

## **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.