

## Extensive Explanation of the Article: FDI and Exports Need a Policy Boost

India's external trade sector faces increasing challenges due to **shifts in global trade dynamics, protectionist policies in many countries, and economic uncertainties**. The recently published **Economic Survey** and **Union Budget** have addressed these concerns by proposing policy changes to **boost Foreign Direct Investment (FDI) and exports**. However, the article argues that while these steps are positive, they **may not be enough to drive long-term growth and structural change**.

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### 1. Economic Survey Findings: Adapting to Global Trade Shifts

The **Economic Survey** (a government report assessing the economy) highlights that India needs to make strategic adjustments to its external trade policies due to the evolving global trade landscape.

#### Key Takeaways from the Survey:

##### 1. Changing Global Trade Landscape

- India's external sector, especially **exports**, is under pressure due to:
  - A **shift in power in the U.S.** (which influences trade policies worldwide).
  - **Rising protectionism** (countries imposing trade barriers to protect domestic industries).
  - **Uncertain global economic conditions** (including high inflation and rising interest rates).

##### 2. Long-Term Strategy: High-Value Sector Focus

- The Survey suggests **India should become a strategic partner in advanced, high-value industries**.
- These industries include:
  - **Biotechnology** (medical research, pharmaceuticals, genetic engineering).
  - **Semiconductors** (critical for electronics and digital economy).
  - **Space technologies** (satellite development, aerospace advancements).
- This shift would help India **establish a strong position in the global economy** and attract high-quality investments.

##### 3. Short-Term Strategy: Diversifying the Export Basket

- To **reduce dependence on a few industries**, India should:
  - Expand its **range of export products**.
  - Identify and target **new international markets**.

- This will protect India from:
  - Global trade disruptions.
  - High trade costs due to international tariff changes.

## Conclusion:

The Economic Survey recognizes the **need for both short-term and long-term strategies** to ensure India remains competitive in global trade.

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## 2. Key Budget Announcements

The **Union Budget** introduced major policies to boost FDI and exports. The two most significant announcements are:

### (A) Revamping the Bilateral Investment Treaty (BIT) Model

#### 1. What is the Bilateral Investment Treaty (BIT)?

- BITs are agreements between two countries that **define the terms for private investments**.
- They provide protection for investors and ensure **fair treatment of foreign investments**.

#### 2. Why is India Revamping BIT?

- The **2016 BIT model** is seen as **too restrictive**.
- It has clauses that discourage **foreign investors**, especially regarding **investor-state disputes**.
- Many developed nations have **hesitated to sign investment agreements with India** due to these restrictions.

#### 3. What Will Change?

- The **revamped BIT model** will:
  - **Make investment policies more flexible**.
  - Ensure **investor-friendly terms** to encourage FDI.
- India is currently negotiating BITs with:
  - **The UK, Saudi Arabia, the EU, and Qatar**.

#### 4. Why Does This Matter?

- A **business-friendly BIT** will encourage **higher foreign investment** in critical sectors.
- Without reforms, India may **struggle to attract FDI**, especially in uncertain global economic conditions.

### (B) Raising the FDI Limit in the Insurance Sector to 100%

#### 1. Current Situation:

- India's **insurance penetration is low**.
- The **insurance premium to GDP ratio is only 3.7% in FY24**, compared to the **global average of 7%**.

## 2. New Policy:

- The government has **increased the FDI limit to 100%** in the insurance sector.
- Condition: **Foreign investors must reinvest all premiums within India**.

## 3. Expected Benefits:

- This policy will **bring more foreign players into India's insurance sector**.
- **Previous FDI increases in insurance (2015 and 2021) attracted ₹54,000 crore**.
- The expectation is that **this reform will drive even higher investments**.

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# 3. Export Promotion Initiatives

The Budget introduces new measures to **boost exports** amid increasing **global protectionism and trade barriers**.

## (A) Export Promotion Mission

### 1. Objectives:

- Increase **export access**.
- **Reduce trade-related costs** and bureaucratic delays.
- Improve credit availability, especially for **Small and Medium Enterprises (SMEs)**.

### 2. Key Features:

- **Easier credit access for exporters**, especially small businesses.
- **Reduced compliance requirements** (fewer paperwork and formalities).
- **Budget allocation: ₹2,250 crore** (critics say this is **insufficient** to make a large impact).

## (B) Bharat Trade Network

### 1. What is it?

- A **new digital platform** designed to **streamline export documentation**.
- It integrates major government and financial bodies:
  - **DGFT (Directorate General of Foreign Trade)**
  - **GSTN (Goods and Services Tax Network)**
  - **Banks**

### 2. Benefits:

- Reduces **bureaucratic delays**.
  - Makes **trade processes faster and more efficient**.
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## 4. Areas Needing Improvement

### (A) Weak Manufacturing Reforms

#### 1. No Major FDI Boost for Manufacturing

- The **Budget does not introduce major FDI incentives** for manufacturing.
- The **PLI (Production Linked Incentive) scheme** has **not delivered expected results**.

#### 2. Some Sector-Specific Support:

- Certain industries **received support**, including:
  - **Agro-textiles**
  - **Geotextiles**
  - **Electric Vehicle (EV) industry** (through **critical minerals policy**).

#### 3. What's Missing?

- A **comprehensive FDI strategy for manufacturing**.
- More incentives to **attract global manufacturers** to set up operations in India.

### (B) Need for More Focus on Services Exports

#### 1. India's Real Strength: Services Exports

- While boosting manufacturing exports is important, **India's strongest sector is services**.
- IT services, financial services, and consulting **bring significant foreign exchange earnings**.

#### 2. What's Needed?

- A **dedicated policy framework** to **enhance service exports**.
- Investments in **skills development and digital infrastructure**.

### (C) Tariff Rationalization and Inverted Duty Structure

#### 1. What is the Issue?

- Some industries **pay higher duties on raw materials than on finished goods**.
- This discourages **domestic production**.

#### 2. Budget's Approach:

- Steps taken to **correct the duty structure**.
- **More comprehensive reforms are needed** to boost manufacturing competitiveness.

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## 5. Conclusion

The **Budget and Economic Survey recognize the need to improve India's external trade and FDI policies**. Key initiatives like **revamping BIT, increasing FDI in insurance, and export promotion programs** are **positive steps**. However, the article argues that:

- **More aggressive reforms** are needed to **attract FDI in manufacturing**.
- **The ₹2,250 crore allocation for exports is too low** to make a major impact.
- **Services exports must get more policy attention** alongside manufacturing.
- **Tariff and duty reforms need to be broader** to boost local industries.

### **Final Thought:**

The Budget **takes some necessary steps**, but **India still has a long way to go in making its FDI and export policies globally competitive**.