Rebooting and Rejuvenating India's External Sector Post-Pandemic

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Abstract

The integration of Indian economy through the channels of trade and capital flow has been accelerated over the last two decades. Even during the Covid-19 pandemic, policy stimulus continued to promote export-led growth in the economy. These decadal efforts to retain the exiting market share and capturing the new market continues to face number of challenges for India. India is presently known as one of the most important players in the global economic landscape. After the US-China trade war scenes, the outbreak of Covid-19 pandemic has questioned China's integrity across many countries of the world. When developed countries thinking over shifting their manufacturing base out of China, attracting this large chunk of capital flight has challenged Indian government. Data shows that the aggressive policy measures taken by both the central and state government to tap the crowding out of investment from China apparently succeeding. But this is a short-term picture, will it continue in the long-run? That is questionable. The 'Make in India' or 'Atmanirbhar Bharat' initiatives, export-led growth policy stimulus during pandemic, rise in exports of food products, generic medicines, newly entered FDIs and flood of FIIs in Indian economy. All these dots need to be connected at the backdrop of India's New Foreign Trade Policy (2021-26). This research paper would like to focus on each one of the above mentioned initiatives by the Indian government and its significance to the entire trade policy as such. Paper would also like to consider the sustainability part of these initiatives.

Keywords: trade, capital flows, trade policy, market share, exports, pandemic, sustainability

Introduction

Efficiency and growth can best be achieved by competition in world markets and preferential market access can encourage firms to enter the export market. The external balance is determined directly by the spontaneous interplay of optimizing behavior by domestic and foreign agents. The state of the external balance, therefore, signals occasion for policy action

The integration of Indian economy through the channels of trade and capital flow has been accelerated over the last two decades. Even during the Covid-19 pandemic, policy stimulus continued to promote export-led growth in the economy. These decadal efforts to retain the exiting market share and capturing the new market continues to face number of challenges for India.

India is presently known as one of the most important players in the global economic landscape. After the US-China trade war scenes, the outbreak of Covid-19 pandemic has questioned China's integrity across many countries of the world. When developed countries thinking over shifting their manufacturing base out of China, attracting this large chunk of capital flight has challenged Indian government. Data shows that the aggressive policy measures taken by both the central and state government to tap the crowding out of investment from China apparently succeeding. In-house policy changes, reforms, initiatives in Indian markets will surely contribute in enhancing its economic growth parameters.

The 'Make in India' or 'Atmanirbhar Bharat' initiatives, export-led growth policy stimulus during pandemic, rise in exports of food products, Pharma specific to generic medicines, newly entered FDIs and flood of FIIs in Indian economy. All these dots need to be connected at the backdrop of India's New Foreign Trade Policy (2021-26).

This research paper has focus on each one of the above mentioned initiatives by the Indian government and its significance to the entire trade policy as such. Paper has also considered the sustainability part of these initiatives. Regarding methodology, secondary data sets have been used extensively in the paper to support the research statements.

Make in India Initiative and Export Performance

Make in India initiative has been the major national programme of the Government of India that was launched in 2014 and designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best in class manufacturing infrastructure in the country. The primary objective of this initiative was to attract investments from across the globe, enhance the pace of economic growth in India and mainly strengthen India's manufacturing sector, which in turn can boost the Indian exports. The focus of Make in India programme was mainly on 25 sectors. They include: automobiles, automobile components, aviation, biotechnology, chemicals, construction, defence manufacturing electrical machinery, electronic systems, **food processing**, IT & BPM, leather, media and entertainment, mining, oil and gas, **pharmaceuticals,** ports and shipping, railways, renewable energy, roads and highways, space, textile and garments, thermal power, tourism and hospitality and wellness. Of these, the followingsix sectors were projected as the Superstars that include Automotive, Electronic systems design and manufacturing, renewable energy, Roads and highways, **Pharmaceuticals and food processing**. There has been robust growth of Pharmaceuticals and food processing in terms of their export potential in the pre and post Pandemic Covid 19. Also as per the FDI Policy of 2018, these two sectors are categorized under 100% FDI through automatic route (makeinindia.com). Therefore in this paper we are focusing on these two sectors in terms of the present and the future (pre and post Pandemic) focus of Indian exports. Exports in September 2020 were $27.58 Billion, as compared to $26.02 Billion in September 2019, exhibiting a positive growth of 5.99 %.

Let us have a look to the trends in overall exports of India since the launching of Make in India initiative.

Table 1 Overall Export growth

Year	Billion $	% of GDP
2014	468.35	22.97%
2015	416.79	19.81%
2016	439.64	19.16%
2017	498.26	18.78%
2018	538.64	19.85%
2019	528.30	18.41%
2020 (till December)	313	12.07%
Proposed in 2021	350	NA

Source: www.statista.com

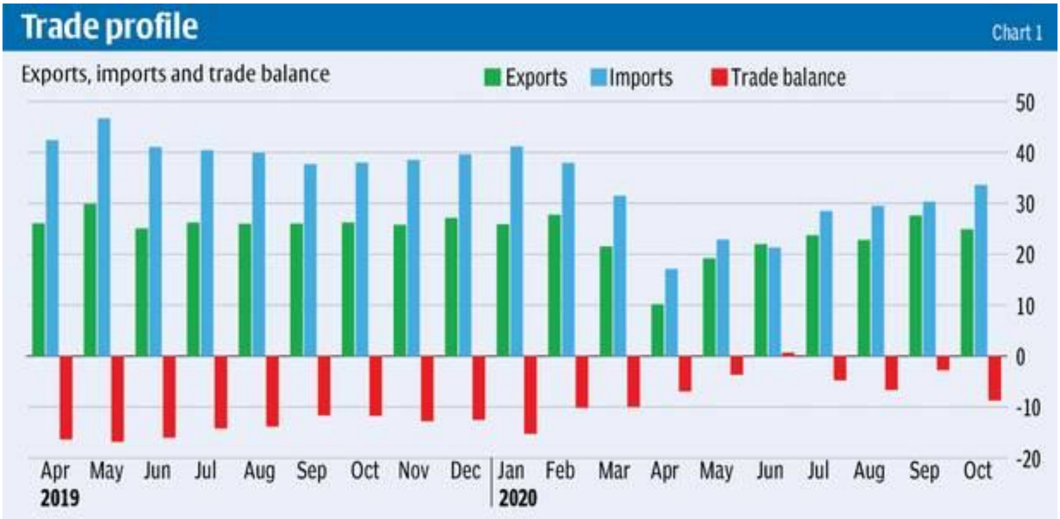
Major commodities/commodity groups which have recorded positive growth during September 2020 (Post Pandemic) against September 2019 (Pre Pandemic) are **Other cereals (337.22%),** Iron Ore (109.65%), **Rice (93.86%),** Oil Meals (47.52%), Carpet (42.89%), Ceramic products & glassware (36.17%), Oil seeds (35.69%), **Cereal preparations & miscellaneous processed items (33.57%), Drugs & pharmaceuticals (24.38%),** Handicrafts excl. handmade carpet (21.82%), **Meat, dairy & poultry products (19.97%),** Jute manufacturing including floor covering (18.64%), Cotton yarn/fabrics, handloom products etc. (15.39%), Spices (11.44%) andTobacco (11.09%) . (The trends of the items in the bold are shown separately ahead in Table 2 and 3). These trends resulted in some positive facts for the economy in terms of its External sector. They are

Merchandise trade: The trade deficit for September 2020 was estimated at $2.72Billion against the deficit of $11.67Billion inSeptember2019, which is a decline of 76.66 %.

Services: As per RBI's Press Release (October 2020), the trade balance in Services (i.e. Net Services export) for August 2020 is $6.84Billion. The estimated trade balance in September 2020 was little more at $6.85Billion.

Overall Trade Balance: Taking merchandise and services together, overall trade surplus for April-September 2020-21 is estimated at $17.74Billion as compared to the deficit of $49.91Billion in April-September 2019-20. **(Source: Ministry of Commerce and Industry PIB Oct 2020). All these facts are acknowledged in an article by** C P Chandrashekhar and Jayati Ghosh titled "India's external sector gloom amidst the global pandemic" Dec 28,2020 Business Line. It is well explained by the following graph.

Graph 1 Trade Profile of India: Pre and post Pandemic



Source: "India's external sector gloom amidst the global pandemic" Dec 28,2020 Business Line.

Food processing

In case of the food processing, it is the 2nd largest in terms of global food production, 1st in the production of many agricultural commodities, 5th largest in the production, consumption, exports and expected growth as per the estimates of World Food India, 2019. It is one of the Sunrise Industries in India that blend the agricultural and industrial growth. India's food processing sector is one of the largest in the world and its output is expected to reach $ 535 Billion by 2025-26 (IBEF). It lies at the centre of the Make in India initiative and rightly expresses the notion 'vocal for local'.

New initiatives like a planned infrastructure outlays of around 100 lakh crore Rupees and 25 lakh crore Rupees to boost the rural economy have put the food processing sector on a high growth trajectory. The Pradhan Mantri Kisan Sampada Yojna, for example, is a comprehensive package to create modern infrastructure with efficient supply chain management from farm to retailers. Recently introduced Atmanirbhar Bharat vision, the scheme of Formalization of Micro Food Processing Enterprises (FME) with an outlay of Rs.10,000crore is the best example of export led growth policies in India. In this regard, *India's food sector attracted $ 4.18 Billion FDI between April 2014 and March 2020.*

Let us have a look on India's agricultural exports of which the processed food is the significant component.

Table 2 Selected Agricultural Exports

Product/Item	2019-20		2020-21 (March-Dec 2021)	
	Quantity in MT	Value in Rs. Crore	Quantity in MT	Value in Rs. Crore
Non-Basmati Rice	**5036190**	**14352**	**8217255**	**22856**
Basmati Rice	4454713	31025	3380654	22038
Buffalo Meat	1152324	22661	804996	17621
Miscellaneous Processed Items		4677		4412
Fresh vegetables	1927788	4616	1882068	4120
Processed vegetables	**223145**	**2210**	**284691**	**2361**
Processed Fruits & Juices	568865	4590	394843	3707
Cereal Preparations	342996	3871	285553	3416
Other Cereals	**500837**	**1449**	**1878183**	**3067**
Alcoholic Beverages	**139601**	**1648**	**196476**	**1891**
Wheat	**217010**	**438**	**976083**	**1869**
Dairy products	111145	1982	79264	1609
Pulses	**229637**	**1491**	**215070**	**1533**
Milled Products	**283275**	**1063**	**280628**	**1124**
Processed Meat	**442**	**15**	**477**	**9**
Total		114057		102451

Source: APEDA (Agricultural and Processed Food Products Export Development Authority)

The above Table reveals very clearly the performance of the exports of processed food items like Processed vegetables, meat, Milled products, Pulses etc. which have shown clear cut increase either in the quantity or the worth of these exports. The Non-Basmati rice, Other Cereals and the Alcoholic Beverages have shown impressive rise in quantity as well as the worth with reference to pre and post Pandemic. Taking into account the 2020-21 figures for just 10 months of that post Pandemic year, even if the figures for Dairy products, Cereal preparations, Fresh vegetables ect. show little decline in the quantity or the worth, their export potential in the coming days is unquestionable. The overall performance of this sector exports in the post Pandemic stands commendable.

Pharmaceuticals

India is one of the largest producer/providerof pharmaceutical products and a leading player in the global generic medicine market (20%), exporting nearly 50% of its production. Since the launching of the Make in India, the growth of this sector has been impressive and that is continued, rather enhanced during and post Pandemic period. India enjoys an important position in the global pharmaceuticals sector. According to the IBEF (India Brand Equity Foundation), Indian pharmaceutical sector is expected to grow to US$ 100 billion, while medical device market is expected to grow US$ 25 billion by 2025. Pharmaceutical exports include bulk drugs, intermediates, drug formulations, biologicals, Ayush and herbal products and surgical.By November 2020, India exported pharmaceuticals worth US$ 15.86 billion in 2020-21. Pharmaceutical exports from India stood at US$ 16.28 billion in 2019-20 and US$ 2.07 billion in October 2020.

Table 3: Worth of the Pharmaceutical exports of India

Year	Value in Billion US Dollars
2012	10.1
2013	12.6
2014	14.5
2015	14.9
2016	16.9
2017	16.8
2018	17.3
2019	19.1
2020	15.86 by November 2020

This impressive growth of the Pharmaceutical exports had been the result of multiple factors. The Union Cabinet allowed the amendment of existing Foreign Direct Investment (FDI) policy in the pharmaceutical sector in order to allow FDI up to 100% under the automatic route for manufacturing of medical devices subject to certain conditions. Due to this stimulus, the drugs and pharmaceuticals sector attracted cumulative FDI inflow worth US$ 16.86 billion between April 2000 and September 2020 according to the data released by Department for Promotion of Industry and Internal Trade (DPIIT).

Fiscal incentives to promote the Export growth

Fiscal incentives are the incentives provided through the Fiscal policy in terms of some tax concessions, rebates, and subsidies. Some of these are

Indian government has planned to set up a fund of Rs 1 lakh crore ($ 1.3 billion) to boost companies to manufacture pharmaceutical ingredients domestically by 2023.

Under Budget 2020-21, Rs. 65,012 crore ($ 9.30 billion) has been allocated to the Ministry of Health and Family Welfare.

The Government has allocated Rs. 34,115 crore ($ 4.88 billion) towards the National Health Mission under which rural and urban people will get benefited.

Rs. 6,400 crore ($ 915.72 million) has been allocated to health insurance scheme Ayushman Bharat - Pradhan Mantri Jan ArogyaYojana (AB-PMJAY).

Government of India has designed 'Pharma Vision 2020' to make India a global leader in end-to-end drug manufacture and the Approval time for new facilities has been reduced to boost investment.

Government has provided some support on manufacturing and exports. The major support from the Government has been on tax concessions, basically available to small and medium companies (MSMEs). They come with excise exemptions.

New Textile Policy of India is in the pipeline and is going to emphasis more on textile exports wherein India has a comparative advantage. Cotton Corporation of India has procured 90.87 lakh bales during the current cotton season 2020-21. Certain Indian Textile Products are listed in the US Trafficking Victims Protection Re-authorization Act (TVPRA) child labour/ forced-labour List 2020. Steps have been taken through Embassy of India in the US for delisting of such products.

Despite the fact that the Covid 19 Pandemic brought the world economy to a standstill, it is clear from above discussion that the Indian economy has performed really well in terms of its export growth at least in some sectors already mentioned. The per capita exports in India stood at about USD 241, as compared to USD 11,900 in South Korea and USD 18,000 in China by 2020. Looking at the initiatives taken by the Indian government so far, **Indian economy has a huge potential to become a strong exporter on the world stage.** Being Federal in nature, this can be achieved by making **India's states and union territories** active participants in the country's export efforts. It is interesting to look at the Export Preparedness index Report 2020. The **NITI Aayog in partnership with the Institute of Competitiveness** released this report. This Report aims at **identifying challenges and opportunities,** enhance the effectiveness of government policies and **encourage a facilitative regulatory**

framework for exports. It ranks the Indian states on the basis of four pillars: Policy, Business Ecosystem, Export Ecosystem and Export Performance and 11 sub-pillars. The Top five states as per their scores (on 100) in this regard are

Gujarat – 75.2

Maharashtra – 75.1

Tamil Nadu – 64.9

Rajasthan – 62.6

Orissa – 58.2

The above picture represents the imbalance in the Export preparedness of Indian states as 70% of India's exports are dominated by five states- Maharashtra, Gujarat, Karnataka, Tamil Nadu and Telangana. To maintain the existing performance of Indian exports, apart from the Union government, the state governments too need to gear up with greater initiatives.

FDIs and FII inflows in India

Pandemic is going to affect investors and economies differently depending upon the country context and FDI motivations. FDI could play an important role in supporting economies during the economic recovery following the pandemic. Evidence from past crises has shown that foreign-owned affiliates, including small and medium enterprises, can show greater resilience during crises thanks to their linkages with, and access to the financial resources of, their parent companies (e.g. Alfaro and Chen, 2012; Desai et al., 2008). FDI could be particularly important for emerging and developing economies given that other sources of international financing, including portfolio investment, have fled these economies (see OECD Investment policy responses to COVID-19).

In case of India, FDI is a major driver of the economic growth and an important source of non-debt finance for the economy. Investors' friendly FDI policy and removing policy bottlenecks became the prerequisite for attracting more FDIs in India. Measures taken by the Government on the FDI policy reforms, investment facilitation and ease of doing business have resulted in increased FDI inflows into the country.

Indian Ministry of Commerce data reveals that total FDI inflows recorded of $ 58.37 billion during April to November 2020 which is the highest one for the first eight months of the financial year 20-21 and 22% higher as compared to the first eight months of 2019-20. Major chunk of FDI have come in the sectors like Manufacturing, Communication Services, Retail and Wholesale Trade, Financial Services, etc.

Government of India is specifically focusing on two sectors for FDI inflows, namely Defence and Insurance. Defence has been a priority sector of the Indian government since 2014. Make in India and Atmanirghar Bharat initiatives have also been emphasizing on defence sector. The defence arena opened up 100 percent for the private sectors' participation in year 2001 and slow FDI allowances were allowed to enter in to the sector. Recently Ministry of Defence (MoD) along with the Reserve Bank of India (regulatory body for the FDI allowances) the FDI threshold has been raised from 49 percent to 74 percent under the automatic route. Defence Production and Export Promotion Policy (DPEPP) of the MoD highlighted the long gestation and capital intensive nature of this sector still has huge potential in employment generation and export performance. This will focus on dynamic defence, aerospace and shipbuilding industry, for reducing dependence on imports, for promoting export of defence products and creating an environment that fosters innovation and R&D.[1]

Very recently the FDI limit for Indian Insurance sector has been increased from 49 % to 74 %. Insurance practices have not dawned fully among Indian population. Increase in FDI limits for Insurance sector will bring global insurance practices along with new product features and selling strategies in the country.

Many economists believe that the World was suffering from 'secular stagnation' before this pandemic and continue to observe the same trend post this unprecedented situation. Secular stagnation here would mean having interest rates and inflation permanently lower than the historical rates. Most of the advanced countries have slowed on productivity growth, aging and population stagnation reduces the proportion of work force and the shift from industry to services which are less investment intensive have contributed further to trigger up this stagnation. The combined effect of this is persistent glut of global savings and reduction of investment demand which is actually putting downward pressure on prices and interest rates and apparently will continue in the long run. This will keep money flowing to emerging markets, in search of high returns.

Same is getting reflected in inflows of Foreign Institutional Investors (FIIs) in Indian equity and debt markets. Foreign Portfolio Investors/Foreign Institutional Investors (FPI/FII) have been one of the biggest drivers for India's financial markets, having invested around Rs. 2.17 trillion (US$ 30 billion) in 2020-21 (as of January 07, 2021).2 This has been the highest among all other emerging markets. Other the above mentioned core economic variables; there are other non-economic variables which must have pushed up the FII inflows in India, which would include reduction in Covid-19 cases, vaccine progress, unlocking process of the economy, etc. India is being viewed as a potential opportunity by investors with the economy having the capacity to grow tremendously. Buoyed by strong support from the Government, FII investment have been strong and is expected to improve going forward.

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Trade tack ticks in the past and now

Trump administration initiated 'Trade-war' in 2018. During the 2016 presidential campaign, Donald Trump repeatedly gave assurances that American trade policy would be favorable to the American people. Ex- US President Donald Trump referred to the series of import tax on some countries and its most important reference thread was built with China.

In the initial months of the Trade War, the US demanded that China should stop subsidizing the 10 industries prioritized in its "Made in China 2025" plan. These include robotics, aerospace and software. China dreams to be the World's primary artificial intelligence center by 2030. The United States had accused Beijing of stealing intellectual property rights. US believes Chinese laws undermine intellectual property rights by forcing foreign companies to engage in joint ventures with Chinese companies, which then gives the Chinese companies access and permission to use, improve, copy or steal their technologies. The Trump administration estimated that the theft of American intellectual property was $ 225 billion dollars to $ 600 billion every year. In addition, according to some important evidence, Chinese companies, often by the involvement of government officials, run cyber attacks on American companies to steal intellectual property.

The European Union, Canada, Mexico along with India started raising import tariffs to safeguard their positions. Eight countries filed a complaint with the WTO saying that the US cannot use national security as a defence against them. India was never a part of this trade war but it did feel the heat of this fight between two giants of the world economy. To be on a safer side India opted to concentrate on the rupee value stability and maintaining the required foreign exchange reserves for the security. We could sense the politicization of this trade war, silence of WTO over the fight, wasted interests of some of the EU countries. However, the future of China's economic relationship with the US remains uncertain after a two-year trade war between the two giants. US President-elect Joe Biden mentioned that he wouldn't quickly remove tariffs imposed by the Trump administration and will consult allies before developing a China strategy.

After the US-China trade war scenes, the outbreak of Covid-19 pandemic has questioned China's integrity across many countries of the world. When developed countries thinking over shifting their manufacturing base out of China, attracting this large chunk of capital flight has challenged Indian government.

In case of trade, the export-led growth strategy served China well over the past three decades but is now at risk, given that major trading partners have yet to transition from the rescue stage and are facing deep recessions, limiting the demand for Chinese exports. New restrictive trade practices in some countries also increase the risks for existing Chinese production and employment patterns. (Ehtisham Ahmad, Nicholas Stern and Chunping Xie 1 June 2020) Another set of literature on patterns of trade post-covid specifies that the focus will remain on the reconfiguration of international supply chains (e.g., Ivanov & Dolgui, 2020; Verbeke, 2020) “The export boom is one of the biggest economic surprises this year regarding China’s outlook,” with the country benefiting from effective containment of the virus and strong Christmas orders, said Zhou Hao, an economist at Commerzbank AG in Singapore.

Barring few similarities like geographical proximity, size of the economy, factor endowment, the political, social and economic differences between India and China are substantial. We must agree that the competition between China and India is mutually complementary and win—win cooperative. Whether its domestic economy or external sector, policies of these two countries vary to a large extent. Export-led growth has been on agenda for Chinese Economy for a long and that reflects in its market share as well. India has been emphasizing on the domestic market capacities and their enhancement for long and continued with small portion of external sector. It is the first time that India has aggressively mentioned its export-led growth ideologies through the capture of domestic potential. Therefore, it is pertinent to make a note of the India’s New Trade Policy which is still under process for the years 2021-26 obviously in context of other government initiatives and the significance of this entire package as such.

India’s New Foreign Trade Policy

India’s new Foreign Trade Policy which is under process, will come into effect from April 1, 2021. Indian trade policy always is for Five years span and formulated by the Ministry of Commerce and Industry in accordance with other ministries. A key driver for India to achieve the USD 5 Trillion mark in an expedited time frame would be boosting exports, both merchandise and services, through systematically addressing domestic and overseas constraints related to the policy, regulatory and operational framework for lowering transactions costs and enhancing ease of doing business, creating a low cost operating environment through efficient, cost-effective and adequate logistical and utilities infrastructure. Improvements in the operations of the domestic manufacturing and services sector in combination with efficient infrastructure support by the government would result in correcting the imbalances within India and feed into the trade policy. (Ministry of Commerce & Industry).

Up till now regional authorities of Director General of Foreign Trade (DGFT) were engaged with the States/ UT Governments. Considering the federal structure of India, it is necessary to engage the district levels as well to tap the potentials lying there as an export hub. This has to be done through systematically addressing domestic and overseas constraints related to the policy, regulatory and operational framework for lowering transaction costs and enhancing the ease of doing business, and creating a low-cost operating environment through efficient logistical and utility infrastructure.1

New policy is surely going to focus on Improvements in the operations of the domestic manufacturing and services sectors in combination with efficient infrastructure support by the government which would result in correcting the imbalances within India.

Conclusions

Economic reforms aimed at Improving resource allocation by eliminating market distorting policies, minimizing the regulatory burden on business, reducing FDI Volatility by increasing economic and political stability, and removing natural resource dependence by diversifying the economy can induce FDI led growth in the long run.

In the present pandemic scenario the Foreign Direct Investment has been the battlefield for emerging markets. Indian government has genuinely provided many incentives and schemes time to time to boost the growth of FDI in India. These incentives apparently have contributed in creating a conducive environment for investment, opening up new sector for foreign investment, modern and efficient infrastructure. Time to time amendments in FDI policy with a view to make it more investor friendly has helped. Foreign Investment facilitate portal has been introduce by govt. for investor to facilitate the foreign direct investment.

Boosting exports would become a key driver for India to achieve the USD 5 trillion mark economy in an expedited time framework. This has to happen in a sustainable manner. India cannot afford to ignore or even further creation of market imperfections. Unprecedented pandemic followed by lockdown across the World has given some time for introspection. The 'Make in India' or 'Atmanirbhar Bharat' initiatives, export-led growth policy stimulus during pandemic, rise in exports of food products, generic medicines, newly entered FDIs and flood of FIIs in Indian economy. All these dots need to be connected at the backdrop of India's New Foreign Trade Policy (2021-26). Taking the sustainability issue into consideration, the existing composition of Indian exports needs a substitution in terms of more green exports and their promotion accordingly.

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