JAIIB (New Syllabus)

INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM (IE&IFS).

Paper-1

MODULE-A, UNIT-8

FOREIGN TRADE POLICY FOREIGN INVESTMENTS AND ECONOMIC DEVELOPMENT

Paper IE and IFS Module A Unit 8 - Foreign Trade Policy Foreign Investments and Economic Development

Foreign Trade Policy, Foreign Investments And Economic Development

- Foreign trade policy refers to the economic policy that governs an **economy's export-import activity.**
- Economic policies, such as Foreign Trade Policy and Foreign Investment Policy, are critical components of the economic process.
- A well-planned foreign policy adds to the local economy's output and the nation's prosperity. India has had special policies promoting trade and investment from its inception.

Foreign Trade Policy: 2015-2020

On April 1, 2015, the Indian government **launched its Foreign Trade Policy 2015–20.**

In line with the ‘**Make in India' initiative, the FTP 2015-20** provides a framework for promoting goods and services exports, as well as employment generation and value addition in the economy.

Aims

- The new strategy aimed to help both the industrial and service sectors, with a specific emphasis on improving the ease of doing businesses. The FTP aimed to increase India's merchandise and services exports from $465 billion in 2013-14 to $900 billion by 2019-20.
- It also aimed to increase India's share of global exports from 2% to 3.5 per cent. The strategy seeks to empower India to adapt to external challenges, while keeping in step with a rapidly evolving external trade environment, and to make trade a significant contributor to the nation's economic growth and development.

The FTP 2015-20 included two new schemes:

i)The ‘**Merchandise Exports from India Scheme (MEIS)'** for exporting defined products to designated destinations,

ii)The **‘Services Exports from India Scheme (SEIS)**' for promoting exports of designated services.

Salient features of FTP 2015–20

Simplification & Merger of Reward Schemes

Earlier there were **five different schemes** for rewarding merchandise exports, with different kinds of duty scrips with varying conditions attached to their use.

- **Focus Product Scheme,**
- **Market Linked Focus Product Scheme,**
- **Focus Market Scheme,**
- **Agricultural Infrastructure Incentive Scrip,**
- **Vishesh Krishi Gram Udyog Yojana - VKGUY**

All these schemes have been merged into a single scheme, namely **Merchandise Export from India Scheme (MEIS),** and there was no conditionality attached to the scrips issued under the scheme.

- **Served from India Scheme (SFIS)** has been replaced with Service Exports from India Scheme (SEIS).
- SEIS was applied to "**Service Providers located in India**" instead of "Indian Service Providers" regardless of the constitution or profile of the service provider.
- All scrips issued under MEIS, and SEIS and the goods imported against these scrips were fully transferable.

Scrips issued under Exports from India Schemes used for:

- Payment of customs duty for import of inputs/ goods,
- Payment of excise duty on domestic procurement of inputs or goods,
- Payment of service tax on procurement of services,
- Basic Customs Duty paid in cash or through debit under Duty Credit Scrip was allowed to be taken back as Duty Drawback, if inputs so imported are used for exports.

Privilege to Business leaders: Who have succeeded in international trade and effectively contributed **to their country's overseas trade are recommended to be recognised as status holders and given special treatment and privileges to facilitate their trade transactions, reducing transaction costs and time.**

- **Boost to "Make in India"** Special initiatives have been made to assist the indigenous capital goods manufacturing industry in order to boost the Make in India campaign.
- Under the Export Promotion Capital Goods (EPCG) plan, if capital goods were purchased from domestic producers, **the particular export obligation was decreased to 75%.**
- Export commodities with a strong domestic content and value addition had received greater levels of incentives, **under the MEIS**.

- **Less Hard Documents**: Trade Facilitation & Ease of Doing Business Hard copies of applications and specified papers, which were formerly required for incentive programmes and duty exemption schemes, were no longer required.
- **Landing paperwork for export** consignments were allowed to be submitted digitally as evidence, for designated markets.
- Once permanent records/ documents are uploaded in the exporter/importer profile, there was no need to provide copies with each application.
- Dedicated e-mail addresses were established for speedier and paperless contact with other DGFT groups, such as the **Norms Committee and the Exim Facilitation Committee.**

Highlights of the FTP 2015-2020

- FTP 2015-20 provided a **framework for increasing exports of goods and services** as well as generation of employment and increasing value addition in the country, in line with the '**Make in India'** programme.
- The **Policy aimed** to enable India to respond to the **challenges of the external environment**, keeping in step with a rapidly evolving international trading architecture and make trade a major contributor to the country's economic growth and development.

FTP 2015-20 introduced two new schemes:

I) **'Merchandise Exports from India Scheme (MEIS**)' for export of specified goods to specified markets

II) **Services Exports from India Scheme (SEIS**)' for increasing exports of notified services.

EPCG scheme

- Measures have been adopted to nudge procurement of capital goods from indigenous manufacturers under the EPCG scheme by reducing specific export obligation to **75% of the normal export obligation**.
- Measures have been taken to give a boost to exports of defense and hi-tech items.

E-Commerce

- E-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customised fashion garments through courier or foreign post office would also be able to get benefit of **MEIS (for values up to INR 25,000).**

Manufacturers

- Manufacturers, who are also status holders, will now be able to self-certify their manufactured goods in phases, as originating from India with a view to qualifying for preferential treatment under various forms of bilateral and regional trade agreements. **This 'Approved Exporter System'** will help manufacturer exporters considerably in getting fast access to international markets.

EOU/EHTP/STPI/BTP Schemes

- A number of steps have been taken for encouraging manufacturing and exports under **100% EOU/EHTP/STPI/BTP Schemes**.
- The steps include a fast track clearance facility for these units, permitting them to share infrastructure facilities, permitting inter unit transfer of goods and services, permitting them to set up warehouses near the port of export and to use duty free equipment for training purposes.

Niryat Bandhu Scheme'

- 108 MSME clusters have been identified for focused interventions to boost exports. Accordingly, **Niryat Bandhu Scheme'** has been galvanised and repositioned to achieve the objectives of '**Skill India'**.

Facilitation

- Trade facilitation and enhancing the ease of doing business are the other major focus areas in this new FTP. One of the ***major objective of new FTP i***s to move towards paperless working in **24x7 environment**.

Challenges To Be Addressed In Upcoming FTP

The **Government of India extended the FTP 2015-20 for the third time, till March 2022** to provide stability to exporters during the pandemic. Recent trade protectionist incidents, as well as the disruptions induced by the pandemic, have proven that India's overdependence on a few items and fewer markets, has had a more severe negative impact on the country's international trade earnings.

Some of the issues that must be addressed in the new FTP are mentioned below.

- India's high export orientation in a few large trading partners and a few products preclude its ability to fully offset any sharp decline in exports.
- India needs to diversify its trading partners, both export markets and import sources, and find alternate high value products, due to scale, complementary economies and spreading risk. India may explore targeted geographies and product specific strategies.
- Exploring opportunities in new markets in Africa, South-East Asia and Latin America through strategic investments, where receptiveness towards non-Chinese trading partners is more is important and needs to be explored further.
- India may aim at diversifying its import suppliers. Products having high import orientation from few countries, especially China need to be diversified. The policy needs to ensure that product or market concentration of India's trade should not go beyond specific levels.

- Promoting efficacy of States in exports and exploring hitherto unexplored products are added areas to be considered for long long-term export growth.

FDIs, FIIs AND RECENT TRENDS

Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is an investment made in a country, by a foreign investor, often a company, to control the ownership of an entity. FDI is a key engine of economic growth, assisting in maintaining high growth rates, enhancing productivity, and generate employment.

FDI Data

- Net FDI has increased from $3.7 billion in 2004-05 to $36.6 billion by 2021-22.
- However, in 2021-22 the Net Foreign Direct Investment in India reached $36.6 billion, 16.7 per cent lower compared to year earlier.

Note: FDI Data every year change (So Follow Ambitiousbaba.com Current affairs)

Routes of FDI in India

FDI enters the domestic economy through two channels

i) The RBI's automatic route

ii) The government route.

Automatic Route FDI

In the automatic route, the foreign entity does **not require the prior approval of the government or the RBI.**

Examples:

- Medical devices: up to 100%
- Thermal power: up to 100%

Government Route FDI

Under the government route, the foreign entity should compulsorily **take the approval of the government**. It should file an application through the Foreign Investment Facilitation Portal, which facilitates single-window clearance. This application is then forwarded to the respective ministry or department, which then approves or rejects the application after **consultation with the DPIIT.**

Examples:

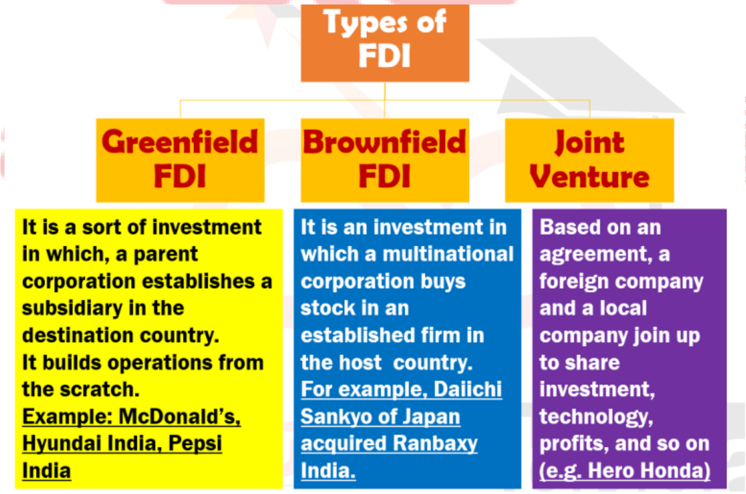
- Broadcasting Content Services: 49%
- Food Products Retail Trading: 100%

Sector wise FDI Flow routes and Limits to India

Sector wise FDI Flow routes and Limits to India			
Sl. No.	Sector	FDI Limit	Entry Route
1	Agriculture & Animal Husbandry	100%	Automatic
2	Plantation Sector	100%	Automatic
3	Mining	100%	Automatic
4	Mining (Coal & Lignite)	100%	Automatic
5	Petroleum & Natural Gas	100%	Automatic
6	Defence Manufacturing	100%	74% through the Automatic Route for new defence industrial license and up to 100% by government Route in access to modern technology
7	Broadcasting	100%	Automatic
8	Broadcasting Content Services	49%	Government
9	Up-linking of Non- 'News & Current Affairs' TV Channels/ Down-linking of TV Channels	100%	Automatic
10	Print Media	26%	Government
11	Civil Aviation – Airports	100%	Automatic
12	Civil Aviation – Air Transport Services	100%	Automatic up to 49% Above 49% under Government route 100% Automatic for NRIs
13	Civil Aviation	100%	Automatic
14	Construction Development: Townships, Housing, Built-up Infrastructure	100%	Automatic
15	Industrial Parks (new & existing)	100%	Automatic
16	Private Security Agencies	74%	Automatic up to 49% Above 49% & up to 74% under Government route
17	Satellites- establishment and operation, subject to the sectoral guidelines of Department of Space/ISRO	100%	Government
18	Telecom Services	100%	Automatic
19	Cash & Carry Wholesale Trading	100%	Automatic
20	E-commerce activities	100%	Automatic
21	Single Brand retail trading	100%	Automatic up to 49% Above 49% under Government route
22	Multi Brand Retail Trading	51%	Government

23	Duty Free Shops	100%	Automatic
24	Railway Infrastructure	100%	Automatic
25	Asset Reconstruction Companies	100%	Automatic
26	Banking – Private Sector	74%	Automatic up to 49% Above 49% & up to 74% under Government route
27	Banking- Public Sector	20%	Government
28	Credit Information Companies (CIC)	100%	Automatic
29	Infrastructure Company in the Securities Market	49%	Automatic
30	Insurance	74%	Automatic
31	Pension Sector	49%	Automatic
32	Power Exchanges	49%	Automatic
33	White Label ATM Operations	100%	Automatic
34	Financial services activities regulated by RBI, SEBI, IRDA or any other regulator	100%	Automatic
35	Pharmaceuticals (Green Field)	100%	Automatic
36	Pharmaceuticals (Brown Field)	100%	Automatic up to 74% Above 74% under Government route
37	Food products manufactured or produced in India	100%	Government

Types of FDI



FDI Prohibited Sectors

FDI in India is prohibited and not allowed to function in the following sectors:

- Lottery Business, which includes Government/private lottery, online lotteries, etc.
- Gambling, Betting as well as casinos, etc.
- Chit funds
- Nidhi company

- Trading in Transferable Development Rights (TDRs)
- Real Estate Business
- Construction of Farmhouses (Real estate business does not include development of townships, construction of residential/commercial premises, roads or bridges)
- Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
- Activities/sectors not open to private sector investment, e.g., Atomic Energy and Railway operations (other than permitted activities)

Foreign Institutional Investment (FII)

- **FII refers to short-term capital invested in stocks or hedge funds.** It is generally volatile, and the possibility of capital flight is always there in the case of an economic slump, political turmoil, or herd behaviour of short-term capital outflow**. Foreign institutional investors are companies, based outside India that offer investment proposals in India.**
- The **portfolio investment programme allows Foreign Institutional Investors**, Non-Resident Indians, and **Persons of Indian Origin to invest in India's primary and secondary capital markets.**
- **Under this arrangement**, FIIs/NRIs can acquire shares/debentures in Indian companies through Indian stock exchanges. They are registered as FIIs with SEBI and play an essential part in a country's capital market performance.

FII Recent Data

- FPIs/FIIs (Foreign Portfolio Investors/Foreign Institutional Investors) have been a major driver of India's financial markets.
- In **the financial year 2021-22**, net FPIs were negative $11.97 billion (FII outflows were $9.34 billion, and portfolio investment by India was $2.63 billion), compared to a net inflow of $ 36.14 billion in the previous year ($14.03 billion). Because of its well-developed primary and secondary markets, India has attracted FIIs/FPIs. However, geopolitical instability, the **Russia-Ukraine dispute, and COVID-related** uncertainties have resulting in a capital flight during 2021-22.

Note: FII Data every year change keep update

Difference Between FDI and FII

BASIS FOR COMPARISON	FDI	FII
Meaning	When a company situated in one country makes an investment in a company situated abroad, it is known as FDI.	FII is when foreign companies make investments in the stock market of a country.

Entry and Exit	Difficult	Easy
What it brings?	Long term capital	Long/Short term capital
Transfer of	Funds, resources, technology, strategies, know-how etc.	Funds only.
Economic Growth	Yes	No
Consequences	Increase in country's Gross Domestic Product (GDP).	Increase in capital of the country.
Target	Specific Company	No such target, investment flows into the financial market.
Control over a company	Yes	No

Economic Development vs Economic Growth

Economic Development

- **Economic development is defined** as a sustained improvement in a society's material well-being. Apart from national income growth, it encompasses social, **cultural, political, and economic developments** that contribute to material progress.
- It includes changes in available resources, capital formation rates, population size and composition**, technology, skills and efficiency, and organisational** and institutional architecture.

Economic Growth

- **Economic growth is defined** as the process by which, an economy's **actual national and per capita income grows over time.** When compared to economic development, economic growth is a restricted term.
- It entails a rise in output in quantitative terms, but it also includes qualitative changes such as social attitudes and behaviours, in comparison with the quantitative growth in output or national income.

Difference Between Economic Development and Economic Growth

Economic Growth	Economic Development
Definition	
It refers to the increase in the monetary growth of a nation in a particular period.	It refers to the overall development of the quality of life in a nation, which includes economic growth.
Span of Concept	

It is a narrower concept than that of economic development.	It is a broader concept than that of economic growth.
Scope	
It is a uni-dimensional approach that deals with the economic growth of a nation.	It is a multi-dimensional approach that looks into the income as well as the quality of life of a nation.
Term	
Short-term process	Long-term process
Measurement	
Quantitative	Both quantitative and qualitative
Applicable to	
Developed economies	Developing economies
Government Support	
It is an automatic process that may or may not require intervention from the government	It requires intervention from the government as all the developmental policies are formed by the government
Kind of changes expected	
Quantitative changes	Quantitative as well as qualitative changes
Examples	
GDP, GNP, per capita Income	• Human Development Index (HDI) • Human Poverty Index (HPI) • Gini Coefficient • Gender Development Index (GDI) • Balance of trade • Physical Quality of Life Index (PQLI)

Importance Of Economic Development As A Dimension, Etc.

Economic development

- **Economic development is defined** as a persistent increase in the material well-being of society. Economic development refers to a larger set of ideas than economic growth.
- **It comprises social, cultural, political, and economic** developments that contribute to material advancement, in addition to national income growth.
- Economic development includes the human capital growth, elimination of socioeconomic inequalities, and structural changes that improve the public's quality of life. To assess economic development, qualitative indicators such as the HDI (Human Development Index), gender-related indexes, Human Poverty Index (HPI), infant mortality, literacy rate, etc., are used.

Economic growth

- **Economic growth includes increases in income, savings, and investment**, as well as progressive changes in the country's socioeconomic structure, including both institutional and technical developments.

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