doha Round of trade negotiations, India will continue to work towards fulfilling its objectives and to work with like-minded members to remove any asymmetries in the multilateral trade rules which place a developing country at a disadvantage, such as the rules relating to public stockholding for food security purposes.

10. The current WTO rules as well as those under negotiation envisage the eventual phasing out of export subsidies. This is a pointer to the direction that export promotion efforts will have to take in future, i.e. towards more fundamental systemic measures rather than incentives and subsidies alone.

The Mega Agreements: Implications for India

11. The three mega agreements that are currently being negotiated namely the Trans Pacific Partnership, Trans-Atlantic Trade and Investment Partnership and the Regional Comprehensive Economic Partnership (RCEP) add a completely new dimension to the global trading system. India is a party to the RCEP negotiations. The mega agreements are bound to challenge India's industry in many ways, for instance, by eroding existing preferences for Indian products in established traditional markets such as the US and EU and establishing a more stringent and demanding framework of rules. Indian industry needs to gear up to meet these challenges for which the Government will have to create an enabling environment.

Market Strategy

12. India's future bilateral/regional trade engagements will be with regions and countries that are not only promising markets but also major suppliers of critical inputs and have complementarities with the Indian economy. The focus of India's future trade relationship with its traditional markets in the developed

world would be on exporting products with a higher value addition, supplying high quality inputs for the manufacturing sector in these markets and optimizing applied customs duties on inputs for India's manufacturing sector.

13. The US is one of India's top trading partners and now that the US is back on a growth path, future bilateral trade prospects are bright. Employment-generating sectors such as textiles, agriculture, leather and gems & jewellery will continue to receive major attention for promoting exports to the US market. Important aspects of the India-US economic relationship for India include access for our high skilled professionals in US markets, and increased investment. Regular dialogue with the US to make India's perspective clear on issues such as intellectual property rights, immigration policies of the US Government, labour and skill related policies of the US Government, will also be a key part of the India-US economic relationship. Canada and Mexico are other important trading partners in North America.

14. In the European Union, which is a highly discerning market, our exporters face several challenges in the form of stringent sanitary and phytosanitary standards, a complex system of quotas and tariffs and trade remedial actions against Indian products. The EU is a significant market for India's information technology services but remains underutilised because of the data security related constraints posed by EU regulations. Increasingly, we will focus our trade promotion activities on new products with higher value addition particularly in the categories of defence equipment, medical equipment, construction material, processed foods, as also services. Some of the non-EU countries are promising markets for project exports from India and also offer viable investment opportunities for Indian firms.

15. There is considerable scope to widen and deepen India's economic relations with both Australia and New Zealand, underpinned by trade and investment linkages. India is negotiating Comprehensive Economic Cooperation/Partnership Agreements with both countries.

16. India's trade relations with its immediate neighbours in South Asia are a special focus area for the government, with a larger goal of building regional value chains in different sectors such as textiles, engineering goods, chemicals, pharmaceuticals, auto components, plastic and leather products. An added advantage of such integration will be an expanded role for North East India in regional trade with its consequent development outcomes. A better connected South Asia can provide additional trade routes to South East Asia and Central Asia.

17. Another focus area is South-East Asia. Trade integration with the CLMV (Cambodia, Lao PDR, Myanmar and Vietnam) countries is an important part of India's future regional trade strategy and the implementation of the Budget 2015-16 announcement of a Project Development Company to enable the Indian private sector to set up manufacturing hubs in this region, will be actively pursued.

18. India's most important trading partner amongst the countries of North East Asia is China. Engagement with China requires a comprehensive approach on trade, investment and economic cooperation issues. India will, *inter alia*, continue to pursue market access issues and removal of Non-tariff Barriers on India's

exports of pharmaceuticals and agro commodities, seek to obtain market access for Indian IT Services and encourage other service sectors such as tourism, film and entertainment; and seek Chinese investment in boosting India's manufacturing capacities, while remaining vigilant against any unfair trade practices. Efforts to intensify outreach work on bilateral trade agreements with Japan and Korea will also be an important element of India's engagement in North-East Asia.

19. There is enormous untapped potential for enhancing India's economic relations with the African continent, encompassing not just trade and investment but also capacity development, technical assistance and provision of services such as healthcare and education. Agro-processing, manufacturing, mining, textiles, FMCG, infrastructure development and construction are highly promising areas for Indian companies. India is engaging actively with countries and regional groupings in Africa for trade agreements, project exports and capacity building initiatives.

20. The West Asia & North Africa Region is a dynamically growing region with concomitantly high absorptive capacity for exports and deserves greater focus. India is negotiating two FTAs in the region, with Israel and with the six countries comprising the Gulf Cooperation Council.

21. The plan for greater engagement with the Latin American and Caribbean region encompasses the expansion and deepening of various existing trading arrangements as well as new ties. Efforts will also be made to diversify India's exports to the region and to encourage project exports through easy access to credit facilities. Another promising area to be explored is the potential for large-scale farming by Indian companies/individuals in this region.

22. India's economic engagement with most of the countries in the CIS (Commonwealth of Independent States) region, except Russia, has been much below its potential. Therefore the focus of action should be to promote investment in the exploitation of raw materials; to operationalise the International North South Transport Corridor; to promote export of products of India's strength and to help facilitate investments in some of these countries to build value chains, for example, in the pharmaceutical sector. The Indian diamond industry stands to benefit from the Special Notified Zones proposed for consignment import and export of rough diamonds.

Impact and Utilisation of FTAs

23. Signing an FTA is the beginning, not the end of the process. Recognising that it is important to review whether the concessions under these agreements are being gainfully utilised and have resulted in meaningful market access gains, an 'Impact Analysis' of FTAs has been instituted. Further, it is necessary to simplify and ease rules of origin criteria to position India effectively in global and regional value chains. The likelihood of duty inversions will continue to be closely monitored to ensure that industry is not put to any disadvantage. A system for capturing preferential data will be put in place at the earliest.

24. The lack of information about India's FTAs is a common complaint. To address this, an intensive FTA outreach programme has been launched. In addition, information has been provided on the website of the Department of Commerce, including FAQs and a web portal on FTAs has been developed.

Initiatives for LDCs

25. India is committed to helping LDCs in various ways such as duty concessions, capacity building, development assistance in specific sectors and market access for products and services. Initiatives already taken include a Duty Free Tariff Preference Scheme for LDCs; preferential treatment for LDCs in the Services sector, technical assistance for the cotton sector in six African countries and various other capacity-building initiatives.

Product Strategy

26. The focus will be on promoting exports of high value products with a strong domestic manufacturing base, including engineering goods, electronics, drugs and pharmaceuticals. The challenges posed to the pharmaceuticals sector by NTBs in Japan and regulatory hurdles in China have to be addressed. A track and trace policy for all exports of medicinal products will be effective from 1 April 2015. A composite programme for promotion of healthcare products and services will be conducted in various regions to showcase and market India's unique strengths.

27. Other sectors which require special attention, in light of India's strengths and their contribution to employment generation, are leather, textiles, gems and jewellery and the sectors based on natural resources, which include agriculture, plantation crops, marine products and iron ore exports. Revitalizing plantations, enabling a less controlled regime for agriculture and aiming at greater value addition and processing would help to increase the value of exports from these sectors. Export strategies for processed agricultural exports and organic product exports will shortly be ready. The North-Eastern States are a special focus area for organic product exports. A number of steps to address the challenges faced by the plantations sector are on the anvil.

28. Further, Government aims to encourage and promote hi-tech products and, as a first step, certain products have been identified for a special focus for the duration of the policy. The potential of the MSME sector, the problems it faces and its requirements have been kept in view while framing the FTP.

The Services Sector

29. The Services sector is an area of great potential. The Department of Commerce is working on an ambitious reform agenda, which is being pursued through an inter-ministerial mechanism. Efforts will be made to gain effective market access abroad through comprehensive economic partnership agreements with important markets. A Global Exhibition on Services will be held annually, which will provide a forum for showcasing India's strengths in the Services sector. Efforts are also underway to improve the availability of data on services.

Towards World Class Products

30. Government is committed to transforming India into a manufacturing and exporting hub. This is possible only if India's products are of world class standard. A roadmap has been developed on measures required to protect consumers, raise the quality of the merchandise produced and enhance India's capacity to export to even the most discerning markets.

Building the India Brand

31. A long term branding strategy has been conceptualised to enable India to hold its own in a highly competitive global environment and to ensure that 'Brand India' becomes synonymous with high quality. Further, a programme to promote the branding and commercialisation of products registered as Geographical Indications and to promote their exports will be initiated within one year of this policy coming into force.

Institutional Mechanisms for Trade Promotion

32. The schemes for trade promotion under the Department of Commerce, namely, the Market Access Initiative (MAI) Scheme and the Market Development Assistance Scheme will continue. The present allocation for the MAI scheme is inadequate; efforts will be made to augment resources for the scheme. Efforts will be made to support the development of infrastructure for holding conventions in all major tier 1 and tier 2 States. A major convention-cum-exhibition centre will be developed at Pragati Maidan in Delhi replacing the present infrastructure. Export Promotion Councils are being strengthened, both in terms of technical capabilities and management structures.

33. Project exports will be encouraged in a big way, especially in the emerging markets with high infrastructure needs, through special lines of credit offered by the Ministry of External Affairs and the Buyers' Credit Scheme of the Department of Commerce through Exim Bank of India. This will, *inter alia*, enable Indian businesses to develop long term business relationships, facilitate easier acceptance of India's exports and build visibility for Indian products.

Infrastructure

34. The Department of Commerce has, till now, worked with States to fill infrastructure gaps through the ASIDE (Assistance to States for Developing Export Infrastructure and Allied Activities) Scheme. In the Budget for 2015-16, the allocation for the ASIDE scheme has been severely curtailed in pursuance to Government's decision to transfer additional tax resources to States. Consequently, the ASIDE scheme would need to be restructured and, if necessary, a new programme for supporting infrastructure development will have to be formulated.

35. Special Economic Zones need to be strengthened. Restoring tax benefits is of critical importance. The Department of Commerce will take action to make SEZs more competitive and better placed for manufacturing and services exports. As a first step, the FTP includes specific measures to revitalise SEZs.

Trade Ecosystem

36. Several initiatives are underway or in the pipeline for the simplification of procedures and digitization of various processes involved in trade transactions. Steps are being taken by various Ministries and Departments to simplify administrative procedures and reduce transaction costs based on the recommendations of two Task Forces constituted by the Directorate General of Foreign Trade. The implementation of these recommendations is being actively pursued.

37. India is committed to implementing the WTO's Trade Facilitation Agreement (TFA). A National Committee on Trade Facilitation is being constituted for domestic coordination and implementation of the TFA.

38. Specific measures will be taken to facilitate the entry of new entrepreneurs and manufacturers in global trade through extensive training programmes. The Niryat Bandhu scheme will be revamped to achieve these objectives and also further dovetailed with the ongoing outreach programmes.

39. Capacity development efforts will focus on EPCs and commercial missions. A new institution, namely, the Centre for Research in International Trade, is being established not only to strengthen India's research capabilities in the area of international trade, but also to enable developing countries to articulate their views and concerns from a well-informed position of strength.

Institutional Mechanisms for Communication, Monitoring and Review

40. Two institutional mechanisms are being put in place for regular communication with stakeholders, namely, a Board of Trade which will have an advisory role and a Council for Trade Development and Promotion which will have representation from State and UT Governments.

41. The FTP will be reviewed and evaluated at regular intervals.

SECTION 1: INTRODUCTION AND BACKDROP

Introduction

India's Foreign Trade Policy (FTP) has, conventionally, been formulated for five years at a time and reviewed annually. The focus of the FTP has been to provide a framework of rules and procedures for exports and imports and a set of incentives for promoting exports.

2. Fifteen years ago India occupied a very small space on the global trade canvas. As various sectors of the Indian economy became more competitive globally, exports began to grow remarkably. India's merchandise exports recorded a Compound Annual Growth Rate (CAGR) of 15.9 percent over the period 2004-05 to 2013-14. Similarly, as the economic growth rate of the country picked up, so did imports, which grew at a CAGR of 16.8 percent over the same period.

3. Today, foreign trade has begun to play a significant part in the Indian economy reflecting its increasing globalisation. At the same time, the growing merchandise trade deficit, resulting in a persistently high current account deficit, has set alarm bells ringing. This policy, therefore, aims at promoting exports along with making imports more focussed and rational.

4. The trade performance of a country is so closely and inextricably linked with its overall economic performance that trade policy cannot be treated as a simple matter of manoeuvring the export or import of a product. Foreign trade policy has a direct connect with domestic economic policies.

5. Exports constitute the last segment of long sectoral value chains. A foreign trade policy that addresses only the front-end of exports without recognising the characteristics of the back-end is incomplete and, likely to be unworkable. At the same time, the development of an appropriate ecosystem for the front-end can create a pull effect for the sector in question. In each case, action lies in several departments and stakeholder institutions. The biggest challenge, therefore, is to properly anchor the elements of the foreign trade policy in the overall economic policy and to ensure that the framework of rules, procedures and incentives for trade is contextualised within a composite approach to economic development.

6. Government of India has, in the last few months, initiated several measures to re-energise the economy particularly through initiatives such as "Make in India", "Digital India", "Skills India" etc. As these initiatives start showing results, India will become more competitive in several product areas which would, in turn, open up better export prospects.

7. The FTP for 2015-2020, therefore, endeavours to build synergies with such initiatives necessitating, thereby, a "whole-of-Government" approach to foreign trade policy. It first describes a vision with its attendant goals and objectives followed by the strategies and actions identified as necessary to achieve that vision, and, finally, sets out a framework of incentives.

The Global Economy

8. The Update of the World Economic Outlook (WEO) released in January 2015 by the IMF[1] puts global growth projection for 2015 at 3.5 percent and at 3.7 percent for 2016. Global growth will receive a boost from lower oil prices - a result mainly of higher supply – but while the recovery in the United States was stronger than expected, economic performance in all other major economies, particularly Japan, fell short of expectations. The euro area growth projections are weaker and Japan is in recession. In emerging market and developing economies, growth is projected to remain broadly stable at 4.3 percent in 2015 and to increase to 4.7 percent in 2016.

9. According to the Update, slower growth in China will have important regional effects, which partly explains the downward revisions to growth in much of emerging Asia. The growth forecast for India is broadly unchanged, with weaker external demand expected to be offset by the boost to the terms of trade from lower oil prices and a pickup in industrial and investment activity after policy reforms.

10. The WTO[2] forecasts a world trade growth of 3.1 percent in 2014 and 4.0 percent in 2015. The WTO reports that Asia recorded the fastest export growth of any region in the first half of 2014, with a 4.2 percent rise over the same period last year. It was followed by North America (3.3 percent), Europe (1.2 percent), South and Central America (-0.8 percent), and Other regions[3] (-2.0 percent). North America led all regions on the import side with a growth of 3.0 percent, followed by Asia (2.1 percent), Europe (1.9 percent), Other regions (-0.4 percent) and South America (-3.4 percent).

11. Presenting a robustly optimistic outlook for India's growth, the Economic Survey 2014-15 lists the factors that will boost growth, namely, reforms undertaken or planned by the government, declining oil prices and increasing monetary easing facilitated by the moderation in inflation, leading, in turn, to greater household spending and a reduction in the debt burden of firms and finally forecasts of a normal monsoon.[4] At the same time, however, the Survey of 2013-14 had identified certain structural constraints on growth, which include a low manufacturing base and inadequacy of required skills; these also impact India's export performance.

India's Trade Performance

12. Despite the global slowdown, India's merchandise exports increased from USD 83.5 billion in 2004-05 to USD 314.4 billion in 2013-14.

13. The cumulative value of imports in 2013-14 was USD 450.1 billion as against USD 490.7 billion during the previous year registering a decline of 8.3 percent. Coupled with the moderate growth in exports, this resulted in a decline in India's trade deficit from USD 190.3 billion in 2012-13 to USD 137 billion in 2013-14, contributing to a lower Current Account Deficit (CAD).

14. India's two-way merchandise trade crossed USD 760 billion in 2013-14 or 44.1 percent of the GDP. If services trade is added, India's trade reached nearly

[1] IMF (2015), *World Economic Outlook Update*, January 2015
[2] World Trade Organization (2014), *World Trade 2013, Prospects for 2014*, Press Release Press/722, 23 September 2014
[3] Other regions comprise Africa, Commonwealth of Independent States and Middle East.
[4] Economic Survey, 2014-15, Vol. I, Chapter 1

USD 1 trillion. This has been achieved despite the global contraction and is indicative of India's resilience and increasing integration with the global economy.

Chart 1: India's Foreign Trade

(in USD billion)

15. According to the WTO, in merchandise trade, India was the 19th largest exporter in the world with a share of 1.7 percent and the 12th largest importer with a share of 2.5 percent in 2013. In commercial services, India was the 6th largest exporter in the world with a share of 3.2 percent and the 9th largest importer with a share of 2.8 percent.

Table 1: India's Share in Global Trade

(Figures in USD billion)

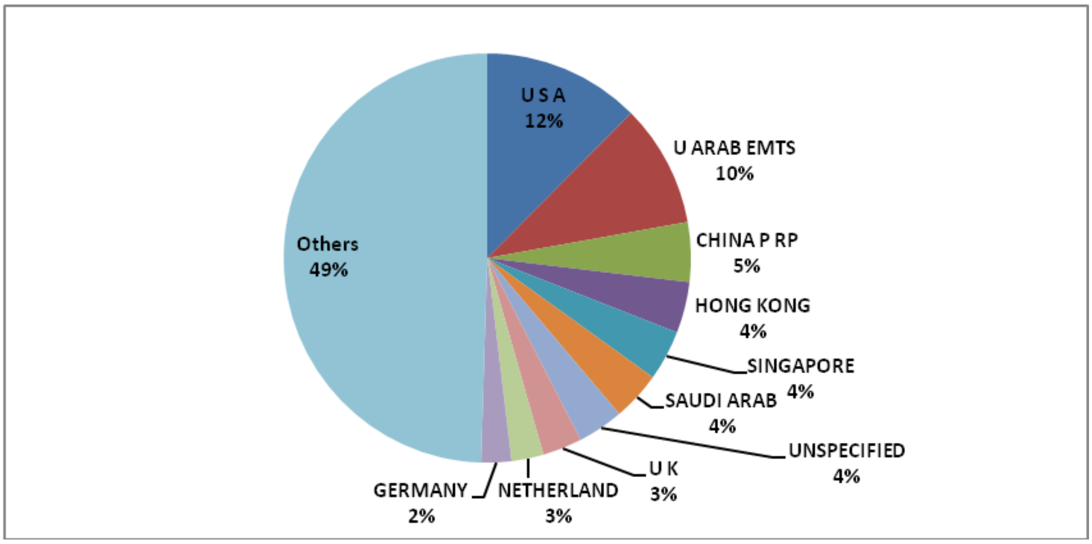
India's Exports of Merchandise		India's Imports of Merchandise	
Value	**Share/Rank**	**Value**	**Share/Rank**
313	1.7% (19th)	466	2.5% (12th)
India's Exports of Commercial Services		**India's Imports of Commercial Services**	
Value	**Share/Rank**	**Value**	**Share/Rank**
151	3.2% (6th)	125	2.8% (9th)

Source: WTO's World Trade Report, 2014

16. Both external and domestic factors have posed a challenge to export growth such as the global trade slowdown from 2008-09 onwards, exchange rate fluctuations and non-tariff barriers imposed by India's trading partners and loss of competitiveness in many product areas. The inherent limitations of manufacturing in India, the lack of diversity and focused efforts on services exports, the under achievement of the potential of SEZs, high transaction costs, high cost of trade finance and infrastructural bottlenecks are the domestic challenges to be overcome. The heavy dependence on imports of essential commodities including crude oil, gas, coal, pulses, edible oils, fertilizers and electronics has kept India's trade deficit at a high level.

17. While there has been a gradual shift in India's exports away from the advanced economies of the European Union and North America, the United States of America continues to be the topmost destination for India's exports with a share of 12.4 percent in 2013-14 followed by the United Arab Emirates (9.7 percent) and China (4.7 percent) in 2013-14 .The IMF WEO update presents a mixed picture for these key markets for India's exports.

Chart 2: India's Export Destinations



Dynamic Global Context

18. Change has been a constant in the global economy, not least in the international trading landscape. Industrial country growth rates have slowed but the US is back on a growth path, a development which has enormous implications for global trade, given the size of the US economy. As brought out by the IMF, the slowdown in China will have important regional effects. Developments in these two countries, both top trading partners of India, will have significant repercussions on India's trade.

19. Global value chains (GVCs) are a prominent feature of the international trade landscape today. Intermediate goods and services from several countries are combined through integrated production networks to produce the final goods and services.

20. India participates in manufacturing GVCs, *inter alia*, in sectors such as Chemicals, Electrical Equipment and Jewellery, in general by way of sourcing intermediates from abroad. India also has a high participation in services sectors, in particular, business services, mainly driven by the use of Indian intermediates in the exports of other countries. The share of imported inputs and intermediate goods in exports is higher in mining, textiles, machinery, and services sectors such as distribution, transport and telecom.

21. In general, inadequate infrastructure, sub-optimal connectivity with global transport networks, low transport capabilities and complicated administrative requirements that cause long delays at ports and customs, are some of the serious obstacles to participation by Indian producers in GVCs. In all these areas, they are at a disadvantage as compared to producers in the ASEAN countries and East Asia.

22. For India to successfully integrate into value chains – regional or global – we need to strengthen trade-related physical infrastructure, implement an appropriate regulatory regime for transport services, improve efficiency and predictability in border procedures, undertake policy reforms in logistics services markets (logistics quality and competence, tracing and tracking etc.) and reduce coordination failures -

especially those of public agencies active in border control - facilitate imports of parts and components by, *inter alia*, optimising tariff policy, enhance design capabilities within the country and address issues relating to our rules of origin. Also required is an enabling environment for industry to be able to both scale up and scale down their operations in response to demand.

23. Mega-regional trading arrangements are the other new features of the international trading landscape with the potential to bring about enormous changes in world trade dynamics, given their coverage and scope. They go well beyond trade in goods and services into areas such as investment, competition (including state-owned enterprises), intellectual property, labour, environment, government procurement, transparency, regulatory coherence and dispute settlement.

24. The Economic Survey 2014-15 describes another challenge in the trading environment i.e. the decline in the buoyancy of Indian exports with respect to world growth. In other words, not only do we have to contend with a slowdown in world growth which will reduce Indian exports; but also, for any given world growth, export growth will be even lower because of the declining responsiveness of trade.

25. A key macro-economic variable critical to competitiveness and prospects for export growth is the exchange rate. There are two aspects that merit particular mention. First, if the nominal exchange rate stays steady and the rate of inflation in India is higher than that in the rest of the world (as has been the case for the last decade) the real exchange rate appreciates. The competitiveness of exports is eroded by the effective exchange rate appreciation of the rupee. And, for exporters, this exchange rate is, in effect, entirely exogenous viz. it is an outcome of fiscal and monetary policies over which they have no control. Secondly, the last 7 to 8 years have witnessed the phenomenon of Quantitative Easing (QE). The resultant increase in money supply has meant that dollars (from the QE in the US) have sought higher rates of return in markets outside. This, in turn, resulted in real exchange rate appreciation in many emerging markets. Leading economists have referred to this as a “beggar thy neighbour” policy because QE works by artificially depreciating the currency where the QE is undertaken vis-à-vis other currencies. The ECB has recently announced QE for Europe. The Euro has already depreciated significantly. The adverse implications on Indian exporters’ competitiveness are obvious.

26. The FTP is predicated on a stable real effective exchange rate. Macroeconomic adjustments that affect either the nominal exchange rate or the real exchange rate will have a significant impact on the realization of export goals. In past years it has been seen that the influx of foreign currencies and regulatory action have led to an erosion of competitiveness. The realization of FTP objectives will clearly require some intervention at appropriate junctures if the exchange rate turns excessively volatile and/or displays a trend of steady appreciation.

Domestic Challenges: Setting Our House in Order

27. The changing dynamics will profoundly affect India’s trade and we will have to grapple with important questions in the near future around issues such as whether or not India should integrate into new forms of trading arrangements and the pace and extent of such integration.

Box 1: Some Findings of a Study by the Centre for WTO Studies

(i) Telecommunications and IT infrastructure have increasingly become important in the process of trade. Internet use in India remains extremely low, compared to some of our competitors.

(ii) In the absence of a uniform system of indirect taxation in India, exporters are often unable to get a rebate or drawback on all indirect taxes paid on the exported product and the inputs that went into its production, significantly inflating the final price of the exported product and making it less price competitive.

The GST which is to be implemented from 1 April 2016, is expected to help Indian exporters significantly. The simplification and harmonization of the indirect tax regime of the country will reduce the cost of production and lead to a seamless, integrated Indian market, thereby making Indian trade and industry more competitive.

(iii) Labour regulations play a critical role in determining the trade and investment climate of a country. Recent initiatives by the Central Government and some State Governments towards liberalisation, rationalisation and simplification of labour laws must be taken to their logical conclusion in order to make Indian labour more productive and efficient, which will, in turn, contribute to enhancing the global competitiveness of India's products.

28. Be that as it may, the biggest challenges that India's foreign trade faces today are from within the country. There will always be external challenges but there is no gainsaying the fact that without addressing the challenges that lie within the country, we cannot possibly tackle the external ones effectively.

29. Moreover, while the trading environment is undeniably challenging, the confluence of several favourable factors gives India an unprecedented window of opportunity to set its house in order and face the challenges thrown up by an ever changing global economic environment.

30. Studies show that *vis-a-vis* products exported by some of the major East Asian countries, Indian products have been losing their competitiveness. This has been attributed to mainly two kinds of reasons. The first kind relates to the state of infrastructure, factor policies, ease of doing business, facilitation at the borders and the system of taxation.

31. The other reasons are that:

- India is relatively less integrated into regional and global supply chains;
- Existing trade architecture has not been used to its full potential; and
- There is relatively less focus on value-added exports and consequently our marketing arrangements for positioning Indian products at higher levels of value realisation are inadequate.

32. Long-term interventions are needed to address many of these inadequacies. But there are also short and medium term measures that can improve foreign trade performance. Many of these would be in the domain of multiple departments and institutions in the country. This policy therefore attempts to mainstream exports and imports into overall and sector-specific economic policy.

Vision and Mission

33. The vision underpinning the Foreign Trade Policy for 2015-2020 is to make India a significant participant in world trade by the year 2020 and to enable the country to assume a position of leadership in the international trade discourse.

34. Strong trade relations will help India to forge stronger relationships in its immediate neighbourhood

and in new directions, both bilaterally as well as through regional forums.

35. The policy of market diversification which has stood India in good stead during the global economic downturn will continue to be a key determinant of the country's trade policy, together with product diversification.

36. High quality products are their own best advertisement. Recognising the increasing role of standards in global trade and the steps India needs to take both to strengthen its own standards as well as to meet the challenges posed to its exports, a roadmap has been developed on measures required to protect consumers, raise the quality of the merchandise produced and greatly enhance India's capacity to export to discerning markets.

37. The increasing challenge of Non-Tariff Measures (NTMs) used by various countries cannot be wished away. India will have to adopt a multi-pronged strategy to deal with NTMs and to increase overseas market access. Equally, there is a need to put in place measures to keep out sub-standard products by strengthening monitoring and surveillance systems.

38. Further, in an increasingly competitive world, branding plays an indispensable role in global positioning and the FTP addresses this issue as well. Branding campaigns are being planned for promoting exports from sectors such as services, pharmaceuticals, plantations and engineering as well as of commodities and services in which India has traditional strengths, such as handicrafts and yoga.

39. Efforts at the operational level include the simplification of procedures and digitization of various processes. Specific measures will be taken to facilitate the entry of new entrepreneurs and manufacturers in global trade through extensive training programmes.

40. While the Government of India is responsible for policy on foreign trade, much of the activity at the ground level takes place in the States. State Governments can play a crucial role in promoting exports and rationalising non-essential imports. Steps have, therefore, been taken to mainstream States in the process of international trade.

41. The FTP also recognises the importance of compliance with India's international obligations and this consideration has fully informed the Policy.

Goals and Objectives

42. A vision is best achieved through measurable targets. Government aims to increase India's exports of merchandise and services from USD 465.9 billion in 2013-14 to approximately USD 900 billion by 2019-20 and to raise India's share in world exports from 2 percent to 3.5 percent.

43. The FTP for 2015-2020 seeks to achieve the following objectives:

(i) To provide a stable and sustainable policy environment for foreign trade in merchandise and services;

(ii) To link rules, procedures and incentives for exports and imports with other initiatives such as 'Make in India', 'Digital India' and 'Skills India' to create an 'Export Promotion Mission' for India;

(iii) To promote the diversification of India's export basket by helping various sectors of the Indian economy to gain global competitiveness with a view to promoting exports;

(iv) To create an architecture for India's global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India's products and contributing to the government's flagship 'Make in India' initiative;

(v) To provide a mechanism for regular appraisal in order to rationalise imports and reduce the trade imbalance.

What must be done

44. In order to achieve these objectives, the way forward requires measures to:

- Help improve India's export competitiveness and deepen engagements with new markets;
- Operationalise institutional mechanisms in existing bilateral and regional trade agreements;
- Deepen and widen the export basket;
- Reduce transaction costs;
- Make efforts to reduce the cost of export credit;
- Help improve infrastructure eg. ports, laboratories and Common Facility Centres;
- Promote product standards, packaging and branding of Indian products;
- Rationalise tax incidence - introduce the Goods and Services Tax (GST);
- Help improve manufacturing by mainstreaming exports;
- Incentivise potential winners for promising markets;
- Promote and diversify Services Exports; and
- Mainstream States and Ministries in India's Export Strategy.

45. These measures cut across several Departments and Ministries of the Government of India and also State Governments. The success of trade policy is critically dependent on the coordinated efforts of the Government of India as a whole as well as State Governments.

Anchoring Trade Policy in the Domestic Policy Framework

46. There is a symbiotic relationship between the FTP and the government's 'Make in India' initiative. The 'Make in India' initiative aims to achieve global recognition for the Indian economy, promote the country as an investment destination, spur manufacturing and promote employment. It encompasses initiatives for skill development to ensure the availability of skilled manpower for manufacturing, to improve the ease of doing business through initiatives such as self-certification of documents and innovative revenue models. It also envisages the development of infrastructure including i-ways besides highways, ports, optical fibre networks, gas grids and water grids.

47. There is a clear recognition within Government that exports should not merely be a function of marketable surplus but should reflect a genuine enhancement of economic capacity and development. Through its foreign trade policy, government envisages:

- employment creation in both manufacturing and services through the generation of foreign trade opportunities
- Zero defect products with a focus on quality and standards;
- A stable agricultural trade policy encouraging the import of raw material where required and export of processed products;
- A focus on higher value addition and technology infusion;
- Investment in agriculture overseas to produce raw material for the Indian industry;
- Lower tariffs on inputs and raw materials; and
- Development of trade infrastructure and provision of production and export incentives.

Focus of the FTP

48. The Foreign Trade Policy is primarily focused on accelerating exports. This is sought to be implemented through various schemes intended to exempt and remit indirect taxes on inputs physically incorporated in the export product, import capital goods at concessional duty, stimulate services exports and focus on specific markets and products. The Policy attempts to dovetail these schemes with the specific market access openings that India has achieved through negotiations with its trading partners for various bilateral and regional trading arrangements.

49. In order to make these schemes more focused and effective, an exercise was undertaken to identify products that are winners and potential winners for export purposes, based on their price competiveness, the CAGR of India's exports and world imports and RCA[5] and areas of strength, both now and in the future. These have been identified separately from amongst industrial and agricultural products.

50. Further, in order to realise the objective of exporting more value-added goods, technology intensive sectors have also been identified for hand-holding by the Government in the next five years.

Import Appraisal

51. Striking a balance between meeting the needs of a growing economy and the promotion of domestic industry is a continuous challenge for policy makers. An institutional mechanism for continuous import appraisal would provide valuable inputs for economic policy in general and trade policy in particular. A mechanism has been put in place by the Department of Commerce for quarterly appraisal of imports. The 21 stakeholder Ministries/Departments which have been identified have been advised to probe into the need for importing various commodities and the feasibility of producing them in a cost effective way. The objective is to develop an ecosystem conducive to formulating coordinated and rational import policies in various sectors.

[5] Revealed Comparative Advantage

52. India's simple average applied and bound MFN tariff rates are indicated in Table 2 below. The applied rates are much lower than the bound rates especially in the case of agricultural goods, a testament to India's steady and continued autonomous tariff liberalization. Apart from the occasional adjustment in the tariffs on some agricultural commodities in the face of high volatility in food prices, in most cases tariffs have been reduced rather than raised and have generally been continued at the lower levels.

53. Tariff policy will be optimized in order to take advantage of the manufacturing opportunities offered by regional and global value chains, while retaining the policy space to protect domestic industry.

Table 2: Simple Average of MFN Tariffs

	Final Bound	**Applied 2013**
All goods	48.6	13.5
Agricultural goods*	113.5	33.5
Non-agricultural goods	34.6	10.2

*As per the definition of agricultural products in the WTO's Agreement on Agriculture
Source: WTO Trade Profiles 2014

The Multilateral Trading System and India

54. India, a founding member of the World Trade Organization (WTO), believes that a rules-based, non-discriminatory multilateral trading system is necessary for bringing transparency, equity and fair play into global trade relations. Such a system ensures discipline and enables members at all levels of development to chart out a course in global trade that would meet their economic development requirements. The multilateral trading system offers the best institutional architecture for a developing country. The consensus-based decision making in the WTO ensures that even the voice of the smallest Members is heard.

55. India also recognizes the extraordinary contribution made by the WTO in dispute settlement, laying down jurisprudence in areas where the law was relatively ambiguous or not fully developed.

56. As a founding member, and a country which has evolved significantly since the WTO was established, India will continue to contribute to the capacities of willing developing members to help them to fully participate in the rule making process.

57. The need to ensure that the FTP is aligned with both India's interests in the negotiations, as well its obligations and commitments under various WTO Agreements, has been an important consideration in framing this Policy.

Future Initiatives

The Doha Development Agenda

58. While the multilateral trading system needs to keep pace with new developments and update the relevant rules, the fact is that there are glaring asymmetries in the capacities of WTO members to participate in and benefit from international trade. Therefore, while India will endeavour to work towards new areas of rulemaking in the WTO, at the same time, it will continue to work towards fulfilling its objectives through negotiations under the Doha Round.

59. It is well recognized that various Uruguay Round Agreements which form the covered agreements under the Marrakesh Agreement contain several asymmetries. One such asymmetry is in the methodology prescribed in the Agreement on Agriculture for estimating trade-distorting support on account of procurement at administered prices for public stocks of food. India took up this issue with likeminded members through the G-33 coalition of developing countries and the group has been able to persuade the WTO membership to agree to negotiate a permanent solution to this problem. India will intensively work towards getting a consensus on a permanent solution at an early date and will continue to work with like-minded members to remove such asymmetries which place a developing country at a disadvantage *vis-a-vis* developed countries.

Phasing out Export Subsidies

60. The Agreement on Subsidies and the Countervailing Measures of the WTO envisages the eventual phasing out of export subsidies. In the case of India, some sectors may be affected and would require rationalisation of support over a period of time. The phasing out and eventual elimination of agricultural export subsidies is also one of the key elements of the Doha Development Agenda.

61. This is a pointer to the direction that export promotion efforts will have to take in future, i.e. towards the more fundamental measures detailed in earlier sections rather than incentives and subsidies alone.

The Mega Agreements: Implications for India

62. The three mega agreements that are currently being negotiated namely the Trans Pacific Partnership (TPP), Trans Atlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership (RCEP) add a completely new dimension to the global trading architecture. The 49 participants in these mega agreements are significant economies both in terms of trade volumes and GDP. Statistics indicate that these countries account for nearly 3/4th of global trade and 4/5th of the global GDP.

63. There is an overlap of participating countries in the three mega agreements. While the United States is common to the TPP and TTIP, 7 countries, namely, Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam are part of both the TPP and RCEP.

64. India is engaged in the RCEP negotiations which is a comprehensive free trade agreement between the 10 ASEAN Member States and ASEAN's FTA (Free Trade Agreement) partners viz. Australia, China, India, Japan, Korea and New Zealand. The 16 RCEP countries cover around 49 percent of world population, 30 percent of global GDP and 29 percent of global trade.

65. India recognizes the evolution of mega agreements as a significant development in the of global trade architecture. These agreements are perceived by some as consequences of the stalemate in the WTO or due to the unique process of decision making in the multilateral institution while others perceive it as a natural progression of ambitions on the part of major players in the WTO. While India's commitment to the processes and substance of the WTO remains firm, it must also recognize the emerging challenges from the mega agreements under negotiation. These agreements create a significant layer in the global trade architecture for preferential trading among prominent members of the WTO. They also reflect the

high ambitions of the participating members in rule making. Tariff reduction is no more a major challenge for these countries. Therefore, rules harmonization, achieving coherence, and removal of non-tariff barriers, are the major tasks that these negotiations intend to address.

66. Among the 3 agreements, the TPP seems to be at the most advanced stage of development. On account of its position on several matters dictated by the stage of its social and economic development, India cannot be a party to either of these agreements. But they are bound to challenge India's industry in many ways. Firstly, they will erode existing preferences for Indian products in established traditional markets such as the US and EU benefitting those who are partners to these agreements. Secondly, they are likely to develop a rules architecture which will place a greater burden of compliance on India's manufacturing and services standards for access to the markets of the participating countries. However, these challenges should be treated as an opportunity to respond strategically and to persuade Indian industry to rise to the challenge of higher standards both in the area of products and services, and the framework of rules. Therefore, the Government will work towards facilitating Indian industry to do so. The RCEP negotiations are on track. They are scheduled to conclude by the end of 2015. This is an ambitious schedule. Parties to these negotiations are engaged in serious discussions, round after round, on issues of modalities and the extent of liberalisation. India will continue to engage in these negotiations in the right spirit of concluding them in time while taking into account the interest of its business and industry.

SECTION II: MARKET STRATEGY

67. In order to put exports on a high growth trajectory, India needs a market diversification strategy based on the changing dynamics of growth in the world economy. So far India's bilateral trade engagement has been mainly with the industrial powers or driven by multiple considerations. In future engagements, India will engage with regions and countries that are not only promising markets but are also major suppliers of critical inputs and have complementarities with the Indian economy.

68. Bilateral and regional trading arrangements have gradually become permanent features of the global trading architecture. As per WTO statistics there were 398 Regional Trade Agreements (RTAs) in force as of January 2015, covering both goods and services. RTAs have clearly become the rule rather than the exception.

69. India has been actively engaging in regional and bilateral trade negotiations with a view to diversifying and expanding the markets for its exports as well as ensuring access to raw materials, intermediates and capital goods for stimulating value added domestic manufacturing.

Box 2: FTA Nomenclature

These arrangements are known by various nomenclatures such as Preferential Trade Agreements (PTAs), Free Trade Agreements (FTAs), Regional Trade Agreements (RTAs), Comprehensive Economic Cooperation Agreements (CECAs), Comprehensive Economic Partnership Agreements (CEPAs), Broadbased Trade and Investment Agreements (BTIA) etc.

The basic difference is in the coverage with CECA / CEPA / BTIA covering an integrated package of Agreements on Goods (both tariffs and non tariff barriers), Services, Investment, Intellectual Property etc while the more traditional FTAs are limited to trade in goods.

70. RTAs are an important means to take advantage of tariff reduction, address non-tariff barriers, facilitate the integration of the economy into global value chains and production networks and also attract investment in potential growth sectors. With the declining role of tariffs, non-tariff barriers, including TBT[6] and SPS[7] measures, are increasingly becoming more crucial and RTAs provide a potentially effective tool to address such measures.

71. The need to attract foreign investment for boosting manufacturing and increasing competitiveness, thereby generating employment, is also a consideration for entering into Comprehensive Economic Cooperation Agreements (CECAs) and Comprehensive Economic Partnership Agreements (CEPAs).

72. India has, so far, signed 11 FTAs and 5 limited Preferential Trade Agreements (PTAs) and is negotiating 17 FTAs, including the expansion of some of the existing FTAs/PTAs. While the negotiations are ongoing for several agreements, some new initiatives have been taken. Recognising the complementarity between India and Peru; and between India and the Customs Union of Belarus, Kazakistan and the Russian Federation, two Joint Study Groups have been established to recommend the approach and process for RTAs with these countries.

73. The focus of India's future trade relationship with its traditional markets in the developed world would be to:

- Increase, or at least, retain market share in these markets;
- Move up the value chain in these markets (this in turn, would provide an opportunity to introduce modern, international standards in India's manufacturing and service delivery);
- Optimise applied customs duties in order to enable the import of inputs for India's manufacturing sector; and to
- Supply high quality inputs for the manufacturing sector in these markets.

74. Latin America and Africa are the new growth frontiers. South-East Asia is a melting pot of diverse cultures that is a focus area under India's "*Act East*" policy. North East Asia, the Middle East, and the Commonwealth of Independent States (CIS) are relatively less traversed territories for Indian trade and offer considerable potential.

North America

75. The United States of America is the most important market for India in this region. In terms of statistics, it is the largest export destination for India. In 2013-14, 12.5 percent of India's total exports were destined for the US. The size of

[6] Technical Barriers to Trade
[7] Sanitary and Phytosanitary Measures

bilateral trade stood at approximately USD 62 billion for merchandise goods. A significant contribution of information technology services would raise the overall exports to USA to approximately USD 100 billion. The US is one of the most prominent traditional markets for India's products and services and has helped Indian producers in evolving their capacities both in merchandise and services products standards, technology, processes, etc. The recent macroeconomic data clearly shows that the US economy is doing well with a growth rate of 3.1 percent per annum. The US will therefore continue to be the sheet anchor of India's exports. Enhancing trade and investment linkages with the US economy offers India a unique opportunity for finding markets for its technology products and services and products from high-employment creating sectors such as textiles, agriculture, leather and gems & jewellery. Therefore, these sectors will continue to receive major attention for accessing the US market. At the same time there are challenges relating to area such as intellectual property rights, immigration policies of the US Government, labour and skill related policies of the US Government. Therefore, while on the one hand, the focus will be on promoting Indian exports in identified sectors, on the other hand, regular dialogue will be held with the US stakeholders in order to make India's perspective on these issues clear.

76. Important aspects of the India-US economic relationship for India include access for our high skilled professionals in US markets and resolution of the issue relating to social security contributions by Indian workers in the US, through the early conclusion of a Totalisation Agreement between the two countries.

77. Bilateral investment is a prominent tool within the bouquet of instruments of economic engagement between the two countries. With focus on 'Make in India', simplification and further opening up of investment policies and a focus on sector specific efforts for attracting investment, it is expected that investment flows will improve significantly. Targeted investments will make a significant contribution to the improvement of trade performance.

78. One of the factors with implications for India-US trade ties is the outcome of the ongoing deliberations in the US on their GSP (Generalised System of Preferences) Program, which expired in July 2013.

79. India's bilateral trade with Canada is at present USD 5.2 billion. There is significant potential for this bilateral trade to grow. There is complementarity between several sectors of the two countries. Bilateral negotiations are underway for an FTA. The plan is to conclude the FTA negotiations by the end of this year. It is expected that this agreement will offer significant trading opportunities to India's employment creating sectors besides the services sector including information technology enabled services. Canada's strengths in agricultural products (a sensitive area for India), its position on certain principles of market access to services and India's concerns on percolation of commitments upto sub-federal levels in Canada, are some of the challenges in these negotiations.

80. Mexico is a major market for India. At USD 5.9 billion bilateral trade, it has the potential to grow significantly. Mexico is the destination for an array of products from India. Mexico's participation in NAFTA, along with Canada, creates a rules framework that may be difficult to comply with. However, the potential of this market underscores the need for a closer look at it.

Europe

The European Union

81. The European Union (EU), as a regional bloc, is India's largest trading partner. India's total merchandise trade with the EU has increased fivefold from USD 21 billion in 2000 to USD 101 billion in 2014.

82. The EU is a highly discerning market. It presents several challenges in the area of sanitary and phytosanitary standards and technical standards, complex systems of quotas and tariffs and trade remedial actions against Indian products. The EU's practice of constantly evolving its sanitary and phytosanitary standards and procedures is a major challenge and raises the bar for exports from developing countries.

83. While India's merchandise exports in some sectors are very well integrated with the EU market, there is significant potential for growth in many of the employment creating sectors. There is also high potential for growth of exports in technology areas such as automobiles, auto components, engineering products and pharmaceuticals. Therefore, the EU continues to be an important market. India has been the beneficiary of the GSP in some sectors. However, some of these sectors have now been excluded from the EU GSP list adversely impacting India's market access for these products.

84. The EU is also a significant market for India's information technology services but India has not been able to adequately harness the potential because of the data security related constraints thrown up by EU regulations. While large Indian companies can respond to EU's data security framework, smaller companies find it impossible to access the EU market. India's skilled professionals find the EU regime for movement of natural persons for services delivery highly discomforting, and expensive. India's services particularly in the IT and ITES sector have contributed to the competitiveness of several US businesses. A similar approach is available to the EU companies if these challenges are appropriately addressed.

85. An India-EU Broadbased Trade and Investment Agreement (BTIA) has been under negotiation for several years. India has made the most liberal offer so far made to any of its trading partners. The two sides have reached an understanding on many issues. However, some areas still remain outstanding. India is an emerging economy with several policy and legislative matters still under evolution. Therefore India's approach has been incremental rather than one off. The present state of the European economy is also a challenge in these negotiations.

Non-EU countries

86. India is negotiating a TEPA[8] with the EFTA[9] countries. In the next 5 years, our trade promotion activities will focus on Turkey, Visegrad-4 (Czech Republic, Hungary, Slovak Republic, Poland) and other non-EU countries in Europe, which will include encouraging product -specific participation in local trade fairs, in our traditional areas of strength such as textiles, pharmaceuticals, engineering,

[8] Trade and Economic Partnership Agreement
[9] Iceland, Norway, Switzerland and Leichtenstein

machinery, leather and organic chemicals. Increasingly, we will focus our trade promotion activities on new products with higher value addition particularly in the categories of defence equipment, medical equipment, construction material, processed foods, as also services.

87. These regions hold out potential for project exports from India in several sectors. Given the challenges of their demographics, high cost of manufacturing and lack of capital, local entrepreneurs would naturally look for potential collaborations with India. Studies on trade and investment in the region have concluded that there are several viable investment opportunities for Indian companies.

Australia and New Zealand

88. There is considerable scope to both widen and deepen India's economic relations with Australia, underpinned by trade and, more importantly, investment linkages. India and Australia have a strong and mutually beneficial partnership in the energy and minerals sector. Australia is an important source of six crucial inputs, namely, iron ore, coking coal, copper, gold, uranium and LNG. It is noteworthy that all of Australia's primary exports are received in India at a zero tariff or very low tariff.

89. There is significant potential for Australia to scale up investment in India, in areas including cold chains, mega food parks, bio-tech projects, the marine sector, infrastructure, clean and renewable energy, engineering and manufacturing sectors, and pharmaceuticals, apart from mining and energy related projects.

90. India and Australia are negotiating a Comprehensive Economic Cooperation Agreement (CECA) covering trade in goods, services, investment and related issues. A traditional approach aimed primarily at enhanced market access would neither be acceptable domestically nor would it do justice to the multi-faceted nature of the economic relationship between the two countries. The possibility of a fresh approach guided by trade, investment and sectoral cooperation objectives is being explored.

91. New Zealand is a participating country in the RCEP negotiations. India and New Zealand are also pursuing bilateral negotiations for a CEPA. New Zealand is a globally recognized source of dairy and dairy products. It is also an important source of some fruits, lamb meat and wool. Some of these product areas are highly sensitive in India as regards imports. An approach similar to the one proposed for Australia should be considered for New Zealand also.

South Asia

92. India's trade relations with its immediate neighbours are a special focus area for the government. During the last decade, India's total trade with SAARC countries increased from USD 5.6 billion in 2004-05 to nearly USD 20 billion in 2013-14. During the five-year period of 2009-10 to 2013-14, exports grew at a CAGR of 20.2 percent, while imports grew at a CAGR of 10.5 percent. Bangladesh is India's largest trading partner in the SAARC followed by Sri Lanka, Nepal and Pakistan.

93. India has indicated its willingness to take on asymmetrical trade responsibilities in the region in order to promote greater regional and economic integration. It already provides zero duty market access to all Least Developed Countries (LDCs) of SAARC, for all tariff lines, except 25 lines of liquor and tobacco. This measure is already helping them to reduce their trade deficits with India.

94. India has kept 88 percent of tariff lines outside the SAFTA[10] Sensitive List for non-LDC members. India also provides significant trade access to Sri Lanka under a separate bilateral India-Sri Lanka Free Trade Agreement. These measures have led to a fair degree of integration of the economies in the region with the Indian economy.

95. India's approach in this region has been to enlarge the canvas for economic engagement by including services, investments and several other non-tariff areas. South Asia should be visualised as one large economic entity which can take part as a seamless whole in regional and global production networks. South Asia contributes substantially to global demand and, therefore, it is only fitting that it plays a greater role in regional economic decision making.

Issues

96. India-Sri Lanka trade is mostly conducted under a bilateral FTA. The two countries completed negotiations for a Comprehensive Economic Partnership Agreement a few years ago. The CEPA is aimed at building bilateral value chains and promote services and investment on both sides. The agreement could not be made effective due to certain reservations on the part of Sri Lanka, expressed after the negotiations were completed.

97. The operationalisation of SAFTA with respect to trade with Pakistan has been constrained by Pakistan's unique approach to trade with India under the SAFTA Agreement. Not only do they maintain a legitimate sensitive list under SAFTA but they also have a negative list of 1209 products at 6-digit level which cannot be exported from India to Pakistan. The two countries had agreed to a roadmap for normalisation of relations in 2012 but this roadmap has not been acted upon due to continued reservations expressed by Pakistan. Several studies have shown that because of this, consumers in Pakistan have been deprived of affordable, good quality Indian products or made to pay more for Indian products which reach there through circumvention of route. India will await action on the part of Pakistan in accordance with the agreed roadmap.

98. While several socio economic and political concerns have affected economic integration within South Asia, often what some of India's trading partners in the region term as NTBs are, in fact, their own supply side constraints. India, as in the past, will always be prepared to help through technical assistance, and capacity development in strengthening infrastructure and human resource capacity at least for the LDCs.

Future focus

99. After tariff liberalisation, Government proposes to focus on improvement of trade infrastructure in the region. The aim is to provide seamless connectivity for trade and commerce within the SAARC region. These measures would help in building regional value chains in different sectors such as textiles, engineering goods, chemicals, pharmaceuticals, auto components, plastic and leather products. An added advantage of such integration will be an expanded role for North East India in

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[10] South Asian Free Trade Area

regional trade with its consequent development outcomes. A better connected South Asia can provide additional trade routes to South East Asia and Central Asia.

100. In order to encourage regional integration within South Asia, India will:

(i) Prepare a 5-year plan for South Asian integration by identifying specific value chains which will include textiles, leather, tourism, automotive components, chemicals and healthcare;

(ii) Pursue negotiations under the SAFTA Trade In Services Framework Agreement with a view to concluding it at the earliest. This will open up a pathway for services-related liberalisation within the region which will, in turn, make South Asia more competitive in many product areas;

(iii) Help our South Asian trading partners, particularly the LDCs, to develop their technical regulatory framework including infrastructure to respond to the requirements of the growing Indian market and work towards creating a Regional Standards Regime;

(iv) Intensify efforts at infrastructure development at the borders;

(v) Promote multimodal connectivity including inland waterways in order to realise the vision of a seamless South Asia;

(vi) Work towards concluding SAARC Agreements on promotion and protection of investments, Motor Vehicles and Railways, and also for electricity transmission grids;

(vii) Intensify efforts at utilization of hydro power potential in the region; and

(viii) Promote project exports to South Asian partners.

Iran

101. India's exports to Iran have increased two-fold in the last couple of years. This has been facilitated by the Rupee-Riyal payment mechanism and supported by the complementarities between the two economies. The potential for bilateral trade, however, has not even been scratched on the surface.

102. Given the significant complementarities between the two economies, project exports to Iran hold out a lot of promise and need to be adequately supported. Keeping in view the long-term potential of project exports to Iran especially in the railways sector, an umbrella financing agreement for rupee credit has been signed between EXIM Bank of India and Iranian banks. The financing will be on commercial terms and in rupees. For the designated project export contracts, rupee financing would be offered through the Export Development Fund being operated through EXIM Bank.

103. The Rupee-Riyal mechanism has stabilized and is now showing results. We will continue to strengthen this mechanism for long term results. Bilateral trade in areas such as meat, agricultural products, gems & jewellery, engineering, pharmaceuticals, automobiles and auto components will be encouraged. Trade promotion activities will be further intensified. An institutional mechanism for regular interaction will be set up to review, evaluate and monitor bilateral trade. Other institutional opportunities will also be explored.

South-East Asia

104. In pursuance of the 'Look East' policy, which has been a major pillar of the country's foreign policy since the early 1990s, India has developed multi-faceted relationship with ASEAN[11] countries both bilaterally and multilaterally. Taking this to the logical next phase, the 'Act East' policy of the Government of India endeavours to cultivate wide-ranging economic and strategic relations in South-East Asia.

105. India's trade with ASEAN was USD 74.6 billion in 2013-14 and accounts for about 10 percent of India's total trade. ASEAN, as a bloc, has become one of India's largest trading partners in recent years. India's four major trading partners from ASEAN are Singapore, Indonesia, Malaysia and Thailand, accounting for more than 80 percent of India's trade with ASEAN.

106. The ASEAN-India Trade in Goods Agreement, which was signed in Bangkok on 13 August 2009, entered into force on 1 January 2010. The ASEAN-India Agreement on Trade in Services and Investment was concluded in 2014 and will become operational from 1 July 2015. It provides business certainty to service providers from both India and ASEAN countries and is expected to strengthen business and commercial relations between ASEAN and India. It will also open up opportunities of movement of both manpower and investments between India and ASEAN.

107. The India-Singapore Comprehensive Economic Cooperation Agreement became operational from 1 August 2005. The second review of this CECA is underway. A Comprehensive Economic Cooperation Agreement was signed with Malaysia on 18 February 2011. A Comprehensive Free Trade Agreement is being negotiated with Thailand.

Future Focus

108. Enhancing bilateral and regional trade relations with this rapidly growing region of strategic importance will continue to be a focus area. Trade integration with the CLMV (Cambodia, Lao PDR, Myanmar, Vietnam) countries is an important part of India's future regional trade strategy. These are among the fastest growing economies in the ASEAN region, with rising consumption levels, a young workforce, a potentially strong manufacturing sector and rich natural resources, offering India significant opportunities for trade in goods and services, investment and project exports. Three of the CLMV countries benefit from India's zero-tariff regime for LDCs.

109. However, so far the scope of engagement by Indian firms with CLMV countries remains limited. Seamless connectivity with this region will help in the flow of goods, services and manpower and enable Indian industry to create forward and backward linkages with the existing production networks in this region.

110. The CLMV region also offers opportunities for Indian investment in manufacturing zones with a view to benefitting from their institutional trade architecture and lower factor costs. It was announced in the Budget 2015-16 that in order to catalyze investments from the Indian private sector in this region, a Project Development Company will, through a Special Purpose Vehicle (SPV), set up manufacturing hubs in the CLMV countries. This policy will vigorously pursue the follow up action to this decision.

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[11]ASEAN (Association of South East Asian Nations) comprises 10 countries namely Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Connecting India's North-East Region with ASEAN: A Trilateral Highway

111. Connectivity with ASEAN is one of the strategic priorities of India, one of the two Dialogue Partners that share land and maritime boundaries with ASEAN. Four North-Eastern States of India, namely, Arunachal Pradesh, Nagaland, Mizoram and Manipur share borders with Myanmar. We have recently started a shipping service to Myanmar for boosting sea connectivity.

112. The single biggest effort under the ASEAN-India Connectivity initiative is the India-Myanmar-Thailand Trilateral Highway, which also constitutes part of the proposed Asian Highway network AH-1. It starts from Moreh (Manipur) in India and ends at Mae Sot in Thailand, passing through Mandalay and Yangon in Myanmar.

113. On completion, the project will provide complete land connectivity between India and the ASEAN region through Myanmar and Thailand. The relevant governments are also considering extending the highway further to Cambodia, Laos and Vietnam. This connectivity will augment trade by reducing travel distance and time thus enabling the economies of ASEAN and India to integrate further and collectively emerge as a globally competitive economic region. Intensive implementation of ongoing connectivity projects in the region is strongly required.

114. In addition a task force is also discussing the text of the Agreement for Facilitation of Cross Border Transport of Goods and People between the countries so that the soft connectivity component is also in place by the time the hard connectivity gets established in the region.

North East Asia

115. Accounting for over 16 percent of India's total trade, North East Asia is important for India and includes China, a major trading partner. India's trade with the North East Asia region, comprising China, Japan, Hong Kong, Taiwan, The Republic of Korea, the Democratic People's Republic of Korea, Macao and Mongolia, stood at USD 125.1 billion in 2013-14. Trade with China (USD 65.9 billion), Hong Kong (USD 20.1 billion), Japan (USD 16.3 billion) and Korea (USD 16.6 billion) constitute the major chunk of India's trade volumes with this region. India has Comprehensive Economic Partnership Agreements with the Republic of Korea and Japan.

116. Three countries of this region, namely, China, Republic of Korea and Japan are participants in the RCEP negotiations. Japan is part of the group of countries negotiating the Trans-Pacific Partnership Agreement, which the Republic of Korea also wants to join. A characteristic common to India's trade relations with these three countries is a high trade deficit.

117. China accounts for over a quarter of our trade deficit[12]. India's imports include manufactured items in both 'non-essential' categories and capital goods in sectors such as Power and Telecom. Market access and non-tariff barriers block India's exports of pharmaceuticals, IT& ITES[13], agro commodities etc. India's IT Services are unable to make a breakthrough in China's highly controlled and, at times, opaque SOE (State Owned Enterprises) business.

118. If the current situation persists, by 2016-17, merchandise imports from China will exceed USD 80 billion while India's exports will be around USD 20 billion leaving

[12] India's trade deficit with China stood at USD 36 billion in 2013-14
[13] Information Technology and Information Technology Enabled Services

an unsustainable trade deficit of USD 60 billion. Despite hope offered by Chinese agencies, real market access has not yet materialized.

119. As far as India's economic relations with the Republic of Korea and Japan are concerned, analysis indicates that the projected gains for India from the CEPAs with these two countries have not materialised to the extent expected.

Future Focus

120. Engagement with China requires a comprehensive approach on trade, investment and economic cooperation issues. India recognises China's position as a competitive supplier in many product areas and its exporting interest in many areas of industrial manufacturing in India. Specifically, India will:

(i) Continue to pursue market access issues and removal of Non-tariff Barriers to augment exports of pharmaceuticals, agro commodities, including bovine meat, oil meals and cake, tobacco, rice, fruits & vegetables etc and seek tariff concessions in specific product lines of interest to India. through forums such as APTA and RCEP;

(ii) Seek to open China's SOE Services sector for Indian IT Services and encourage other service sectors such as tourism, film and entertainment to reach their full potential;

(iii) Seek Chinese investment in boosting India's manufacturing capacities – Industrial Parks, SEZs, and NIMZs[14] etc. An MOU for Industrial Parks has been signed with China;

(iv) Operationalise the Five-Year Development Program for Economic and Trade Cooperation that lays out a roadmap for comprehensively deepening and balancing bilateral economic engagement; and

(v) Remain vigilant and take action to safeguard against unfair trade practices to protect the legitimate trade interests of Indian industry.

121. While on the one hand, the Japanese market has not seen growth in the product areas of India's interest, Indian business entities are facing problems in market access. These problems can be briefly said to be arising out of language constraints faced by Indian companies in Japan, highly demanding product and service standards, regulations which require business modalities making market access a costly venture, and a relative lack of intensive effort on the part of Indian business. India's trade and investment relationship with Japan is unique in nature. Japan is India's largest investment partner. Several ongoing initiatives in this direction are likely to increase Japanese investment in India. Indian business would therefore have the option of taking part in this process of investment generated trade. The other route of access of India's export sectors into Japan will require language proficiency, negotiating a simplified framework for market access and continuous trade promotion efforts on the part of businesses and the Government. The Government will, therefore, run special programmes for trade promotion in Japan in identified sectors such as textiles, garments, information technology services, pharmaceuticals, leather products and agro processed products.

122. Korea has taken significant advantage of the bilateral regional trade agreement. India has not been able to utilise the bilateral agreement to the extent

[14] National Investment and Manufacturing Zones

required. Therefore one of the major efforts will be to intensify outreach work on bilateral trade agreements with Japan and Korea.

Africa

123. There is enormous untapped potential for enhancing India's economic relations with the African continent, encompassing not just trade and investment but also capacity development, technical assistance and provision of services such as healthcare and education. India shares several commonalities with the countries in this region in terms of high economic growth rates, large domestic markets, a young demographic profile and abundant natural resources.

124. Agro-processing, manufacturing, mining, textiles, FMCG[15], infrastructure development and construction, to name a few, can offer huge potential to Indian companies.

125. Against the backdrop of an uncertain global economic recovery, Africa's macroeconomic prospects remain favourable. According to the African Economic Outlook 2014[16], Africa maintained an average growth rate of about 4 percent in 2013, while the global economy grew at 3 percent underscoring again the continent's resilience to global and regional headwinds. The Outlook projects that growth for the continent as a whole could return to 5-6 percent in 2015, a level last seen before the onset of the 2009 global recession.

126. The India-Africa trade and investment relationship has been increasingly vibrant in recent years. The share of Africa in India's total exports was 9.7 percent in 2013-14.

127. The government lays great emphasis on institution building in Africa in order to promote the sustainability of the relationship. India has already stepped up its assistance in Africa and intends to further increase aid-for-trade assistance in the coming years. The private sector both in Africa and in India see India's development assistance as having a comparative advantage in many services sectors, including ICT[17], education, vocational skills development, health and financial services.

128. Facilitating investment by private Indian entrepreneurs, especially in agriculture, in Africa, is another means to build productive capacity and generate employment there while bringing about greater integration between the major African economies and India. Greater cooperation in agriculture and agro-processing would also contribute to food security in both Africa and India.

129. A small but significant step taken by India is a 3-year technical assistance programme for the cotton sector which is underway for 6 African countries and is in the final year of implementation. The response to this programme has been extremely positive and the government is looking to expand this programme both in terms of its scope and coverage. Further, there is tremendous scope for India to help African countries especially LDCs to augment their capacity in international trade policy and law as well as to provide sector-specific training for expanding trade.

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[15] Fast-moving Consumer Goods

[16] African Development Bank Group, OECD Development Centre and UNDP (2014), *African Economic Outlook 2014*accessed at http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/E-Book_African_Economic_Outlook_2014.pdf on 26.10.2014

[17] Information and Communications Technology

130. 21 LDCs from Africa have signed on to India's Duty Free Tariff Preference (DFTP) Scheme for LDCs. This can make a significant contribution in boosting exports from these countries to India provided of course that they have adequate productive capacities. This latter aspect also needs to be addressed if India's engagement with Africa is to be developed in a holistic manner.

131. In the WTO, India has been working closely with the African countries on development issues, through platforms such as the Friends of Development Group and the G-33 coalition of developing countries. The strong support provided by the ACP (African-Caribbean-Pacific) Group and the Africa Group has helped in bringing to the fore issues such as special and differential treatment for developing countries and the need to correct anomalies in rules such as those relating to public stockholding for food security purposes.

132. Given the synergies between what India and Africa have to offer to each other and what they need, there are strong reasons to work together to establish regional value chains and production networks.

Ongoing Initiatives/Future Focus

133. India is engaging actively with countries and regional groupings in Africa although presently, India does not have any trade agreements with countries in the region.

(i) Negotiations need to be pursued to finalise a PTA with the South African Customs Union (SACU)

(ii) Feasibility studies are underway to explore the possibility of trade agreements with the Common Market for Eastern and South Africa (COMESA) and the Economic Community of West African States (ECOWAS).

(iii) A product-based export plan for Africa is under preparation also covering the institutional mechanisms to be set up for greater interaction with these countries for expansion of trade.

(iv) In this emerging market of the future with high infrastructure needs, there is a strong case for promoting India's project exports. There is also considerable potential for India to provide many skill based services in Africa, including healthcare, educational, professional, R&D, and consultancy services. Many of these services can be exported in different modes. India can provide distance education for students abroad and establish off-shore campuses of Indian universities. We also have advantages in various services and R&D which can enhance the efficiency of manufacturing.

(v) Capacity building is another area in which India can contribute. Ongoing activities which are to be completed or extended include the India Africa Institute of Foreign Trade in Kampala, Uganda on which work is in progress, the India Africa Diamond Institute to be established in Botswana and the India Technical and Economic Cooperation (ITEC) Programme for Capacity Development. They will continue to receive intensive attention.

134. India's engagement with the region in areas relating to trade policy evolution has been significant. Though not appropriately structured at times, India has contributed to the institutional process in Africa, in specific sectors dealing with laws and policies (for example, in the area of Intellectual Property laws). Through its

training programmes and through the mechanism of WTO promoted institutional processes, India has engaged with African partners in a wide area of policies. The India-Africa Forum Summit and the Trade Ministers Conclave during the Summit have provided a major institutional platform for this regular engagement. This will also ensure that the engagement continues to evolve further and provide well identified streams of cooperation in sectors and other relevant areas with a view to building a long term sustainable bilateral trade relationship.

The West Asia & North Africa Region

135. India's total trade with the 18 countries in the West Asia and North Africa (WANA) region[18] has increased at a rapid pace in recent years and stood at USD 191 billion during 2013-14 (about 25 percent of India's total trade with the world). India's total exports to the WANA countries in 2013-14 stood at USD 61.8 billion (19.6 percent of India's total exports to the world). At USD 129.2 billion, imports from the WANA region accounted for 28.7 percent of India's total imports from the world in 2013-14.

136. The United Arab Emirates (UAE) ranked first among the destinations for India's exports in the WANA region and among the GCC countries (and second overall, after the US in 2013-14). The other major destinations in the WANA region include Saudi Arabia, Israel, Oman and Egypt. The UAE is a major entry point for Indian products transiting to other markets in the region. The growth has been impressive clearly indicating the demand for Indian products in this region. The mechanisms of Joint Commissions have offered institutional frameworks for pursuing bilateral interests. They need further strengthening to maintain a long term sustainable trade relationship. A greater focus on trade promotion efforts in this region, is desirable.

137. This is a dynamically growing region with concomitantly high absorptive capacity for exports. Our ability to diversify exports to the region has been a significant factor in keeping India's foreign trade growing even during the most severe phase of the global economic downturn. This region deserves greater focus in our trade policy, factoring in, of course, the effect of lower oil prices on the oil exporting countries of this region. India is negotiating two FTAs in the region, with Israel and with the six countries comprising the Gulf Cooperation Council.

Latin American and Caribbean region

138. India's relations with the Latin American and Caribbean (LAC) region are underpinned by strong trade and investment links which have strengthened and deepened in a short span of time. This region, comprising 33 sovereign countries and 7 overseas territories, is rich in natural resources and also has vast tracts of fertile land.

139. India's total merchandise trade with the region stood at USD 38 billion in 2013-14 accounting for 5 percent of India's total global trade. The rising importance of the LAC region in India's global trade is evidenced by the increase in the region's

[18] (i) Six Gulf Cooperation Council countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates);
(ii) Six West Asian countries (Iraq, Israel, Jordan, Lebanon, Yemen and Syria); and
(iii) Six North African countries (Algeria, Egypt, Libya, Morocco, Sudan and Tunisia).

share in India's global exports from 1.7 percent in 2001-02 to 4.5 percent in 2012-13 and in imports from 1.8 percent in 2001-02 to 5.6 percent in 2012-13.

140. Brazil is India's major trade partner in the region. Brazil and India are both members of BRICS, IBSA and the G20. [19] India's other important trading partners in the region are Venezuela, Argentina, Chile, Columbia and Peru. India's export basket, except in respect of Brazil, is largely dominated by commodities such as crude oil, iron ore, copper, sugar, soya, cereals etc.

141. India has a Preferential Trade Agreement with MERCOSUR (a trading block of Argentina, Brazil, Paraguay, Venezuela and Uruguay) which was signed on 25 January 2004 and came into operation from 1 June 2009. In 2006 it was agreed to expand this agreement by enhancing both the number of products covered and tariff concessions offered. The process of expansion of the India-MERCOSUR bilateral agreement has remained a non-starter. The MERCOSUR region itself has been going through some churning. The fact that it has some of the most significant markets of Latin America, makes this region quite important. Deepening and widening of the India-MERCOSUR PTA is an important part of the agenda for this region. The India-Chile PTA is in the final stages of expansion. Chile is a promising market and expansion of this agreement will help in broadening India's export basket.

142. Peru and Colombia form part of a regional economic group known as the 'Pacific Alliance' which comprises, in addition, Mexico and Chile. India has been officially accepted as an 'Observer member' of the Pacific Alliance in February 2014. The Global System of Trade Preferences (GSTP) also encompasses some countries from this region. As and when the Sao Paulo Round of GSTP negotiations is ratified by some countries in Latin America, it would provide greater market access for India and its partners.

143. From the energy security point of view, the region is already ranked third in terms of supply of crude oil to India at over 12 million metric tons annually. With the discovery of new oil fields in Brazil, Venezuela, Columbia and shale gas in Argentina, India's public and private sector companies are looking for new investment opportunities in this part of the world. From the food security point of view, the region offers excellent opportunities for large-scale farming and most of the produce could be re-exported to India. Further, the LAC region can be an excellent source of minerals for India's growing industry. Airline and shipping connectivity issues with the region also need to be addressed in order to reap the full benefit of this growing trade relationship.

Future Focus

144. The plan for greater engagement with this region envisages:

(i) Efforts to diversify India's exports to the region in the future;

(ii) Expansion of India-MERCOSUR PTA;

(iii) Strengthening trade and investment linkages with the Pacific Alliance;

(iv) Conclusion of the expansion of the India-Chile PTA;

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[19] BRICS: the acronym for an association of five major emerging national economies, namely, Brazil, Russia, India, China and South Africa.
IBSA: acronym for a grouping of India, Brazil and South Africa

(v) Initiation of a Joint Study on a proposed India-Peru FTA.;

(vi) Exploring the potential for large-scale farming by Indian companies/individuals with a view to augmenting India's food security programme as well as playing a greater role in global agriculture trade.

(vii) Encouraging project exports in the LAC region through easy access to credit facilities;

(viii) Intensifying trade promotion programme to encourage and support Indian exporters to export to Latin American countries;

(ix) Extending help in setting up warehousing facilities in Latin America to make our exports more competitive by overcoming distance and time constraints; and

(x) Continuing to explore possibilities for new regional trading arrangements in Central America and Caribbean Region.

The CIS Region

145. Trade between India and the CIS (Commonwealth of Independent States) region - which includes 12 countries, namely, Kazakhstan, Turkmenistan, Uzbekistan, Kyrgyzstan, Tajikistan, Russia, Georgia, Azerbaijan, Armenia, Ukraine, Belarus and Moldova - has increased by about 45 percent in the last five years. Russia and Ukraine are India's major trading partners in this region, accounting for approximately 81 percent of India's total bilateral trade with the CIS region.

146. The CIS region offers enormous market potential given its strong GDP, high per capita incomes and economic growth rates, the size of the region's population, and the abundance of natural resources such as petroleum, coal, natural gas, potash, fertilizers, metals and minerals. The CIS region has a strong complementarity with India's manufacturing sector.

147. Invigorating trade and investment ties with Russia is a focus area of the government. India's trade with Russia (USD 6 billion in 2013-14), a member of the WTO since 2012 and a BRICS partner, remains surprisingly small.

148. There are several complementarities between the two sides and scope to increase cooperation in areas such as hydrocarbons, nuclear energy, pharmaceuticals, fertilizers, diamonds, coking coal, agro products, textiles and leather, engineering, information technology services and infrastructure development.

149. Some of the impediments faced by exporters in trading with Russia include underdeveloped trade infrastructure, onerous regulatory requirements, complex and time-consuming customs procedures, the requirement for the exporter to bear the cost of obtaining import licences, product-specific approvals and even for pre-shipment inspection, frequent changes in laws, decrees and regulations, complicated rules for certification of products and banking and finance issues. In addition, Indian exporters face various non-tariff barriers in their trade with Russia such as stringent sanitary and phytosanitary standards on bovine meat, egg products, oilseeds and non-basmati rice. The Indian pharmaceutical industry also faces similar barriers in exporting to Russia.

150. The Joint Statement issued on the occasion of the visit of the President of the Russian Federation to India in December 2014 recognizes the enormous untapped potential for bilateral trade between the two countries and commits the two governments to identifying measures to facilitate the full realization of this potential such as encouraging payments in national currencies.[20] It also sets a target of USD 30 billion for bilateral trade in goods and services to be achieved by 2025.

151. Diamond trading is an important constituent of trade relations with Russia. During the Summit in December 2014, ALROSA, the largest diamond supplying company of Russia signed agreements for direct sale of rough diamonds with twelve Indian companies. Under these agreements, over the next three years, USD 2.1 billion worth of rough diamonds will be supplied to India at the rate of USD 700 million per year.[21]

Ongoing/Future Initiatives

Connecting India with the CIS: The International North South Transport Corridor

152. India's exports to the CIS countries have traditionally been routed through Nhava Sheva port in Mumbai to Dubai and then on to St Petersburg. On an average, a shipment from Mumbai to Moscow on this route takes about 35 days with freight costs of USD 2500 to USD 4000 for a dry container and USD 5000 to USD 6800 for a reefer container. This route is long and time consuming.

153. Major exports from India to the CIS are perishables such as onions, potatoes, garlic etc which can even be transported in dry containers if the transit time is reduced and packing technology is improved. Hence time is of the essence for exports to the CIS.

154. The International North South Transport Corridor (INSTC) was envisaged with this in view. This corridor runs from Nhava Sheva in Mumbai to Bandar Abbas (Iran) and then on to Amirabad (Iran) or on to Astrakhan in Russia for onward shipment to Moscow. It was calculated that on the INSTC a shipment would take an average of 23 days with a freight cost of around USD 2300 to USD 3500 for a dry container and USD 4600 to USD 6800 for a reefer container.

155. The Federation of Freight Forwarders Association of India (FFFAI) has conducted a dry-run to study the dispatch of cargo along the corridor and to identify problems and bottlenecks. A number of roadblocks and the remedial measures required have been identified. This route once popularized, will unlock the true potential of international trade between India and the CIS, particularly India and Russia.

156. In order to enhance trade relations with the CIS region, it has been decided to set up a Joint Study Group for an agreement between India and the Customs Union of Belarus, Kazakhstan and the Russian Federation for trade in goods and services.

[20] Joint Statement dated 11 December 2014 accessed on 7 February 2014 at www.pmindia.gov.in.

[21] Press Release dated 11 December 2014, Press Information Bureau, viewed on 7 February 2015 at www.pib.nic.in.

In the meantime, an institutional mechanism to deal with outstanding bilateral trade issues is being put in place.

157. Special Notified Zones for consignment import and export of rough diamonds which will have in place, the regulatory framework and taxation regime necessary to encourage international mining companies to sell their rough diamonds directly in India, have also been proposed. This will give the Indian diamond industry a strong competitive advantage over other diamond trading centres of the world and will also ensure a steady supply of rough diamonds in India.

158. In order to expand India-Russia bilateral trade, there have been demands in some quarters for trade in local currency. A technical group in the Department of Commerce had looked at the potential for this some time ago. While the group had recommended trade in local currency with a few identified countries, subsequent developments specifically in the context of Russia, have reportedly, dampened the interest of industry on both sides in pursuing trade in local currency. However, this will remain on the agenda to examine further how implementation, delivery and the interests of industry on both sides can be adequately served. The CIS region is a major supplier of raw materials. India's engagement with most of the countries except Russia has been much below its potential. While there are significant prospects of investments leading to sourcing of raw material, there is also a reasonable market for export of specific products of India's strength such as agricultural and agro processed products, pharmaceuticals, light engineering, textiles etc. The institutional process for bilateral trade has not been worked to the extent desired. The infrastructure constraint is another reason for the relative lack of integration. It is expected that once the INSTC becomes popular, integration would be initiated. Further, long term contracts for raw materials is also a business modality to be promoted. Therefore the focus of action should be to promote investment in the exploitation of raw materials; to operationalise the INSTC; to promote export of products of India's strength and to help facilitate investments in some of these countries for building value chains, for example, the pharmaceutical sector.

Impact and Utilisation of FTAs

159. FTAs and similar trading agreements are rapidly becoming the predominant way in which global trade is conducted. There are divergent views, however, about their utility and effect on the domestic economy. An Impact Analysis of FTAs has, therefore, been instituted in order to assess whether the concessions under these agreements are being gainfully utilised.

160. Analysis of data for the period 2009-10 to 2013-14 indicates that preferential imports still form a small proportion of total imports. In 2013-14, it ranged from 3.4 percent of total imports under the India-Malaysia CECA to 22.4 percent of total imports under the India-Japan CEPA.

161. Other broad inferences from the impact analysis are:

- India's FTA partner countries have not significantly displaced other markets as India's largest trading partners indicating that trade diversion has been limited.
- Under each of these FTAs, there has been a significant increase in overall trade, in both exports and imports, although imports have increased at a faster pace. This is only to be expected given the tariff asymmetry between India

and its FTA partners with India having much higher applied tariffs compared to all its FTA partners and consequently tariff concessions given by India being much deeper.

- India has not become a supplier of raw materials to any of these countries.
- An increase in the share of intermediate goods and capital goods in India's export basket in some of these FTAs could be indicative of a rise in value addition of India's exports.
- Preferential imports of intermediate goods into India through these FTAs such as organic chemicals, plastics and iron & steel may have facilitated an increase in manufacturing activity within India by making these available at competitive prices and facilitating value addition, as also import of capital goods like mechanical and electrical machinery.

162. The statistics clearly show that we have not been able to derive full advantage out of our later trade agreements such as with Korea, Japan and ASEAN. The learning from the exercise is that utilisation of FTAs is the most important challenge.

Some Issues being addressed

Rules of Origin

163. Rules of origin (ROOs) are used to determine the country of origin of products, and accordingly, their eligibility for preferential treatment. They set out specific and detailed conditions on the level of processing that an imported item from a non-FTA partner country must undergo in the FTA partner country (or other eligible countries in the region) before being eligible to be called an originating product of a FTA partner country. They are an effective means of both preventing trade diversion and addressing the sensitivities of the domestic industry. With these objectives in view, India has been negotiating for the most conservative rules of origin in its FTAs. However, at the same time, conservative rules of origin of India's trading partners have affected our ability to take advantage of export opportunities under India's FTAs and come in the way of India becoming a part of global and regional value chains even in products where it is competitive. This approach is already being reviewed. It is necessary to simplify and ease rules of origin criteria to locate India effectively in global and regional value chains.

Inversion in Duty Structure

164. Another criticism of FTAs is that they have led to some cases of inversion in duty structures i.e. finished products can be imported into the country at zero or reduced import duties whereas duties on raw materials or intermediates are higher, thereby making raw materials and intermediates costlier than finished products. An analysis indicates that most of the inversions reported were the outcomes of the MFN duty structure. Some of them could be attributed to specific FTAs. However, the interpretation of inversion depends upon the position of the product concerned in the value chain and, therefore, the complete value chain needs to be examined. Some instances of inversion due to FTAs were rectified in the Budget 2014-15. Some others have been proposed for correction in Budget 2015-16. The likelihood of such inversions will continue to be examined both at the time of negotiating an

agreement as well as subsequently to ensure that industry is not put to any disadvantage**.**

Preferential Export Data

165. The present export documentation does not separately capture preferential trade data. Consequently, despite best efforts, it has not been possible to quantify India's preferential trade under various FTAs. An approximation through quantifying certificates of origin is possible but the scope of error is substantial. Consequently, it is necessary to capture preferential export data in the normal course. This is possible either by making certain amendments in the shipping bill itself or in the application format. In view of the importance of this matter, a system for capturing preferential data will be put in place at the earliest.

FTA Outreach and Information Dissemination

166. The impact analysis mentioned above revealed a relative lack of awareness on the part of industry and business about the benefits which can be drawn from an FTA, indicating the need for a strong outreach programme. It also showed that industry is not adequately oriented towards using such FTAs to find new markets and new products for business except when they adversely affect their business. To fill this gap, an intensive FTA outreach programme has been launched covering all tier 1 and tier 2 cities. Such outreach programmes will be conducted through the entire duration of this policy till a satisfactory level of awareness is achieved.

167. In addition, FAQs[22] on FTAs have been compiled and can be accessed on the website of the Department of Commerce. In the next phase, sector-specific FAQs will be prepared which will provide information such as product-specific rules of origin.

Trade Portal

168. A web portal on FTAs has been developed which can be accessed at http://indiantradeportal.in/. The portal provides both MFN and preferential tariff rates, rules of origin, sanitary and phytosanitary (SPS) standards and technical barriers to trade (TBT) under various FTAs signed by India. It also captures the trade flows from major trading partners. The data is provided at the 8 digit level of the Harmonized System of classification. The portal will be maintained and regularly updated by the Federation of Indian Exporters Organisation.

India's Initiatives for LDCs

169. In keeping with its commitments in the WTO, India became the first developing country to extend Duty Free Quota Free access to Least Developed Countries (LDCs). India announced the Duty Free Tariff Preference (DFTP) Scheme for LDCs in 2008. Effective from 1 April 2014, the DFTP scheme provides duty free market access on 96 percent of India's tariff lines and preferential duties on 2.2 percent of the lines. Only 1.8 percent of tariff lines have been retained in the Exclusion List, i.e. with no duty concessions. The new expanded Scheme will also bring in several procedural simplifications with reference to the Rules of Origin.

[22] Frequently Asked Questions

170. At present, 31 LDCs have become beneficiaries of the scheme. This can make a significant contribution in boosting exports from these countries to India provided of course that they have adequate productive capacities.

171. As mentioned earlier in this Statement, a Technical Assistance Programme is underway for the cotton sector in 6 countries of Africa, namely, Benin, Burkina Faso, Chad, Uganda, Nigeria and Malawi. The initiative has been conceptualised and designed under the auspices of the 2nd India- Africa Forum Summit in fulfilment of the commitment made by India in the WTO to provide development assistance for the cotton sector to the Cotton-4 countries. The project has been very well received and several other African countries have requested India to replicate the programme for them and, accordingly, a project is being prepared for appropriate approval.

India's Preferential Offer in Trade in Services to LDC Members of the WTO

172. An LDC Services Waiver was adopted at the Eighth Ministerial Conference of the WTO in 2011, which allows non-LDC members to grant preferences providing greater market access to LDCs. In other words, this decision allows WTO members to deviate from the Most Favoured Nation obligation under the WTO Services Agreement[23]. At the Ninth Ministerial Conference in Bali, Indonesia, in December 2013, Ministers decided to take further steps towards the operationalization of the waiver.

173. At a high-level meeting of the WTO Services Council on 5 February 2015, India made the following offer of preferential treatment to LDCs which has been very favourably received:

- **Visa Related Issues:** India will waive off visa fees for LDC applicants applying for Indian business or employment visas.
- **Offers in respect of Technical Assistance and Capacity Building:** India will earmark a share of at least 25 percent out of all technical assistance and capacity building opportunities currently offered by the Ministry of External Affairs, Government of India, exclusively for the LDC members of the WTO.
- **Offers in Mode 4 (Movement of Natural Persons):** India has decided to undertake liberal commitments in 15 sub-sectors, which were not scheduled in India's GATS commitments. These include key sub-sectors such as integrated engineering services, management consulting services, entertainment and sporting services, cultural and sporting services, maritime transport and maritime auxiliary services, etc.

SECTION III: PRODUCT STRATEGY

174. In order to raise India's share in world exports from 2 percent to 3.5 percent, it is essential to focus efforts on those sectors where India already has strengths as well as those which have untapped potential. A Strategy Paper prepared by the Department of Commerce in 2010[24] identified such sectors, based on various considerations which continue to be relevant today.

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[23] General Agreement on Trade in Services

[24] Department of Commerce, Ministry of Commerce & Industry, Government of India (2010), "Strategy for Doubling Exports in Next Three Years (2011-12 to 2013-14)"

175. Promoting the growth of exports from high value creating and employment generating sectors with a strong domestic manufacturing base, would be the lynchpin of India's overall export growth strategy.

176. Further, based on domestic manufacturing capabilities and potential demand, exports of drugs and pharmaceuticals, chemicals and electronics (all high value products reliant on our manufacturing base) would need to grow significantly to realize the overall growth targets, and these sectors would be prioritized accordingly. Some of the promising product areas are discussed below.

Engineering Exports

177. In order to increase the share of manufacturing in the country's GDP and absorb the increasing numbers being added to the labour force, the engineering industry is critical. Within engineering, we need to move up the value chain both in terms of domestic production and exports.

178. A Strategy Paper commissioned by EEPC India for the growth of Indian engineering exports in 2014-19[25], estimates that India's engineering exports will be in the range of USD 86 - 125 billion by the end of 2018-19. Engineering exports from India stood at 62 USD billion in FY 2013-14. According to the report, the share of engineering exports in India's total exports has remained at around 20 percent over the last decade. India's share in global engineering trade is around 1.2 percent whereas China's share is around 12.3 percent. India does not hold a dominant position in any of the 34 product categories in the engineering sector.

179. India primarily exports low and medium technology intensive engineering goods. The share of high tech goods is less than 6 percent of the overall engineering export basket. According to the report this is because almost all exporters from India rely on the labour cost arbitrage and this has resulted in limited exports in the high end segment. The report concludes that India cannot indefinitely continue to rely on labour cost arbitrage because of emerging trends like near shoring and disruptive technologies. Further, the bulk of the Indian engineering export basket is accounted for by SMEs who have constraints on their financial capacities to invest in technology and research and development.

180. A study [26] on 'Make in India' has identified India's auto ancillary industry as one in which India has a significant opportunity to move up the value chain. India is fast emerging as a manufacturing and exporting hub for small sized cars. The auto components sector is also substantially integrated with global supply chains. Both these product areas offer significant opportunity for growth in exports.

Issues to be addressed

181. The EEPC India report identifies impediments such as high energy costs, high interest rates, un-refunded tax benefits, lack of adequate physical infrastructure, outdated manufacturing processes and lack of best practices. These increase the cost of manufacturing, rendering Indian manufacturers uncompetitive in international markets.

182. The report suggests that rather than subsidies and incentives, measures to remove structural deficiencies through institutional reforms would result in more

25 EEPC India (2014),*Strategy Paper for the Growth of Indian Engineering Exports (2014-19),* KPMG
[26] Conducted by JM Financial Institutional Securities Limited

durable benefits. Innovation and increased R&D, attracting FDI, a skilled workforce and easier funding have been identified as other requirements to boost engineering manufacturing and exports. As far as purely trade related measures are concerned promotional incentives for market diversification and support to products at the higher end of the value chain will be the pillars of our marketing strategy.

Electronics

183. The huge domestic demand for electronics is met largely by imports supplemented by some locally manufactured products. Companies are not actively looking for export opportunities because of the large and rising domestic demand fuelled by the growing middle class.

184. Indian electronic hardware manufacturers also experience a higher level of taxation, higher cost of power, finance and freight and poorer infrastructure compared to their competitors from China, Taiwan, Korea and Japan. The cost of production of most electronic goods in India is at least 8 to 10 percent higher than in other countries of South East Asia. China, with its superior infrastructure and manufacturing competitiveness, *inter alia*, on account of lower factor costs, is India's main competitor in this sector.

185. Indian exports of electronics hardware can increase faster if we are able to increase exports of high value added items, products embedded with IPRs and diversify our export basket. The strengths of the Indian electronics industry in design, systems integration and diagnostic skills need to be leveraged for catering to niche markets. After the Information Technology Agreement (ITA 1) came into effect, with zero or very low duty rates already prevalent in this sector, reforms such as simplification of procedures can have a significant impact in raising exports. Some of the disabilities related to infrastructure, labour productivity, costs and common facilities would also need to be addressed in the medium to long term. In the last couple of years Government has given a lot of emphasis to reviving manufacturing in this sector which should bear results in due course. The approach for improving the prospects for promotion of exports from the electronics sector should include action for improving product standards, creating compliance conformity mechanisms, discouraging non-essential imports, offering trade promotion opportunities for the sector and promoting manufacturing and exports of products left out in ITA 1.

Pharmaceuticals

186. India's pharmaceutical industry has established a global reputation for quality and affordability. Pharma exports account for 10 percent of the global market by volume (ranked 3rd globally) and 1.4 percent by value (ranked 10th globally). The industry is expected to expand at a compound annual growth rate (CAGR) of 14.5 percent over 2009-2020 to reach USD 55 billion.

187. Our pharma exports have been dominated by generics. With many drugs having gone off-patent in recent years and a shift in developed market drug spends towards generics, the prospects for this segment are very good[27]. Developed economies are facing fiscal problems and wherever public health is a major charge on the national exchequer, solutions will have to be found, an integral piece of which

[27] DOC Strategy Paper

will be increasing reliance on high quality generics instead of patented or brand-named drugs. This is an opportunity that should not be missed.

Issues to be addressed

188. Access to the Japanese market remains constrained by NTBs. In China, Indian pharma companies face regulatory hurdles in the form of prolonged and unpredictable timelines for registering Indian drugs, which has adversely impacted expansion plans of Indian pharmaceutical companies. On an average registration in China takes about 3 to 4 years, compared to less than 10 months in India. The Chinese drug regulator – The State Food & Drug Administration (SFDA) - requires a company planning to register its products in China to not only reveal the detailed process of manufacture but also conduct clinical trials within China, which has deterred a number of Indian pharmaceutical players for fear of IPR violation and cost factors.

189. The pharmaceutical sector is beset with several challenges. Most of these challenges arise out of the enviable reputation of India as a reliable supplier of generic medicines. These challenges include the following:

(i) Campaigns to malign generic products as being in violation of India's IPR commitments;

(ii) Alleged lack of compliance of generic medicines coming out of India, with quality standards;

(iii) India's over dependence on some sources for its active pharmaceutical ingredients (APIs);

(iv) India not being party to the PIC/S[28] Convention and Indian Pharmacopeia being not recognized yet in major markets; and

(v) India's pricing policies forcing Indian exporters to price their products with extremely low margins.

190. All these challenges have been met frontally by the government over the past few years. In the area of IPRs the challenges have been addressed in international and multilateral forums by filing disputes and challenging any wrongful treatment meted out to Indian medicines. Quality related compliance issues have been addressed by promoting self-discipline on the one hand and dealing with ill-intentioned campaigns against Indian medicines in some geographies on the other. India will be the first country to adopt a trace and track policy for all medicinal products exported by it globally from 1 April 2015. The tertiary and secondary packaging of products will necessarily have to follow the trace and track compliance mechanism with authentication facility. As regards pricing, while the challenge is daunting, it is also recognized that this is the factor that makes Indian medicines affordable. It is important for India to work towards membership of PIC/S. It is also necessary that India sources a large part of its APIs from within or distributed sources. The brand promotion for India's pharmaceuticals has shown excellent results. So much so, that the India Brand Equity Foundation (IBEF) and the Indian private sector have agreed to form a Trust to run a branding campaign for Indian

[28] The Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme

pharmaceuticals, clearly indicative of the industry's faith in the branding initiative of the Government. Recognizing the value India can offer in a variety of healthcare products and services, a composite healthcare products and services promotion programme will be run for some more geographies. This will include promoting pharmaceuticals, medical devices, healthcare services, traditional medicines and yoga. India has unique strengths in all these areas and a composite marketing exercise will help in projecting India not as a "pharmacy of the world" alone but also as a source of healthcare and fitness.

Medical Devices/Equipment

191. Medical devices and equipments constitute a new area of focus. The recent 100 percent opening up of the sector for FDI recognizes the potential of the sector for new investments. India's unique position, as stated above, and the fact that it is a major market for healthcare services, positions this sector as one with potential for exports. This sector is regulated by the Drugs and Cosmetics Act of 1940 and requires significant changes in legislative and regulatory practices to distinguish it from the pharmaceutical sector. All these actions are underway in different departments and once materialised will lead to a significant improvement in export performance.

Light Manufacturing Sectors: leather products and textiles

192. Another important category that needs to grow is that of exports based on light manufacturing sectors, i.e. leather products and textiles. These are important because they generate employment, have high domestic value addition, and have historically been areas of strength in our export markets.

193. The leather sector is a major employment creating sector. India already has a significant name in the footwear sector. Additional focus is required for composite leather footwear exports as well as leather garment manufacturing and exports and non-leather product exports. The sector also needs financial resources to augment its environmental compliance. Therefore, attention will be paid to the following:

(i) Greater focus on finished and composite products

(ii) Additional attention to garments, non leather products

(iii) Improving competitiveness through supporting environmental compliance expenses and other capital expenses.

(iv) Supporting skill development and marketing efforts.

194. In textiles, we need to realize more effectively the scope for growth made possible since the dismantling of the quota regime. The labour intensity of the apparel industry is one of the highest. With over 45 million people employed directly, the apparel industry is one of the largest sources of employment in India.[29] As a net exporter of cotton yarn, India has an advantage over competitors such as China and Bangladesh and can benefit from moving up the value chain. Product diversification in garments is essential; into women's garments, value added cotton products, and synthetic textiles. In these sectors, the aim will be to scale up operations and increase export growth rates. The textiles and garments sector has traditionally been a leader of India's exports in global markets particularly to the traditional markets of

[29] Study by JM Financial Institutional Securities Limited on 'Make in India'

the US and EU. While it continues to be an important sector, it has come up against several challenges. The textiles policy should address most of the concerns of this sector. As far as the foreign trade policy is concerned, it recognizes the employment creation potential of this sector. It also recognises the importance of the apparel sector particularly as a value creator and as an employment generator. India is positioned along the entire value chain of cotton and synthetic textiles and garments. It needs to reorient itself in view of increasing global challenges and emerging opportunities. Several developing countries are becoming major competitors of India in the garments sector. India must therefore leverage its capacity in the pre-garment stages of the value chain while it should add unique value to the garment stage of the value chain. Further, it must regionalise its value chain in a manner that a continuum is established within the region. This approach should determine its relations with its neighbouring countries including South East Asia. Many of the concerns of this sector will get addressed through domestic policy interventions.

Gems & Jewellery Sector

195. Another important labour intensive export sector that must continue to be encouraged is that of gems and jewellery. This sector has relatively low value addition, but contributes a high volume of exports and employment and is, therefore, important. The gems and jewellery manufacturing sector largely consists of SME[30] units, employing skilled and semi-skilled labour, almost entirely in the unorganized sector. This sector is not only a major source of revenue generation but also a source of employment, employing a skilled workforce of 3.5 million.

196. Though the sector has relatively low value addition, the volume of exports is high. Gems and jewellery exports have increased from USD 29.1 billion in 2009-10 to USD 41.7 billion in 2013-14; its share in India's total merchandise exports was 13.3 percent in 2013-14. The top five export destinations for Indian gem and jewellery products are the UAE, Hong Kong, the US, Belgium and Israel. The sector has been included under the 'Make in India' initiative. During 2013-14, exports of cut and polished diamonds, silver jewellery, pearls and synthetic stones have shown a positive growth and the sector now aspires to move towards higher value addition jewellery segments like fashion, silver and studded jewellery.

197. The gems and jewellery sector is an import intensive sector with export orientation. It also requires high working capital. Recent budget announcements are expected to help in this direction. The decision to create a Special Notified Area will help bring diamond trading into India. In order to make the sector more efficient, the policy has also addressed wastage and value addition norms for the jewellery sector.

Natural Resource Based Exports

198. Another focus area is that of natural resource based exports. This category includes agriculture, plantation crops, marine products and iron-ore exports. Revitalizing plantations, enabling a less controlled regime for agriculture, and aiming at greater value addition and processed products would help increase the value of exports.

[30] Small and Medium Enterprises

199. There is a steadily growing market for processed foods and vegetables, organic agricultural produce, and fresh agricultural produce for retail in supermarkets. According to one study[31] , the availability of abundant raw material, low-cost labour and the large domestic market provides an opportunity to move up the value chain. There is tremendous potential for exports from this sector. The Government is focusing on this sector with mega food processing parks and cold chain projects to address infrastructure issues.

200. A few years ago, iron ore exports used to comprise a large part of India's exports to China and several other markets. Today, for several reasons, iron ore exports have dwindled to a trickle. The recent lifting of the ban on iron ore mining in some States will unshackle iron ore mining activity. At the same time India is embarking upon a programme of manufacturing for which iron ore would be required at home. In the last few years, pelletisation facilities have also come up in a major way in the country. All this will mean that iron ore exports may not reach the same levels as was the case a couple of years ago. This is particularly true in the context of exports to China where growth rates have declined reducing the demand for iron ore. Nevertheless, as global markets pick up, it is expected that iron ore exports, particularly as pellets, will increase. Efforts will continue, to encourage exports, particularly of pellets.

Agricultural Products

201. Exports of agricultural and allied products (including plantation and marine products) have more than doubled over a period of 5 years. Exports have grown from USD 17,789.0 million in 2008-09 to USD 42,505.7 million in 2013-14 with a CAGR of 19 percent. During 2013-14, agri product exports constituted 13.6 percent of total exports and registered a growth of 3.8 percent (in USD terms) over 2012-13.

202. Framing policies for the export of agricultural products involves consultations and consensus building with several stakeholders including various Ministries/Departments of the Government of India, State Governments and other organizations. Important considerations while framing a trade policy for agricultural products are: the stocks available in the country, food security concerns, the domestic price situation, ensuring remunerative prices for growers and price competitiveness in the international market. Production, marketing and pricing policies adopted by major producers of like products or substitutes also influence the export potential of agricultural products. Climatic factors have also become increasingly relevant in this matter.

203. The salient features of a plan of action to promote exports of agricultural products are as under:

(i) **A stable policy regime:** maintaining a long term, stable, consistent and by-default 'open' export policy as against an 'on-off' policy;

(ii) **SPS/TBT issues:** effective handling of such issues, which includes:

- Upgrading quality to avoid disruption in trade on account of SPS issues with major trading partners;
- Effectively challenging unfair practices of trading partners if they resort to unreasonable SPS measures; and

[31] Conducted by JM Financial Institutional Securities Limited

- Creating physical infrastructure and institutional capacities within India, responsive to the needs of importing country regulations.

(iii) **Post-harvest facilities:** while India is now a significant supplier of agro products to the world, these remain largely confined to commodities such as cereals, groundnut, castor oil, oil meals, guar gum etc. of which surpluses are limited. It is recognised that while supply side issues need to be actively addressed, there should be a shift in focus towards processed and value added exports and niche products such as organic, culinary herbs and herbal products. We need a range of facilities and infrastructure on the post-harvest front, such as:

- cold chain facilities and transport logistics from the farm to the ports and airports;
- silos with temperature control mechanisms to preserve the quality of produce;
- state-of-the-art pack houses with complete cold chain arrangements; and
- integrated post harvest facilities and centres for perishable cargo with uninterrupted power supply and connection to National Highways.

(iv) **Organic exports:** Promoting organic agri-exports through appropriate policy interventions and setting up credible and up-to-date organic export certification and accreditation programmes - the number of certifying bodies has to be expanded, especially in the North-East. Today, India's export of organic products is miniscule. But recognising the value of organic agriculture for exports particularly in discerning markets such as EU, US and Japan, it is necessary to promote organic agricultural exports to derive greater market realisation. This sector requires special attention which will include major investment in technical capacities for organic certification, outreach and capacity development in some of the States particularly in the North Eastern States where the potential for organic agriculture is very encouraging. Support for packaging, branding and marketing such products and simplification of procedures will also be prioritised. Sikkim has chosen to be an "Organic State". In order for Sikkim to draw advantage from this foreign trade policy, a package will be made in consultation with the Government of Sikkim to facilitate organic exports from Sikkim. Similar such initiatives from amongst other North Eastern States will be encouraged.

204. Export strategies for processed agricultural exports and organic product exports are under preparation and should be ready soon.

Plantation Products

205. The plantations sector directly supports livelihoods of about 18 lakh small growers and more than 33 lakh workers, majority of them resource poor, low income groups, inhabiting tribal and geographically challenging terrain, in a sustainable, eco-friendly manner that supports the tribal social structure. Plantation products, especially spices and tea, being closely and strongly associated with 'Brand India', help to promote Indian cuisine, lifestyle and exports, and establish a personal recall value amongst consumers in general.

206. Plantations today face a number of challenges including stagnation in productivity due to the ageing plant material, impact of climate change including pests, scarcity of labour and volatile international prices. Stringent food safety regulations in importing markets and the slow movement from commodity to product and brand exports are also squeezing margins and profitability.

207. To ensure that plantations remain commercially viable, attract investment and professional talent, it is critical that our tea, coffee and spices exports become more competitive in discerning international markets. In order to do so, the following issues assume importance:

- Productivity enhancement is a major goal for all plantation products, particularly tea and coffee. Alongside productivity, expansion of the production area is another important challenge. This is particularly relevant for rubber and spices. Through intensive efforts rubber plantations have expanded phenomenally in Tripura but there is still vast potential to expand rubber plantations in Assam and other Sstates of the North East. Programmes for expansion of rubber will be initiated in Chhattisgarh, Jharkhand and parts of Orissa and Maharashtra where areas suitable for rubber cultivation have been identified.
- Coffee plantations are adversely affected by pests particularly the stem borer. Effective means of neutralising the impact of this pest will be found through scientific and technological methods and collaborative research.
- India occupies an important position in exports of all the plantation crops. It is the leader in spices, and plays an important role in coffee and tea exports. While tea exports have remained stagnant, coffee exports have grown steadily but need to grow even further. India has essentially remained a bulk supplier of these products thereby not realising the full value of niche products in global markets. Programmes for promoting value added products of tea, coffee and spices along with support for export after branding of these products will be taken up.
- Quality compliance is most critical in the case of all these products. A sound technical regulatory infrastructure will be augmented by investment in human resources, infrastructure and equipment.
- A critical review of all Commodity Boards will be carried out within the first year of the policy which would include, *inter alia*, taking steps for restructuring their governance architecture, where required, equipping them for digital delivery of services and other measures to enable them to remain abreast with the changing requirements of their respective sectors.

Box 3: National Offsets Mechanism

India is considering a national offsets mechanism. At present India has an offset mechanism for the defence sector under which foreign suppliers have to buy at least 30 per cent of the total value of the supplies locally.

The Department of Commerce was assigned the task of formulating the national offsets mechanism. Several rounds of consultations were held with stakeholders and various Ministries.

It will primarily cover Central Government procurement including procurement by PSUs, except defence procurement which is already covered by an offset policy. The provisions of the relevant WTO rules and the Public Procurement Bill have been kept in mind in drawing up the draft Policy.

The national offsets mechanism will have the following objectives:

a) technology transfer;

b) acquisition of assets in the importing country;

c) investments;

d) augmenting capacity for research, design and development;

e) long-term supply agreements;

f) enhancing exports (including project exports);

g) creation of employment opportunities, etc.

It would contain provisions for cross-sectoral linkages across organizations/ departments in offset clauses. While the high-value import may be by one organization, the main contract may incorporate in it offset clauses (through cross-sectoral offsets) that would serve the demands of other organizations/ departments.

The mechanism will have a threshold and only contracts above that would have to incorporate offsets. The minimum value of the offsets obligations would be 30 percent of the estimated cost of the acquisition.

The negative list for offsets would include export of services, agricultural products, minerals and ores, as India is competitive in these products/ sectors and it would be difficult to isolate the incremental effect of the offsets contract.

Defence Products

208. Government aims to encourage and promote exports from the defence sector. The Department of Defence Production has put in place a specific strategy for encouraging defence exports within the overall ambit of the FTP.[32]

209. Various initiatives already taken or to be taken to enhance export of items from the defence sector include modifications in the FDI policy, greater clarity as regards industrial licenses for this sector, fastracking of applications, listing of munitions, creation of HS codes for items in this sector and setting up promotional institutions for defence exports.

Hi Tech Products

210. In the selection of winners and potential winners for export rewards special attention has been paid towards promoting products with higher technology content. There is no clear definition of a high-technology product. However, various reports categorise products as high-technology products without actually defining them. Based on such reports and a broad assessment, certain products have been identified as high technology products for the duration of this policy. Given the rapid rate of technological progress, the concept of a high technology product is necessarily a constantly evolving and dynamic one and, therefore, the list will be regularly reviewed and updated.

Exports by medium, small and micro enterprises

211. Micro, Small and Medium Enterprises (MSMEs) contribute about 45 percent of the manufacturing output, over 40 per cent of the total exports of the country, and around 8 percent of the country's GDP. They contribute significantly to employment generation and the development of rural areas.

212. The MSME sector is one of the key drivers of India's transition from an agrarian economy to an industrialized one, through its contribution to improving entrepreneurial skills and economic

[32] Strategy for Defence Exports, Department of Defence Production, Ministry of Defence, Government of India, accessed at http://ddpmod.gov.in/showfile.php?lid=158 on 26.10.2014

empowerment. MSMEs feed local consumer markets and international value chains. The sector currently produces more than 6,000 quality products, ranging from handloom sarees, carpets, soaps and pickles, to auto and machine parts targeting both domestic and international markets.

213. An inter-Ministerial Committee on boosting exports from the sector submitted its report in 2013. The Committee examined the factors obstructing the growth of exports from the sector and recommended various measures. The potential of the sector, the problems it faces and its requirements have been kept in view in framing the FTP.

Interest Subvention

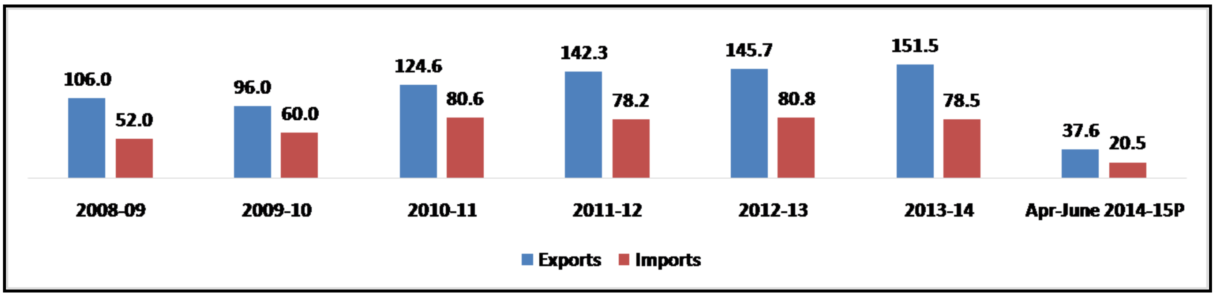
214. As stated earlier, a large segment of India's exporting community belongs to the MSME sector, which is often constrained for financial resources. In foreign trade transactions, often there is a long period before export value realisation. Export credit plays a significant role in facilitating exports. A programme for providing interest subvention on identified sectors for a period of 3 years has been worked out and budget allocation in 2015-16 has been made available.

SECTION IV: THE SERVICES SECTOR - AN AREA OF GREAT POTENTIAL

215. The Services sector has emerged as a prominent sector in India in terms of its contribution to national and State incomes, trade flows and FDI inflows. The sector contributes around 58 percent to the GDP of the country and 28 percent to employment. Its contribution to total trade is 25 percent, around 35 percent to exports and 20 percent to imports. The sector accounts for more than 50 percent of FDI into the country.The Services sector in India has in general grown at a rate higher than the overall GDP growth rate.

216. The increasing surplus from services trade over the previous decade has helped to offset a major part of the merchandise trade deficit thereby, keeping a check on the Current Account Deficit.

Chart 3: India's Services Trade



(in USD billion)

217. The share of India's services exports in the world export of services, which increased from 0.6 percent in 1990 to 1 percent in 2000 and further to 3.3 percent in 2013, has been increasing faster than the share of India's merchandise exports in world exports.

218. However, after witnessing a double digit growth during 2002-03 to 2008-09, with a peak of 60.9 percent in 2004-05, the growth in services exports has declined

in the aftermath of the global financial crisis. In 2013-14, services exports grew by 4.0 percent to USD 151.5 billion and services imports declined by 2.8 percent to USD 78.5 billion resulting in net services exports of USD 73.0 billion. This declining rate of growth primarily reflects the impact of the global financial crisis and the consequent slowdown in the US and the EU.

219. The single most important contributor to India's services exports is the IT/ITES sector. While the share of the IT/ITES sector in India's export has been a little less than 50 percent, the share of IT/ITES in India's net services export is around 90 percent. And, 80 percent of India's IT/ITES exports is targeted towards the West (the share of the US is above 60 percent and the share of the EU is 20 percent). Hence, any slowdown in the US/EU and the protectionist measures that inevitably follow, are bound to impact India's IT/ITES exports. This suggests the imperative of diversification of markets and products in the area of information technology enabled services. Japan, China and Korea can be potentially promising markets but Indian businesses are hampered by language constraints and the unique features of these markets. It is important to promote India's expertise in information technology services in these markets both in order to integrate with their manufacturing (thereby making their products more competitive) and to get greater market access for Indian businesses in the information technology sector. In order to do so, supporting language learning and trade promotion activities and working towards special arrangements with their partners for facilitating market access for Indian businesses are important. Therefore efforts will be made to materialize all these actions.

220. India has inherent competitiveness and export potential in many skill based and labour intensive services. Healthcare, education, professional, R&D, consultancy, printing and publishing and entertainment services are some of the sectors which have great export potential. Many of these services can be exported in different modes.

221. We also have advantages in various services which are incidental to manufacturing and R&D and can bring transformational efficiency to manufacturing. With the structure of manufacturing in many countries, including India, becoming more and more sophisticated, there is an increasing "servicification" of manufacturing. Better services will improve the competitiveness of the manufacturing sector. For instance, efficient and reliable infrastructure services such as transport, distribution and logistics chains, finance and payments infrastructure, utilities such as telecommunications, and professional services are essential for cost effective production and marketing of goods. The Services sectors have a critical role to play in the 'Make in India' initiative.

Challenges

222. Market and policy related issues that can impede the future growth of India's services exports include:

- Protectionist measures (or the threat of such measures) by our key trading partners;
- Domestic regulatory weaknesses limiting the capacity of domestic service suppliers to provide services;
- Inadequate information and finance to build a case for export assistance; and

- Supply side factors include a ‘talent gap’ and infrastructural constraints.

223. Such obstacles can dilute any favourable outcomes that India may achieve in international services negotiations and prevent India from achieving the desired openings in foreign markets.

Impact of Technology on Services Delivery – India’s Preparedness

224. This is an evolving area with rapid changes in technology and extensive digitization. India must take full advantage of the major emerging business opportunities in areas such as E-Commerce, Cloud Computing, Mobile Applications and data security requirements. The Indian government has recognised the overwhelming importance of the mobile device in India’s growth and development agenda. The Digital India initiative pledges to deliver universal mobile access to all citizens of India by 2018.

225. At the same time, we are conscious of the need to preserve policy space in various negotiations and to avoid undertaking commitments that would limit our options in such areas.

Promoting Quality in Services

226. There is a growing worldwide trend towards setting standards not only for the manufacturing industry, which chiefly initiated standardization activity, but also for organizations, services, processes and systems.

227. The first step would be to identify the Services sectors which are important for the Indian economy. The next step would be to decide which of the identified services need to be regulated in public interest - healthcare, education on grounds of the possibility of deceptive practices, private security services on grounds of national interest etc. In such sectors, regulation needs to be done through appropriate legislation by the government. There are other sectors where government may need to enforce certain minimum standards e.g. wellness centres claiming to be Ayurvedic centres. The rest of the services sectors would have a voluntary standards regime. A clearly stated policy is important.

228. We will work towards institutionalizing certification systems wherever required to ensure compliance of India’s services with the highest standards and also promote a rating system for services providers.

Ongoing/Future Initiatives

229. The Department of Commerce is working on an ambitious reforms agenda for services. This is being pursued through an inter ministerial mechanism. Specific services sectors including health, education, tourism, logistics, entertainment and professional services have been identified for internal reforms aimed at enhancing their competiveness and quality. Apart from identifying policy constraints and required changes in regulations, this diagnostic exercise has helped identify winners and potential winners which can be nurtured, incentivized and promoted.

230. Services liberalization together with obtaining market access through free trade agreements will help remove barriers to export of services in other countries. Efforts will be made to gain effective market access abroad through comprehensive economic partnership agreements with important markets.

231. A Global Exhibition on Services (GES) will be held annually. This would be an opportunity to showcase India's strengths in the Services sector.

- In the opening event more than 40 countries are expected to participate. The GES will discuss ways for the Services sector to become more competitive globally. It is intended to serve as a global platform to enhance strategic cooperation and develop synergies for increased trade in services and to increase FDI flow in the services sector. It will be a meeting place for countries and for global services sector players to forge new business relationships and enhance international trade in services.
- The Focus Sectors of the GES are IT & Telecom, tourism, media & entertainment, healthcare, logistics, professional services, education, R&D, space and SME in Services.

232. Financial assistance for export of services is also being expanded through a new, ambitious, user friendly 'Served from India Scheme' being launched as part of the FTP.

233. Efforts are also underway to improve the availability of data on services to facilitate better policy making, effective international engagement and targeted incentives.

SECTION V: TRADE PROMOTION & INFRASTRUCTURE

Towards World Class Products

234. Government is committed to transforming India into a manufacturing and exporting hub. This is possible only if India's products are world class and of a standard acceptable in the most discerning markets.

235. There is a synergistic relationship between standards and trade. Adherence to standards enhances the potential of trade because standards reduce information asymmetry, signal quality to consumers and create a common language for potential trading partners, thus reducing overall transaction costs. At the same time the concerns about standards acting as non-tariff barriers (NTBs) in global trade are also well-documented.

236. It is essential for India to develop a coordinated national response and strategy to meet the challenges of standards and conformity assessment and promote its presence in the international market. The way forward in this direction must address the following aspects:

(i) Legislative and institutional reforms:

a) To enable a range of options for regulators for conformity assessment procedures to provide for use of independent, third party Conformity Assessment Bodies (CABs) (inspection bodies, certification bodies and laboratories) for the purpose of administering the regulations.

b) For low risk items there should be provision for conformity assessment through Supplier's Declaration of Conformity (SDoC) procedure.

c) SDoC works well in combination with a strong Product Liability Law and market surveillance both of which are weak in India. A new legal framework on Product Liability is required.

(ii) Each regulator/ line ministry should review its technical regulations/ standards for various products to identify the gaps vis-à-vis the international standards and lay down realistic time frames for bridging these gaps and evolving good regulatory practices.

(iii) The internationally accepted system is “Certified Once, Accepted Everywhere” through accreditation, which recognizes the competence of testing and calibration laboratories, product certification bodies, quality system certification bodies and inspection bodies. This minimizes re-testing and re-certification thereby reducing costs and market access delays and eliminating non-tariff barriers to trade. A policy must be evolved in this regard.

(iv) It is necessary to promote awareness about standards, regulations and conformity assessment procedures of India’s trading partners and gaps with reference to global benchmarks.

(v) Participation of agencies and industry in international standard setting processes can ensure that international standards reflect country-specific production and trade interests and this should be promoted by providing the requisite funding.

(vi) Funding will also be required for enhancing the competitiveness of Indian enterprises especially SMEs through quality and productivity improvements and supporting the development of mechanisms to assist them in accessing global subcontracting and supply chains and networks.

Building the India Brand

237. Today, nations, businesses and people are competing for the same global share of trade, investment, business and tourism in the backdrop of a rapidly changing global context, fragile global economic recovery and newer and faster technologies. Many countries are allocating huge resources for brand promotion.

238. A long term branding strategy is required for India to hold its own in this highly competitive environment, not merely to attract consumers but, more importantly, to encourage industry to position its products in highly discerning markets and to ensure that Brand India becomes synonymous with high quality.

Future Focus

239. ‘Brand India’ would entail a two tier strategy which would be coordinated and implemented by the India Brand Equity Foundation (IBEF). The key elements of the first tier are the following

Tier I

240. The concept of ‘Brand India’ can be interpreted differently by different people. Branding is a dynamic process which needs to evolve continually in line with the environment. The term ‘Brand India’ is used very often without actually defining its specific elements. What is it that we actually associate or wish to associate with

‘Brand India? Therefore the first exercise needs to be to identify the elements of ‘Brand India’.

241. As a follow up to the articulation of the ‘Brand India’concept, the following action will be taken:

i. **Development of a standard brand kit**

This would comprise a powerpoint presentation, soft copies of downloadable posters by sectors and a film on ‘*Brand India*’. Indian missions abroad and the foreign missions in India are the conduit for disseminating this information.

ii. **Revamping of websites of trade bodies (export promotion councils etc)**

In an age of hyperconnectivity it is extremely important that the web portals of all interfaces involved in the Brand India campaign are user friendly, searchable and updated. The websites of all the export promotion councils will be revamped, redesigned and oriented to export priorities.

iii. **Engagement with global media**

One of the key aspects of this engagement is a regular interface with senior editors and journalists from global media Regular press briefs and interactions with domestic media on brand promotion will also be conducted.

iv. **Re-orienting “*The India Shows*”**

The ‘India Shows should not be standalone events but part of global as well as the biggest sectoral shows. They must showcase India on the biggest and the best international platforms through campaigns designed for maximum impact. They should be strategically planned with a focus on onsite branding, buyer-seller meets and media interface. A follow up review and action plan is also important.

v. **Brand manual for exhibitors**

A brand manual for the exhibitors would be designed and provided for all the “*India Shows*”.

vi. **Broader sectoral campaign**

The sectoral brand campaign must include all organisations and associations associated with the sector apart from the relevant export promotion council.

vii. **Tactical positioning**

IBEF and all the organizations associated with the promotion would decide on the tactical positioning plan for the show.

Tier II: Promotion of Brands from India

242. Brands fetch additional value for their promotors. They also bring additional institutional recognition to the country because building a brand is a long term comprehensive procedure in which several stakeholders play a role. Therefore, the capacity of a local brand to acquire global recognition needs to be rewarded. It is a difficult exercise but in the backdrop of the conceptual development of ‘Brand India’ as stated earlier, a logical follow up should be to promote those brands which have the potential to be or which have already become global brands. Therefore an exercise will be instituted to work towards this objective.

Geographical Indications

243. India has about 300 registered Geographical Indications (GIs), but only a few of them have been used for commercial value. A large number of these GIs are on man-made products from specific regions. Several of these manufactured products are in the area of textiles. Some of India's well known GIs are Basmati Rice and Darjeeling Tea. The potential to enhance the branding and, thereby, the commercial value of such products remains underutilised. Nor have exports of such products been adequately incentivised. Doing so will give a boost to our traditional sectors. A programme to promote the branding and commercialisation of GI products and to promote their exports will be initiated within one year of this policy coming into force.

Institutional Mechanisms for Trade Promotion

244. Various instruments and schemes are used for trade promotion such as schemes providing financial assistance for market access and development through buyer-seller meets, trade fairs, conventions and seminars. In addition there are a number of export promotion councils responsible for the promotion and development of the country's exports.

The MAI & MDA Schemes

245. The Market Access Initiative (MAI) scheme is an umbrella instrument for supporting trade promotion initiatives. The scheme, which was launched in 2003, has been revised from time to time. The activities which are supported under the scheme broadly include the organization of exhibitions, buyer seller meets, seminars, conferences and conventions; supporting participation in established exhibitions; supporting brochures, catalogues and other such literature; supporting registration and specific requirements in some sectors such as the pharmaceutical sector; and supporting studies with the specific objective of facilitating a better understanding of commodities and markets. The present allocation for the MAI scheme is inadequate for the enormous opportunities which exist and the promotional efforts that are required. Therefore, efforts will be required towards augmenting resources both within and outside the Government.

246. Under the Market Development Assistance (MDA) Scheme, financial assistance is provided for a range of export promotion activities implemented by Export Promotion Councils and Trade Promotion Organizations. The scheme will continue for the duration of this policy.

MICE

247. The meetings, incentives, conventions, exhibitions (MICE) space has emerged as a major opportunity for a fast emerging economy like India. In an estimated business of USD 300 billion in this area, India occupies only 1.2 percent of the global convention business and is ranked 25th in delegate attendance. While there could be several reasons for such poor participation in MICE activities, the lack of convention infrastructure is one of the major bottlenecks. Convention tourism clearly aligns with India's focus on improving its tourism footfalls. Under this policy efforts will be made to support convention infrastructure in all major tier 1 and tier 2 States in a graduated manner over a period of time. A major convention-cum-exhibition centre will be developed at the iconic Pragati Maidan in Delhi replacing the present infrastructure.

248. The India Trade Promotion Organisation (ITPO) is making a significant contribution both in terms of providing an exposure to Indian industry and business on new opportunities and offering a better ecosystem for international exhibitions and conferences. ITPO's annual work plan will have to align with the priorities of this policy e.g. by devising new opportunities for priority sectors and markets through differentiated mechanisms if required and tailoring participation in external fairs in accordance with the new priorities.

Export Promotion Councils

249. Another important instrumentality for the promotion and development of the country's exports are Export Promotion Councils (EPCs).

250. Each Council is responsible for the promotion of a particular group of products, projects and services. The main role of the EPCs is to project India's image abroad as a reliable supplier of high quality goods and services. In particular, the EPCs are tasked with encouraging and monitoring the observance of international standards and specifications by exporters. They are also required to keep abreast of the trends and opportunities in international markets for goods and services and assist their members in taking advantage of such opportunities in order to expand and diversify exports.

251. EPCs have, over time, acquired a central position in India's trade promotion efforts. Most of the EPCs are registered entities under the Societies Registration Act or the Companies Act. Many of these began with grants from the Government of India. Now almost all of them receive trade promotion grants from the Department of Commerce. Over the last several years, experience has shown the need for institutional practices which help in building the technical capacities of these Councils to achieve the objectives of trade and export promotion. Substantial work has already been done on providing a structural framework for the management of these Councils so that they play an important role in the area of trade promotion and outreach. All Councils which receive Government assistance for trade promotion work will have to subscribe to the elements of this decision.

Project Exports

252. Project exports are broadly defined as exports of such goods and services where the export receipts are allowed to be staggered (in conformity with RBI guidelines) over a period of more than twelve months. This is largely to reflect that the export transaction is not a one-off single transaction but represents certain goods, construction and service activities, where the payment receipts are staggered in line with the project components / execution.

253. The full value of project exports is not captured under any single aggregate classification. However, as per data maintained by the Project Export Promotion Council, its members' project exports orders have increased from USD 1.7 billion in 2012-13 to USD 4.4 billion in 2013-14. This increase of 162 percent is indicative of the strong potential which exists for India to aggressively increase its world trade market share in project exports.

254. Since project export contract earnings range over one year to five years, such export orders also impart stability to the export earnings of the country. India's current project export contracts are estimated at around USD 5 billion. It is estimated that project exports from India can be boosted to at least USD 25 billion

per annum within a time frame of five to seven years. The main markets for India's project exports are expected to be in Africa, Middle-East countries, SAARC and ASEAN countries, Central Asian Republics in CIS. These are the emerging markets which have high infrastructure needs.

255. Such projects, while helping the recipient countries to bridge their infrastructure gaps also help India's exports of goods and services. They help to build a long term relationship of the target country with India and its project export entities. India's entry into high value project exports will also impart high brand visibility in the target countries. Besides the specific brand visibility, India's general branding is also promoted as a country which can export hi-tech and high value projects. Such branding and visibility facilitates easier acceptance of other products exported by India to such markets. Long term business relationships also develop in supplies of replaceable components and spare parts, annual maintenance and servicing contracts, upgradation of project technology, etc. Repeat orders become easier, as the countries gain experience and confidence in Indian project export entities. They also exhibit India's cost competitiveness while at the same time maintaining internationally comparable quality standards.

256. Project exports can be boosted through opening of special lines of credit and also provision of cheap lines of credit through buyer credit mechanism. Concessional lines of credit are generally extended through the Ministry of External Affairs, where diplomatic considerations also matter for offering such lines of credit. The Buyers' Credit Scheme being offered by the Department of Commerce through Exim Bank of India aims at enhancing Indian exports to select countries.

257. Many Indian companies in both the private and public sectors have, over the years, developed considerable expertise in executing project export contracts in diverse areas such as railway sector, power sector, roads and bridges, drinking water supply schemes, irrigation projects, construction of oil and gas pipelines, construction of electricity grids, hydro power projects, airport construction etc.

258. For boosting project exports, the Department of Commerce has set up the National Export Insurance Account (NEIA). Essentially, the Account helps to cover project export risks which cannot be fully covered by the Export Credit Guarantee Corporation (ECGC).

259. In tandem with EXIM Bank of India and ECGC, the NEIA is also now being used to selectively offer a Buyers' Credit Cover for project exports. This enables EXIM Bank to offer co-financing for project exports from India to target countries in South Asia, Africa, CIS and others.

260. While buyers credit cover has brought in major encouragement for project exports, the cost of capital remains very high in India. An effort was made towards setting up an interest equalisation scheme under the Market Access Initiative scheme of the Department of Commerce but it did not materialise due to financial resource constraints. Since project export is recognized as an important element of this policy, renewed efforts will be made to seek allocation of resources for such a scheme.

Mainstreaming Trade

261. There is a compelling need to ensure that trade is fully assimilated in the relevant parts of the country's governance architecture, hence the phrase 'mainstreaming'. A trade/industry/business orientation is practically non-existent in many local bodies, some State Governments and even in many departments of the Central Government. Even in the economic ministries/departments of the Central Government, there is relatively little emphasis on exposing various sectors to international competition for improving policies, efficiency and competitiveness. Similarly lacking is a consciousness of the need to rationalise imports not by restricting them but by optimising imports as an important tool for ensuring competitiveness and efficiency.

262. Efforts have already been initiated for mainstreaming foreign trade in the Central Government departments. Senior officials have been appointed as designated focal points for exports and imports. Many of the State Governments have nominated Export Commissioners. States are also being helped in preparing export strategies aligned them with overall national objectives. Several States have already formulated export strategies on which they are in consultation with the Government of India. Government of India will encourage State Governments to prepare strategies, work plans, incentive programmes, support capacity development initiatives including efforts to better understand international trade architecture and law. This effort is being made in recognition of the fact that various ministries and departments of the Central Government and State Governments have a collective role and responsibility in promoting exports and boosting the contribution of foreign trade to the achievement of national objectives and priorities. States will also be helped in building the capacities of relevant officials in areas relating to international trade through various programmes.

263. An Export Promotion Mission will be constituted to provide an institutional framework to work with State Governments to boost India's exports.

Export Infrastructure

264. Leaving aside the external environment, infrastructure bottlenecks are the most critical constraints to achieving accelerated export growth. There are two categories of infrastructure requirements:

A. Better multi modal transportation for improved road connectivity to ports, rail heads and airports, faster throughput at ports and shorter dwell time, faster movement of rakes by railways and quicker air cargo movement with all the concomitant trade facilitation measures in place.

B. Supportive infrastructure required for exports including more laboratories for testing, more tool rooms and plant quarantine facilities, larger trade facilitation centres and land customs stations and enhanced cold storage facilities for pharmaceutical and perishable goods.

ASIDE

265. While a number of ministries are responsible for creation of infrastructure, the Department of Commerce has the role of filling in key infrastructure gaps to facilitate exports. This was being done through coordinated efforts with States under the ASIDE (Assistance to States for Developing Export Infrastructure and Allied Activities) Scheme. Small infrastructure projects are selected on the basis of identified local needs of export sectors, with a focus on projects such as common facility centres for handicrafts, textiles, leather, clusters, backend agro processing facilities like cold storages and pack houses, labs for testing and export certification, common effluent treatment plants in chemical and pharma clusters, advanced processing and finishing facilities and marketing and packaging support. These initiatives are designed to help exporters especially from the small industry, handicrafts, agri-business and commodities sectors to produce high quality finished products with high value addition primarily for the export market.

266. The ASIDE scheme has played an important role in bridging some infrastructure gaps. It has particularly helped in areas such as border infrastructure, sanitary and phytosanitary infrastructure and connectivity to major trading points. In the Budget for 2015-16, the allocation for the ASIDE scheme has been severely curtailed. This is in pursuance to Government's decision to transfer additional tax resources to States in accordance with the recommendation of the Finance Commission. Consequently, the ASIDE scheme would need to be restructured/even renamed. The scheme hereafter will only be able to support infrastructure gaps in central institutions. It is assumed that States will continue to support funding of infrastructure projects under the State component and will undertake new infrastructure projects from the additionally allocated State resources. Since this will require a fresh appreciation of the new situation, the infrastructure development programme will be revisited within 6 months of this policy announcement to put together a new programme of infrastructure support.

Special Economic Zones

267. India's Export Processing Zone Scheme, launched in 1965, is the precursor to the present day SEZ (Special Economic Zones) Scheme. The SEZ Act was enacted in 2005 and made operational through SEZ Rules in February 2006.

268. The objectives of the SEZ Scheme, as laid out in Section 5 of the SEZ Act, are as under:

(a) Promotion of exports of goods and services;

(b) Promotion of investment from domestic and foreign sources;

(c) Creation of employment opportunities; and

(d) Development of infrastructure facilities.

269. Evaluating the performance of SEZs on these parameters, we find that SEZs have performed well. Exports from SEZs have gone up from Rs. 22,000 crore in 2005-2006 to Rs.4,94,077 crore in 2013-14; investment in SEZs have gone up from Rs. 4035 crore in February 2006 to Rs. 3,80,284 crore in September 2014; and direct employment in the SEZs has gone up from 1,34,704 persons in February 2006

to 13,50,071 in September 2014. Most importantly, SEZs have enabled the development of world class infrastructure in some of the SEZs. A greater emphasis on creation of world class infrastructure for multi-product SEZs supported by the right incentives can provide a much needed fillip.

270. Underlying the enactment of the SEZ Act was the need to provide long term stability and continuity to the scheme. In order to achieve this objective, income-tax provisions were incorporated in the Act. However, in 2011, MAT[33] & DDT[34] were imposed on the SEZs, which has severely hampered the progress of the SEZ scheme.

271. The SEZ scheme, in terms of export promotion through tax incentives, is not unique to India. Such schemes continue to be in operation in some form or other in several countries. The need for strengthening of this scheme is felt for the following reasons:

(a) The SEZ scheme provides an ecosystem conducive to exports, wherein all clearances, starting from setting up of the unit, allocation of space, approval of raw material, capital goods, issuance of letters of permission, monitoring of exports, permission for sale in DTA (Domestic Tariff Area) etc. are provided at one place.

(b) It provides a mechanism enabling manufacturing units to repeatedly import raw materials and capital goods for export production and export, without having to separately seek Advance Authorization, EPCG Authorization etc each time.

(c) The scheme is especially helpful for SME investors as they lack the resources available to bigger players for obtaining various kinds of approvals, finding space etc.

(d) The Services sector is an extremely important component of our foreign trade. There are large inflows of investment into SEZs (specifically for software exports) and this trend is likely to continue over the next decade.

272. Recently, dual use of infrastructure was allowed for non-processing areas. Single window services as far as central government services are concerned, are a reality. Infrastructure has still not developed to world class standards and one of the reasons is said to be the relatively low occupation of SEZs. Therefore SEZs are a work in progress. Action needs to be taken on two platforms: one, within the present paradigm of SEZs, time bound efforts should be made to provide a single window by mainstreaming State Governments and pursuing process simplification - providing end-to-end e-governance. Restoring tax benefits is of critical importance. The Department of Commerce will pursue action on all these elements to make SEZs more competitive and better placed for manufacturing and services exports. As a first step, the FTP includes specific measures to revitalise SEZs. In the second paradigm, SEZs can be treated as instruments of manufacturing rather than export alone. This paradigm requires a review of the SEZ-DTA relationship.

[33] Minimum Alternate Tax
[34] Dividend Distribution Tax

SECTION VI: TRADE ECOSYSTEM

Digitisation and E-governance

273. For export-import operations, the costs involved, as well as the complexity of the documents and the procedures, are a major burden for business. For small and medium-sized companies, especially, these costs act as a major disincentive to engage in international trade. Since goods cannot travel faster than the information that controls them, speeding up the information exchange makes trading more competitive and efficient.

274. All operations related to exports and imports should be automated and paperless. A firm should be able to submit all information required by government and related agencies through a Single Window. South Korea, Singapore and many other countries have implemented such systems. An integrated single window, through which smooth and speedy clearance can be enabled without compromising on compliance, is the need of the hour.

275. Government has already launched a very ambitious programme for digitization under its 'Digital India' initiative. Under the National e-governance programme, subsumed within the Digital India initiative, the e-Trade programme will continue to be a strong focus area with the objective of ensuring transparency, simplification and faster action. The initiatives taken for message exchange will be taken to their logical conclusion in order to make e-Trade effective. This would require close interaction between various departments involved in the process of trade.

Ongoing Initiatives

276. As far as digitization and e-Governance exercises in other relevant areas are concerned, the following initiatives are underway:

(i) IBEF has audited 35 websites of Government/Government supported relevant trade institutions and on the basis of the audit report, these institutions are now in the process of modifying their official websites. The objective is to bring into the public domain all information which can be shared, in a lucid, simple and substantive manner. It is expected that all these websites would be modified within 6 months.

(ii) All transactions in respect of delivery of services rendered by various institutions under the Department of Commerce such as Commodity Boards, product development authorities, SEZs, will be digitized. This process of digitization for services delivery will be completed in all the institutions within the period of this policy. In the case of SEZs, this has already been achieved to a large extent. SEZ services are available online and the integration of SEZ online with the Customs ICEGATE[35] is in an active state of implementation.

[35] Indian Customs Electronic Commerce/Electronic Data interchange (EC/EDI) Gateway

Box 4: Automation of Procedures & Use of Technology for Communication

Trade Facilitation through EDI and E-governance Initiatives	a) DGFT endeavours to deliver its services in a transparent and efficient manner using tools such as Online Filing of Applications, Message Exchange with Community Partners, Digital Signatures and Electronic Fee Payments. The use of EDI at DGFT has enabled faster processing, speedier communication and on-line availability of application processing status. b) All the DGFT Regional Authorities are EDI-enabled and connected with the DGFT Central Server to provide online connectivity to the export-import community in a 24*7 environment.
Facility of online filing of applications	The facility of online filing of applications is presently available to all applicants for the following export promotion schemes: i. Importer Exporter Code Number (IEC) ii. Advance Authorization Scheme, Annual Advance Authorization scheme, DFIA iii. EPCG scheme, Annual EPCG scheme iv. FPS, FMS, MLFPS, VKGUY, SFIS, SHIS, Incremental Export Incentivisation Scheme v. Registration Certificate for Cotton, Cotton Yarn etc. vi. Authorization for items falling under Restricted (imports / exports) or SCOMET (exports) list.
Use of Digital Signatures	DGFT allows filing of online applications (except IEC) with Class-II digital signatures with IEC number embedded in it.
eBRC	Electronic Bank Realization Certificate (eBRC) system allows electronic transmission of export-related Foreign Exchange Realization information from the respective Banks to the DGFT's server. DGFT operationalized the eBRC project on 5 June 2012. eBRC was made mandatory with effect from 17 August, 2012. The project has created an integrated platform for receipt, processing and subsequent use of all bank realization-related information including information sharing with Government organizations. So far 1.2 crore eBRCs have been uploaded by 90 banks onto the DGFT server. The eBRC data is being shared with 12 State governments and the Enforcement Directorate.

EDI: Electronic Data Interchange; DFIA: Duty Free Import Authorisation; FPS: Focus Product Scheme; FMS: Focus Market Scheme; MLFPS: Market-linked Focus Product Scheme; VKGUY: Vishesh Krishi and Gram Udyog Yojana; SFIS: Served from India Scheme; SHIS: Status Holder Incentive Scheme; SCOMET: Special Chemicals, Organisms, Materials, Equipment and Technologies

Ease of Doing Business

277. One of the indicators of the ease of doing business in the annual publication brought out by the World Bank relates to trade across borders. There are 3 elements underlying this indicator, namely, the number of documents required for imports and exports, cost of export and import and the time taken for export and import. All these are under review. As a first initiative in this direction, it has already been notified that normal categories of exports and imports would require only 3 documents for completion. Action on reduction of cost and time is underway and will be completed within 3 months.

Trade Facilitation

278. The smooth flow of goods and services across borders is one of the most significant elements contributing to a country's competitiveness at the global level. In India there are bottlenecks at two levels. Firstly, the movement of goods within the country, from one territory to another, is constrained by the laws, practices, regulations and taxation regimes of various States. The second bottleneck is caused by infrastructure constraints at the border, such as the lack of necessary equipment and testing facilities at the border ports, human resource inadequacies etc. resulting in port and road congestion.

279. Action in respect of many of these issues lies with several departments of the Government of India such as the Ministry of Shipping, Ministry of Agriculture, Ministry of Finance, Ministry of Road Transport and the State Governments. Concerted action is, therefore, the need of the hour.

280. This policy does not specifically touch on all these issues as they are being addressed as part of a much larger initiative for improving India's manufacturing performance and infrastructure development through a pan-India approach. However, it is necessary that trade is facilitated in terms of procedures and processes as that is the ultimate test of competitiveness in a global context.

281. The WTO has recently agreed on a Trade Facilitation Agreement (TFA). India is a party to this and once it is ratified would follow the categorisation of various facilitation initiatives provided for in the agreement.

282. India has undertaken a host of autonomous reforms even before the WTO agreed to have a TFA. Our main focus is to:

(i) Simplify laws and procedures and streamline fees and formalities dealing with release and clearance of goods;

(ii) Ensure greater transparency in trade law administration; and

(iii) Enhance and initiate measures for border cooperation and free movement of transit goods.

Measures to Enhance Transparency

283. The Government is committed to making available in a simple and easy manner the description of importation, exportation and transit procedures including appeal formalities with practical steps, and the required forms and documents needed to import and export in both print and on the internet.

Fees & Charges imposed in connection with importation and exportation

284. Government will ensure that all information regarding fees and charges that are applied in connection with export and import or transit are made available in both print and on the internet. It will be ensured that adequate time period is accorded between the publication of new and amended fees and charges and their entry into force except in urgent circumstances.

Border Management

285. It will be ensured that authorities and agencies responsible for border controls and procedures dealing with importation, exportation and transit of goods coordinate their activities in such a manner that it facilitates hassle free movement of goods. Government of India will work with State Governments to simplify procedures.

286. In addition to the above, some of the next generation reforms in trade procedures which the Government intends to pursue in the coming years are:

(a) Extension of the Advance Ruling facility gradually to any exporter, importer or person with a justifiable course or a representative thereof.

(b) Incremental implementation of a Single Window through appropriate use of information technology to enable traders to submit documentation and or data requirements for importation, exportation or transit of goods through a single entry point to the participating authorities or agencies.

(c) Conferring on the appellants in trade disputes, the right to either further appeal or further review by the administrative authority or the judicial authority or any other recourse to the judicial authority, if an administrative appeal or judicial appeal or review of an administrative decision by Customs or any other border agencies is not settled in a set period which will be specified, or without undue delay.

Constitution of a National Committee on Trade Facilitation

287. One of the biggest handicaps for smooth administration of trade laws is lack of inter-agency coordination and stakeholders participation in the administration of trade procedures. A National Committee on Trade Facilitation (NCTF) for domestic coordination and implementation of the TFA is being constituted with the objective of pursuing India's trade facilitation agenda and removing obstacles in the way of its implementation.

288. Besides the above, several other measures are being taken in this policy which will help in facilitating India's exports and imports by improving efficiencies in the system. Needless to say, trade facilitation requires the continuous commitment of all parties involved in the process and regular monitoring of activities.

Reduction of Transaction Costs

289. In recognition of the fact that export promotion efforts through schemes and stimulus packages will be ineffective unless transaction costs are substantially lowered, the Government has taken a number of initiatives over the years to streamline export/import processes and facilitate trade and industry so as to make

doing business in India easier.[36]High transaction costs directly impact the competitiveness of Indian exporters vis-à-vis exporters of competing countries.

290. Steps are being taken by various Ministries and Departments to simplify administrative procedures and reduce transaction costs based on the recommendations of two Task Forces. The implementation of these recommendations is being actively pursued.

Trade Remedial Measures

291. Trade remedies are a legitimate method of addressing unfair trade practices. While India is a strong votary of free trade and benefits from it, yet it has used trade remedial measures where required and will continue to do so if unfair practices are adopted by trading partners or their business entities.

292. A Directorate General of Trade Remedies was to be set up a couple of years ago but was not due to resource constraints. Such a Directorate will help both in securing trade remedies for Indian business as well as in taking defensive action when trade remedies are used against Indian businesses. The Directorate will be set up at the earliest.

Export Development and Outreach

293. India's growing integration with the world economy makes the pursuit of foreign trade an attractive opportunity for young people. Recognising the need for a concerted and integrated efforts for capacity development, the Niryat Bandhu scheme was announced in October 2011. The significant potential of this scheme remains underexploited. This scheme can be utilised to bring new entrepreneurs into trade, promote better technical understanding in the area of export related international architecture and law and for familiarising the exporting community about the opportunities and potential available for growth. The Niryat Bandhu scheme will be revamped to achieve these objectives and also further dovetailed with the ongoing outreach programmes. This will require augmentation of resources and redeployment and establishing links with academia and the research community.

Capacity Development

294. Capacity building of the relevant stakeholders and institutions is of utmost importance in order to fully realize the potential of various trade agreements and foreign trade policy measures. This is especially necessary for the State Governments and various institutions, namely export promotion councils, development authorities and industry associations. The focus of this capacity building will be on the following areas:

(i) Training of officers of the export promotion councils and export development authorities;

(ii) Establishment of a trade research/ analysis cell in these institutions;

(iii) Creation of an internal team for soliciting value added inputs from stakeholders; and

[36]India is at rank 134 out of 189 countries, in terms of the'Doing Business 2014' rankings by the World Bank. However, a closer examination of the methodology followed by the World Bank reveals that it does not reflect the reality in India and this has been brought to their notice.

(iv) Development and regular updation of the web portals of institutions.

295. A similar capacity building exercise would be carried out for the commercial missions with the focus being on

(ii) Carrying out in-house trade research;

(iii) Branding India activities;

(iv) Monitoring of trade developments in the host country;

(v) FTA monitoring (including 3rd parties); and

(vi) Monitoring of unilateral schemes like the GSP.

Strengthening the Commercial Wings in Indian Missions Abroad

296. There are about 35 markets which are very important for India from the perspective of trade and investment. In order to be able to harness the opportunities for export to these markets, we need to strengthen Indian Missions in these countries by posting people with experience and a sound understanding of trade negotiations and commercial matters. 38 additional posts were created in July 2011. Suitable officers will be deployed shortly. This is a focused effort aimed at giving a fillip to our trade promotion efforts. The Indian Missions which are important from the trade point of view, have already been advised on a mechanism for reporting on events and the performance of trade in their territories. This mechanism and structure will be further strengthened in consultation with the Ministry of External Affairs.

Centre for Research in International Trade

297. Given the growing complexity of the process of globalization and its spillover effects on domestic policymaking, there is a need to significantly deepen existing research capabilities and widen them to encompass new and specialized areas. In this context, a new institution, namely, the Centre for Research in International Trade (CRIT) will be set up.

298. At present there are very few institutions at the global level which can provide a counter narrative on key trade and investment issues from the perspective of developing countries like India. This prevents the developing country perspective from appearing prominently in the global intellectual discourse.

299. The proposed CRIT will fill this gap and will also help in forming enduring coalitions with a large number of developing countries which may have a convergence of interests with India and could potentially become India's allies on various trade issues at the global level.

Institutional Mechanism for Communication

300. Two mechanisms are being put in place for regular communication with stakeholders. The first of these is a Board of Trade which will have an advisory role and offer a platform for discussion and consultation. The Board of Trade will be constituted once the policy comes into force. Another institutional mechanism which will be set up is the Council for Trade Development and Promotion. This Council will be a community of Central Government and various States and UT Governments. The objective will be to bring in the views of various State Governments with the

objective of mainstreaming them in trade policy formulation and implementation. This Council will be constituted after this policy is brought into effect.

301. Besides the above two institutional mechanisms, export promotion councils and various industry and business chambers will continue to be the specialised institutions available for consultation from time to time.

Monitoring and Review

302. A policy whose implementation is not regularly monitored and periodically reviewed can remain a piece of paper. Therefore, a concurrent mechanism for monitoring the implementation of the policy on a quarterly basis will be institutionalised. This mechanism will be an internal process set up in the Department of Commerce. The policy will be reviewed mid-term with the objective of making a mid-course assessment and modification where required. A concurrent mechanism of evaluation will also be put in place.

Consultation

303. While preparing this statement, consultations have been held with a cross section of stakeholders in formal and informal settings. Written communications were not formally invited but stakeholders were made fully aware of this process underway in the Government and consequently they have sent responses from time to time. Many of these suggestions/recommendations have been incorporated in the policy.

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