

**Handbook on  
Potential for ‘NEO Import Substituting  
Industrialisation in India’-ISI  
(COVID-19)**



**Research Committee**  
**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

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# Foreword

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Import substitution is an economic and trade policy which advocates replacing foreign goods with domestic goods with the twin objectives of saving foreign exchange funds of the country and achieving self-reliance by generating income and employment for their residents. In earlier times it was undertaken by countries in nascent stages of industrialization to protect their industries from foreign competition. In India, the policy of import substitution had been adopted post-independence till Economic Reforms in 1991 by imposing heavy tariffs on import. The Government of India had launched "Make in India" campaign to boost local manufacturing targeting to increase output from the present level of about 16% of the gross domestic product (GDP) to 25% by 2022. Expansion and growth in the manufacturing sector leads to self-sufficiency in many products and creates employment opportunities as well.

Even though our country is having number of positive factors, infrastructure and Institutions for each and every Product / Sector to start 'Import Substitution Industries (ISI)', still we are dependent and Import many goods from other countries. In the present time, COVID-19 has accelerated the thinking triggered by worldwide economic slowdown that it is better for each country to fall back on domestic economies and import substitution. The old mantra of 'don't import what can be made in the country' is being adopted by expediency driven as '*Aatma Nirbhar Bharat*'.

The Institute of Chartered Accountants of India (ICAI) has been continuously undertaking several initiatives to support the Government as well as all related stakeholders in respect of various new economic issues/initiatives/reforms in India.

I am happy to note that the Research Committee of ICAI in this direction has come up with the publication **Handbook on Potential for 'NEO Import Substituting Industrialization in India'-ISI (COVID-19)**, to provide guidance in respect of potential for Import Substitution Industries in India.

I congratulate CA. Anuj Goyal, Chairman, Research Committee, CA. Kemisha Soni, Vice- Chairperson, Research Committee, CA. Hans Raj Chugh, Chairman, Committee for Export of CA Services & WTO, and all

other members of the Research Committee who have contributed immensely towards bringing out this publication.

I am confident that this Handbook will be immensely useful for the members and other stakeholders as well.

**New Delhi**  
**July 28, 2020**

**CA. Atul Kumar Gupta**  
**President, ICAI**

# Preface

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Import Substitution (IS) is an aggressive economic policy employed by emerging economies to promote domestic production and self-sufficiency in many sectors. It is also seen as a means to reduce dependency on developed nations. IS seeks to provide added protection to domestic industries via tariffs, import quotas, government loans at subsidised rates of interest. This encourages people to start new production units. The boost to domestic manufacturing sector leads to employment opportunities being created and considerably lowers the demand for foreign exchange. The economies adopt this policy to protect its budding industry from International competition that has easily attained economies of scale due to large-scale production.

Import Substitution gained widespread prominence and adopted by many countries after World War II to bolster domestic industry and growth. This was also done to reduce dependence on other countries. India too had resorted to import substitution which was later reversed during 1991 currency crisis. Indian industry could not be expanded to its full potential due to severe lack of sophisticated basic infrastructure. Import Substitution although can prove beneficial for certain sectors of economy for some specific phases in economic conditions but if the policy is stretched over the entire industrial sector as a long-term policy can eventually lead to less competitive production which will gradually start to decline. The phenomenon has again gained limelight due to 'Make in India' campaign being promoted by the Government of India. The idea is to make India a favoured investment destination and attain a considerable level of output from 16% to 25% by 2022.

With the above background, Research Committee of The Institute of Chartered Accountants of India brought this publication '**Hand Book on Potential for NEO Import Substituting Industrialisation in India-ISI: Covid-19**' and to give some thought to popularise this concept by various stakeholders like Indian Corporate World, MSME Sector, Educational Institutes, Financial Institutions etc. Thereby it helps not only the development of Indian Economy but also to fulfil the objectives of 'Make in India' Initiative of Government of India and self-reliance. Recently, Minister for MSME and Road Transport and Highways said a policy on import

substitution is being thought of in the wake of the economic situation created by the COVID-19 pandemic.

The Institute of Chartered Accountants of India has been regularly supporting the Government, its members and other stakeholders by disseminating knowledge through its technical publications, programmes and conferences on various issues. Now, considering the need for guiding members and other stakeholders on potential of import substitutions industries in India in the wake of the economic situation created by the COVID-19 pandemic. The objective of this handbook is to provide guidance in respect of Potential for Import Substitute Industries in India.

I am thankful to CA. Atul Kumar Gupta, President, ICAI and CA. Nihar N. Jambusaria, Vice President, ICAI for inspiring me to conduct this study.

I would like to thank CA. Kemisha Soni, Vice-Chairperson, Research Committee, CA. Hans Raj Chugh, Chairman, Committee for Export of CA Services and WTO, CA. Deepak Brij Gupta, Co-opted Member and other members of the Research Committee.

I also acknowledge the assistance and co-operation rendered by the Research Committee Secretariat and Dr. Amit Kumar Agarwal, Secretary to the Research Committee who gave the valuable inputs during preparation of this Handbook. I would like to take this opportunity to place on record my appreciation of the efforts put in by Dr. P. Siva Rama Prasad, Mr. Sunil Dasari and Dr. Sai Sudha Puvvala, who contributed in the preparation of the basic draft of the handbook.

I trust that this Handbook will be immensely useful to the members and to others interested.

New Delhi  
July 28, 2020

CA. Anuj Goyal  
Chairman, Research Committee

# Contents

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1.	Introduction	1
2.	Theories on Import Substitution Industrialisation	12
3.	History of Import Substitution Industrialisation	20
4.	World Trade Organisation	46
5.	Importance of Export Promotion	58
6.	India's External Trade	82
7.	Trade Issues: Economic Survey 2019-2020	113
8.	Favourable Climate for Import Substitution Industries in India	124
9.	Potential for ISI in India (COVID-19)	152
10.	Suggestions and Conclusions	235





# Chapter-1

## Introduction

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The World is entering the new COVID-19 era of Sustainable Development Goals. These include poverty eradication, education for all, inclusive economic growth, full employment, reduced inequality, climate change mitigation and sustainable use of the world's ecosystems. Economic transformation is critical to make these socio-economic and environmental goals achievable and sustainable.

Economic transformation requires long-term investment to support the expansion of productive capacities, as well as infrastructure development that underpins industrial activities and reduces the bottlenecks. Rapid, transformative growth will also require, from the developing world, a more autonomous development strategy, in the light of the fragile world economic recovery and the uncertainty about developed country demand and capital as drivers of developing country growth.

Projections of the potential impact of the Covid-19 shock on economies around the World for the year 2020 vary widely. However, there is broad agreement that the Global economy will contract given the sudden stoppage due to large swathes of activity and the resulting income loss in the manufacturing and services sectors across world and most advanced countries like China, combined with the adverse effects on financial markets, consumption (through both income and wealth effects), investment confidence, international trade and commodity prices.

Recently a series of stimulus packages unprecedented in both scale and scope have been announced by the major developed economies and China to extenuate the mounting economic damage and respond to the health crisis. Aside from financial injections to keep the banking and corporate balance sheets on relatively stable footing, the critical measures to avert contractions of economic activity include government spending (particularly on health care), extended unemployment benefits and cash transfers.

Developing countries, however, face distinct pressures and constraints which make it significantly harder for them to enact effective stimulus without facing foreign exchange constraints. And as these countries do not issue

International reserve currencies, they can only obtain them through exports or sales of their reserves. What is more, exports themselves require significant imports of equipment, intermediate goods, know-how and financial business services. Finally, the financial turmoil from this crisis has already triggered sharp currency devaluations in developing countries, which makes servicing their debts and paying for necessary imports for their industrial activity will be more onerous.

Many developing countries were slowing down during the final quarter of the last financial year with several of them entering into recession. However, the speed at which the economic shock to advanced economies has hit developing countries in many cases in advance of the health pandemic is dramatic, even in comparison to the 2008 Global financial crisis.

The economic fallout from the Covid-19 shock is on-going and increasingly difficult to predict but there are clear indications that things will get much worse for developing economies before they get better.

First, the full effects of the health crisis are yet to hit many developing countries, and we have yet to reach the "end of the beginning" of the economic crisis in the advanced economies. Following the collapse of Lehman Brothers in September 2008, the Global economy registered 5 consecutive quarters of negative growth, albeit at a decelerating rate after the second quarter of 2009; despite the massive stimulus packages now being implemented to prevent a long period of depression and may avert a recession in the Global economy this year.

Second, many of the conditions that produced a sharp bounce back in developing countries after 2010 are no longer present or considerably weaker. China's massive stimulus in 2009 and rapid return to double digit growth had strong positive effects on demand for the exports of developing countries while the search for yield by Northern investors operating under the loose monetary policy adopted by leading Central Banks heightened their appetite for risk assets, producing a rapid rebound in capital inflows in emerging and other developing countries. Moreover, confidence in the developing world was boosted by expanding South-South trade and financial links that had begun before the crisis hit, encouraging the idea that developing countries had "decoupled" from the economic troubles of developed countries. These conditions are unlikely to be repeated this time around. In addition, weakening state capacity, diminishing fiscal space and a

rise in illicit financial flows over the past decade, place further constraints on the effective recovery strategies in many developing countries.

Third, the strong recovery in developing country trade that occurred in 2010 seems less likely this time. Even if the damage to global supply chains is not irreparable, as lead firms recover from the crisis, they will have to rethink their business model, including fewer links in these chains, and with more that are closer within the Country. Moreover, China has steadily diminished its dependence on external suppliers in its chains through an increase in domestically produced intermediate products. At the same time, there has been too little diversification of economic activity in many developing countries over the past decade with greater commodity dependence in many countries leaving them more exposed than ever to new shocks and disturbances.

Fourth, the current fall of commodity prices has started from a lower value compared to what happened in the GFC (Global Financial Crisis) when the world economy was at the peak of the "super commodity cycle" and appears to be broad based. Commodity prices have been well off their post-recovery highs since the price slump in 2016 but it seems unlikely that there will be the same kind of pick up in prices seen between 2009 and early 2011 which was well ahead of the recovery in Global output.

Fifth, new vulnerabilities have emerged that are likely to hold back growth. Emerging economies, in particular, have seen a rapid build-up of private debt in reserve currencies and increased penetration of their markets by non-resident investors, foreign banks, and other financial institutions, as well as allowing their own residents to invest more freely abroad. There has also been a strong shift in the ownership of Central Government debt, including public external debt, from official to private creditors and shadow-banking actors. These trends heighten developing countries' external vulnerabilities and entail large transfers of resources to advanced economies through various financial channels. Moreover the greater presence of foreigners in bond and equity markets has, increased the potential instability of exchange rates and further exposed domestic financial markets to the vagaries of global risk appetite and liquidity conditions.

Finally, developing countries' ability to build up International reserves as a buffer against macro-economic shocks has been weakening. In the aftermath of the global financial crisis, developing countries' International reserves

increased steeply, precisely in response to an evident need for “self-insurance” in a volatile global economic environment. However, since the onset of the commodity price downturn in 2012, reserve holdings, while still high by historical standards, have fluctuated widely, reflecting multiple pressures on developing countries’ ability to maintain high reserve holdings, such as commodity price downturns and growing debt and financial vulnerabilities. Given the massive expected impact of the Covid-19 crisis, reliance on such self-insurance is not an option, with reserves likely to be drained very fast.

The analysis of the impact of the Covid-19 shock has been mostly concentrated on China and advanced economies, since they were initially more affected by the pandemic and account for three quarters of the world output and have the monetary and fiscal policy space to respond. However, since two-thirds of the world population live in the (remainder of the) developing world, the responses to the current shock must include dedicated actions for developing countries, at all income levels.

In general terms, there are three main transmission mechanisms or channels through which the Covid-19 shock can be expected to increase the financial pressures on developing economies over the coming months.

The first channel is the pressure on Government budgets from the public health crisis. The social distancing necessary to stop the contagion and it has already led to economic shutdown in many developed and developing countries affecting majority of the world’s population. A sharp, sudden fall in employment is already happening. While developed countries have the administrative capacity and (generally) the fiscal space to buttress their social protection systems and protect private incomes, in developing countries sharp contractions of incomes are all but inevitable along with falling fiscal revenues. Tighter fiscal space and weaker healthcare and social protection systems expose developing countries to higher human and financial toll while limiting their ability to respond, triggering a potentially dangerous vicious circle. Moreover, with fast increasing need for imports of specialized goods and services to deal with the health crisis the balance of payments constraint can only expect to tighten the situation further.

The second channel is International trade. Even after considering implementation of the effective \$1.4 trillion stimulus by advanced economies and China, a rapidly slowing growth in these countries will take place through

2020. This will mean significantly lower demand for exports for other developing economies. The losses in export volume will be compounded by the sharp falls in energy and commodity prices, which still make up most of the goods that many developing countries export. Altogether, we project that developing countries as a whole (excluding China) will lose nearly \$800 billion in terms of export revenue in 2020. Such a drastic fall in their foreign exchange earnings will add to the challenges already posed by currency depreciations vis-à-vis the US dollar. While imports will contract, by an estimated \$575 billion, the overall drop in the trade balance of around \$225 billion is not without consequences for their development needs, their structural transformation plans and their ability to generate output and capacity to continue to face external financial commitments. Moreover, other items on the current account, such as remittances, royalty payments and profit outflows are likely to add to the financing difficulties facing many developing countries over the course of the coming year.

The third channel is financial. The flight to safety has, as noted earlier, already caused record capital outflows from emerging economies, triggering large currency depreciations against lead currencies and widening spreads. In countries with a high exposure to foreign debt, be it private or public, these trends put enormous pressure on their debt sustainability, by undermining future access to refinancing outstanding external debt obligations while driving up their value in foreign currency. This comes against a background of a systematic build-up of financial and debt vulnerabilities in many developing countries over the past decade. Total developing country debt stocks stood at 193 per cent of their combined GDP at the end of 2018, the highest on record, compared to just over 100 per cent in 2008.

In addition to rising debt servicing costs since 2012, developing countries also face a wall of repayments due on foreign-currency denominated public debt over this year and the next years. The total amount of sovereign debt repayments due at the end of 2021 is \$2.7 trillion (\$1.62 trillion in 2020 and \$1.08 trillion in 2021). Of this, \$562 billion are due for repayment by governments in low and middle-income countries, with the bulk of this amount due this year (\$415 billion in 2020 and \$147 billion in 2021). In “normal” times, much of this debt would be rolled over, adding to future debt burdens but providing vital breathing space to honour overall obligations. But with sudden stops to external refinancing possibilities, suspending sovereign debt repayments due over this and the next year, at the very least for low-

income and middle-income developing countries, is key to averting immediate and wide-spread debt crises. Clearly, the amounts that would be involved in suspending sovereign debt repayments in poorer developing countries are small changes compared to the economic rescue packages hurriedly put together across the developed World.

## Why Do Nations Import (An Example of U.S. Trade)

The motivation for a country to import goods and services from other countries is perhaps less obvious than its motivation for exports (making a profit on goods not consumed by the domestic market).

As with exports, the purposes served by imports vary from country to country. Let's explore these various purposes by starting with asking why a country like the United States, with its massive and extraordinarily diverse economy, would need to import anything from other countries.

In fact, there are only a handful of goods or services that the United States absolutely must import from other countries. With a land area spanning several climatic zones, immense natural resources, and a dynamic workforce, the United States is able to produce, mine, or grow almost every item its citizens need to lead reasonably prosperous lives.

Yet no country today, including the United States, can be totally self-sufficient without suffering a high cost. All countries need to—or choose to—import at least some goods and services for the following reasons:

1. Goods or services that are either
  - (a) Essential to economic well-being or
  - (b) Highly attractive to consumers but are not available in the domestic market
2. Goods or services that satisfy domestic needs or wants can be produced more inexpensively or efficiently by other countries, and therefore sold at lower prices.

It is helpful to illustrate these points by looking at the case of the United States, precisely because it comes closer to being self-sufficient than any other country for the reasons mentioned above (several climactic zones, resources, able workforce). Coal, copper, iron, silver, and nickel are just a

few of the natural resources the United States possesses in large quantities that other countries do not possess.

There are some economically essential goods, such as tungsten and oil, which the United States either does not produce at all or does not produce in sufficient quantities to serve domestic needs at a reasonable price.

The United States cannot meet its oil consumption needs exclusively through domestically produced oil; in 2012 the US consumption of oil dropped to a 16 year low, a total of 18.56 million bpd, as a result of a weak economy (Reuters, 2013). Meanwhile, the domestic production of oil rose sharply in 2012, with 6.4 million bpd being produced in the U.S. (Fowler, 2013). This means that the U.S. will need to import less and steadily become more self-reliant, with projections stating that U.S. output will overtake Saudi Arabia by 2020, making it the largest producer for about five years (Nguyen, 2012).

The United States could, in theory, abandon foreign oil imports, but it would be a costly decision because:

1. It is not clear that domestic reserves of oil, both those that are known and those that have yet to be discovered, could satisfy current domestic demand.
2. Even if U.S. oil reserves were adequate, generating the extra oil necessary to fill the gap now filled by imported oil would be extremely costly. Many foreign countries are able to produce oil much more cheaply. Besides, accessing the additional U.S. reserves would require many years of research and development.
3. Other energy sources—for example, coal, nuclear power, or hydro-electric power—could conceivably be substituted for oil imports, but complying with the respective environmental regulations, along with the cost of producing additional energy from these sources, would be very expensive. After all, oil currently satisfies more than 40 per cent of America's energy needs (including more than 99 per cent of the fuel for cars and trucks) precisely because other domestic sources of energy are either not sufficiently abundant to cover demand or are significantly more expensive to produce than oil (DOE, 2008).

Of course, energy conservation measures could also reduce the need for oil imports by decreasing the energy consumption of the average American citizen. Energy conservation would be prudent, regardless of which energy



supply the United States favours in the future; however, foreign producers would still be able to produce the oil more cheaply, regardless of the level of production. In addition, the scale of energy-saving measures needed to substantially reduce U.S. imports of oil would require dramatic changes in economic activity and lifestyles and have thus far have not been politically viable.

Electricity produced by hydropower plants is another example of an essential resource that the United States does not produce in sufficient quantity to meet its consumption needs. The United States imports large quantities of hydropower from Canada.

The United States will continue to depend upon imports to meet its energy needs into the foreseeable future. This, however, is not the same as saying that the United States has no choice but to import oil from other countries. As the preceding discussion suggests, there are alternatives. Unfortunately, those alternatives are less economically and politically feasible than simply continuing to import oil from countries endowed with generous petroleum reserves.

The same logic applies to any resource or product whose domestic supply is limited although the domestic demand is high. The United States—though not most other countries—can often find ways to increase the production of a commodity, reduce domestic consumption, or identify domestic substitutes. These alternatives often prove more costly than continuing to import from other countries, though.

The United States and other nations choose to import many other products that, unlike oil, are not economically essential, but differ in quality or features from equivalent products made at home. One prominent example is foreign-made cars which, starting in 2007, accounted for more than 50 per cent of all cars sold in the United States (WTO, 2009).

Americans do not buy imported foreign cars because foreign manufacturers produce certain kinds of vehicles that American manufacturers do not; U.S. carmakers produce an extraordinary variety of vehicles at a wide range of price levels. Many Americans have demonstrated, through their purchases, that they will opt for Asian and European cars. These imported cars possess a combination of qualities or features that satisfy their preferences more so than vehicles manufactured by U.S. carmakers.

The same holds true for simpler products like wine, cheese, or shoes, and so on. All of these and thousands of other items that the United States imports from other countries are available through the domestic market. Some American consumers believe imported versions of these items offer a level of quality that American varieties do not.

The United States has almost entirely stopped producing some goods because of foreign competitive efficiency. In other words, firms in other countries are able to produce these goods faster, more cheaply, and of possibly better quality. This is the case with many types of clothing because clothes can be produced at a much lower cost in other countries. Clothes can be manufactured more cheaply in developing countries due to the low cost of labour. Imagine that you are a t-shirt manufacturer. You can have your t-shirts made in a developing country with abundant cheap labour—workers who you only have to pay the equivalent of pennies an hour. This allows you to maintain large profit margins (by not spending so much on paying workers), and to sell your product at a cheaper cost (making consumers happy as well). This practice is a source of controversy that we will discuss later.

The goods that the United States has almost ceased to produce because of foreign competitive efficiency include not only low-tech products, but also some electronic equipment. For example, the United States used to produce VCRs, but it completely abandoned their production because of the superior efficiency of foreign competitors (most notably Japan).

It is worth noting that the country where a good is produced need not be the same as the country where the corporation that manufactures and sells the good is established. Several American clothing companies, such as The Gap, manufacture most of their clothes in developing countries.

## **Indian Economy - Coping with Corona Crisis**

The Indian economy has been hit hard by the ongoing Coronavirus (COVID-19) driven global crisis. With some variations, there has been an unprecedented rise in the number of Corona patients across the world. A World-wide health crisis has generated Global economic crisis.

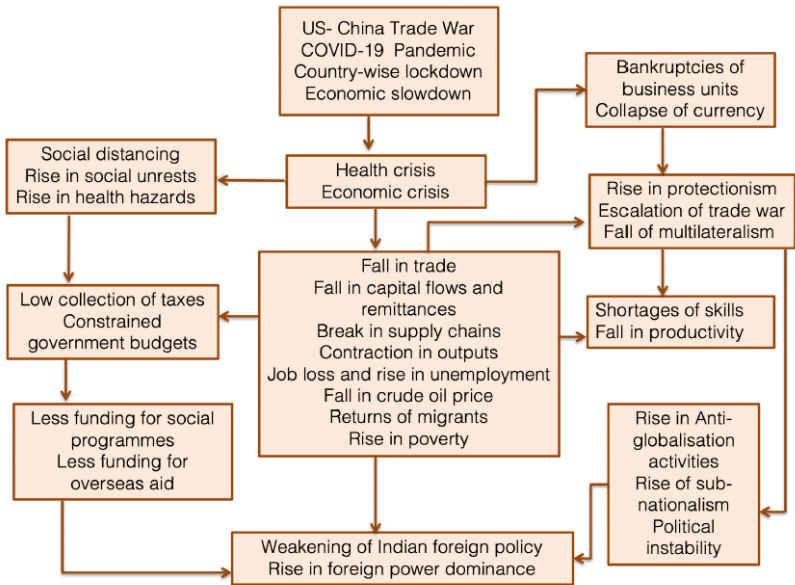
The entire world is passing through great uncertainty. There are, primarily, two major challenges that the Indian economy is facing at this juncture. First is to save the country from the spread of Coronavirus, which is a health

emergency. Saving lives is the principal concern of the Indian government. Second is to save the livelihoods from the unfolding economic crisis due to the dual effects of the Coronavirus pandemic and the global and national lockdown.

Countries across the world are facing serious consequences and damages to the economies. According to the International Monetary Fund (IMF), many economies may face negative per capita income growth in 2020 due to the Coronavirus pandemic. In its recent forecast, the World Trade Organisation (WTO) indicated a clear fall in world trade between 13 per cent and 32 per cent in 2020, perhaps the highest fall since the Great Depression of the 1930s. The IMF has also slashed growth forecast for the Indian economy, projecting a GDP growth of 1.9 per cent in 2020. In its recent World Economic Outlook, the IMF does project a rebound in the growth of the Indian economy in 2021, at a rate of 7.4 per cent. So, there is hope!

Although the Indian Government has been taking all efforts to contain the spread of the virus, the COVID-19 pandemic has already disrupted normal economic activity and life in the country. India's trade has been severely impacted. At the moment, businesses are very vulnerable to the unfolding economic crisis. People have been facing a sudden loss in their incomes, causing a major drop in demand. To rescue the economy, India has announced a range of fiscal and monetary stimulus packages. The major aim of this stimulus is similar to the traditional Keynesian prescription of 'pump priming', whereby income transfers to people having higher marginal propensity to spend can boost up the sagging demand.

# Pandemic-driven Crisis and Potential Foreign Policy Effects in India



Source: Prabir De

Let us hope India will succeed in controlling Covid-19 Pandemic and will restore its economy with stabilization of income levels and living standards of people in the country.

## Chapter-2

# Theories on Import Substitution Industrialisation

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During much of the late Twentieth Century, a number of countries in the developing world pursued a policy of Import-substitution Industrialisation (ISI). The common ingredient was protective tariff afforded to domestic industry, whereas on non-tariff barriers, foreign investment, State ownership of assets, and State regulation of private investment, policy differed substantially. India represented one of the more emphatic versions of ISI. Just before the economic reforms of 1992, unweighted average tariff rate in India, at over 100%, was probably the highest among large countries in the developing world. And it had been reinforced by non-tariff barriers, restraints on foreign investment, nationalization of financial services, and regulation of private investment.

From the second half of the nineteenth century, the idea became known to economists and politicians that tariff autonomy could be used to reinforce a process of industrialisation. Most countries did not give up on free trade between 1860 and 1914. Late industrialisation in the developing world, therefore, was characterized by diversity in the application of ISI. India started from a free-trader position in the nineteenth century, no doubt owing to its status as a colony of Britain. If India was a case of free trade with little State intervention, imperial Russia and Japan were examples of free trade with significant state intervention, and Brazil, Mexico, and Argentina, cases of significant protection from mid-to-late-nineteenth century. These choices were guided by political situations, and sometimes, corporate power and corporatism.

Between 1920 and 1950, the average level of tariffs increased worldwide, though considerable cross-country variation has been discovered behind this tendency. Towards the end of this time span, and especially after 1950, Latin America and India began to serve as models for the rest of the developing world. This was so because, in one view, 'the most coherent formulation' of ISI emerged in the Economic Commission for Latin America soon after it was established in 1948. Other experts hold that 'ISI was primarily a South Asian invention'. 'The Indian effort', one author claims, 'was widely regarded as a

model by other developing countries in the 1950s'. Interestingly, between these two regions the historical roots of ISI were quite different.

The Latin American ISI was 'induced from abroad'. Continued reliance on the export of food and primary products was thought to be precarious because of the instability of such exports. ISI was seen as the long-term solution to this problem. The prior experience of the large Latin American countries with protective tariff may also have been a factor in the choice. The significance of export shocks behind the choice of this pathway has been reassessed recently. But the message that ISI in Latin America emerged in order to reduce dependence on unstable commodity markets, remains intact.

From the 1920s, the average tariff rates increased in India too. After 1950 there was a further and sharper increase. But India's choice had nothing to do with the factors that operated in Latin America. India was not more trade dependent than the larger countries in Latin America. Whereas the export composition in the latter was dominated by one or two primary products, less than half of India's exports in the 1920s consisted of primary products, and the proportion had been falling from before the War. India, therefore, did not suffer commodity price shock on a comparable level. Furthermore, the effect of the Great Depression was differentiated according to whether commercial crops were export-oriented (cotton) or sold in the home-market (groundnut, sugar). This was so because India's real GDP was more stable than that of its main trading partners in these years. The effect also varied by region and by the destination of exports. For example, the Japanese market, the main destination of raw cotton, was less affected than markets in the West. The fall in domestic prices caused considerable distress to debtors and the banks. These adversities were not mainly as a result of the world economic collapse, but also because of conservative monetary policy. No doubt in both Latin America and India there was disillusionment with openness. Whereas the origin of that sentiment in Latin America may have been commodity price shocks, in India the origin was different and political, as this publication will show.

Indian ISI evolved in two stages, emergence and consolidation. The average tariff rate in India turned upward several years before the Great Depression. The historiography of Indian industrialisation explains the emergence of protection with reference to India's changed position within the Empire after World War I. The contribution of Indian industry to the war effort was seen as sufficiently valuable to the Empire, for State aid to industry to be considered.

Colonial protectionism, however, was a qualified form of protectionism. The policy recommended its application on a case-by-case basis, subject to assessments of comparative advantage of an industry, and potential cost to consumers. The protectionism that came into being after 1947 was by contrast, indiscriminate, and set at a much higher level.

An explanation of the post-war ISI in India needs to show why the change from discriminating to indiscriminate protection happened and what it meant. The received view suggests that the colonial policy was too weak to deliver industrialisation. It failed to act as a 'general policy of industrialisation', and was 'ineffective', 'rigid', and 'piecemeal'. Behind the 'apparently "technical" exercise' of the Tariff Board enquiries, colonial protection was a tool 'to reconcile imperial interests'. It did not serve Indian interests. By implication, independence in 1947 supplied the political will to redesign ISI such that it could deliver real industrialisation.

Colonial protectionism tried to design an efficiency-constrained ISI. India's open economy could be seen to serve efficiency in two particular ways. First, monetary integration with Britain reduced certain types of macro economic and business risks. This argument was long under attack, and the crisis of the Gold Standard and the Depression experience destroyed it. Second, open markets ensured continued easy access to machinery and intermediate goods, as well as capital and skilled labour, which resources were expensive in India. This second argument was never seriously in question. In the 1920s, the prevailing sentiment was that protection was inevitable, but protection needed to mind the advantages of openness. In other words, ISI entailed a trade-off between domestic production and efficiency of production, and needed to limit the scope of the policy to those cases where the efficiency costs of domestic production would be modest and temporary. Economists and publicists joined them in the 1940s. They shared a belief that the charge of inefficiency attached to Indian producers in particular, and therefore, a clause on efficiency harmed the Indian industrial class. They criticized the clause by suggesting that ISI was more than a tool of industrialisation, it was a tool to nurture indigenous capital. The indiscriminate protection model emerged from that ethnic nationalist political tendency.

## **A Comparison between IS and EP strategies for Development**

Assuming that a poor resource in developing countries have comparative advantage in labour-intensive production vis-à-vis the advanced industrial

countries. If we further assume that external economies exist in the production processes of these labour-intensive industries (and/or in their exporting activities), the so-called comparative advantages might merely remain only a potential advantage, unless the government intervenes with tax subsidy measures to take advantage of such external economies.

In principle, economic theories justify the promotion of infant industries. The best means of promoting them, however, is not clear. The Government may promote infant industry through an outward-looking / export-oriented growth strategy or through an inward looking / import substitution-oriented growth strategy. If the Government adopts the former approach, the promotion of infant export (sale) activities has to be included. Otherwise, domestically produced labour-intensive commodities may sell in domestic markets but not in foreign markets. If the latter approach is adopted, , then there is no plan to promote infant export activities in such a country and export marketing would remain poorly developed. In this case, even if by chance the country produces some labour-intensive commodities at low cost, it is unlikely that they would be exported, because the people would not know how to sell them abroad. Furthermore, Keesing (1967) and Bhagwati-Krueger (1973) argue that these countries would, at any rate, never be able to produce those labour-intensive commodities at low cost. The potential comparative advantages will fail to materialise because of unexploited economies of scale and even very keen foreign buyers would fail to find anything worthwhile to purchase from the country.

Keesing (1967) and Bhagwati-Krueger (1973) have argued that under an EP regime, international competition forces domestic entrepreneurs to pay close attention to the possibilities of innovations and speeding up the learning processes. Exporting firms must face price and quality competition in international markets, and consequently the survival and success of each exporter depends on active absorption of up-to-date production techniques and adaptive innovations based on imported technologies. Furthermore, the EP strategy naturally enables an economy to take full advantage of scale economies. Keesing (1967) adds that under an IS regime, policy makers accept protectionism as a legitimate major instrument to promote industrialisation; every industry is spurred to demonstrate its need to be sheltered from the cruelties of foreign competition, and eventually the country ends up with a system allowing each industry protection according to its inefficiency. An EP regime is therefore less likely to be constrained by foreign



exchange requirements than an ISI regime. Furthermore, any industry that is promoted to become an export sector can automatically substitute imports, but the reverse does not necessarily hold good. Most importantly, the innovative entrepreneurial class nurtured through the internationally competing EP regime purportedly is more conducive to generate sustained high economic growth in the long-run than the careless entrepreneurial class produced under the ISI regime based on monopolistic rents (Bhagwati, 1990). A consideration of patterns of import substitution leads to conclusions such as those of Gerald Helleiner (1992), whose views seem to reflect a consensus among development economists. The IS strategy pursued by developing countries has often given undue emphasis on consumer goods, insufficient attention to long term comparative advantages, employed unsuitable capital intensive technologies, all those resulted in inefficient industrial sector operating far below the capacity, creating very little employment, generating very little foreign exchange savings, and little prospects for further productivity growth. Helleiner advocates that the object of policy must now be gradually to bring incentive structures and thus the relative efficiencies of various industrial activities into some sort of balance, thereby encouraging domestic manufacture of intermediate and capital goods at the expense of importable consumer goods and the development of eventually of manufacture of export. Most observers agree that the IS strategy of industrialisation has been largely unsuccessful. Eventually, therefore many developing countries have embarked on the export promotion strategy of industrialisation. According to Corden (1971), the opening of an economy to trade generates "static" efficiency gains that are very similar to "once and for all" technical progress in raising the absorption possibility frontier of a country at the given factor supplies. The "static" efficiency gains may be interpreted broadly to include the Keesing (1967), Bhagwati (1973) Krueger (1981) type of positive effects: intensified international competition affecting the quality of domestic entrepreneurship, the realization of internal scale economies, and exploitation of external economies that arise from the "infant" export-production activities.

Furthermore, a given constant propensity to save, the static gains will induce the rate of capital accumulation to rise and consequently will raise the growth rate of the economy. This may be described as the "induced growth gains" from trade. If investment goods are mostly imported, then these induced growth gains will also include the effect of reduced prices of investment goods. Grossman and Helpman (1991), Barro and Sala-i-Martin (1995),

Romer (1992), and Edwards (1998) have argued that economies which open up to international trade acquire greater capacity to absorb advanced technologies available internationally and reap the benefits of scale economies due to access to World markets.

Summing up the History, the following are key conclusions:

**Conclusion 1.** The implementation of the exclusively intra-oriented strategy of import substitution may result not merely in the increase in industrial production, but also in the protracted crisis.

According to the experience of Latin America, the import restrictions make it possible to achieve a positive effect only for a short period of time. However, in the absence of competition, the industrial production gradually becomes ineffective, causing a rise in prices. The construction of new plants and factories does not change the situation as uncompetitive products prevent the investment from recovering industrial activity. The result of import restriction is the decline in the competitiveness of national production.

**Conclusion 2.** The co-operation between the State and the business is necessary when choosing a strategy, but its implementation must be strictly controlled by the Government of the country.

The pluralism in the choice of the import substitution strategy between the two fundamental Government and Institutions allows maintaining a competitive environment, ensures free development of the business and makes it possible to get the maximum profit. At the same time, the concept, in which the State takes the supreme position in disputable issues, and, being a political regulator, takes the initiative in negotiations, enables the authorities to play the role of arbitrator and to take proactive decisions.

**Conclusion 3.** The sequence of implementation of the import substitution strategy by the sectors is important; at the same time, the systemic State control over the non-productive spheres (the incentive tax policy, the control over the banking sector, etc.) is necessary.

The experience of Japan shows that initially the State together with the business selected several priority industries, which allowed to achieve the competitive advantages. In turn, the strict State control over banks allowed them to establish an effective system of lending for the companies in all sectors, and the low taxation incited the development of business at all levels. The generalized analysis of the best practices in the implementation

of the measures of the import substitution policy allows drawing the following conclusions about the advantages, disadvantages and conditions required for the successful implementation of the import substitution (recognized as a form of protectionist policies aimed at the domestic market) and the export promotion strategy.

To implement successfully the policy of import substitution in Russia, it is required to use the best practices and to avoid the mistakes that could aggravate the emerging economy crisis. The study of the best practices makes it possible to formulate the following principles of the state approach to import substitution:

- A gradual transition from intra-oriented model to externally oriented (export) model or the use of the combined import substitution model is required.
- The import-substituting policy should be implemented mainly with the application of incentive measures as against the restrictive ones.
- The main criterion for import substitution should be the evaluation of the result of the total economic consequences of the decision on the work in a particular direction. The main direction of import substitution should be the creation of the productions of the goods with high added value, the costs of production of which will yield the greatest return in comparison with the production of other goods, oriented to domestic and foreign markets.
- It is important to combine the direct and indirect import substitution. The direct import substitution means creation of own production of goods instead of imported products. The indirect import substitution envisages a reduction in imports and consumption of imported products through the introduction of savings and the use of new technologies and innovations (Zaryankin, 2010).
- R & D funds for the implementation of import substitution goals and tasks should be provided on the basis of compensation received from the State budget. The compensation at the same time should be met out of the expense of the proceeds from the sale of products produced under the policy of import substitution, and even exported in some cases.

- The development and support of domestic production should not exclude the possibility of foreign technology transfer, the creation and localization of production with the attraction of foreign investment.
- The effective use of territorial advantages of specific regions to be increased by the efficiency of import substituting projects.

To conclude, a nation's development rests largely on the shoulders of its industrial sector. Notably, the industrial sector serves as a source of more stable employment opportunity when compared to the agriculture sector and improves a nation's living standard. At the time of India independence industrialists were not equipped with enough capital and resource to expand or improve their production capability. Resultantly, the Government had formulated suitable trade policies to promote Industrialisation in India.

## Chapter-3

# History of Import Substitution Industrialisation

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Import substitution is a strategy under trade policy that abolishes the import of foreign products and encourages the production in the domestic market. The purpose of this policy is to change the economic structure of the country by replacing foreign goods with domestic goods.

Post-Independence India adopted the policy of import substitution by imposing heavy tariffs on imports. The industrial policy that the country endorsed was linked to the trade policy.

In the first seven five-year plans, trade in India was distinguished by the inward-looking trade strategy. This strategy is known as import substitution with the aim to boost domestic production and shield domestic products from international competition.

Trade Policy can be defined as a goal, rules, standard, goals, and regulations that are involved in trade between countries. These policies are particular to a specific country and are formed by its public officials.

A country's trade policy covers taxes imposed on inspection regulations, import and export, and tariffs and quotas.

Under this policy, the Government protects domestic manufacturers from foreign competition. The protection from import is in two forms:

*Quotas:* It specifies the number of goods that can be imported.

*Tariffs:* It is a tax that is imposed on imported products; this tax makes imported products more costly and discourages their use.

The purpose of quotas and tariffs is to restrict imports and, hence, protect domestic industry from foreign competition.

The accomplishments of India's industrial sector for the first seven five-year plans were impressive. The GDP in the industrial sector increased from 11.8 per cent between 1950-51 to 24.6 per cent in the year 1990-91. By the year 1990 Indian Industry saw huge growth and was no longer restricted only to Jute and cotton textile industry.

Also, the promotion of small-scale industry gave an opportunity to people who did not have money to start a company and facilitated the development of domestic industries in electronics and automobile sectors.

*Public Sector:* The five-year plan saw extensive growth in the public sector with major industries like air travel, telecom, defence, railways, etc. However, few economists are critical about the performance of many public sector enterprises, despite the fact that they have contributed hugely to the growth of India economy.

Post-Independence public sector companies were considered to be an essential part of the Indian economy and continued to produce goods and services, sometimes monopolizing them. But few economists made a judgment that these public sector companies were actually hindering the entrance of private players into the market.

In this regard, the best example is the telecommunication industry. Until 1990, the State had a monopoly over this industry. Though the private sector companies were competent in implementing this service, the State never permitted any licenses, giving the consumer a very slow and poor service. Many public firms faced huge losses but continued its function because to close a government-run organisation is difficult even if the natural resources are drained. Therefore, for some decade the government authorized these organisations to run inefficiently.

While there are many variations of applications related to import substitution industrialisation, the idea behind ISI is that countries that have been reliant on importing products (usually by more economically developed Global North Countries) will decide to focus on their own production of products that they imported earlier. This will not only make these countries less reliant on outside States for finished products, but the goal is for them to also build their economy through industrialisation.

### **Opinions on Import Substitution Industrialisation :**

Sanderatne says "What are import substitution policies? They are policies that attempt to reduce foreign dependency of a country's economy through local production of food and industrial products. Import substitution policies advocate replacing imports with domestic production. It is based on the premise that a country should attempt to reduce its foreign dependency through local production of goods, mainly industrial products. Many Latin American countries implemented import substitution policies with the

intention of becoming more self-sufficient and less vulnerable to adverse terms of trade."

The belief is that there is a need to offer this protection, until there is additional knowledge development, as well as capital. While capital is often by way of outside aid, knowledge takes time to develop internally. And it often involves innovation, errors, successes, and continued work and efforts on the particular sector that the society is looking at import substitute. But the argument is that none of these can happen if that country has to continuously compete with international economic actors, many of whom may have had decades of experience and knowledge working on developing the said product (Bruton, 1989). As Bruton (1989) states, "Protection then is a means of inducing diversification and the learning upon which development is based. More accurately, perhaps, it is a means of creating a process of development that builds on search and learning..." (1605-1606).

How do you know when import substitution industrialisation is happening? In order to understand, whether a country is establishing an import substitution industrialisation policy, this "import substitution industrialisation is "measured" by a change in the ratio of imports to the total availability (imports plus domestic output) of a single product or category of products. If this ratio falls over time, then import substitution is said to take place in that particular sector" (Bruton, 1989). The portion cut off is not clear.

The idea is that a great deal of income is being spent on products produced by foreign companies, which in turn, will send out money away from the local economy. Thus, "One way to prevent money from leaving the local economy is to connect local demand for goods and services with the local suppliers of those goods and services. Many of the things that individuals or businesses need can be found from suppliers within the area but, due to lack of adequate information or convenience, those things are often purchased from outside. This represents another flow of capital leaving the system. By substituting demand for externally produced things with locally produced things, communities can retain capital for use within the community" (Basu, 2005).

## **History of Import Substitution Industrialisation**

While much of the discussion on the topic of import substitution industrialisation focuses on current (and more recent historical cases of ISI

implementation), ISI economy shifts have existed at least since the 1800s. For example, a number of European States, along with the United States of America began to stop importing of various goods, and began producing their own products, which over a period of time, led them to shift away from those imports. These countries were careful to ensure that their companies had a chance to keep the already established companies overseas, and thus, took it upon themselves to protect these domestic industries (Baer, 1972).

While the United States and other European States industrialized through import substitution, it was not so with other countries in the World. For example, many States in Latin America, Africa, and Asia did not follow similar import substitution industrialisation patterns. The reason for this was that "Colonial policies of European countries provide much of the explanation for the former two cases, while socio-economic structure helps to explain the Latin American case. The presence of attractive external markets for the region's primary exports, which benefited the elites, meant that there was little political desire to change the structure of the economies".

So, external factors such as the role of Britain and their colonial control of many countries can help to understand, why a number of States could not follow their own import substitution industrialisation; the colonial powers would not allow it. Along with this, according to scholars, another factor that did not lead to ISI or industrialisation was that regions such as "Latin America did not have the entrepreneurial class, labour force, infrastructure, market size, or administrative capacity to cope with an extensive industrialisation process. Also, in the case of some countries, like Brazil, European powers had enough leverage to force governments to maintain free trade policies, thus in effect blocking any possibility of ISI (Baer, 1972: 96). However, the Latin American States were still looking at ISI policies, and attempted to implement these policies even before World War II, but continued to do so in the decades following the Second World War (Sanderatne, 2011).

The idea of import substitution industrialisation as an economic policy began to be thought of more following the World War II. One of the reasons for this was related to the time of decolonization, and the related nationalist movements that not only called for State and political independence, but also the leaders were also advocating economic independence from their colonial powers. Thus, many countries began to look for ways to protect the domestic industries while they strived to industrialize economically.



Interestingly, this notion of economic independence was not only adopted by colonized countries, but also some Global Northern states as well. As Basu (2005) writes, "The notion of import substitution was popularized in the years 1950s and 1960s as a strategy to promote economic independence and development in developing countries (Bruton 1998). This initial effort failed due to large part of the relative inefficiency of 3rd world production facilities and as a result their inability to compete in a globalizing marketplace. Since then, those countries and the rest of the world rely on a great deal of foreign-produced products and, as globalization trends suggest, an export-oriented approach has become the norm. Despite this, in the 1970s, import substitution came into the U.S. consciousness as a means to promote national ("Buy American campaigns") and regional development and the debate continues as to its effectiveness."

### **Benefits**

There are a number of reasons why Governments might have considered import substitution industrialisation policy for their economies.

One of the main reasons why a Government would consider import substitution industrialisation policy, is whether a society which was highly dependent on foreign exports, has not established a domestic industrialized economy because of import substitution policy. Because of outside dependency, the States do not have their own economy that can produce whatever product they are importing. By focusing on ISI, these Governments can move to more self-sufficiency. They can begin to move off reliance on outside products, and instead, they can begin to produce them domestically. This will also help build their own economy, provide domestic jobs, and help the overall economic growth of the State.

Furthermore, by shifting to import substitution industrialisation, they might also be affected by external price shocks. For example, if they are heavily reliant on outside products from one particular country, any increases in the cost or production of that product might affect the importing country which will need to purchase those products till date, particularly as they do not have their own production possibilities. This could happen if there was a problem with the production, if there is conflict in that State, or for a number of other reasons. By import substitution, the importing State will now be less affected by that external shock in the matter of price of those goods.

In terms of examining where ISI policies have been effective it is relevant to note that, "ISI had some positive effects on the larger economies of Latin America. It was responsible for the periods of high growth rates during which the economies underwent some profound structural changes. After a while, it is also caused some severe imbalances, threatening the continued growth and socio-economic stability of a number of countries". (W. Baer & L. Samuelson, 1977) (in Rojas, 1993).

Thus, while there are a number of benefits to ISI policies, it is also necessary to look at some of the challenges in effectively implementing import substitution industrialisation policies within a country.

### Criticism

While there are arguments for the benefits of import substitution industrialisation, there have also been criticisms related to State-adopted ISI policies. For example, one of the biggest critiques is that with ISI, the State often nationalizes companies, and then protects them from the international markets. While this can be seen as a positive measure as it pertains to allowing those companies to grow and develop, one drawback is that "import substitution industries create inefficient and obsolete products as they are not exposed to international competition" (Sanderatne, 2011). With Governments protecting domestic products, their willingness, or need to ensure a top-quality product are not necessarily ensured, given that they no longer have to keep on an even playing field. By being protected with high import tariffs into the country, local products will have an easier time being sold, even though the same products might be inferior to international products.

Another concern that scholars have pointed out is the belief (which may not be a correct assumption) that if given some time, the domestic protected products will be as good as the foreign products, and will be able to compete with them internationally. The assumption is that their markets, while needing to be protected at first, would, over a period of time, get strong enough, and the products be good enough, to give competition to the same / similar products produced elsewhere (Bruton, 1989). However, there could exist a number of reasons as to why this may not happen immediately (if ever). For example, if the new country does not have sufficient technology, or if their technology is out dated, whereas other countries' technologies to make that said product are always updated, the first county may always be at a

competitive disadvantage. Moreover, even if they did have the technology, because of no competition (due to high import tariffs on foreign products), there may be less motivation to produce the best product, particularly if there are some within the State who don't mind only selling the product domestically.

This is why effective import substitution industrialisation requires conditions that promote innovation and new thinking, so that the product can continue to improve (Bruton, 1989).

In addition, "Other disadvantages include unemployment increasing internationally as World GDP decreases through the promotion of inefficiency. Countries that adopted import substitution policies faced many undesirable effects such as chronic problems with the balance of trade and payments. Although import substitution was supposed to reduce reliance on world trade, there was a need to import raw materials, machinery and spare parts. The more industrialised a country the more it needed these imports and import substitution industrialisation (ISI) was strongly biased against exports" (Sanderatne, 2011).

Sanderatne (2011) goes on to say: "Trade protection and overvalued exchange rates raised domestic prices and made exports less competitive. Consequently, import substitution industrialising countries were unable to export enough to buy the imports they needed. The faster the economy grew, the more it needed imports; but exports could not keep up with the pace of imports and so countries ran out of foreign currency. In response, Governments restricted imports to essentials. The currency was devalued to raise the price of imports and make exports more attractive. Government subsidized industrial investments. Such spending chronically outpaced Government revenue and these budget deficits were usually covered by printing more money. The result was inflation which made domestic goods more expensive which in turn reduced exports even further. Sri Lanka experienced much of these during its import substitution industrialising period in the 1960s and 1970s."

### **Other Effects**

Along with the pros and cons of import substitution industrialisation mentioned above, it has been argued that there are also other effects of ISI policies. For example, Rojas (1993) argues that a few things happen when

import substitution industrialisation policies are put in place, namely, one witnesses:

1. Periods of high growth rates
2. Profound structural changes such as:
  - (a) Composition of employment:
    - The creation of a manufacturing working class and capitalist class.
    - The creation of a financial sector.
    - The creation of a large number of civil servants and a powerful bureaucratic class.
  - (b) New patterns of urbanization:
    - Housing quarters for blue collar employees.
    - dramatic increase in urban poverty and slums.
  - (c) Foreign domination of a domestic manufacturing:
    - Sector supplying protected internal markets.
  - (d) Development of coincidence of interests between -
    - The high rank State bureaucracy, industrial-financial-agri business domestic oligarchy and foreign capital.
3. Severe imbalances, threatening the continued growth and socio-economic stability:
  - (a) Deficits on current account caused by imports-
    - Of capital goods and intermediate goods, and payments to factors (factoring services)
  - (b) Internal distribution of income became even more
    - Polarized due to internal monopoly ownership of means of production.
  - (c) The gap between urban and rural incomes became
    - Wider due to economic policies protecting the "infant" manufacturing sector.

## Import Substitution of Industrialisation in Russia

In 2015, Russian leaders were pushing the idea of import substitution as a domestic economic policy. Russian leaders have called for less economic dependence on outside States, and outside products. Much of this is related to the political developments in recent years. Not only Russia had political differences with the United States, but they have also squared off with the European Union.

For example, there has been concern by Russia about the rising expansion of NATO post-Cold War. Moreover, one of the main reasons that the Ukraine conflict happened was because both the EU, and Russia wanted to establish economic relationships with Ukraine, which led to a cancelled EU agreement, a moving towards Russia, which then led to a revolution, followed by Russia's annexation of the Crimea, and their support of rebels in Eastern Ukraine. During this time, there have been sanctions placed on Russia (although many have considered them weak, and not able to significantly harm the country). However, these sanctions, along with low oil prices in the international market, reduced Russia's economic power.

As a result, they are looking to develop their own industries, not only for economic wealth and diversification, but also to ensure that they are less reliant on foreign States and products.

Others have made a similar argument, saying that Russia's import substitution industrialisation is not working right now. For example, writing in the month of October of 2015, Adomanis (writing in Forbes) points out that imports have declined greatly following the economic sanctions imposed against Russia. Thus, from there, he asks whether Russia has adjusted towards their import substitution industrialisation model, asking: "Has Russian business stepped into the space vacated by Western goods that are no longer affordable to many Russian consumers? So far, at least, the answer is a definite no. Official Ross tat data show that through the first half of 2015, Russian manufacturing actually shrunk by about 2.8%. The only sectors of the economy to show any growth were agriculture (up by 2.4%), natural resource extraction (up 2.4%), and public administration (up by 0.7%). The areas of the Russian economy where private business predominate, particularly consumer retail, have been absolutely walloped, with the overall retail sector shrinking by almost 9% over the past six months.

He goes on to say that “So far, then, the crisis has not made Russia's economy any more flexible, entrepreneurial, or dynamic. It has instead made it even more dependent on the old growth model, which was based on government and natural resources. One of the few areas of agreement in Russian society is that the old model is exhausted and in desperate need of replacement, but exactly the opposite is occurring right now: it is being further bolstered and institutionalized. Russian business isn't rushing to fill the space left by Western firms, it's suffering amid a broad-based downturn in virtually all areas outside of Oil, Gas, and Government.”

Again, these programs do take time, and so, one cannot write off this program yet. However, as we discussed, they also take a sound policy that is committed to long-term domestic growth, and a Government willing to set up conditions to help this import substitution industrialisation process. But there continues to be a concern that Russia can transform their economy through domestic industrialisation, in part because of “weak property rights and a general aversion to investment” (Adomanis, 2015), which continue to hinder economic growth.

### **India's Trade Policy - Import Substitution**

In India's planning for development, two options were open with regard to our foreign trade policy.

First, we should lay stress on export promotion in our strategy of development and for accelerating economic growth.

The second option was to adopt import-substitution as a major element of our trade policy.

Note that the second policy of import-substitution does not emphasize the role of foreign trade for accelerating economic growth. In fact, the policy of import-substitution was adopted in view of the perceived bleak prospects of raising India's exports. When exports could not be increased substantially, we could not pay for imports on a large scale.

Therefore, India's strategy of industrialisation was based on substitution of imports rather than export-oriented trade policy. The policy of import-substitution for promoting growth was also thought to be quite feasible in view of India's vast domestic market.

It is clear from the above, that India adopted the policy of import substitution because of what is now called export-pessimism. In fact, in the fifties and sixties export pessimism characterized the thinking of the most development economists. For example, Raul Prebisch postulated that the terms of trade of developing countries have a tendency to deteriorate over time regardless of the policies of developing countries.

Prebisch's postulate was based on three grounds.

First, demand for primary products which under-developed countries were exporting were income inelastic.

Second, technological progress that was taking place in developed countries was of the nature that saved the use of raw materials which underdeveloped countries were exporting.

Third, because of the prevailing monopolies in the manufacturing industries of the developed countries, the prices of their manufactured products were relatively higher than the prices of primary and agricultural products whose production and sales were being done under competitive conditions. Thus, according to Prebisch, export expansion by developing countries were quite unprofitable.

Similarly, R. Nurkse, another pioneer in development economics believed that for the newly emerging countries like India foreign trade could no longer serve as 'engine of growth'. Nurkse's export pessimism arose from his belief that foreign market could not absorb imports on a sufficient scale as developing countries accelerated their process of economic growth.

In view of this external environment, Nurkse concluded that in order to accelerate growth developing countries should undertake a balanced pattern of investment in a number of different industries so that they can generate mutual demand for each other's product leading to the expansion in the size of home market.

To quote Nurkse, "When developing countries face difficulties in exporting both traditional and new exports, import-substitution strategy may be adopted by them as an escape route from stagnation". Nurkse further writes, "International trade cannot now be an effective engine of 'economic growth' and in the strategy of growth, underdeveloped countries have, of necessity, to lay emphasis on 'balanced growth' – a coordinated development of local industries in accordance with the growth and structure of domestic demand".

Empirically, the export pessimism of the fifties (post-war period) has been proved to be untrue and unjustified. World trade in the fifties and sixties grew faster than world income. Several developing countries used export promotion as a means of attaining a fast-economic growth.

In the early 1960s Japan was the shining example of using export promotion strategy to achieve a fast rate of economic growth, beginning from a state of underdevelopment. Japanese growth experience is often described as Japanese miracle. In the later period, other success stories of achieving high growth through outward-looking strategy of development have been of Asian countries of South Korea Taiwan, China, Thailand, Singapore and Hong Kong.

Owing to their rapid economic growth in seventies and eighties they have been called 'Asian Tigers'. It is also worth mentioning that the expansion in exports of developing countries which have used export-promotion as a strategy of growth has not been confined to primary products such as fuel and agricultural products (food, agricultural raw materials). As a matter of fact, there has been significant change in the composition of exports of developing countries towards manufacturers.

It may be noted that the fifties and early sixties free trade was opposed on political grounds also. Fears were expressed that through free trade industrial developed countries would acquire political domination, as happened in case of India. East India company of Britain which came to India for trading acquired political domination.

It may however be noted such fears of political domination through trade has now receded in the present political context. In fact, the protectionist sentiment is now stronger in the developed countries such as US and EU. There is now a loud cry in USA for protecting American jobs by banning outsourcing of business services (BPO) to India.

The success in export promotion accelerates economic growth in the country. The emergence of Japan and Germany and recently China as major economic powers has shown that their success in export expansion made them economically more independent and stronger.

On the other hand, developing countries like India which followed import-substitution strategy had to face recurrent balance of payments crisis and the persistence of huge external debt problem which made them more depen-



dent on developed countries and international institutions such as IMF and World Bank.

## The Prebisch-Singer Thesis

Productivity growth was universally assumed to be higher in industrialised countries (ICs, or the Centre) than in Southern Countries (SCs, or the Periphery). Standard microeconomic concepts, economies of scale, 'learning by doing' in manufacturing, and increasing marginal costs of expanding raw material production, supported this view.

Historically, British terms of trade during the first half of the 19th century did, in fact, deteriorate (Singer 1989b: 323), reflecting the falling prices of manufactures and increasing primary commodity prices, as text books predict. The net barter terms of trade (NBTOT) of SCs were assumed to have improved with the increasing marginal costs of primary commodity production distributing productivity gains globally. This is necessary for actual trade to be as beneficial as the textbook model predicts, i.e. prices have to equal marginal costs in the long run perfect market equilibrium. It was taken for granted that the world market functioned like the textbook model.

The Prebisch-Singer thesis (for its genesis, see Toye & Toye, 2003) rocked the boat of professional complacency, exposing an apparent contradiction between theoretical expectations and practical outcomes. The US even attempted to close the Economic Commission for Latin America (ECLA), where Prebisch worked (Toye & Toye, 2003: 463). For diplomatic reasons, ECLA tried to distance itself publicly from Prebisch, whom it privately supported wholeheartedly, by breaking with the UN practice of not signing UN documents. Thus, Prebisch's contribution was published under his own name, while Singer's was not.

The secularly deteriorating net barter terms of trade of SCs, observed by Singer (1950) and Prebisch (1950), destroyed the established orthodox logic of mutually beneficial world markets. If international markets and trade behaved according to academic models, Southern net barter terms of trade would have to improve. Empirical analysis showed the opposite to be true. Real trade was not as beneficial as claimed by theory. This conclusion also holds, with constant net barter terms of trade if the Centre's rate of technical progress is higher than the Periphery's. Prices would not be aligned to marginal costs, and Southern Double Factoral Terms of Trade would

deteriorate. Prebisch talked of “siphoning off productivity gains”, while Singer’s (1950) title emphasised the distribution of gains. Singer’s interest derived from the problem of growth that increases inequality and disparities, and the question of whether world markets would perpetuate the division of labour militarily enforced by colonialism (Toye & Toye 2003: 448).

Before 1950, some ICs had also been quantitatively important primary commodity exporters. Well before the rise of industrial production in some SCs, however, the periphery virtually only exported raw materials. With few exceptions, SCs have remained relatively dependent on them. Singer (1989b) presents quantitative evidence that the prices of primary commodities exported by ICs fell by 0.73 per cent annually during 1954-72 (in constant export unit values), while those of SC raw material exports fell by 1.82 per cent (both coefficients significant at 1 per cent). Thirlwall & Bergevin’s (1985) evidence supports this conclusion. The prices of primary commodities (excluding oil) exported by SCs experienced a pronounced and significant negative trend, while those exported by ICs showed no significant trend.

Singer and Prebisch presented the following reasons for this inequality-exacerbating drive of real-world markets, sometimes wrongly called different versions:

**Market power.** Workers (trade unions) and entrepreneurs in ICs have sufficient market power to keep IC prices from falling with technical progress. The gains from technical progress are unevenly distributed due to higher factor incomes at the Centre. Conversely, the lack of such market power forces SC-export prices down. This “para-market” assumption has been strongly criticised (cf. Spraos, 1983: 23f) by orthodox economists, who had blamed the Great Depression of the 1930s on union power and wage stickiness. While the Washington Consensus and neoliberalism put the blame for most, if not all evils on the “stickiness of factor markets”, this argument is conveniently ignored when it suggests that differential market power exacerbates inequality through trade.

**Trade Cycles** in the Centre are cushioned because people are better able to preserve their incomes. Raw material prices are more volatile, falling steeply during recessions which adds momentum to the declining terms of trade trend.

*Low income elasticities of primary commodity exports* limit the growth prospects of SC-exports. Manufactures were virtually not exported around 1950. Initially attacked, this view is now generally accepted, as reflected in the phrase "de-coupling growth from raw material consumption".

*Low demand elasticities:* Lower prices of primary commodities do not strongly increase the demand. Strong expansion of raw material exports thus creates excess supply.

*The necessity of importing products* which cannot be produced locally, such as machinery: The control of sophisticated technology embodied in these exports remains concentrated in the Centre (Singer 1989b: 326). The low-income elasticities of imports by the Centre and the high-income elasticities of SCs needing imports to develop both produce disequilibria. The periphery is incapable of earning the resources needed for imports and of producing the investment goods it needs. Current account deficits, and foreign exchange gaps result in indebtedness usually. Protectionism by the Centre increases these disequilibria by restricting peripheral export revenues further, while protectionism by the periphery reduces them. Diversification is needed to close the gap between earning capacity and developmental import needs.

*Oversupply of labour* in the SCs keeps wages down. Arthur Lewis's labour market dualism thus complements the Prebisch-Singer thesis.

Cultural dependence — resulting in the wastage of scarce resources for luxury consumption or of imports of little or no developmental importance and increasing the gap between revenues and developmental import needs — and debt pressure, forcing countries to sell, were added later.

Retaining productivity gains is the central problem. In a closed economy, real income can increase, either by nominal incomes increasing at constant prices, or by prices falling with productivity improvements at constant nominal incomes. Internationally, however, only prices transmit productivity gains. Competitive markets would make export prices fall in line with marginal costs. Export prices of countries experiencing stronger productivity gains would fall more, thus improving net barter terms of trade for countries with slower productivity growth. The Prebisch-Singer thesis's factor market argument simply means the Centre's productivity gains are largely absorbed by higher incomes, while the Periphery's tend to be transmitted via lower prices.

## Import-Substitution

For at least up to 1980, India adopted a trade strategy of import substitution. The choice of this policy was based on export pessimism which led the Indian planners to believe that export earnings of India cannot be increased. The choice of this inward-looking strategy was further strengthened by the vast size of Indian domestic market.

To implement this trade policy of import-substitution the imports of several commodities into India were banned and quantitative restrictions on some other commodities were imposed. Besides, to give protection to the domestic industries, customs duties were levied on a number of commodities to discourage their imports by raising their prices.

The customs duties levied in India on certain commodities were as high as 200 per cent or 150 per cent which were highest in the world. In addition to these, the import-licensing was used so as to regulate the quantities of some essential goods and raw materials that could be imported and accordingly licences for import quotas were issued by the Government.

A scheme of import licensing in case of certain commodities was introduced under which imports were permitted to the extent that domestic production fell short of domestic demand. Further, stringent foreign exchange regulations were introduced and foreign exchange was released to the holders of import licences for importing specific commodities.

It may be noted that India's policy of import substitution was indiscriminate and also continued for quite a long period. This is unlike some other countries such as Japan and South Korea which adopted import substitution only for some period of time and that too in case of selected commodities for which they had potential comparative advantage.

## Results of Import-Substitution Policy

However, it may be noted that policy of import substitution contributed significantly to industrial growth between 1956-66. But several weaknesses of the policy of import substitution became evident during the course of time.

First, the policy makers- underestimated the possibilities of expansion in exports.

Second, policy of import substitution underestimated the import-intensity of import substitution process itself. Growth of import-substituting industries required large quantities of imports of capital goods machines, raw materials etc.

As a consequence, whereas imports increased substantially there was no adequate growth in exports resulting in balance of payment problems. In 1966 we had to devalue the rupee to promote exports and discourage imports in order to solve balance of payments problem. However, 1966 devaluation did not succeed in improving the trade deficit.

It may be noted that deficit in balance of payments which arose mainly due to import-substitution policy forced Indian policy makers to make some changes in attitude towards exports. Accordingly, in the third plan period (1961-66) and the fourth plan period (1969-74) several export promotion measures (including devaluation of 1966) were taken.

However, as has been correctly pointed out by C. Rangarajan "Until the end of 1970s, exports were primarily regarded as a source of foreign exchange rather than as an efficient means of allocating resources. Import substitution remained the basic premise of the development strategy".

Since import-substitution industrialisation was pursued regardless of comparative cost considerations, inefficiencies crept into the system resulting in the Indian economy becoming increasingly high-cost economy. This high cost and inefficiency in production was an important reason for poor export performance despite the various incentives and concessions given by the Government for export promotion.

### **Direct Benefits of Import Substitution**

It promotes the initiation and growth of local industries. Restriction on imports creates increased demand for the products. This, in turn, generates a gap in the economy which calls for investment within domestic boundaries.

Hence, local resources are redirected to the production of such services and goods leading to the formation of new industries. In addition, profits arising from such investment would result in increased Savings Rate, investment and Capital formation.

IS protects infant industries against competing with well-established international companies and markets.

Competition would lead to the closure of such industries due to international entities having competitive advantage over the local industries in terms of pricing and supply. IS technique serves to incubate the evolving industries to grow and have the capacity to compete in the International Markets. Hence it aids in making local economies self-sufficient, grow and reduce collapse of start-ups.

*Employment generation due to domestic industrialisation.* IS enhances the demand for labour intensive industries that create Job opportunities. This, in turn, reduces the unemployment rate in the economy. Further, livelihoods get improved that would reduce the percentage of individuals living in poverty. Moreover, an economy becomes more resilient to global economic shocks thus building economic stability and sustainability.

Reduces the cost of transportation from long distances to confined home boundaries. The focus shifts to developing home products and the cut-transportation costs to investing in industries. Moreover, IS does not limit the importation of machinery and equipment necessary for industrialisation.

IS facilitates urbanization through the expansion of industries.

### **Risks of Import Substitution (IS)**

Lack of External Competition affect the efficiency of the infant domestic industries. Hence, this would negatively affect growth.

Also, restrictions such as physical, import licenses, guarantee deposits, and tariff walls would hinder trading across nations. Inefficiency reduces total output that leads to reduction in the growth rate.

Failure to meet consumer demands by the growing domestic industries may result in the development of 'black-markets'. Financial leakages occur reducing government revenue and the overall capital base of economy.

Trade protection due to IS may lead to overvalued exchange rates that cause a rise in domestic prices.

Moreover, it forces government to spend more to subsidize industrial investment.

Inflation takes place causing exports to be less competitive.

Also, it causes high budget deficits. An example is Sri Lanka during the 1960s and 1970s.

Small sized domestic markets may not exploit the economies of scale from the home production.

In such a case, it hinders production and growth causing collapse of the same industries.

An example is Brazilian economy. Brazil abandoned the use of IS on computers in the 1990 as the policy was a failure.

The presence of polarized internal income distribution. The ownership of the means of production will be monopolistic creating an extended gap between the rich and poor. This result is high inequalities within a country.

Developing countries, barring a few, are characterized by the predominance of agriculture. There is a large amount of surplus labour in these economies, on the one hand and also there exists shortage of capital to carry out various investment programmes, on the other.

Development strategies in these countries are based on priority to agriculture or / and industry. It is evident from the experience of some countries that primary activities principally agriculture, grow at a slower pace than manufacturing activities owing to reasons such as not so efficient patterns of land ownership, slowness in adoption of new technology and the limited land which finds it difficult to bear the burden of increasing population.

Furthermore, low income elasticity of demand for agricultural commodities restricts demand both in internal and external markets. These reasons, however, do not undermine the importance of agriculture in the economy.

It has been recognized that successful industrialisation depends upon the development of agriculture.

A growth strategy based upon mixed development of agriculture and industry is preferred for the following reasons:

- (a) agriculture itself needs capital goods and other inputs such as fertilizers which are produced by industries;
- (b) surplus labour existing in agriculture can be absorbed in the manufacturing sector if the supply of wage goods from agriculture sector is assured; and
- (c) growth in agriculture sector helps to expand market for manufactured goods and vice-versa.

There are pros and cons to the IS which remain in balance without any threat to growth and economic stability.

### **The Gandhian Economic Model Through Self-Sufficiency**

The beginning of the year 2020 brought new challenges before the world economy. This challenge emerged because of Coronavirus pandemic (COVID-19). The outbreak of this pandemic was identified from Wuhan, a city of China. Its first case came into limelight in December 2019 in Wuhan and very soon it spread to different countries. In the present time, this pandemic has covered almost all countries of the Globe.

Till 4th May 2020, 3,525,088 confirmed cases were recorded in which 248,025 deaths were reported in the entire globe (COVID-19 Map). This pandemic caused many questions before the world and economic crises are also one of them. No doubt that the entire world economy has crashed because of this pandemic.

But the big challenge is before those countries which are developing and have the very high population living under poverty. India is also a developing country which is facing the challenge of Coronavirus pandemic. Till 4th May 2020, more than 44,000 Confirmed cases and 1,400 deaths were recorded in India (COVID-19 India.org). If we compare India's situation with various developed and developing countries, it can be said that India is in better condition but no one knows what would be the situation in future. This COVID-19 virus has affected Indian economy also. The Indian government declared complete lockdown from 24th March 2020.

This COVID-19 pandemic has created many questions before the Indian Government. The decline of the Indian economy is also one of them.

When India became Independent in 1947, it adopted the mixed economic policy for its development. During 1990s liberalism was adopted in India to compete with the world economy. This economic liberalism provided strength to the Indian economy. But, in the present situation, when the entire world, including India, is passing through a very critical economic situation, India should rethink over its development model.

Gandhian development model that emphasizes on the decentralization and village-centric economy, can be used as an alternative development model



for the Indian economy after the COVID-19 pandemic situation. At the time of independence, Indian policymakers thought of two types of development models. The first model was the inspired by the Western development model which was based on the materialistic approach of development and, other development model was inspired by Gandhian model which was guided by humanistic, ethical and sustainable development approach. Gandhi is a well-known political thinker of India who presented his view on almost all aspects of human life.

He talked about socio-political and economic issues of India. Gandhi provided an alternative development model for independent India. The Gandhian economic development model is totally different from the Western economic development model. Its fundamental principle relies on moral and ethical view on socio-economic and political development. In Gandhian development model, truth and non-violence are essential elements that affect human activities and decisions. Gandhian development model emphasizes on complete decentralization of economic structure. Gandhi advocated for the village-centric economy in which all economic functions and powers would be controlled by the village and village would act as a self-regulating and self-sufficient unit of development. According to Gandhi, development must ensure clothing, shelter, food, education and other basic facilities for all.

Humanity is the soul principle of Gandhian economic development philosophy. Gandhi's idea about development is the balanced and complete development of body, mind and soul. Thakkar argues that Gandhi's philosophy of development is based on not only economic or material development but also on moral development. His prime focus is on the development of equality, the dignity of the people, liberty and justice. Therefore, Gandhi emphasized on decentralization of economy, community-based economic structure, self-sufficiency, handicrafts and rural development (Thakkar, 2011.). According to Ghosh, the following are the basic objectives of the Gandhian scheme of holistic development:

1. Human development (including moral development) for capability expansion.
2. Development in a balanced way through manual and intellectual labour (development of body, mind and soul).

3. Development with social justice, rights and freedom. This is in accordance with the principle of social and human development.
4. Attainment of self-sufficiency and self-reliance through rural development.
5. Reduction in poverty through the generation of additional income and employment" (Ghosh, 2007).

### A Brief on Neo-Colonialism

Despite its frequent use over the past fifty years, there is no general definition or a clearly identifiable origin of the concept of neo-colonialism.

Some authors attribute its coinage to Jean-Paul Sartre, a leading figure in the francophone anti-colonial activist circles, who firstly used it in 1956 in one of his writings (Sartre, 1964; Ardant, 1965).

Others see its origins in Leninism, where it was used to describe a new form of domination applied after the colonial period in independent states (Crozier, 1964; Kabunda Badi, 1991).

In this understanding, the western capitalist economies fully rely on the resources and the manpower of their colonies, reason why they need to preserve their dependence throughout independence (Crozier, 1964).

Indeed, Vasili Vajrushev defined neo-colonialism as a colonial policy performed by the imperialist powers with new hidden mechanisms in order to reinforce capitalism, maximise profit and maintain the economic, political, ideological and military influence of colonial times (Vajrushev, 1974).

A first official definition was provided by the All-African People's Conference in the 1961 Resolution on Neo-colonialism, defining it as "The survival of the colonial system in spite of formal recognition of political independence in emerging countries, which become victims of an indirect and subtle form of domination by political, economic, social, military, or technical means" (Martin, 1985 p.191).

However, the term got international attention with the publication of Kwame Nkrumah's book on neo-colonialism, which firstly denounced and documented the existence of an ongoing dependence of the newly independent countries.

According to Nkrumah, the essence of neo-colonialism consists in that the State subject to it is officially independent and sovereign, while its economy and political policy are controlled from outside (Nkrumah, 1965).

Like in the Leninist understanding, neo-colonialism is seen as an adapted form of colonialism, which takes advantage of the weakness of the newly decolonised States in order to achieve economic, political and cultural benefits (Ardant, 1965), mostly through relinquishing political power to favourable elites (Martin, 1985).

The goal is the same as during colonialism; to maintain the former colonies in a dependent position which allows economic exploitation (Kabunda Badi, 1991; Ardant, 1965). What changes are the mechanisms applied to ensure dependence. These are subtle, multiples and vary according to the situation and the understanding of the essence of neo-colonialism (Ardant, 1965). Depending on the author, the neo-colonial mechanisms can include the control of the prices of primary and manufactured goods by the neo-colonial ruler, the obligation to buy certain amounts of manufactured and uncompetitive products from the former colonial master and to sell a determined quantity of raw materials in exchange, the monopoly of the metropolis on the transport of goods, the conditionality of aid sustaining commercial interests of the donor country (such as the lowering of trade barriers, the obligation to use part of the aid to buy goods or to favour companies of the donor country), the control of capital through imposed foreign exchange rates and banking systems, the imposed right to influence internal financial decisions, foreign influence in policy making through bribery of the local administration or instalment of civil servants in high positions, assistance in political coups, the presence and interventions of the military of the neo-colonial ruler (Nkrumah, 1965; Vajrushev, 1974), defence agreements, the financial support to favourable governments, technical assistance etc (Crozier, 1964).

Furthermore, according to several authors, neo-colonial domination also embraces cultural and educational influence, exercised through the expatriation of teachers and cultural ambassadors (Nkrumah, 1965), as well as through the education of the African elite in the former colonial metropolis which promotes its adoption of western values and thought patterns (Kabunda Badi, 1991).

In this sense, neo-colonialism is based on the same superiority cult that already determined the interactions during colonialism. Moreover, the inferiority complex induced in many Africans during the colonial period, as well as the diffused conviction in the metropolis of Africa's dependence on its former colonial ruler, provide important grounds for neo-colonial domination (Martin, 1985).

Likewise, the fact that neo-colonial methods are less direct and less visible renders neo-colonialism more dangerous than colonialism since it implies power without the need for justification for the master, and exploitation without protection for the country subject to it. Also, it post-pones the facing of social matters in the former colonies because the rulers derive their authority from the neo-colonial master rather than from their own population, which reduces their inclination to promote education, worker's rights or anything that would challenge the dominance of the neo-colonial master (Nkrumah, 1965).

In certain understandings, the decolonisation process was already designed to perpetuate the dependency of African countries after their independence (Martin, 1985), on the one hand through the establishment of several privileges which infringe the sovereignty of the African States, and on the other through their integration into economic blocs like the French Franc zone or the British Sterling Area (Crozier, 1964).

The established privileges include the preservation of military bases and troops, the concession of land and entitlements for raw materials, the right to carry out the administration, the exemption of certain multinational companies from taxes etc (Nkrumah, 1965).

Moreover, according to several authors, a part of the neo-colonial strategy in West Africa consisted in the so-called balkanisation, meaning the breaking up of the former colonial territories into small, unviable States which are incapable of independent development (Martin, 1985; Nkrumah, 1965; Ardant, 1965; Amin, 1971.)

This fragmentation into units which are economically too small and politically segregated inhibits proper local economic development thereby increasing dependence from foreign capital and debilitating the country's commercial bargaining position.

It further foments internal conflicts augmenting the need for external military support (Nkrumah, 1965; Amin, 1971). Likewise, in many colonies the heavy

colonial exploitation was responsible for a deficit in public finances prior to independence, reason why the economic stagnation and the inefficient administration are often direct legacies of the colonial period (Amin, 1971).

Originally the concept of neo-colonialism was only applied to describe the practises of former colonial rulers like France and England (Ardant, 1965; Nkrumah, 1965).

However, it slowly came to define as well the economic domination exercised by other great powers like the USA, the Soviet Union and China.

Moreover, in recent times, also the exploitation by multinational companies and the cooperation programmes of international organisations in developing countries have increasingly being classified as neo-colonialism (Ardant, 1965; Kabunda Badi, 1991).

This diffusion and amplification, as well as the overuse and misuse, are mainly responsible for the abstraction and the loss of credibility of the concept of neo-colonialism experienced over the past fifty years (Ardant, 1965).

It is important to bear in mind, that neo-colonialism has not only served to denounce practises which indeed can be classified as it is , but has also been a powerful tool to African leaders in order to mobilise and unite their people after independence, to turn away the focus from internal problems and to excuse own failures (Ardant, 1965).

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## Chapter-4

# World Trade Organisation

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Global rules of trade provide assurance and stability. Consumers and producers know they can enjoy secure supplies and greater choice of the finished products, components, raw materials and services they use. Producers and exporters know foreign markets will remain open to them.

This leads to a more prosperous, peaceful and accountable economic world. Decisions in the WTO are typically taken by consensus among all the members and they are ratified by members' Parliaments. Trade frictions are channelled into the WTO's dispute settlement process, where the focus is on interpreting agreements and commitments and how to ensure that members' Trade Policies conform with them. That way, the risk of disputes spilling over into political or military conflict is reduced.

By lowering trade barriers through negotiations among member Governments, the WTO's system also breaks down other barriers between people and trading economies.

At the heart of the system – known as the multilateral trading system – are the WTO's agreements, negotiated and signed by a large majority of the world's trading economies, and ratified in their Parliaments.

These agreements form the legal foundation for global trade. Essentially, they are contracts, guaranteeing WTO members important trade rights. They also bind Governments to keep their trade policies transparent and predictable which is to everybody's benefit.

The agreements provide a stable and transparent framework to help producers of goods and services, exporters and importers in conducting their business.

The goal is to improve the welfare of the people of the WTO's members.

## Trade Negotiations

The World Trade Organisation came into being in 1995. One of the youngest of the international organisations, the WTO is the successor to the General Agreement on Tariffs and Trade (GATT) established in the wake of the Second World War.

While the WTO is relatively young, the multilateral trading system that was originally set up under the GATT is over 70 years old.

The past 70 years have seen an exceptional growth in world trade. Merchandise exports have grown on an average by 6% annually. This growth in trade has been a powerful engine for overall economic expansion and on average trade has grown by 1.5 times more than the global economy in each year. Total exports in 2016 were 250 times the level of 1948. The GATT and the WTO have helped to create a strong and prosperous trading system contributing to unprecedented growth.

The system was developed through a series of trade negotiations, or rounds, held under the GATT. The first rounds dealt mainly with tariff reductions but later negotiations included other areas such as anti-dumping and non-tariff measures. The 1986-94 round – the Uruguay Round – led to the WTO's creation.

The negotiations did not end there. In 1997, an agreement was reached on telecommunications services, with 69 Governments agreeing to wide-ranging liberalization measures that went beyond those agreed in the Uruguay Round.

In the same year, 40 Governments successfully concluded negotiations for tariff-free trade in Information Technology products, and 70 members concluded a Financial Services deal covering more than 95% of trade in Banking, Insurance, Securities and Financial Information.

In 2000, new talks started on Agriculture and Services. These were incorporated into a broader work programme, the Doha Development Agenda, launched at the fourth WTO Ministerial Conference in Doha, Qatar, in November 2001.

The new work programme included negotiations and other work on non-agricultural tariffs, Trade and the Environment, WTO Rules on Anti-dumping and Subsidies, Trade Facilitation, Transparency in Government procurement, Intellectual Property and a range of issues raised by developing economies as difficulties they face in implementing WTO agreements.

Negotiations on these and other topics have resulted in major updates to the WTO rulebook in recent years. A revised Government Procurement Agreement—adopted at the WTO's 8th Ministerial Conference in 2011—expanded the coverage of the original Agreement by an estimated US\$ 100 Billion a year.



## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

At the 9th Ministerial Conference in Bali in 2013, WTO members struck the Agreement on Trade Facilitation, which aims to reduce border delays by slashing red tape.

When fully implemented, this Agreement—the first multilateral accord reached at the WTO—will cut trade costs by more than 14% and will lift Global Exports by as much as US\$ 1 trillion per year.

The expansion of the Information Technology Agreement – concluded at the 10th Ministerial Conference in Nairobi in 2015 – eliminated tariffs on an additional 200 IT products valued at over US\$ 1.3 trillion per year. Another outcome of the Conference was a decision to abolish agricultural export subsidies, fulfilling one of the key targets of the UN Sustainable Development Goal on “Zero Hunger”.

Most recently, an amendment to the WTO's Intellectual Property Agreement entered into force in 2017, eased poor economies' access to affordable medicines. The same year saw the Trade Facilitation Agreement coming into force.

### **WTO Agreements**

How can you ensure that trade is as fair as possible, and as open as is practical? By negotiating Rules and abiding by them.

The WTO's Rules – the Agreements – are the result of Negotiations between the members. The current set is largely the outcome of the 1986-94 Uruguay Round negotiations, which included a major revision of the Original General Agreement on Tariffs and Trade (GATT).

The Uruguay Round created new rules for dealing with trade in Services and Intellectual property and new procedures for dispute settlement. The complete set runs to some 30,000 pages consisting of about 30 Agreements and separate commitments (called schedules) made by individual members in specific areas, such as lower tariffs and services market-opening.

Through these Agreements, WTO members operate a non-discriminatory trading system that spells out their rights and their obligations. Each member receives guarantees that its exports will be treated fairly and consistently in other members' markets. Each promise to do the same for imports into its own market. The system also gives developing economies some flexibility in implementing their commitments.

### **Goods**

It all began with trade in goods. From 1947 to 1994, the GATT was the forum

for negotiating lower tariffs and other trade barriers; the text of the GATT spelt out important rules, particularly non-discrimination. Since 1995, the Marrakesh Agreement Establishing the WTO and its annexes (including the updated GATT) have become the WTO's umbrella Agreement. It has annexes dealing with specific sectors relating to goods, such as agriculture, and with specific issues such as product standards, subsidies and actions taken against dumping. A recent significant addition was the Trade Facilitation Agreement, which came into force in 2017.

## Services

Banks, Insurance Firms, Telecommunications companies, Tour operators, Hotel chains and Transport companies looking to do business abroad enjoy the same principles of more open trade that originally only applied to trade in goods. These principles appear in the General Agreement on Trade in Services (GATS). WTO members have also made individual commitments under the GATS stating which of their service sectors they are willing to open to foreign competition, and how open those markets are.

## Intellectual Property

The WTO's Intellectual Property Agreement contains rules for trade in ideas and creativity. The rules state how Copyrights, Patents, Trademarks, Geographical Names used to Identify products, Industrial Designs and undisclosed information such as trade secrets – "Intellectual Property" – should be protected when trade is involved.

## Dispute Settlement

The WTO's procedure for resolving trade conflicts under the Dispute Settlement Understanding is vital for enforcing the rules and therefore for ensuring that trade flows smoothly. Governments bring disputes to the WTO if they think their rights under the WTO agreements are being infringed. Judgements by specially appointed independent experts are based on interpretations of the agreements and individual members' commitments. The system encourages members to settle their differences through consultation with each other. If this proves to be unsuccessful, they can follow a stage-by-stage procedure that includes the possibility of a ruling by a panel of experts and the chance to appeal the ruling on legal grounds. Confidence in the system is borne out by the number of cases brought to the WTO – more

than 500 cases since the WTO was established compared with the 300 disputes dealt with during the entire life of the GATT (1947-94).

### Trade Monitoring

The WTO's Trade Policy Review Mechanism is designed to improve transparency, to create a greater understanding of the Trade Policies adopted by WTO members and to assess their impact. Many members see the reviews as constructive feedback on their policies. All WTO members must undergo periodic scrutiny, each review containing reports by the member concerned and the WTO Secretariat. In addition, the WTO undertakes regular monitoring of Global Trade measures. Initially launched in the wake of the financial crisis of 2008, this global trade monitoring exercise has become a regular function of the WTO, with the aim of highlighting WTO members' implementation of both trade-facilitating and trade-restricting measures.

### Building Trade Capacity in Developing Economies

All WTO agreements contain special provisions for them, including longer time periods to implement commitments, measures to increase their trading opportunities and support to help them to build the infrastructure needed to participate in world trade.

A WTO Committee on Trade and Development looks at developing economies' special needs. Its responsibility includes implementation of the WTO agreements, technical co-operation and the increased participation of developing economies in the global trading system.

The *Aid for Trade* initiative, launched by WTO members in 2005, is designed to help developing economies build trade capacity, enhance their infrastructure and improve their ability to benefit from trade-opening opportunities. So far, over US\$ 340 billion has been disbursed to support *Aid for Trade* projects. A Global review of the initiative is held every two years at the WTO's headquarters.

The Enhanced Integrated Framework (EIF) is the only multilateral partnership dedicated exclusively in assisting least developed countries (LDCs) in their use of trade as an engine for growth, sustainable development and poverty reduction. The EIF partnership of 51 countries, 24 donors and eight partner agencies, including the WTO, works closely with Governments, development organisations, civil society and academia. The

EIF has invested in over 170 projects, with US\$ 220 million committed to support the poorest countries in the world.

Another partnership supported by the WTO is the Standards and Trade Development Facility (STDF), set up to help developing economies meet international standards for food safety, plant and animal health and to access global markets. The WTO houses the Secretariat and manages the STDF Trust Fund, which has provided financing of over US\$ 40 million to support projects in low-income economies.

## Technical Assistance and Training

The WTO organizes hundreds of Technical Co-operation missions to developing economies annually. It also holds many trade policies courses each year in Geneva for government officials. Regional seminars are held regularly in all regions of the world, with a special emphasis on African countries. E-learning courses are also available. In 2017, some 18,500 participants benefited from WTO training aimed at improving understanding of WTO agreements and global trade rules.

## How the WTO is Organised

### *Functions*

The WTO's overriding objective is to help trade flow smoothly, freely and predictably. It does this by:

- Administering trade agreements.
- Acting as a forum for trade negotiations.
- Settling trade disputes.
- Reviewing national trade policies.
- Building the trade capacity of developing economies.
- Co-operating with other International organisations.

### *Structure*

The WTO has 164 members, accounting for 98% of world trade. A total of 22 countries are negotiating membership.

Decisions are made by the entire membership. This is typically by consensus. A majority vote is also possible but it has never been used in the

## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

WTO, and was extremely rare under the WTO's predecessor, the GATT. The WTO's Agreements have been ratified in all members' Parliaments.

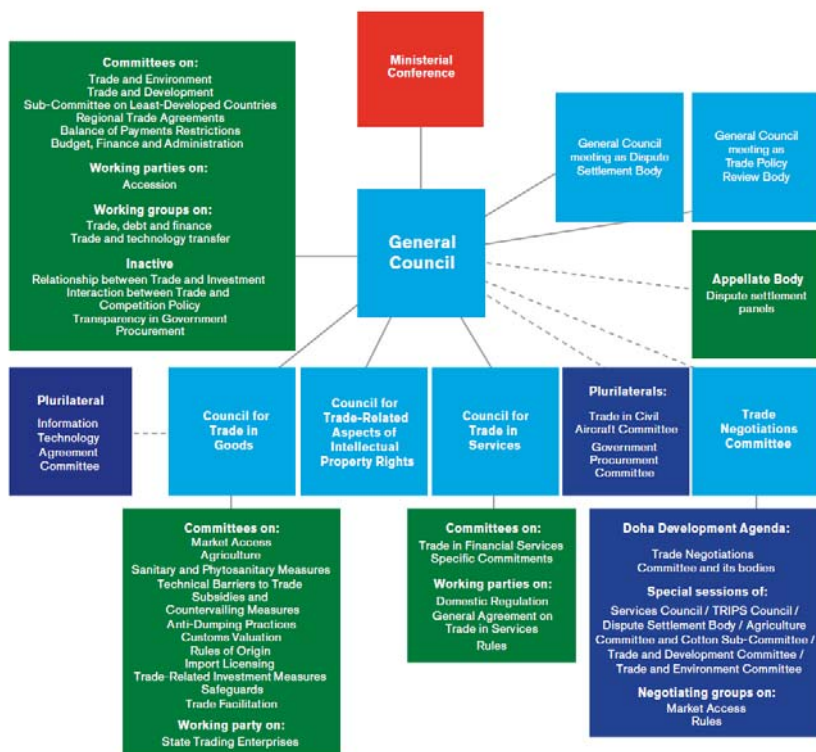
The WTO's top-level decision-making body is the Ministerial Conference, which meets usually every two years.

Below this is the General Council (normally ambassadors and heads of delegation based in Geneva but sometimes officials sent from members' capitals) which meets several times a year in the Geneva headquarters. The General Council also meets as the Trade Policy Review Body and the Dispute Settlement Body.

At the next level, the Goods Council, Services Council and Intellectual Property (TRIPS) Council report to the General Council.

Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas, such as the environment, development, membership applications and regional trade agreements.

### ORGANISATION STRUCTURE OF WORLD TRADE ORGANIZATION



India is involved in a number of trade disputes at the WTO. US has challenged India's export subsidy schemes like MEIS, citing that the country has crossed the US\$ 1,000 GNI threshold for the third successive year and can no longer provide such subsidies. India's subsidies for sectors like sugar, fisheries and solar panels as well as import duties for sectors like electronics, iron and steel have been challenged by other countries at the forum. The US has also challenged India's retaliatory tariffs on 28 products. Some of the major disputes involving India at the WTO are as follows.

### **(a) Disputes against India**

#### ***(i) Tariff treatment on certain goods (India v. Japan, EU)***

On May 10, 2019, Japan has requested consultations with India regarding the tariff treatment that India allegedly accords to certain ICT goods. Tokyo accuses New Delhi of charging excess duties to give impetus to its local manufacturing. These tariffs, Japan has argued, counter India's commitment of charging them at 0% (in consonance with the IT Agreement, 1996). India, however, has defended its move by arguing that the identified IT and telecom products on which import duties have been imposed did not exist in the present form when the agreement was signed. Therefore, they fall outside its jurisdiction. Other members like the USA and EU have also requested the WTO to join these negotiations and to side with Japan.

According to official sources, in February'20, India decided to block the European Union's request for a dispute settlement panel at the World Trade Organisation (WTO).

India had levied 10% customs duty on mobile phones and some other ICT products for the first time in July 2017 and subsequently increased it to 15% and eventually 20%. EU initiated dispute proceedings last year. It has alleged that New Delhi has levied excess tariffs than what it had committed to in its Tariff Schedule at the WTO. India, on its part, has insisted that most of the items identified by the EU and others were not covered under the Information Technology Agreement as these did not exist in 1996 and the tariff lines were not included in the agreement.

#### ***(ii) Measures concerning Sugar & Sugarcane (India v. Guatemala, Brazil, Australia)***

India's domestic support (CVM) schemes and alleged export subsidies have led to a string of countries like Guatemala, Brazil and Australia to request

WTO dispute consultations with India. While arguing its case, India asserted that the subsidies it provides are in the form of production subsidies, which are permitted under the WTO. The Export Subsidies, too, are given for production and marketing purposes, which are also permissible under the WTO rules. Furthermore, India opined that its exports of sugarcane are not significant enough to cause a surplus in the global market, as is being alleged by other WTO members.

After failing to reach a mutually agreeable position in its discussions with Australia, Brazil and Guatemala at WTO, it has been decided to set up Dispute Settlement Panels to look into India's sugar subsidies. However, India has rejected requests from the three countries for a single panel to oversee their complaints jointly on grounds that each case was distinct.

The three countries have argued that India's sugar subsidies (like soft loans and subsidies, to maintain stocks of sugar, and tax rebates) are causing a global glut, depressing prices and are in breach of trade rules.

Plausibly, there would be one panel that would separately hold the proceedings to address the claims raised by each member country.

### *(iii) Export Related Measures (India v. US)*

On 14<sup>th</sup> March, US filed a request for dispute consultations with India in the WTO. The issue revolved around subsidies & CVMs. Various countries like Japan, Brazil, Canada, China, EU, Thailand, etc. supported the allegations of US. Since the parties failed to reach a consensus, the WTO has established a panel to resolve the dispute. What is particularly worrying for India is the large number of third parties that resonate with the US.

The squabble between US & India over the latter's export promotion subsidies has been won by the US. WTO's Dispute Settlement Panel has ruled that these schemes violated several provisions of the WTO's subsidies and countervailing measures agreement. The three-member Dispute Settlement Panel comprising Jose Antonio S. Buencamino, Leora Blumberg, and Serge Pannatier stated that India must withdraw all the schemes within a time period of 90-120 days, after it is adopted by the WTO's dispute settlement panel within a month (as required under the dispute settlement understanding). It also said "in cases where there is an infringement of the obligations assumed under a covered agreement, the action is considered *prima facie* to constitute a case of nullification or impairment of benefits."

However, Commerce and Industry Minister Shri Piyush Goyal said in a written reply to the Lok Sabha that India is not obliged to implement recommendations the World Trade Organisation's dispute panel has made about its export promotion schemes. The panel, in its October 31, 2019 report ruled that India's export-related schemes (including for special economic zones or SEZ) are in the nature of prohibited subsidies under the Agreement on Subsidies and Countervailing Measures and are inconsistent with WTO norms. The country had appealed at the WTO's appellate body after it was given 180 days to withdraw the SEZ scheme.

"Due to Non-functioning of appellate body (of the WTO's Dispute Settle Mechanism), the appeal has been kept in suspension. Till the appeal is disposed of, India is under no obligation to implement the recommendations of panel," the Minister stated.

#### *(iv) Measures related to Solar Cells & Solar Modules (India v/s US)*

In this case, too, the US was supported by other countries like Brazil, Canada, China, EU, Japan, Norway, Ecuador, etc. The dispute dates back to 2013, when US alleged that the domestic content requirement of India's Jawaharlal Nehru National Solar Mission for solar cells & solar modules are inconsistent with GATT. In 2016, the Dispute Settlement Body ruled in favour of US. However, according to the latest developments, India has countered the WTO's moves by seeking the establishment of a compliance panel to resolve the issue. India is trying to convince the panel that its rules are now compliant with the WTO ruling.

India won a case in June this year against the US on domestic content requirements and subsidies provided by 8 US States in the solar sector. However, India has challenged the ruling given by the WTO dispute settlement panel, according to a release by the trade body. While most of the verdict is in India's favour, it has challenged some points in its communication, which reads, "India hereby notifies the dispute settlement body (DSB) of its decision to appeal to the appellate body certain issues of law and legal interpretation covered in the panel report entitled US – Certain Measures Relating to the Renewable Energy Sector which was circulated on 27 June 2019." It adds, "The panel erred in holding that India did not make a *prima facie* case that the Minnesota solar thermal rebate under measure 10 had ongoing effects, and therefore, constituted a matter before the panel that required examination in order to provide a positive solution to the dispute."



### *(v) Measures on Imports of Iron and Steel Products (India v/s Japan)*

On 20 December 2016, Japan requested consultations with India relating to certain measures imposed by India on imports of iron and steel products into India. Since bilateral talks didn't prove fruitful, Japan requested the establishment of a Panel to look into the issue in March'17. Meanwhile, a group of countries like Australia, US, Ukraine, China, EU, Indonesia, etc. became third parties to the row. The November'18 ruling upheld Japan's view regarding the safeguard duty imposed by India on steel imports.

### **(b). Disputes filed by India**

#### *(i) Measures on Steel and Aluminium Products (India v. US)*

India alleged that some of the measures practised by the US flout the provisions of the Agreement on Safeguards & GATT. China, Russia, Hong Kong, EU, Mexico, Thailand, etc. joined the consultations. India also claims that the imposition of high import duties on aluminium & steel items by the US has impacted exports of these products by Indian businesses. India has alleged that the US move is also not in compliance with global trade norms.

#### *(ii) Measures Relating to the Renewable Energy Sector*

On September 9, 2016, India requested consultations with the United States regarding certain measures of the latter relating to domestic content requirements and subsidies instituted in the energy sector. It argued that these subsidies contravene the provisions of TRIMS, GATT & SCM. In a massive development, India defeated the US at WTO in a case concerning America's domestic content requirements and subsidies provided by eight States in the renewable energy sector. The panel concluded that 10 measures implemented by the U.S. pertaining to renewable energy sector are incompatible with its obligations under GATT 1994.

To Conclude, India is a founding member of the GATT (1947), it actively participated in the Uruguay Round Negotiations, and is a founding member of the WTO. India strongly favours the multilateral approach to trade relations and grants MFN treatment to all its trading partners, including some who are not members of WTO. India participated actively in the last Ministerial Conference held in Singapore. Within the WTO, India is committed to ensuring that the sectors in which the developing countries enjoy a comparative advantage are adequately opened up to international trade, and also that the Special and Differential Treatment Provisions for developing countries under the different WTO Agreements are translated into specific enforceable dispensations, in order that developing countries are facilitated in their developmental efforts. India feels that the multilateral system would

itself gain if it adequately reflected these concerns of the developing countries, so as to create the necessary impetus to enable developing country members to catch up with their developed country counterparts.

India's increased openness and integration with the world economy have been important factors in explaining the healthy economic growth recorded in the 1990s. The recent economic slowdown demonstrates the need for continued and even accelerated reform. Transparency in decision-making, especially with regard to foreign investment, should also be increased if India is to reach its foreign investment targets. Continued opening of the trade regime and liberalization of the foreign investment regime are likely to be translated into even higher growth rates than experienced so far.

Other factors constraining economic growth may include the fiscal deficit, which may, for example, contribute to high interest rates. There is also concern with regard to the large share of subsidies in Government expenditures: while many of these are aimed at assisting the very poor, it is not clear that this target is being reached. Second, the poor quality and coverage of certain infrastructure facilities - notably power and transportation services - which are all essential for the development of both domestic and export markets, needs to be addressed. Third, reform efforts in industrial restructuring, need to be accelerated, especially to enable the closure of unviable units in order to release resources for use in more productive areas. Internal deregulation could therefore complement India's ongoing trade liberalization process in promoting a more efficient and productive economic structure.

India, with its per capita GNP of barely US\$340 (which is low even as per the general income levels of US\$430 and US\$1,090 for low-income and middle-income economies respectively) has already taken major strides in integrating herself with a globalized world trade order and is committed by fulfilling her multilateral obligations. It is her perception that the multilateral trading system is itself likely to gain in credibility and acceptance if the sectors of comparative advantage to the developing world are liberalized early, justified market access is not denied to them and enough time and resources are made available to the developing world to catch up with their developed country trading partners. To this end, it is our perception that the concerns of special interest to developing countries should be addressed early and to enable special and differential treatment provisions for developing country members enshrined in the WTO Agreements translated into specific, enforceable dispensations.

# Chapter-5

## Importance of Export Promotion

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### Export Promotion

A country's ability to export depends upon what it has to offer for sale when there is a market for it abroad and an equally important factor is whether it is able to offer these commodities for sale at competitive prices.

Expansion of exports is of vital importance in any scheme to achieve the objective of rapid and self-reliant growth. Export constitutes the most important factor in India's policy measures towards a stable balance of payment position. Various plans have given priority to the objective of self-reliance which, in concrete terms implies reduced dependence on foreign aid for development. If export grows more, it will bring valuable foreign exchange into the country. Therefore the need for the growth of export is of strategic importance. Foreign exchange is so precious that the shortage of it impedes even the imports of essential raw materials, stores and components and industry have to work below the capacity. In order to overcome these drawbacks, there is the need to buy more to feed the industries with greater supply of raw materials and stores to manufacture more products for increasing exports. Increase in exports induces further rise in foreign exchange earnings. For a developing country it would be a major problem of maintaining a satisfactory rate of increase in exports and export earnings. Generally, the producers when they find numerous buyers in the home markets do not want to go for overseas market. On the other hand, the foreign buyers may be in much less need of the products than the people at home market. But still a developing country must have exports in order to pay for raw materials and capital equipments that are imported for industrial growth.

India has been giving greater emphasis to the means of increasing its earnings of foreign exchange through exports. In order to increase exports eagerness on the part of the Government to encourage this trend through appropriate measures by changing its policies and procedures and through active assistance by providing necessary facilities and incentives are of grave necessity.

An economy having foreign trade relationship, export and import always vary, depending upon different conditions. Imports always depend upon the capacity to export. W.W. Rostow's suggestions that growth process involves a leading sector which communicates its growth to the rest of the economy is worthwhile.

Growth of exports creates new demand in the exporting country for inputs to contribute to the physical expansion of production which leads to a rise in factor incomes. Emery has given importance to the export import policies that will stimulate export which is acceptable because without a strong economic policy growth is not possible. India is the best example itself. Indian economy before independence was underdeveloped and had no proper trade policy. No manufacturing industry could develop fully, even though India was having vast natural resources and manpower. For a few years after independence, even at the beginning of the planning period, India's trade policies were not long-term. The need for export growth was never so important in the First Plan and foreign trade was not assigned important role. The Second Plan was ambitious, leading to a crisis in foreign exchange. This resulted in a gap in the balance of trade. This may be attributed to the regular rise in import and stagnant export. India's share in world trade had declined. It was only in the Third Plan that the Government of India started re-orientating their foreign trade policy to the needs of the developing economy and to meet continuous growing trade deficit. This calls for extraordinary efforts for export promotion.

All possible efforts were to be made to promote exports. An investment in the production of export goods which requires 10 per cent of subsidy should be preferred to an investment in import substitute which requires protection equivalent to 50 per cent of import duties. Increase in the new items of exports of manufactures was not sufficient to counterbalance the decline in some of the important exportable commodities like cotton textiles and jute manufacturers. A more effective method of creating surplus for exports to the effort to increase the production of the commodities, holding consumption at some reasonable limits. This will require adequate investments in industries producing exportable goods and the assurance of the allocation of foreign exchange for the import of raw materials and equipment for increasing exportable surplus. While allocating foreign exchange resources to the industry which can earn or save foreign exchange, direct as well as indirect

benefits should be taken into consideration. Exports can be made more profitable by reducing their cost structure and raising their productivity.

Export promotion drive aims to make the industries most productive and diminish their cost of production to the minimum. Expansion of export provides one of the important measures for raising import capacity and have a crucial role to play in a developmental strategy at self-reliant growth. With its wide and expanding industrial base India should be in a position to take advantage of the growing trade opportunities in this range of products on a competitive basis.

India's exports show a rising trend since 1970-71 continuously. Export promotion is indispensable to overcome disequilibrium in the balance of payments. So far as the expansion of exports is concerned, it is observed that India's export after devaluation year mainly from the year 1968-69, increased to a considerable extent and diversified at the same time. It signifies that India could succeed in promoting export which was the prime factor in her development. By exploiting the unexplored resources, India could develop her own industry and produce most of her essentials with in domestic market.

There are different underdeveloped areas within the country possessing vast resources which need to be given priority during the Plan period, so that the idle capacity can be properly utilised without waste. Such measures will deepen the scope to establish export-oriented industries and also create scope for utilisation of man power resource and create employment capacity and increase per capita income. Rise in production increases exports as well as employment opportunities which induces rise in per capita income which will act as a stimulus to rise the standard of living of the people. . Rise in per capita income tends to rise national income, as also saving and investment. More there is investment more there will be development of industries and projects.

India being a primary producing country was merell an exporter of primary goods. The demand for primary goods is inelastic in the foreign markets. The appearance of synthetic goods lessened the demand for primary goods. Hence diversifications of commodities and regions are of prime importance. Lack of diversification is one of the causes of the low level of industrialisation. Industrialisation in various countries curtails India's potential market in certain manufactures. India with its relatively good industrial base

and overall potential for industrial development should be ahead in sizeable range of products and in general level of sophistication.

## Export-Promotion Measures in the Eighties

In the early eighties because of the deficits in balance of payments export-promotion measures "acquired great urgency". A committee headed by P.L. Tandon made a large number of recommendations for export-promotion in January 1991.

Promotional measures for exports taken in the eighties were:

1. Incentives scheme to promote exports was launched which provided for imports of raw materials, machinery and capital equipment and accessories against exports. This scheme was called Replenishment (Rep.) Scheme which was later replaced by Exim Scrip's.

*Exim scripts* equivalent to 30 per cent value of their exports were given to the exporters. These Exim scripts could also be sold in the market at premium. Exim scripts entitled exporters to import a certain amount of materials and machinery for expanding exports. Thus, 'import-liberalisation for export promotion' became the focus of trade policy.

2. Fiscal concessions for export promotion were given. The important fiscal concession was the introduction of 'duty drawback scheme' under which taxes paid on materials used in the manufacture of goods for export were refunded. Besides a good proportion of profits or income earned from exports was exempted from income tax. Further a 5-year tax holiday was provided to the units set up in Special Exporting Zones (SEZ) for financing exports.
3. Liberal credit facilities at concessional rates of interest were given by the commercial banks to exporters.
4. Bilateral Trade Agreements with some countries were made to step up exports.
5. In the latter half of eighties, the 'exchange entitlement' scheme was introduced to enable exporters to utilize a part of their foreign exchange earnings for the purpose of market development.
6. *Cash Compensatory Scheme* being a scheme for providing cash assistance to the exporters was started. Under this scheme cash

assistance was given to the exporters to compensate them for the taxes paid by them on imported inputs used by them for the production of exported goods. This was in fact a form of export subsidy paid for providing incentives to the exporters.

7. In the latter half of eighties quota system in case of several commodities was replaced by tariffs. This liberalised imports further on the one hand and provided revenue to Government on the other.

It is evident from above that in the eighties, especially in the latter half of eighties, a more liberal trade policy was adopted to promote exports on the one hand and to provide for imports of capital goods and technology so as to enable India to obtain benefits from International trade.

It needs to be emphasized that liberalisation of trade policy in the eighties was in view of the mounting deficits in balance of payments as a consequence of pure import substitution policy followed earlier. In 1981 IMF had also advised India to use export promotion and not export restrictions as the strategy for reducing deficit in balance of payments.

## **India's Trade Policy since 1991**

### *Import Liberalisation and Export Orientation - A General Review*

There was a severe economic crisis in 1991. This economic crisis had its root in persistent deficits in balance of payments during the last several years. Gulf war of 1990 added to the problem as it resulted in shooting up of oil prices which required enhanced spending in terms of foreign exchange.

By March 1991, current account deficit in balance of payments reached a record level of about 10 billion US dollars or over 3 per cent of our GDP. Exports were declining. Foreign borrowing in last several years raised the ratio of short-term debit to foreign exchange reserves to an extremely high level of 146.5 per cent. Foreign debit reserve ratio rose to a peak of 35.5 per cent.

As a result, our foreign exchange reserves dwindled to a mere amount which was hardly adequate to meet only a few weeks imports. A default on payments for the first time in our history became a distinct possibility in June 1991. Foreign capital was flying from India. No one was willing to lend us anymore.

The Liberalisation of Trade Policy in India was characterized by Two Important Features namely :

1. Import Liberalisation and
2. Export-orientation.

This new Trade Policy has accelerated India's transition to a globally oriented economy by stimulating exports and facilitating imports of essential inputs and capital goods. Steps were taken to promote exports by removing anti export bias in the earlier policy.

This policy of import liberalisation and export-orientation was in fact the policy that was recommended by IMF and World Bank to solve the balance of payments problem facing the developing countries and to accelerate rate of economic growth. We explain below this trade policy in some detail.

### *Import Liberalisation*

The first important reform in India's trade policy has been the elimination of quantitative restrictions in a phased manner on most of intermediate and capital goods since 1991. Secondly, prior to 1991 imports were regulated by means of positive list of freely importable items. Instead, since 1992 as a part of Trade Policy reforms only a short negative list of imports is subject to regulations by Government. Other goods can be imported, subject of course on payment of duty.

### *Abolition of Licensing*

Prior to 1991 a large number of goods was subject to import-licencing restrictions. Now, most of the items of imports have been put on Open General Licence (OGL). That is, for their imports prior approval or license from any authority is not required. Thus, License – Permit Raj regarding imports has been done away with.

### *Tariff Reduction*

An important step towards Import Liberalisation has been the reduction in Import-duties to eliminate protection given to domestic industries from foreign competition. The maximum import duty which was as high as around 150 per cent was reduced to 110 per cent in 1992-93. This was further reduced to 85 per cent in 1993-94, to 65 per cent in 1994-95 and to 50 per cent in 1995-96. Now, in 2004-05 average customs duty has been reduced to 20 per cent only.



Empirical evidence shows reduction in protection increases efficiency and productivity in the domestic industries as it exposes them to foreign competition.

### *Liberalisation of Imports of Gold and Silver*

Another significant import liberalisation has been that imports of gold and silver have been liberalized. This has helped in preventing smuggling of these metals.

### *Critique of Import Liberalisation*

It may be noted that fears were expressed about import liberalisation both by certain politicians and economists, especially with leftist leanings. They contended that Import Liberalisation would kill domestic industries as they would not be able to compete with the cheap foreign products.

This would lead to closure of a large number of industrial units, especially small-scale industries. Besides, they claimed that the large-scale imports would require substantial foreign exchange resources. Thus, according to them import liberalisation would worsen the balance of payments problem rather than solving it.

Even reputed Economist. Dr. Bimal Jalan, a Former Governor of Reserve Bank of India, expressed reservations about the policy of Import Liberalisation and pointed out that it would be highly risky for the Indian economy, Writing in 1991, he says, "given the balance of payments constraints operating now, and the financing operations currently available, import- liberalisation as strategy does not seem to be feasible option over the next few years. This pragmatic view is not dependent on the theoretical validity (or otherwise) of the liberalisation argument. By implication, Import Liberalisation would have the effect of raising, even in the short run, the ratio of import to GDP. This may not be undesirable in itself, but it would require larger inflows of external capital in the next few years and this is not available on appropriate terms. Past experience shows that further Commercial Borrowing to Finance Import Liberalisation ...would also be undesirable, given the high level of external debt. In this situation, import liberalisation would be unduly risky and could lead a repetition of the unfortunate experiences of several other developing countries."

However, in actual experience, these fears about Import Liberalisation leading to adverse consequences, have not proved to be true.

### *Export-Orientation of Trade Policy*

Along with Import Liberalization, Export-Orientation was also given in India's Trade Policy being pursued since 1991. In other words, for the first-time greater emphasis was placed on Export Promotion in our Trade Policy by removing anti-export bias of our earlier policy.

Some Economists described that out-ward looking strategy was adopted since 1991 in place of inward-looking strategy of Import-Substitution followed earlier. We explain below the various Export-Promotion measures taken to give Export-Orientation to Trade Policy.

#### *1. Reduction in Customs duties to end Anti-export bias:*

Prior to 1991 customs duties of India were the highest in the world and were levied to promote import substitution. These very high customs duties provided a high degree of protection to domestic industries. In actual practice, the high degree of protection lowers efficiency and is not conducive to optimum use and allocation of resources.

In the absence of competition from imported products, the prices of domestic goods were high and this served to induce import substitution but worked against promotion for exports. Since prices of products in international markets were lower, it was not profitable to produce for export.

Therefore, to remove this anti-export bias and promote the growth of exports, customs duties were reduced and by 2004-05, the average rate of customs duties have been brought down to 20 per cent.

#### *2. Devaluation of Rupee*

Another Important step to promote exports was devaluation of rupee by 20 per cent in July 1991. Devaluation lowered the prices of our exports and gave an important boost to them. Prior to 1991- Rupee Currency was overvalued and to ensure growth in exports to make some foreign exchange earnings, export subsidy in the form of cash compensatory scheme was provided to exporters. Therefore, along with devaluation cash compensation scheme was withdrawn.

#### *Market Determined Exchange Rate: Convertibility of Rupee:*

After Two Years, in 1993, Exchange Rate of Rupee was made market determined, that is, exchange rate of rupee with foreign currencies were left to be determined by demand for and supply of rupee and other currencies.

This implies that rupee can appreciate or depreciate in terms of other currencies every day depending on demand and supply conditions.

This flexible exchange rate works to some extent to correct disequilibrium in the balance of payments. However, it is worth mentioning that exchange rate though determined by demand for and supply of foreign exchange can be influenced by RBI through buying and selling of dollars or other foreign currencies. Therefore, present exchange rate system is more correctly described as managed float.

It may be noted that over a period of time since 1993, exchange rate of rupee has declined, that is, rupee has depreciated. This has tended to promote exports and discourage imports. In addition to the introduction of market determined exchange rate rupee has been made convertible on current account of balance of payments, that is, importers can now get their rupees converted into dollars and exporters can sell their dollars for rupees at market-determined exchange rate.

Thus, Convertibility of Rupee has facilitated Imports and Exports and has contributed to the Globalization of the Indian Economy.

### *3. Liberalisation of Control over Exports*

Through continuous review and revisions during the last 12 years controls on exports has been liberalised to the extent that now all goods may be exported without any restriction except the few items mentioned in the negative list of Exports.

The items in the negative list of exports are regulated because of strategic considerations, environmental and ecological grounds, essential domestic requirements, employment generation and on account of socio-cultural heritage.

### *4. Duty-free import of Capital Goods for use in production for Exports*

A significant export-promoting measure is that capital goods meant to be used for production of exportable products can be imported free of customs duty. There are two windows to fulfil export obligation on FOB (free on board) and NFE (Net foreign exchange basis).

### *5. Advance licences for Imports against Exports*

Advance licences which are used to import specified raw materials without payment of any customs duty against confirmed export order and / or letter of credit have been made transferable after export obligation has been fulfilled.

### 6. *Exemption from Tax and Credit subsidies*

Profits or incomes from Exports are completely exempt from income taxes. Besides, exporters are provided preferential access to credit from banks. Concessional rates of interest are charged for pre-ship and post-ship credit to exporters.

### 7. *Duty Drawback Scheme*

In this important scheme of providing incentives to exporters customs duty and excise duty paid on inputs which are used for production of exports are reimbursed to exporters.

### 8. *Incentive to Exports of Services*

In an attempt to provide massive thrust to export of services EXIM Policy 2003-04 has introduced duty free import facility for the service sector units having a minimum foreign exchange earnings of ₹ 10 lacs. The scheme is likely to provide a major boost to export of services like health care, entertainment, professional services and tourism.

9. *Small-scale industries (SSI) reservations* have been withdrawn from a large number of items so that a large-scale producer can produce these items cheaply and export them.

### ***Export Orientation***

The Export Orientation of Trade Policy (or outward-looking growth strategy) is believed to have many advantages and is regarded as superior to import-substitution policy.

Some of these Advantages are listed below:

First, it has been pointed out that export-oriented trade policy is conducive to more efficient use and allocation of resources. Jagdish Bhagwati has emphasized the efficiency gain of export promoting trade strategy.

He is of view that export orientation and import liberalization trade strategy will ensure domestic resource allocation closer to efficient production of goods in accordance with comparative cost of a country. According to him, such a trade strategy will not lead to profit-seeking unproductive activities.

An important advantage of export-oriented strategy arises from economies of scale which can be reaped more effectively. As a result, cost per unit of output rises which will lower prices of export. Lower export prices will help in

significant expansion in exports and enable us to earn more foreign exchange.

As export demand or market size for a good expands this will lead to economies of scale. With adequate size of market even small-scale and medium enterprises can set up plants of optimum size to enjoy the economies of scale.

Export-oriented trade policy makes substantial contribution to economic growth by relaxing the foreign exchange constraints. Export-promoting trade policy places emphasis on industries geared towards earning foreign exchange. This helps to keep the balance of payments in equilibrium.

It has been found that import-substitution trade strategy generally causes shortage of foreign exchange and leads to the balance of payments problem, as happened in case of India in 1991. Shortage of foreign exchange and balance of payments problem lower the rate of economic growth.

On the other hand, export-oriented trade policy does not have to face the problem of shortage of foreign exchange and is therefore conducive to higher rate of economic growth. Further, a significant merit of export-oriented trade policy is that it will help to achieve self-reliance, that is, self-sustained growth of the Indian economy.

As a matter of fact, Import Substitution strategy was adopted in India with the belief that through it we will achieve self-reliance. But the policy underestimated the import intensity of import-substitution process. Import-substitution strategy substantially increased our import requirements for equipment and raw materials.

This necessitated a large amount of foreign exchange which could not be earned sufficiently through exports. Thus, far from helping to do away with foreign assistance import-substitution strategy increased our dependence on foreign capital inflows.

Export-oriented trade policy coupled with liberalized foreign investment will enable us to earn adequate foreign exchange to solve our balance of payments problem and ensure self-sustained economic growth. Above all, several studies have found a highly positive relation between growth of national income and expansion in export.

However, trade policy is certainly important for providing incentives for expansion of exports for availing of the opportunities thrown up by

international trade. This will lead to the optimum use and allocation of material resources which will stimulate economic growth.

### India's Export Problems – Major Issues

The Indian economic scene today presents a dismal picture of mounting inflation, shortage of critical raw materials, transport bottlenecks, crippling power cuts and a sharp decline in agricultural production consequent upon the widespread drought, which engulfed many parts of the country. The only silver lining amidst this otherwise grim outlook for the economy has been the encouraging growth in recent years. The fact remains that despite the steady rise in our exports, recent growth in India is widely dependent on foreign aid (and reduced foreign reserves). Consequently, India must also plan to develop and strengthen her economy in such a way that she can rectify her severe foreign exchange deficit and at the same time either make or buy much larger quantities of capital goods which will be required to sustain a continued process of expansion.

The shortage of foreign exchange is perhaps the main hurdle that limits the growth process of most of the backward economies which have determined to carry out economic development mainly to raise the living standards of the people. The need for machinery, capital and other equipment is so high in the building up of our industrial structure that it is not possible for us to produce. Export earnings have not been adequate to keep pace with the increasing import bill thereby resulting in serious difficulties in our balance of payments position. Our total exchange requirements are quite high and even a generous external grant, loans, assistance etc. offered by the industrialised countries, save in exceptional cases, could only be marginal and the main source of foreign exchange for economic development must be one of exports earnings. Now it is rather paradoxical that a country where export is most indispensable, is confronted with numerous problems, viz. scarcities of power, raw materials, transport, trained manpower etc. which are strong deterrents to exports.

An analysis of the trend reveals that exports constitute relatively a small fraction of India's national income and consequently the " Income Effect " is not always discernible especially in the case of particular commodity. There may be many causes for failure of exports to rise at a rate more than proportionate to the growth of national income like -

## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

- Rise in domestic demand of some commodities as a result of increase in income due to high income elasticity.
- Growth of money incomes more often creates market imperfection which will limit the carryover from exports.
- Rising cost of production and competitiveness in export market.

According to statistical investigation, in most developed economies which have a falling marginal propensity to imports, the ratio of imports to national income also declines. Thus, imports of developed countries, i.e. exports of developing countries tend to grow less rapidly than the national income of developed countries. Thus, the exports of a developing country tend to grow more slowly than the rate of income growth in developed countries.

Along with increase in incomes, factors like changes in consumer preferences and increasing degree of urbanisation should also be kept in mind. Other factors responsible for failure of exports are - inexperienced handling of enquiries, faulty method of submitting quotation, delays in attending to complaints, lack of organisation for the development of certain commodities and lack of basic knowledge prevailing in recipient countries.

Some of the basic problems confronting the developing countries in connection with exports can be summed up as follows:

- (a) Fluctuations in the export earnings due to changes in prices.
- (b) *Lack of competitiveness of export product:* Many developing countries are having high cost economies. Consequently, their export product, especially non-traditional items cannot compete in the international market. Further important organisational aspects of export promotion, such as, dissemination of trade statistics, proper publicity and propaganda and market research are not given sufficient attention by export organisations.
- (c) *Trade and Tariff Barriers:* Trade and tariff barriers imposed by developed countries are largely responsible for the arrested elasticity of demand for manufactured goods of developing countries. They act as a major impediment which restricts the efforts of developing countries to expand their exports. Though imports of some primary products from developing countries are free from tariff in many developed countries, by and large, primary commodities are subject to duties and internal charges. Besides these, many quantitative

restrictive measures are also pursued by the developed countries in regard to import of primary commodities from the developing economies. The reduction of tariffs and other barriers to trade contribute substantially to the expansion of exports of less developed countries.

- (d) *Non-Tariff Barriers*: It may take many forms such as import ban. State trading, monopoly purchases, Consular formalities, mixing and marketing regulations, anti-dumping laws, administrative and technical regulations, excise duties and purchase and sales taxes. These impediments for expanding the exports of primary commodities lead to reduction in the import content of domestic consumption in the importing countries, either through quantitative control or by raising the relative price of the import content. Thus, countries which are essentially producers of primary commodities are adversely affected. Their export earnings will decline while their imports from developed countries progressively increased.
- (e) *Mounting Debt Service Charges*: India has considerably relied on foreign aid and loans for her economic development. Significance of loans can be proved by the fact that we have to take new loans in order to repay the old one. A substantial part of aid is neutralised by increasing debt servicing charges. Conventional remedies such as rescheduling and extension are suggested as short term solutions while raising the level of exports substantially is the only practical way out in the long run. It was suggested at UNCTAD II that aid to developing countries should be on the pattern of aid under Marshall Plan extended to Western-European countries in the immediate post World War period.

It is true that a certain amount of aid is indispensable for the development of underdeveloped countries. But the aid should not have a pattern and perspective for the future. Aid becomes a process by which receiving country gets tied up not only to financial commitments but also in some unwritten obligations which may restrict our trade.

In order to solve the problem the more feasible way would be, that the scheme under which debt repayment (interest plus amortization) is linked with industrial exports. Further tied aid being more beneficial to donor countries and having less receptibility by recipient countries



should be untied so that developing countries become sound participants of world trade.

- (f) Lack of co-operation among the developing countries and absence, of co-ordination on a mutually agreed basis among them for the efforts to expand exports.

Major export problems may be classified into short term and the long term as well. Major short-term problems are the instability of export commodity prices and the associated fluctuations in foreign exchange earnings, while the long-term problems underlying unsatisfactory trend in the export earnings of primary, commodities from developing countries can be classified as either internal or external.

### **Why India's Exports are Declining?**

One of the main cause of concern for India's macroeconomic performance is declining exports. According to the Economic Survey 2017, Exports recorded growth of \$318.6 billion in 2013-14 but gradually fell down to \$280 billion in Year 2016-17.

Though export decline can be ascribed to the global slowdown and the protectionist policies followed by trade partners, a lot of other forces have also contributed to the country's slowing exports.

*Structural factors:* Some structural factors (read long term) like low technological adaptability and absence of technology intensive foreign investment are curtailing India's exports. The slowdown of engineering goods, poor progress in electronics are the result of such structural factors.

Undervalued currency policies adopted by competitors amidst relatively strong Rupee: India's competitors like China and several other low-income countries are keeping their currencies to retain export competitiveness. At the same time, the rupee remains a relatively strong currency during the last few quarters.

*Rising Anti-Globalization Wave:* in the context of rising anti-globalization sentiments in the West, countries are adopting micro policies to limit imports. This anti-trade sentiment has emerged as an economic policy theme in recent years.

*Discriminating Regional Trade Blocs:* Trade is now intensively conducted through Regional Trade Blocs or FTAs where countries exchange trade

benefits on mutual understanding. This has led to discrimination against countries like India which are not members of any powerful trade blocs.

*Slowing World Economy:* Exports of India depends upon income in other countries. Slow economic growth in rest of the world also reduces India's exports.

## Strategies taken by Indian Government to Promote Exports

The need of our country to step up exports and sustain their growth is too well known to need a mention. Realisation of this genuine need is reflected in the numerous institutions functioning in our country either directly or indirectly connected with export promotion. A number of institutions and agencies are endeavouring to lend a helping hand to the exporter in different aspects involved in his export efforts.

Institutions striving towards export promotion in India can be classified broadly into three categories

- (i) Advisory Bodies
- (ii) Promotional Organisations and
- (iii) Service Institutions.

*Board of Trade* is the consultative and deliberate body to provide the Government with the views of different sections of the society that may be taken into account in formulating and implementing the export and import policies.

*Export Promotion Councils* are Non-profit organisations established under the Companies Act with a view to promoting export of specific commodities. Their main function is to look after the interest of those promoting export of specific commodities. The main function is to look after the interest of the member-exporters, be a link between the Government and the Trade and take steps for promotion of exports of the particular commodity which they represent.

*Commodity Boards* have been set-up for principal commodities to guide their production and exports. The Commodity Boards act primarily as Export Promotion Councils in respect of the commodity concerned.

*Indian Institute of Foreign Trade (IIFT)* is now a deemed university. The functions of the Institute mainly cover two areas:

- (i) Development of Export Management, and
- (ii) Undertaking research relating to foreign trade.

*Indian Institute of Packaging* aims at stimulating consciousness among the exporters of the need for good packaging. It undertakes research on raw materials used in packaging with a view to effect improvements in packaging standards.

*India Trade Promotion Organisation* is the nodal agency of the Government of India for promoting the country's external trade. Its promotional tools include organizing of fairs and exhibitions in India and abroad, Buyer Seller Meets, Contact Promotional Programmes, Product Promotion Programmes, Promotion through Overseas Department Stores, Market Surveys and Information Dissemination.

*Federation of Indian Export Organisations* is the apex body serving as a common and coordinating forum for the various export promotion councils, commodity boards, service institutions and organisations.

*Export Inspection Council* coordinates inspection and certification of export products.

*The Foreign Trade Policy* 2015-20 provides for a number of schemes aiming at providing the needed infrastructure and environment to encourage the export community in general.

Under Assistance to States for Infrastructure Development of Exports (ASIDE) the Department of Commerce allocates funds to the States on the twin criteria of gross exports and the rate of growth of exports.

*The Market Access Initiative (MAI) Scheme* is intended to provide financial assistance for medium term export promotion efforts with a sharp focus on a country and product. Financial assistance ranging from 25% to 100% is available for Export Promotion Councils, Industry and Trade associations, etc. for conducting market studies, setting up of showroom / warehouse, etc.

*Marketing Development Assistance (MDA)* provides financial assistance for a range of export promotion activities implemented by export promotion councils, industry and trade associations on a regular basis every year.

Selected towns producing goods of ₹ 1,000 Crores or more are notified as Towns of Exports Excellence on the basis of potential for growth in exports.

*Export-oriented Units and Technology Parks* operate free of import duties or quantitative restrictions and are given other advantages including tax exemptions.

*Special Economic Zone (SEZ)* is a specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs. Goods and services going into the SEZ area from DTA shall be treated as exports and goods coming from the SEZ area into DTA shall be treated as if these are being imported.

*Duty drawback* is allowed in respect of all items wherein such raw materials and components have been used on which duty either of customs or excise has been paid.

Finished goods which are subject to excise duty for home consumption are exempt from the duty when they are exported. The scheme is also applicable where the exported goods contains excisable goods in their manufacture.

An *advance authorisation* enables the exporter to import inputs for his export commodity free of customs duty. Authorisations are subject to actual user condition and carries an obligation of positive value addition. The export obligation shall be fulfilled within a period of 18 months.

Under *Duty Entitlement Pass Book scheme*, an exporter is eligible to claim credit as a specified percentage of FOB value of exports of specified commodities made. The credit thus earned can be used to import any freely importable commodity without payment of customs duty. The DEPB is freely transferable and valid for a period of 24 months.

A *Duty-Free Import Authorisation* is issued to allow duty free import of inputs which are used in the manufacture of the export product. DFIA is initially issued with actual user condition. Once the export obligation has been fulfilled, request for transferability of the Authorisation or the inputs imported against it may be made before the Regional Authority.

*Export Promotion Capital Goods Scheme* allows import of capital goods, including computer software at 5% customs duty by general exporters and at Zero Duty by exporters of agricultural products. The facility is subject to an export obligation of 8 times the duty saved to be fulfilled over a period of 8 years.

Exporters who fulfil the minimum export performance during the current year plus the previous three years are eligible for recognition as *Star Export Houses*. They get privileged treatment under the Foreign Trade Policy.

Under the *Served from India Scheme* all Service providers who have a total foreign exchange earning of a least ₹ 10 lakhs (₹ 5 lakhs if the service provider is an individual) in the preceding or current financial year shall be eligible to qualify for a duty credit as percentage of the foreign exchange earned.

Under *Vishesh Krishi and Gram Udyog Yojana* exporters of fruits, vegetables, flowers, minor forest produce, and their value-added products, and specified gram Udyog products are entitled for duty credit scrip equivalent to 5% of the FOB value of exports for each licensing year commencing from 1<sup>st</sup> April, 2006.

The twin schemes of Focus Product and Focus Market aim at providing additional stimulus to -

- (a) Promote export of products having large employment potential and
- (b) Penetration of strategic markets by Indian products, especially markets in which our exports are comparatively low.

The Export Promotion measures adopted by the Government of India did not prove to be efficacious or adequate for many years. By and large, Indian exports lacked dynamism and buoyancy. In spite of substantial devaluation of the rupee, the grant of a large number of export incentives and facilities and the establishment of numerous export institutions, there were no visible signs of break-through in our exports for several years. In fact, exports as a ratio of national income, instead of increasing, declined from 6.3 per cent in 1950-51 to 3.4 per cent in 1966-67. Indian exports during the beginning of the Plan period are limited to a narrow range of primary products and are more or less inelastic. This has increased the adverse Balance of Payments pressure of the country, deteriorated the terms of trade and ultimately affected the level of economic growth.

Indian export promotion efforts since 1970 owe its origin from the major export problems during the 1950's and 1960's. The analysis of export trends reveals that exports comprise a very small fraction of India's national income and consequently the 'income effect' is not always discernible in case of some commodities.

The main reasons for the slow growth of exports are:

- (a) Decline in exportable surplus of primary products and raw materials on account of rising domestic demands;
- (b) Inflationary pressures in our economy adversely affecting the cost and competitiveness of Indian goods in the world market;
- (c) The tariff and trade policies of many of the industrially advanced countries which have created barriers to the import of goods from developing countries. That apart a new barrier on exports of developing countries in the form of tariff, quotas, regional economic grouping etc. is being continuously erected disregarding the urgent needs of the developing countries to expand their exports to finance their development imports, Rising money income and increasing population have been sheltering the domestic market as a highly profitable sellers' paradise where quality and price are of secondary importance. Due to this the domestic production finds outlet in the domestic market rather than in foreign markets.

The problems which arise during the process of export efforts in the long run are derived from endogenous and exogenous factors. The endogenous factors include structural rigidities, domestic supply variations, fiscal controls levied by the Government and geographical conditions etc. Exogenous factors are unfavourable Import trends increase in general level of income abroad and growing competition from other countries etc. Thus, India's ability to export depends upon the supply of exportable and the demand for it. In all these respects, India was highly deficient during the first two decades of planning. In the light of the past experience of export trends and export efforts, Indian trade policy incorporated concerted efforts of export promotion to achieve efficient export growth during the 1970's. The export strategy involved keeping export controls to the minimum.

Among the several measures, the important ones are:

- Duty Drawback Scheme (DDS)
- Cash Compensatory Support (CCS)
- Import Replenishments Fiscal Concessions, preference in industrial licensing and tax concessions.

Besides, there are compulsions like export obligations. Export trade has been recognised as a priority sector which ensures to this sector credit at reasonable interest, pre-shipment and post-shipment advances, allotment of important indigenous raw materials on a priority basis etc.

The important organisational measures are:

Recognition and approval of several specialised non-commercial organisations for export promotion, the establishment of the Board of Trade to review export promotion policies in consultation with trade and industry, constitution of commodity boards for tea, coffee, cardamom, rubber, coir and silk for the production, development and export of respective commodities; the establishment of the Handicrafts and Handloom Export Corporation and the Indian Motion Pictures Export Corporation to promote exports in their respective fields; trade centres and showrooms at important foreign commercial centres for visual publicity of exportable goods etc. Certain exports are canalised through public sector agencies like the State Trading Corporation, the Minerals and Metals Trading Corporation and its various subsidiaries. Besides undertaking trade, the Government has also entered into several bilateral trade agreements / arrangements to diversify the pattern and direction of trade.

In the series of Government efforts to promote exports the creation of two cells in the Commerce Ministry deserve mention.

One is for export planning which studies closely the potentialities emerging from India's initiatives in various international forums, such as the General Agreement on Trade and Tariffs, the United Nations Conference on Trade and Development and International Monetary Fund. This cell devises forms of Co-operation with other countries and multilateral institutions, making innovation wherever feasible.

The second cell is meant to study details of export-oriented schemes and co-ordinate the work of different Ministries concerned with individual projects. From the above analysis about export promotion, it is clear that the Government policy and various measures fit in well with the requirements of rapid expansions of exports. What is needed is efficient and quick operation of all the agencies connected with the task of delivering the goods. Performance in the recent past of two to three years holds out a promise that goods are within our reach. In recognition of the need to maximise export earnings in a situation of trade deficits and the continuing unfavourable

trading environment all around the world, the emphasis on export strategy will have to be continued for years to come.

### What is a Free Trade Area?

A free trade area (FTA) refers to a specific region wherein a group of countries within the said region signs an agreement that seals the economic cooperation among them. The FTA's main aims are to bring down barriers in trading, specifically tariffs and import quotas, and encourage the free trade of goods and services among its member countries.

### What are Free Trade Agreements?

Free trade agreements are entered into by two or more countries who want to seal the economic cooperation among themselves and agree on each other's terms of trading. In the agreement, member countries specifically identify the duties and tariffs that are to be imposed on member countries when it comes to imports and exports.

The key terms of free trade agreements and free trade areas include:

1. Import goods are products that were manufactured from a foreign land and are brought into another country and consumed by its domestic residents.
2. Export goods are the opposite of import goods – a manufacturer located in one country sells its products to buyers in another country.

### Free Trade Area vs. Customs Union vs. Single Market

Free trade area and customs union both deal with tariffs and trading. However, they are different in many ways.

#### *1. Free trade area*

A free trade area is concerned with removing tariffs, as well as the measures that are applied to member countries as they trade with each other. This means that there is no common set of policies that apply to all members and that each country in the free trade area imposes its own tariffs and quotas.

Another thing about a free trade area is that anything imported from outside usually cannot be traded freely within the area. For example, two countries



that are members of a free trade area such as the US and Mexico refrain from imposing tariffs on each other. However, if the US imports bananas from South America, for example, it may apply a specific set of tariffs.

### *2. Customs union*

A customs union, on the other hand, features a common set of tariffs and quotas imposed on and by its member countries. It further allows the free movement of imports within the area and among its members. For example, a non-member country's goods that are imported by a member of a customs union can also be imported free of tariffs to other countries that are members of the union.

### *3. Single market*

A single market runs deeper than a customs union because it promotes frictionless trading. Every member recognizes that every single product manufactured by the group's members is suitable for sale, for distribution to all members, and for consumption.

A single market basically creates a level playing field for every member and not only encompasses tradable products and goods but also allows the citizens of each member country to work throughout the area freely.

## **Advantages of a Free Trade Area**

A free trade area offers several advantages, including:

### *1. Increased efficiency*

The good thing about a free trade area is that it encourages competition, which consequently increases a country's efficiency, in order to be on par with its competitors. Products and services then become better in quality without being too expensive.

### *2. Specialization of countries*

When there is tough competition, countries will tend to produce more products or goods that they are most efficient at. This is because they take less time to complete and their output is higher.

### *3. No monopoly*

When there is free trade, and tariffs and quotas are eliminated, monopolies also get eliminated because more players can come in and join the market.

### ***4. Lowered prices***

When there is competition, especially on a global level, prices will surely come down, allowing consumers to enjoy a higher purchasing power.

### ***5. Increased variety***

With imports becoming easier and cheaper, consumers will gain access to a variety of products that are inexpensive.

## **Disadvantages of Free Trade Area**

Despite all the above benefits brought about by a free trade area, there are also some corresponding disadvantages such as the following.

### ***1. Threat to intellectual property***

When imports come in more easily, domestic producers can easily access them, allowing them to copy the ideas and sell them as knock-offs. With many countries with little to no laws on intellectual property, it would be easy to steal ideas.

### ***2. Unhealthy working conditions***

Outsourcing jobs in developing countries can become a trend with a free trade area. Because many countries lack labour protection laws, workers may be forced to work in unhealthy and substandard work environments.

### ***3. Less tax revenue***

Since member countries are no longer subject to import taxes, they need to think of ways to compensate for the reduced tax revenue.

# Chapter-6

## India's External Trade

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International trade between different countries is an important factor in raising living standards, providing employment and enabling consumers to enjoy a greater variety of goods.

International trade has been in existence since the earliest civilisations began trading, but in recent years international trade has become increasingly important with a larger share of GDP devoted to exports and imports.

With increased importance of trade, there have also been growing concerns about the potential negative effects of trade, in particular, the unbalanced benefits with some losing out, despite overall net gains.

### Importance of Trade

#### 1. Make use of abundant Raw Materials

Some countries are naturally abundant in raw materials – Oil (Qatar), Metals, Fish (Iceland), Congo (diamonds) Butter (New Zealand). Without trade, these countries would not benefit from the natural endowments of raw materials.

A theoretical model for this was developed by Eli Heckscher and Bertil Ohlin. Known as the Heckscher–Ohlin model (H–O model) it states countries will specialise in producing and Exporting goods which use abundant local factor endowments. Countries will import those goods, where its resources are scarce.

#### 2. Comparative Advantage

The theory of comparative advantage states that countries should specialise in those goods where they have a relatively lower opportunity cost. Even if one country can produce two goods at a lower absolute cost it doesn't mean they should produce everything. India, with lower labour costs, may have a comparative advantage in labour-intensive production e.g. call centres, garment manufacture etc. Therefore, it would be efficient for India to export these services and goods. An economy like the UK may have a comparative advantage in education and video game production. Trade allows countries

to specialise. The theory of comparative advantage has limitations, but it explains at least some aspects of international trade.

### **3. Greater choice for Consumers**

New trade theory places less emphasis on comparative advantage and relative input costs. New trade theory states that in the real world, a driving factor behind the trade is giving consumers greater choice of differentiated products. We import BMW cars from Germany, not because they are the cheapest but because of the quality and brand image. Regarding music and film, trade enables the widest choice of music and film to appeal to different tastes. When the Beatles went on tour to the US in the 1960s, it was exporting British music – relative labour costs were unimportant.

Perhaps the best example is with goods like clothing. For some clothing (e.g. value clothes from Primark) price is very important and they are likely to be imported from low-labour cost countries like Bangladesh. However, we also import fashion labels Gucci (Italy) Chanel (France). Here consumers are benefitting from choice, rather than the lowest price. Economists argue that international trade often fits the model of monopolistic competition. In this model, the important aspect is brand differentiation. For many goods, we want to buy goods with strong brands and reputations. e.g. popularity of Coca-Cola, Nike, Adidas, McDonalds etc.

### **4. Specialisation and Economies of Scale – Greater Efficiency**

Another aspect of new trade theory is that it doesn't really matter what countries specialise in; the important thing is to pursue specialisation and this enables companies to benefit from economies of scale which outweigh most other factors. Sometimes, countries may specialise in particular industries for no over-riding reason—it may just be a historical accident. But that specialisation enables improved efficiency. For high value-added products, multinationals often split the production process into a global production system. For example, Apple designs their computers in the US but contract the production to Asian factories. Trade enables a product to have multiple country sources. With car production, the productive process is often even more global with engines, tyres, design and marketing all potentially coming from different countries.

### **5. Service Sector Trade**

Trade tends to conjure images of physical goods like import bananas, export

cars. But increasingly the service sector economy means more trade is of invisibles – services, such as insurance, IT services and banking. Even in designing website, sometimes we outsource IT services from developers in other countries. It may be for jobs as small as \$50. Furthermore, we may export a revision guide for £7.49 to countries all around the world. A global economy with modern communications enables many micro trades, which wouldn't have been possible in a pre-internet age.

### **6. Global Growth and Economic Development**

International trade has been an important factor in promoting economic growth. This growth has led to a reduction in absolute poverty levels—especially in South East Asia which has seen high rate of growth since 1980s.

## **Problems Arising from Free Trade**

Given the importance of free trade to an economy, it is not surprising that people are concerned about the potential negative impacts.

### **a Infant Industry Argument**

The fear is that 'free trade' can cause countries to specialise in primary products—goods which have volatile prices and low-income elasticity of demand. To develop, economies may need to restrict imports and diversify the economy. This isn't an argument against trade *per se*, but an awareness trade may need to be 'managed' rather than just rely on free markets.

### **b Trade can lead to Cultural Homogenisation**

Some fear that trade gives an advantage to multinational brands and this can negatively impact local produce and traditions. Supporters argue that if local products are good, they should be able to create a niche than global brands.

## **Displacement Effects**

Free trade can cause uncompetitive domestic industries to close down, leading to structural unemployment. The problem with free trade is that there are many winners, but the losers do not gain any compensation. However, free-market economists may counter that some degree of creative destruction is inevitable in an economy and we can't turn back to a static closed economy. On the upside, if the uncompetitive firms close down, ultimately new jobs will be created in different industries.

## India's External Trade

World trade has expanded rapidly over the past decades. An important factor contributing to the growth in trade has been the periodic rounds of successful multilateral trade negotiations which have led to a considerable reduction in tariffs on goods crossing national borders.

India has entered into trading agreements with various countries of the world with the objective of boosting its external trade. Foreign Trade Policy of India has always focused on substantially increasing the country's share of global merchandise trade. Accordingly, the Government of India has been taking various steps towards boosting its trade with the rest of the world by adopting policies and procedures which would help to increase and facilitate both exports and imports with the other countries of the world.

**TABLE-1**  
**India's Trade Data for the Period 2009-10 to 2018-19 (QE)\***

(Value in ₹ Crores)

Sl. No.	Year	Exports	% of Growth	Imports	% Growth	Trade Balance
1	2009-2010	8,45,534	00.57	13,63,736	-00.78	-5,18,202
2	2010-2011	11,36,964	34.47	16,83,467	23.45	-5,46,503
3	2011-2012	14,65,959	28.94	23,45,463	39.32	-8,79,504
4	2012-2013	16,34,318	11.48	26,69,162	13.80	-10,34,844
5	2013-2014	19,05,011	16.56	27,15,434	01.73	-8,10,423
6	2014-2015	18,96,348	-00.45	27,37,087	00.80	-8,40,738
7	2015-2016	17,16,384	-09.49	24,90,306	-09.02	-7,73,921
8	2016-2017	18,49,434	07.75	25,77,675	03.51	-7,28,242
9	2017-2018	19,56,515	05.79	30,01,033	16.42	-10,44,519
10	2018-2019 (QE)	23,14,429	18.29	35,48,004	18.23	-12,33,575

\*QE-Quick Estimates (Source: DGCIS, Kolkata)

## Analysis

Almost from Year 2009 to 2019 (QE) India's Trade Balance is Negative and

on increasing trend. The latest Negative Trade Balance of the Country is ₹ 12,33,575 Crs.

**TABLE-2**  
**India's Trade Data for Period 2009-10 to 2018-19 (QE)**  
(Value in US\$ Million)

Sl. No.	Year	Exports	% of Growth	Imports	% Growth	Trade Balance
1	2009-2010	1,78,751	-3.53	2,88,373	-5.05	-1,09,621
2	2010-2011	2,49,816	39.76	3,69,769	28.23	-1,19,954
3	2011-2012	3,05,964	22.48	4,89,319	32.33	-1,83,356
4	2012-2013	3,00,401	-1.82	4,90,737	0.29	-1,90,336
5	2013-2014	3,14,405	4.66	4,50,200	-8.26	-1,35,794
6	2014-2015	3,10,338	-1.29	4,48,033	-0.48	-1,37,695
7	2015-2016	2,62,291	-15.48	3,81,008	-14.96	-1,18,717
8	2016-2017	2,75,852	5.17	3,84,357	0.88	-1,08,505
9	2017-2018	3,03,526	10.03	4,65,581	21.13	-1,62,055
10	2018-2019 (QE)	3,31,020	9.06	5,07,436	8.99	-1,76,416

\*QE-Quick Estimates (Source: DGCIS, Kolkata)

The latest Negative Trade Balance of the Country in terms of US \$ in Million is 1,76,416.

## India's Trade Performance

### Exports

India's merchandise exports recorded a Compound Annual Growth Rate (CAGR) of 7.09 percent from April-March 2009-10 to April-March 2018-19 (QE). Merchandise exports reached a new peak of US\$ 331.02 billion during April-March 2018-19 (QE) surpassing the earlier high of US\$ 314 achieved in 2013- 14 registering a positive growth of 9.06 percent over previous year.

### Imports

Cumulative value of Import during Apr-Mar 2018-19 (QE) was US\$ 507.44 billion as against US\$ 465.58 billion during the corresponding period of the

previous year registering a positive growth of 8.99 per cent in US\$ terms. Oil Imports were valued at US\$ 140.47 billion during Apr-Mar 2018-19 (QE) which was 29.27 per cent higher than oil import valued at US\$ 108.66 billion during the corresponding period of previous year. Non-oil imports were valued at US\$ 366.97 billion during Apr-Mar 2018- 19 (QE) which was 2.82 per cent higher than non-oil import of US\$ 356.92 billion in previous year.

### Trade Balance

The Trade deficit in Apr-Mar 2018-19 (QE) was estimated at US\$ 176.42 billion which was higher than the deficit of US\$ 162.05 billion during the corresponding period of the previous year. Performance of Exports, Import and Balance of Trade both in Rupee and Dollar terms during 2009-10 to 2018- 19 (Apr-Mar) (QE) is given at Table 1 & 2 mentioned above.

**TABLE-3**  
**Leading Exporters and Importers in World Merchandise Trade 2018**

(Billion Dollars and Percentage)

Rank	Exporters	Value	Share%	Annual%	Rank	Importers	Value	Share%	Annual %
1	China	2487	12.8	10	1	USA	2614	13.2	9
2	USA	1664	8.5	8	2	China	2136	10.8	16
3	Germany	1561	8.0	8	3	Germany	1286	6.5	11
4	Japan	738	3.8	6	4	Japan	749	3.8	11
5	Netherlands	723	3.7	11	5	United Kingdom	674	3.4	5
6	Korea, Republic of	605	3.1	5	6	France	673	3.4	9
7	France	582	3.0	9	7	Netherlands	646	3.3	12
8	Hon Kong, China	569	2.9	3	8	Hong Kong, China	628	3.2	6
	Domestic Exports	13	0.1	-30	-	Retained Imports (1)	155	0.8	12
	Re-Exports	556	2.9	5	-	-	-	-	-
9	Italy	547	2.8	8	9	Korea, Republic of	535	2.7	12
10	United Kingdom	486	2.5	10	10	India	511	2.6	14

(Source: World Trade Statistical Review 2019)



**TABLE-4**  
**Leading Exporters and Importers in World Trade in Commercial Services, 2018**

(Billion Dollars and Percentage)

Rank	Exporters	Value	Share%	Annual%	Rank	Importers	Value	Share%	Annual %
1	USA	808	14.0	4	1	USA	536	9.8	3
2	United Kingdom	373	6.5	6	2	China	521	9.5	12
3	Germany	326	5.6	7	3	Germany	350	6.4	6
4	France	291	5.0	6	4	France	257	4.7	5
5	China	265	4.6	17	5	United Kingdom	230	4.2	11
6	Netherlands	241	4.2	11	6	Netherlands	229	4.2	11
7	Ireland	205	3.6	14	7	Ireland	218	4.0	9
8	India	204	3.5	11	8	Japan	198	3.6	4
9	Japan	187	3.2	3	9	Singapore	187	3.4	3
10	Singapore	184	3.2	7	10	India	175	3.2	14

(Source: World Trade Statistical Review 2019)

As per World Trade Organisation (WTO), World trade will continue to face strong headwinds in 2019 and 2020 after growing more slowly than the expected level in 2018 due to rising trade tensions and increased economic uncertainty. WTO economists expect merchandise trade volume growth to fall to 2.6% in 2019-down from 3.0% in 2018. Trade growth could then rebound to 3.0% in 2020; however, this is dependent on an easing of trade tensions.

#### **Analysis (Table 3 & 4)**

As per the current rankings for the year 2018, India is the 19th largest exporter (with a share of 1.7%) and 10th largest importer (with a share of 2.6%) of merchandise trade in the world. China is the top ranked exporter and United States of America (USA) is the first largest importer of merchandise trade in the world. In Commercial Services, India is the 8th largest exporter (with a share of 3.5%) and 10th largest importer (with a share of 3.2%). USA is the top exporter as well as the top importer of commercial services trade in the world.

These goods can be entirely customized and unique, but more often they are things like commodities or bulk goods that get moved around on huge container ships from country to country. Included in this latter category would be common exports like crude oil, automobiles, iron ore, pharmaceuticals, and smartphones.

Finished Automobiles are the top good traded worldwide with \$1.35 trillion being traded each year between countries. Auto parts are not far behind in the #4 spot with \$685 billion of Trade.

Oil also stands out as a Key Commodity. Refined Petroleum Ranks #2 with \$825 billion of trade, while Crude Petroleum and Petroleum Gas are at #8 and #12, for \$549 billion and \$254 billion traded, respectively.

Finally, an odd standout is the category of human and animal blood—which apparently sees \$252 billion in aggregate international trade each year.



**TABLE-5**  
**India's Imports: Region-Wise (FY 2018-19 & 2019-2020)**  
 (Value in ₹ Crores)

Sl. No.	Region	2018-19	% Share	2019-2020 (April-Jan)	% Share
1	EU Countries	4,08,26,329.37	11.36	2,98,16,044.62	10.50
2	European Free Trade Association (EFTA)	1,28,82,648.28	3.58	1,07,80,846.36	3.80
3	Other European Countries	17,16,773.53	0.48	12,87,161.16	0.45

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4	Southern African Customs Union (SACU)	52,77,378.67	1.47	42,71,346.03	1.50
5	Other South African Countries	39,44,570.98	1.10	31,98,228.27	1.13
6	West Africa	1,40,30,870.10	3.90	1,04,53,695.30	3.68
7	Central Africa	3,90,247.48	0.11	2,59,371.12	0.09
8	East Africa	10,80,293.88	0.30	7,78,136.49	0.27
9	North Africa	40,02,043.58	1.11	35,06,930.82	1.23
10	North America	3,12,20,832.91	8.69	2,63,52,778.98	9.28
11	Latin America	1,43,62,576.21	4.00	98,07,782.43	3.45
12	East Asia (Oceania)	97,10,750.45	2.70	63,99,903.40	2.25
13	ASEAN	4,14,98,866.77	11.54	3,29,72,207.48	11.61
14	West Asia- GCC	5,58,04,465.70	15.52	4,78,74,245.24	16.86
15	Other West Asia	2,72,49,065.56	7.58	1,65,37,027.39	5.82
16	NE Asia	8,56,65,693.95	23.83	7,03,43,714.74	24.77
17	South Asia	30,56,356.79	0.85	22,40,403.25	0.79
18	CARs Countries	6,03,030.29	0.17	13,06,715.52	0.46
19	Other CIS Countries	59,87,287.19	1.67	56,83,314.82	2.00
20	Unspecified	1,57,379.50	0.04	1,66,006.90	0.06
	<b>India's Total Imports</b>	<b>35,94,67,461.19</b>	<b>100</b>	<b>28,40,35,860.36</b>	<b>100</b>

(Source: DGCIS, Kolkata)

**TABLE-6**  
**India's Imports from Principal Regions (FY 2018-19 & 2019-2020)**

(Value in ₹ Crores)

Region	Apr-Mar 2018	Apr-Mar 2019	% Growth	% Share
Europe	4,50,624.90	5,49,989.71	22.05	15.33
Africa	2,43,654.58	2,87,363.56	17.94	8.01
America	3,60,943.16	4,53,898.11	25.75	12.65
Asia	18,02,415.01	22,29,148.64	23.68	62.18
Cis & Baltics	83,042.93	65,903.72	-20.64	1.84
Unspecified Region	60,352.83	1,380.16	-97.71	0.04

(Source: DGCIS, Kolkata)

**TABLE-7**  
**India's Imports - Top 5 Countries (FY 2018-19 & 2019-2020)**

Countries	Apr-Mar 2018	Apr-Mar 2019	% Growth	% Share
China	4,92,236.17	4,92,068.13	-0.03	13.70
USA	1,71,564.48	2,46,798.08	43.85	6.88
UAE	1,40,095.89	2,08,424.85	48.77	5.80
Saudi Arabia	1,42,240.74	1,99,394.90	40.18	5.55
Iraq	1.13.452.67	1,56,600.99	38.03	4.36

(Source: DGCIS, Kolkata)

### Analysis (Table 6 & 7)

Asia accounted for 62.18 per cent of India's total import during the period 2018-19 (Apr-Mar), followed by Europe (15.33 per cent) and America (12.65 per cent).

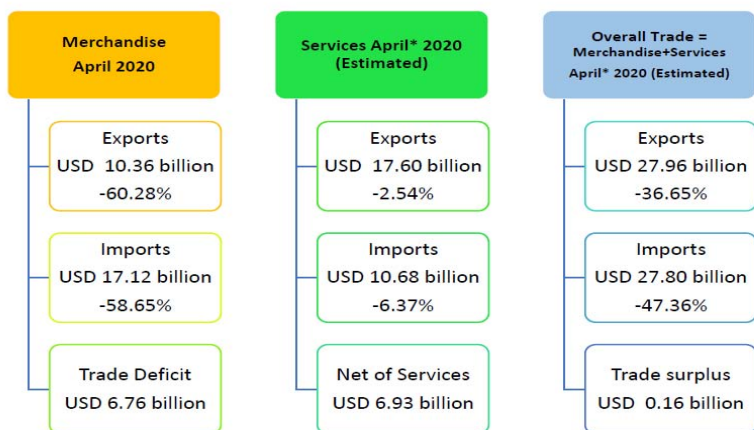
Among individual countries the share of China (13.70 per cent) stood highest followed by USA (6.88 per cent), UAE (5.80 per cent), Saudi Arabia (5.55 per cent) and Iraq (4.36 per cent).

## Current Position of India's External Trade

India's overall exports (merchandise and services combined) in April 2020\*

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are estimated to be USD 27.96 billion, exhibiting a negative growth of (-) 36.65 per cent over the same period last year. Overall imports in April 2020\* are estimated to be USD 27.80 billion, exhibiting a negative growth of (-) 47.36 per cent over the same period last year.



\*Note: The latest data for services sector released by RBI is for March 2020. The data for April 2020 is an estimation, which will be revised based on RBI's subsequent release.

### I. Merchandise Trade

#### Exports (including Re-exports)

Exports in April 2020 were USD 10.36 billion, as compared to USD 26.07 billion in April 2019, exhibiting a negative growth of (-) 60.28 per cent. In Rupee terms, exports were ₹ 78,951.41 crore in April 2020, as compared to ₹ 1,81,021.34 crore in April 2019, registering a negative growth of (-) 56.39 per cent. The decline in exports has been mainly due to the ongoing global slowdown, which got aggravated due to the current Covid-19 crisis. The latter resulted in large scale disruptions in supply chains and demand resulting in cancellation of orders.

Except for Iron Ore and Drugs & Pharmaceuticals which registered a growth of 17.53% and 0.25% respectively, all other commodities /commodity groups have registered negative growth in April 2020 vis-a-vis April 2019.

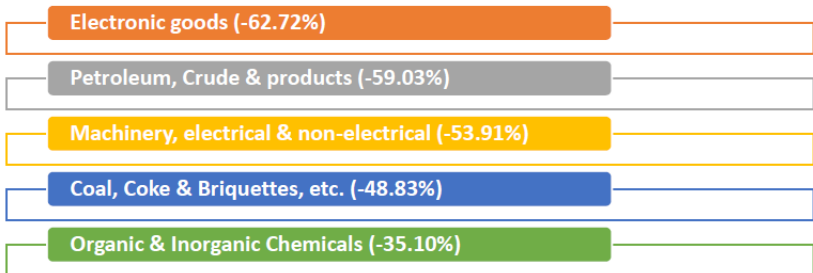
Major commodity groups which have recorded negative export growth during April 2020 vis-à-vis April 2019 are Gems & jewellery (-98.74%), Leather & leather products (-93.28%), Handicrafts excl. handmade carpet (-91.84%), Carpet (-91.67%), RMG of all textiles (-91.04%), Jute mfg. including floor covering (-90.61%), Man-made yarn/fabs./made-ups etc. (-84.11%), Cotton

yarn/fabs./made-ups, handloom products etc. (-82.46%), Ceramic products & glassware (-76.72%), Electronic goods (-71.04%), Tea (-68.89%), Tobacco (-68.47%), Cashew (-67.55%), Petroleum products (-66.22%), Engineering goods (-64.76%), Oil seeds (-62.33%), Mica, Coal & other ores, minerals including processed minerals (-60.41%), Meat, dairy & poultry products (-60.34%), Oil meals (-50.6%), Cereal preparations & miscellaneous processed items (-48.28%), Coffee (-44.22%), Marine products (-43.94%), Organic & inorganic chemicals (-41.93%), Other cereals (-40.86%), Spices (-32.18%), Plastic & Linoleum (-25.35%), Fruits & vegetables (-9.29%) and Rice (-7.04%).

Non-petroleum and non-Gems and Jewellery exports in April 2020 were USD 9.08 billion, as compared to USD 19.54 billion in April 2019, exhibiting a negative growth of (-) 53.54 per cent.

### Imports

Imports in April 2020 were USD 17.12 billion (₹ 1,30,525.08 crore), which was 58.65 per cent lower in Dollar terms and 54.59 per cent lower in Rupee terms over imports of USD 41.40 billion (Rs 2,87,432.93 crore) in April 2019. Major commodity groups of import showing negative growth in April 2020 over the corresponding month of last year are:



### Crude Oil and Non-Oil Imports

Oil imports in April 2020 were USD 4.66 billion (₹ 35,537.22 crore), which was 59.03 per cent lower in Dollar terms (55.01 per cent lower in Rupee terms), compared to USD 11.38 billion (₹ 78,989.46 crore) in April 2019.

In this connection it is mentioned that the Global Brent price (\$/bbl) has decreased by 67.22% in April 2020 vis-à-vis April 2019 as per data available from World Bank.

Non-oil imports in April 2020 were estimated at USD 12.46 billion (₹ 94,987.86 crore) which was 58.50 per cent lower in Dollar terms (54.43 per cent lower in Rupee terms), compared to USD 30.02 billion (₹ 2,08,443.47 crore) in April 2019.

Non-Oil and Non-Gold imports were USD 12.46 billion in April 2020, recording a negative growth of (-) 52.18 per cent, as compared to Non-Oil and Non-Gold imports of USD 26.05 billion in April 2019.

### **II. Trade in Service Exports (Receipts)**

As per the latest Press Release by RBI dated 15th May 2020, exports in March 2020 were USD 18.16 billion (₹ 1,35,043.18 crore) registering a positive growth of 1.22 per cent in dollar terms, vis-à-vis March 2019. The estimated value of services export for April 2020\* is USD 17.60 billion.

#### ***Imports (Payments)***

As per the latest Press Release by RBI dated 15th May 2020, imports in March 2020 were USD 11.11 billion (₹ 82,618.50 crore) registering a negative growth of (-) 2.23 per cent in dollar terms, vis-à-vis March 2019. The estimated value of service import for April 2020\* is USD 10.68 billion.

### **III. Trade Balance Merchandise**

The trade deficit for April 2020 was estimated at USD 6.76 billion as against the deficit of USD 15.33 billion in April 2019.

**Services:** As per RBI's Press Release dated 15th May 2020, the trade balance in Services (i.e. Net Services export) for March 2020 is estimated at USD 7.05 billion.

**Overall Trade Balance:** Taking merchandise and services together, overall trade surplus for April 2020\* is estimated at USD 0.16 billion as compared to the deficit of USD 8.67 billion in April 2019.

\*Note: The latest data for services sector released by RBI is for March 2020. The data for April 2020 is an estimation, which will be revised based on RBI's subsequent release.

## Merchandise Trade

## Exports &amp; Imports: (US \$ Billion)

(Provisional)	April
Exports (including re-exports)	
2019-20	26.07
2020-21	10.36
% Growth 2020-21/ 2019-20	-60.28
Imports	
2019-20	41.40
2020-21	17.12
%Growth 2020-21/ 2019-20	-58.65
Trade Balance	
2019-20	-15.33
2020-21	-6.76

## Exports &amp; Imports: (₹ Crore)

(Provisional)	April
Exports (including re-exports)	
2019-20	1,81,021.34
2020-21	78,951.41
% Growth 2020-21 / 2019-20	-56.39
Imports	
2019-20	2,87,432.93
2020-21	1,30,525.08
% Growth 2020-21 / 2019-20	-54.59
Trade Balance	
2019-20	-1,06,411.59
2020-21	-51,573.67



### Services Trade

Exports & Imports (Services) : (US \$ Billion)		
(Provisional)	March 2020	April-March 2019-20
Exports (Receipts)	1,35,043.18	15,21,939.15
Imports (Payments)	<b>82,618.50</b>	<b>9,32,981.07</b>
Trade Balance	52,424.68	5,88,958.08
Source: RBI Press Release Dated 15 <sup>th</sup> May 2020		

\*Note: The latest data for services sector released by RBI is for March 2020. The data for April 2020 is an estimation.

To overcome the volatility of Trade Balance in an unprecedented Global Health Crisis, trade is essential to save lives and livelihoods; and International Co-operation is needed to keep trade flowing.

In the midst of significant uncertainty, there are four things we can do:

- Boost confidence in trade and global markets by improving transparency about trade-related policy actions and intentions
- Keep supply chains flowing, especially for essentials such as health supplies and food
- Avoid making things worse, through unnecessary export restrictions and other trade barriers
- Even in the midst of the crisis, think beyond the immediate.

Government support today needs to be delivered in a way that ensures it serves the public interest, not vested interests, and avoids becoming tomorrow's market distortions.

## Benefits to India From Free Trade Agreements

India has benefited overall from the free-trade agreements (FTAs) signed with its trade partners from the perspective of trade balance, according to the Economic Survey. The only countries where the percentage increase in import was higher than that of exports were Japan, South Korea and Sri Lanka. However, some trade experts point out that the benefits mostly accrue with respect to trade partners who are small in size and suffer from supply constraints, while India's trade deficit is increasing with most major partners.

It is imperative to note that India has viewed FTAs as an important tool to enhance its trade and investment, and signed a number of trade agreements with various countries or groups.

In fact, India is one among the top countries in Asia with maximum number of FTAs either in operation or under negotiation or proposed.

Most of India's existing FTAs are with Asian countries which are quite different from each other in terms of the level of their economic development.

Regional trade agreements (RTAs) have risen in number and reach over the years, including a notable increase in large plurilateral agreements under negotiation. Non-discrimination among trading partners is one of the core principles of the WTO; however, RTAs, which are reciprocal preferential trade agreements between two or more partners, constitute one of the exemptions and are authorized under the WTO, subject to a set of rules.

### **Current Engagement of India in RTAs**

1. Association of South East Asian National (ASEAN) and India Free Trade Agreement (FTA) Negotiations.
2. India-Thailand Comprehensive Economic Co-operation Agreement (CECA) Negotiations.
3. Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation (BIMSTEC) Free Trade Agreement (FTA) Negotiations.
4. India-Gulf Co-operation Council (GCC) Free Trade Agreement (FTA) Negotiations
5. India-SACU Preferential Trade Agreement (PTA) Negotiations.
6. Second Review of India-Singapore Comprehensive Economic Co-operation Agreement.
7. Expansion of India-Chile Preferential Trade Agreement (PTA).
8. India-MERCOSUR Preferential Trade Agreement (PTA) Negotiations.
9. India-EU Broad Based Trade and Investment Agreement (BTIA) Negotiations.
10. Brief on India-EFTA Broad Based Trade and Investment Agreement (BTIA) Negotiations.

11. Global System of Trade Preferences (GSTP)
12. Asia Pacific Trade Agreement (APTA)
13. India – New Zealand Free Trade Agreement Comprehensive Economic Co-operation Agreement.
14. India-Canada Comprehensive Economic Partnership Agreement (CEPA)
15. India-Australia Comprehensive Economic Co-operation Agreement (CECA)
16. India-Indonesia Comprehensive Economic Co-operation Agreement (CECA)
17. Joint Study on the India-COMESA (Common Market for East and Southern Africa) Joint Study Group Report to examine the feasibility of a Preferential Trade Agreement (PTA) Free Trade Agreement (FTA) bet
18. India-Israel Free Trade Agreement FTA Negotiations
19. Brief on Regional Comprehensive Economic Partnership (RCEP)

## **A Brief on Current Engagement of India in Each RTA**

1. **India-Sri Lanka Free Trade Agreement (ISLFTA), signed in 1998, became operational in 2000.**

Sri Lanka is India's largest trading partner country in the SAARC region. The bilateral trade between India and Sri Lanka has grown four times in the last nine years increasing from US \$ 658 million in 2000 to US \$ 2719 million in 2009.

The main Indian exports to Sri Lanka are Petroleum (Crude & Products), Transport Equipment, Cotton, Yarn Fabrics, Sugar, Drugs Pharmaceuticals & Fine Chemicals. The main Sri Lankan exports to India are, spices, electrical Machinery except electronic, Transport Equipment, Pulp & Waste, Natural Rubber and Paper Board.

### *Joint Study Group (JSG) and Comprehensive Economic Partnership Agreement (CEPA)*

A JSG was set up in April, 2003 with a view to widen the ambit of ISLFTA and include Services and Investment. Report of JSG was submitted in October, 2003. Based on the recommendation of the JSG, CEPA negotiations were started in February, 2005 and concluded in July 2008 after 13 rounds of negotiations. But due to reservations expressed by Government of Sri Lanka, both sides have still not signed the Agreement.

Negotiations on Investment and Services have been resumed in December, 2010.

### **2. India-Thailand Comprehensive Economic Cooperation Agreement (CECA) negotiations**

The 29th round of negotiations for India-Thailand CECA have been held during 15-17 June, 2015 in Bangkok, Thailand.

### **3. Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Agreement (FTA) negotiations (as of July, 2014)**

The initiative to establish Bangladesh-India-Sri Lanka-Thailand Economic Cooperation (BIST-EC) was taken by Thailand in 1994 to explore economic cooperation on a sub-regional basis involving contiguous countries of South East & South Asia grouped around the Bay of Bengal. Myanmar was admitted in December, 1997 and the initiative was renamed as BIMST-EC. The initiative involves 5 members of SAARC (India, Bangladesh, Bhutan, Nepal & Sri Lanka) and 2 members of ASEAN (Thailand, Myanmar). BIMST-EC is visualized as a 'bridging link' between two major regional groupings i.e. ASEAN and SAARC. BIMST-EC is an important element in India's "Look East" strategy and adds a new dimension to India's economic cooperation with South East Asian countries. A free Trade Agreement among the member states of BIMSTEC is being negotiated.

The 2nd BIMSTEC Summit was hosted by India in New Delhi on 13 November 2008. It was preceded by the 11th Ministerial Meeting and the 13th Senior Official's Meeting on 11-12 November 2008. The 2nd Summit took place four years after the 1st BIMSTEC Summit which was held in Thailand.

The Summit was attended by the Chief Adviser of the People's Republic of Bangladesh, H.E. Fakhruddin Ahmed, the Prime Minister of the Kingdom of Bhutan, H.E. Jigmi Y Thinley, the Prime Minister of the Republic of India, H.E. Dr. Manmohan Singh, the Prime Minister of the Union of Myanmar, H.E. Thein Sein, the Prime Minister of the Republic of Nepal, H.E. Pushpa Kamal Dahal 'Prachanda', the President of the Democratic Socialist Republic of Sri Lanka, H.E. Mahinda Rajapaksa and the Prime Minister of the Kingdom of Thailand, H.E. Somchai Wongsawat.

At the conclusion of the 2nd Summit, the leaders expressed satisfaction at the progress that has been made in the negotiations for a FTA in trade in goods and called for its early conclusion. The leaders welcomed the establishment of the Centre for Energy and the Centre for Weather and Climate in India and the BIMSTEC Cultural Observatory in Bhutan. They also expressed concern at the threat posed by terrorism to the region and expressed satisfaction at the finalization of the BIMSTEC Convention on Combating International Terrorism, Transnational Organized Crime and Illicit Drug Trafficking.

The BIMSTEC Trade Negotiating Committee (TNC) has held 19 sessions of negotiations. The negotiations are spread over the areas of (i) tariff concessions on trade in goods, (ii) customs cooperation, (iii) services and (iv) investments.

The 3rd BIMSTEC summit was held from 1 – 4 March, 2014 in Nay Pyi Taw, Myanmar. In the Summit Declaration, the Leaders directed the BIMSTEC Trade Negotiating Committee (TNC) to expedite its work for the conclusion of the Agreement on Trade in Goods by the end of 2014, and to continue its efforts for early finalisation of the Agreement on Services and Investments.

#### **4. India-Gulf Cooperation Council (GCC) Free Trade Agreement (FTA) negotiations:**

A Framework Agreement on Economic Cooperation between Republic of India and Gulf Cooperation Council was signed on 25th August, 2004. The Framework Agreement provided that both the parties shall consider ways and means for extending and liberalizing the trade relations and also for initiating discussions on the feasibility of a Free Trade Agreement between them.

Accordingly, negotiations commenced with GCC. Two rounds of negotiations have been held so far in 2006 and 2008. Third round has not taken place as GCC has deferred its negotiations with all countries and economic groups and is currently reviewing its negotiations with all countries and economic groups. Efforts are being made at various bilateral/multilateral forums for early resumption of the negotiations.

**5. India-SACU Preferential Trade Agreement (PTA) negotiations**

South African Customs Union (SACU) comprises of South Africa, Lesotho, Swaziland, Botswana and Namibia. So far, 5 rounds of negotiations of India-SACU PTA have been held. The 1st round of technical discussions for India-SACU PTA took place in Pretoria on 5th–6th October, 2007. The 2nd round of PTA negotiations was held at Walvis Bay, Namibia on 21-22 February, 2008 while 3rd round was held at New Delhi on 25th–27th November, 2008. During the 3rd round of negotiations, a Memorandum of Understanding (MOU), was signed on 26th November, 2008 by the representatives of India and SACU to facilitate negotiations. 4th round of negotiations was held at Pretoria on 7th – 8th October, 2009.

The 5th round of negotiations was held during 7th – 8th October, 2010. During this round of negotiations, SACU has presented a revised text of the PTA as a working document. Further, both sides have agreed on the following:

The text on 'Dispute Settlement Procedures'

To use the text proposed by India on 'Customs Cooperation and Trade Facilitation' and TBT as the working text

To use the text on 'SPS' proposed by SACU as the working text.

**6. Second Review of India-Singapore Comprehensive Economic Cooperation Agreement (CECA)**

The Comprehensive Economic Cooperation Agreement (CECA) between India and Singapore was signed on 29th June, 2005 by the Prime Minister Mr. Manmohan Singh and H.E. Mr. Lee Hsien Loong, Prime Minister of Singapore. The CECA has become operational with effect from 1-8-2005. The details of the India-Singapore CECA are available on this web-page under the heading 'Agreements already concluded'.

India-Singapore CECA is reviewed from time to time. 1st Review was concluded on 1st October 2007.

The 2nd Review of India-Singapore CECA was launched by the Commerce & Industry Minister, India on 11th May, 2010. The 1st Secretary level meeting of the 2nd Review was held in Singapore on 3rd August, 2010. Thereafter, Working Group meetings on Goods and Services & Investment were held from time to time. The Chief Negotiators on both sides met at Delhi on 1-2 November, 2012 after 8 rounds of Inter-sessional meetings between the negotiating teams on both sides. Discussions are being held to sort out certain outstanding issues.

**7. Expansion of India-Chile Preferential Trade Agreement (PTA)**

A Framework Agreement to promote economic cooperation between India and Chile was signed on January 20, 2005 which envisaged for a Preferential Trade Agreement (PTA) between the two countries as a first step.

The India-Chile PTA was signed on 8th March, 2006 and has become operational on September, 2007. The details of India-Chile PTA are available on this web-page under the heading 'Agreements already concluded'.

Expansion of the PTA - During the 1st meeting of the Joint Administrative Committee (JAC), which was held in New Delhi in February, 2009 to review the implementation of India-Chile PTA, both sides agreed to initiate the process of deepening and widening of the agreed lists of the existing India- Chile PTA. The 1st Meeting on negotiation on expansion of India-Chile PTA was held in Santiago on 28-29 January, 2010 in which both sides exchanged their wish list to each other.

In the 2nd meeting on expansion of India-Chile PTA, which was held in August, 2010, both sides discussed the further modalities of the expansion of the PTA including exchange of initial offer lists.

The 3rd meeting on expansion of India-Chile PTA was held during 30 June- 1 July, 2011 in Chile. During the meeting, both sides agreed on the broad principles for expansion of the PTA. They also agreed to exchange new wish lists in order of priority and to hold the next meeting by November, 2011.

## 8. MERCOSUR Preferential Trade Agreement (PTA) Negotiations

MERCOSUR is a trading bloc in South American region comprising of Argentina, Brazil, Paraguay and Uruguay. It was formed in 1991 with the objective of free movement of goods, services, capital and people and became a customs union in January 1995. MERCOSUR's role model is European Union. It is the third largest integrated market after the European Union (EU), North American Free Trade Agreement (NAFTA).

A Framework Agreement was signed between India and MERCOSUR on 17<sup>th</sup> June, 2003 at Asuncion, Paraguay to create conditions and mechanisms for negotiations by granting reciprocal tariff preferences in the first stage and, in the second stage, to negotiate a free trade area between the two parties.

As a follow up to the said Framework Agreement, a PTA between India and MERCOSUR was signed in New Delhi on January 25, 2004 and five Annexes to this Agreement were signed and incorporated on March 19, 2005. The first two Annexures of the PTA relate to the list of products on which the two sides have agreed to give fixed tariff preferences to each other. The remaining three Annexures relate to the Rules of Origin, Preferential Safeguard Measures and Dispute Settlement Procedures respectively. By this PTA, India and MERCOSUR have agreed to give tariff concessions, ranging from 10% to 100% to the other side on 450 and 452 tariff lines respectively. The India-MERCOSUR PTA has become operational with effect from 1st June, 2009.

The details of the India-MERCOSUR PTA are available on this web-page under the heading 'Agreements already concluded'.

Expansion of India-MERCOSUR PTA - Through IBSA Declaration made by the Heads of India, Brazil and South Africa in 2006, it was agreed that India-MERCOSUR PTA would be expanded by increasing the number of products covered and increasing the tariff concessions agreed by each side.

The first meeting of Joint Administrative Committee (JAC) on India-MERCOSUR PTA was held in November, 2009 in Uruguay to discuss the various aspects of the implementation and expansion of the Agreement. The 2nd meeting of JAC on India-MERCOSUR PTA was



held in June, 2010, in which both sides exchanged their respective wish list of additional items for expansion of the PTA and discussed the further modalities of expansion of the PTA including exchange of their initial offers lists in the matter.

**9. India-EU Broad Based Trade and Investment Agreement (BTIA) negotiations**

On 28th June 2007, India and the EU began negotiations on a broad-based Bilateral Trade and Investment Agreement (BTIA) in Brussels, Belgium.

These negotiations are pursuant to the commitment made by political leaders at the 7th India-EU Summit held in Helsinki on 13th October 2006 to move towards negotiations for a broad-based trade and investment agreement on the basis of the report of India-EU High Level Technical Group.

India and the EU expect to promote bilateral trade by removing barriers to trade in goods and services and investment across all sectors of the economy. Both parties believe that a comprehensive and ambitious agreement that is consistent with WTO rules and principles would open new markets and would expand opportunities for Indian and EU businesses.

The negotiations cover Trade in Goods, Trade in Services, Investment, Sanitary and Phytosanitary Measures, Technical Barriers to Trade, Trade Remedies, Rules of Origin, Customs and Trade Facilitation, Competition, Trade Defence, Government Procurement, Dispute Settlement, Intellectual Property Rights & Geographical Indications and Sustainable Development. So far, 15 rounds of negotiations have been held alternately at Brussels and New Delhi. The last meeting was held in the week of 13th May, 2013 in New Delhi.

**10. India EFTA Broad based Trade and Investment Agreement (BTIA) Negotiations**

The European Free Trade Association (EFTA) is an inter-governmental organisation for the promotion and intensification of free trade. EFTA was founded as an alternative for States that did not wish to join the European Community (EC). EFTA was founded by the Stockholm Convention on May 3, 1960 with Austria, Denmark, Great

Britain, Norway, Portugal, Sweden and Switzerland as its founding members. The present membership of EFTA is limited to four countries – Switzerland, Norway, Iceland and Liechtenstein. These countries are not part of the European Union (EU).

During the visit of our President to Iceland in May 2005, Iceland had proposed to negotiate a Free Trade Agreement (FTA) with India. Subsequently, during his meeting with the Commerce & Industry Minister (CIM) in New Delhi in January 2006, the Swiss Federal Councillor, Head of the Federal Department of Economic Affairs, proposed a possible Preferential Trading Arrangement (PTA) between India and EFTA. This request was repeated in October, 2006.

*Joint Study Group:* A Joint Study Group (JSG) was formally launched on 1st December 2006. The JSG was mandated to take a comprehensive view of bilateral economic linkages between India and EFTA and to examine the feasibility of a broad-based trade and investment Agreement. The report of the JSG was finalized in October, 2007.

The JSG report comprised of 9 Chapters, namely, Introduction, Trade in Goods, Trade in Services, Investment, SPS/TBT and TF, IPRs and Competition, Government Procurement and Dispute Settlement, Technical Cooperation, Conclusions and Recommendations.

The JSG concluded that both sides would significantly benefit from a bilateral broad-based trade and investment Agreement and recommended commencement of negotiations.

*Negotiations:* The following are the tracks on which negotiations are currently on: Trade in Goods & Services, Sanitary and Phyto-Sanitary (SPS) measures, Technical Barriers to Trade (TBT), Customs and Tariff Facilitation (TF), Investment, Intellectual Property Rights (IPRs), Competition, Government Procurement (GP), Dispute Settlement (DS), Trade Defence (TD), Rules of Origin (RoO), Sustainable Development (SD) and Legal & Horizontal. Thirteen rounds of India-EFTA BTIA negotiations have been held so far. 13th and final round was held from 25-29 November 2013 in New Delhi.

## 11. Global System of Trade Preferences (GSTP) (as of July, 2014)

The Agreement establishing the Global System of Trade Preferences (GSTP) among Developing countries was signed on 13th April, 1988 at Belgrade following conclusion of the First Round of Negotiations. The

GSTP came into being after a long process of negotiations during the Ministerial Meetings of the Group of 77, notably at Mexico City in 1976, Arusha in 1979 and Caracas in 1981. The Ministers of Foreign Affairs of the Group of 77 in New York set up the GSTP Negotiating Committee in 1982. The New Delhi Ministerial meetings, held in July 1985, gave further impetus to the GSTP negotiation process. The Brasilia Ministerial Meeting held in May 1986 launched the First Round of GSTP Negotiations. At the conclusion of the First Round in April 1988 in Belgrade, the GSTP Agreement was signed on 13 April 1988. The Agreement was brought into force on 19th April 1989. Forty-four countries have ratified the Agreement and have become participants. The GSTP establishes a framework for the exchange of trade concessions among the members of the Group of 77. It lays down rules, principles and procedures for conduct of negotiations and for implementation of the results of the negotiations. The coverage of the GSTP extends to arrangements in the area of tariffs, para-tariff, non-tariff measures, direct trade measures including medium and long-term contracts and sectoral agreements. One of the basic principles of the Agreement is that it is to be negotiated step by step improved upon and extended in successive stages

The current round of GSTP negotiations, also known as "São Paulo Round" was launched in 2004 with 22 participating countries, on the occasion of the UNCTAD XI Quadrennial Conference in Sao Paulo in Brazil. At the end of the negotiations, Ministerial Modalities were adopted on 2 December, 2009 wherein Ministers agreed to modalities based on a tariff reduction of at least 20% on at least 70% of all dutiable tariff-lines. Members who were in the process of their WTO accession namely, Algeria and Iran were to be given specific flexibilities. The modalities on market access adopted by the Ministers are as under:

- Across-the-board, line-by-line, linear cut of at least 20% on dutiable tariff lines
- Product coverage to be at least 70% of dutiable tariff lines
- Product coverage shall be 60% for participants having more than 50% of their national tariff lines at zero duty level;
- Tariff cuts shall be made on the MFN tariffs applicable on the date of importation. Alternatively, participants may choose to

apply the cuts on the MFN tariffs applicable on the date of conclusion of the Third Round

- The Negotiating Committee shall also consider proposal for revision of the GSTP rules of origin.

Based on these modalities, intensive negotiations were held in 2010 for finalisation of the schedules of Members. During this period, Cuba, Egypt, India, Indonesia, Korea, Malaysia, Mercosur and Morocco submitted their schedules and bilateral negotiations were held to finalise the schedule. It is significant to note that India unilaterally offered a tariff reduction of 25% on 77% of its tariff lines for Least Developed Countries (LDCs).

A Ministerial Meeting of the GSTP Negotiating Committee was held on 15 December, 2010 in Foz do Iguacu, Brazil for signing of the "Final Act Embodying the Results of the Sao Paulo Round" and the "Sao Paulo Round Protocol on the Agreement on GSTP". The Ministers or Head of the Delegations of Members who have submitted their final schedules namely Cuba, Egypt, India, Indonesia, Korea, Malaysia, Mercosur and Morocco signed the two documents. India was represented by H.E. Mr. B.S. Prakash, Ambassador of India to Brazil.

As of July, 2014 8 out of 44 member countries, including India, have signed the protocol. Of these 8 countries, three countries, viz. India, Malaysia and Cuba have ratified it. The Cabinet Committee on Economic Affairs (CCEA) has approved implementation of India's Schedule of Concessions under the Third Round of negotiations.

The schedules of concessions under the Third Round of negotiations will be implemented when a minimum of four participants ratify the Schedules and inform the GSTP Secretariat. The tariff concessions will be implemented amongst such four participants and other participants will avail of the concessions after they ratify their schedules.

## 12. Asia Pacific Trade Agreement (APTA) (as of July, 2014)

The Asia Pacific Trade Agreement (earlier known as Bangkok Agreement) is an initiative under the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) for trade expansion through exchange of tariff concessions among developing

country members of the Asia Pacific Region. China acceded to the Agreement in 2000 and the current membership of APTA consists of Bangladesh, China, India, Lao PDR, Republic of Korea and Sri Lanka.

The Ministerial Council is the highest decision-making body of APTA. The Standing Committee is the negotiating / implementing body which functions under the guidance and direction of the Ministerial Council. UN ESCAP functions as the Secretariat for the Agreement.

Till date, three Rounds of Trade Negotiations have taken place. Up to the Third Round, India has offered tariff preferences on 570 tariff lines at an average margin of preference (MoP) of 23.9% and an additional 48 tariff lines to LDC members at an average MoP of 39.7% at the 6-digit HS level.

The Second Session of the Ministerial Council, which was held in Goa in 2007, decided to launch the Fourth Round of Negotiations with the aim of both, widening and deepening the tariff concessions offered by Participating States on trade in goods and also on exploring the options to widen the scope of negotiations to other areas, such as non-tariff measures, services and investment.

In accordance with the mandate of the Ministerial Council, the Standing Committee initiated negotiations on the following areas:

- (a) Negotiations on tariff concessions on goods
- (b) Negotiations on a Framework Agreement on Trade Facilitation
- (c) Negotiations on a Framework Agreement on Trade in Services
- (d) Negotiations on a Framework Agreement on Investments
- (e) Exploring possibilities on expanding the membership of APTA

Negotiations have concluded on the framework agreements on trade facilitation, investments and services. All the three agreements have since been signed and ratified by the Participating States.

The Third Session of the Ministerial Council was held in Seoul on 15 December 2009. The Indian delegation was led by Shri Jyotiraditya Madhavrao Scindia, the then Minister of State for Commerce and Industry.

Under the Fourth Round of negotiations, Participating States are still negotiating the average margin of preference (MoP) and coverage of tariff lines.

The 44th Session of the APTA Standing Committee was held on 24-25 July, 2014 at Bangkok, Thailand.

**13. India-New Zealand Free Trade Agreement / Comprehensive Economic Cooperation Agreement.**

Based on the recommendation of the Joint Study Group (JSG) and subsequent approval of Trade and Economic Relations Committee (TERC) headed by the then Prime Minister of India on 21.01.2010, India is negotiating with New Zealand Comprehensive Economic Cooperation Agreement (CECA) covering trade in goods, services, investment and related issues. Nine rounds of Negotiation have been held so far. The 9th Round of negotiation was held during July, 2013 at Wellington (New Zealand) followed by an intersessional discussion on 9-10th December, 2013 in New Delhi.

**14. India-Canada Comprehensive Economic Partnership Agreement (CEPA)**

In September 2008, the India-Canada CEO Round Table recommended that India and Canada would benefit enormously from CEPA by elimination of tariffs on a substantial majority of the bilateral trade. CEPA would cover trade in goods, trade in services, rules of origin, sanitary and phytosanitary measures, technical barriers to trade and other areas of economic cooperation. A Joint Study was conducted and report came in September 2010 strongly recommending the benefits of CEPA for both the countries. Accordingly, the announcement of launch of India-Canada CEPA negotiations was made by PMs of both the countries in Seoul in November 2010 and the negotiations were formally launched by CITM and Canadian Trade Minister Van Loan on 16 November 2010 in New Delhi.

In a Joint Statement issued during the visit of Canadian PM Mr. Stephen Harper in November 2012, both the PMs have desired to conclude CEPA by the end of 2013.

Eight rounds of negotiations have already taken place. The 8th Round was held in Ottawa, Canada from 24th to 26th June, 2013.

**15. India-Australia Comprehensive Economic Cooperation Agreement (CECA)**

Based on the recommendation of the Joint Study Group (JSG) in 2010 and subsequent approval of The Trade and Economic Relations Committee (TERC) headed by the then Prime Minister of India on 29.04.2011, India is negotiating with Australia Comprehensive Economic Cooperation Agreement (CECA) covering trade in goods, services, investment and related issues.

Five (5) rounds of negotiations for India Australia CECA have been held so far. The 1st round held in July, 2011 and the last i.e. 5th round was held on 20-21 May, 2013 in Canberra (Australia).

**16. India-Indonesia Comprehensive Economic Cooperation Agreement (CECA)**

Commencement of negotiations on India-Indonesia CECA was announced on 25th January, 2011 during the visit of Indonesian President to New Delhi. During the CITM's visit to Indonesia on 3-4 October 2011, both sides held India-Indonesia CECA pre-negotiation consultations.

**17. Joint Study on the India- COMESA (Common Market for East and Southern Africa) Joint Study Group Report to examine the feasibility of a Preferential Trade Agreement (PTA)/ Free Trade Agreement (FTA) between India and COMESA**

Common Market for East and Southern Africa (COMESA) is Africa's largest economic community comprising of 19 member states namely Burundi, Comoros, DR Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Swaziland, Sudan, Uganda, Zambia and Zimbabwe.

A Joint Study Group (JSG) has been set up to examine the feasibility of a FTA between India and COMESA.

The 1st meeting of the India-COMESA JSG was held in Lusaka on 30-31st July, 2012.

It was decided during the 1st meeting of the JSG that the India-COMESA JSG will produce a joint report, containing its recommendations for consideration by the Government of India and the COMESA Secretariat.

## 18. India-Israel Free Trade Agreement (FTA) Negotiations

India and Israel are negotiating a Free Trade Agreement.

First round of negotiation was held in New Delhi on 26th May, 2010. Eight Rounds have been held since then. The eighth round of negotiations was held in Israel from 24th to 26th November, 2013.

## 19. Regional Comprehensive Economic Partnership (RCEP)

### *Introduction:*

The Regional Comprehensive Economic Partnership (RCEP) is a comprehensive free trade agreement being negotiated between the 10 ASEAN Member States and ASEAN's free trade agreement (FTA) partners viz. Australia, China, India, Japan, Korea and New Zealand. RCEP reflects the emerging trade and economic architecture globally. It should not be seen in isolation but in the context of other comprehensive FTAs that are emerging i.e. the Trans Pacific Partnership (TPP), and the newly launched Trans-Atlantic Trade and Investment Partnership (TTIP) involving the United States and the European Union. In the context of comprehensive regional trading arrangements across the globe, TPP would cover the Western flank with TTIP as the Central flank and RCEP as the Eastern flank. Therefore, RCEP is of strategic importance for India both in the context of its Look East Policy and the comprehensive nature of the engagement.

### *Background:*

Before June 2013, the RCEP process was being conducted under the ASEAN and FTA Partners Senior Economic Officials Meetings (SEOM) which has now been replaced with the RCEP Trade Negotiating Committee (RCEP-TNC) which is the apex negotiating body.

The "Guiding Principles and Objectives for Negotiating RCEP", adopted by Economic Ministers in August 2012, lays down some principles like broader and deeper engagement with significant improvements over the existing FTAs while recognizing the individual and diverse circumstances of countries; facilitate countries engagement in global and regional supply chains; taking into account the different levels of development of participating countries etc. It also identifies the areas for negotiations such as goods, services, investment, economic & technical cooperation, intellectual property, competition and dispute settlement with a flexibility to identify other areas.



While three working groups i.e. Working Group on Trade in Goods (WGTIG), Working Group on Trade in Services (WGTIS) and Working Group on Investment (WGI) were set up under the AFP SEOM Consultation mechanism; three new working groups on competition, intellectual property and economic & technical cooperation (ECOTECH) were established in the 4th RCEP meeting held from 31 March-4 April, 2014 in Nanning, China. A new working group on "Legal and Institutional Issues" was set up in the 5th RCEP meeting that was held in Singapore from 21-27 June, 2014. Four sub working groups reporting to the working group on trade in goods have been established on rules of origin (ROO), customs procedures & trade facilitation (CPTF), SPS (sanitary and phytosanitary measures) and STRACAP (standards, technical regulations and conformity assessment procedures). Hence institutionally apart from the TNC, there are 7 working groups and 4 sub working groups

The 6th RCEP meeting would be held from 1-5 December, 2014 in India.

### *Issues covered:*

Some of the key subjects that have been discussed in the working groups are tariff modalities in goods, listing of services and investment, elements of the RCEP chapters and possible texts thereof, intellectual property, competition, economic and technical cooperation, legal and institutional issues, customs procedures and trade facilitation, rules of origin etc.

# Chapter-7

## Trade Issues:

### Economic Survey 2019-2020

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The annual Economic Survey holds significance as it appraises common people about the state of economic affairs of the country and makes them aware about the key economic decisions of the Government which impact their lives in a considerable way. The Economic Survey also recommends policy changes to the Government, which are, however, not binding but only act as a guide in framing national policies. It contains forecasts about the economic growth of the country and the reasons outlining the projections.

### A Brief History of The Economy Survey in India

- The first Economic Survey was presented in the year 1950-51.
- Until 1964, it was presented along with the Union Budget, but later it was disconnected from the Union Budget to give a better understanding of the budget proposals.
- As the Economic Survey contains a detailed analysis of the economic development of the country and a lot of data related to various sectors of the economy, it works as a useful tool providing background knowledge.

Interestingly, the former Chief Economic Advisor Arvind Subramanian in 2018 had for the first time released the document in pink colour. The idea was to support women who suffer from violence and to push for more gender equality. Not because of the colour of the document, he revamped the whole document by making it more interesting with quotes and additional information. This was the first time that the Economic Survey used data generated by GST Network and the Indian Railways to see the flow of goods and people across the States within India.

### India's Economic Performance During 2019-2020

- India's GDP growth moderated to 4.8% during H1 of 2019-20, amidst a weak environment in Global manufacturing, trade and demand.

## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

- Real consumption growth has recovered during Q2 of 2019-20, cushioned by a significant growth in Government final consumption.
- Growth for 'Agriculture and Allied Activities' and 'Public administration, defence, and other services' during H1 of 2019- 20 was higher than that during H2 of 2018-19.
- India's external sector gained further stability during H1 of 2019-20.
- Current Account Deficit (CAD) narrowed to 1.5% of GDP during H1 of 2019-20 from 2.1% in 2018-19.
- Impressive Foreign Direct Investment (FDI).
- Rebounding of portfolio flows.
- Accretion to foreign exchange reserves.
- Sharper contraction of Imports as compared to that of exports during H1 of 2019-20, with easing of crude prices.

### **Headline - Inflation Expected To Decline By Year End**

- Increased from 3.3% during H1 of 2019-20 to 7.35% in December 2019-20 due to temporary increase in food inflation.
- Rise in CPI-core and WPI in December 2019-20 suggests building of demand pressure.

### **Deceleration in GDP growth can be understood within the framework of a slowing Cycle of Growth**

- Financial Sector acted as a drag on the real sector (investment-growth-consumption).

### **Reforms undertaken during 2019-20 to Boost investment, Consumption and Exports**

- Speeding up the insolvency resolution process under Insolvency and Bankruptcy Code (IBC).
- Easing of credit, particularly for the stressed real estate and NBFC sectors.
- Announcing the National Infrastructure Pipeline 2019-2025.

## Survey expects an uptick in the GDP growth in H2 of 2019-20

- 5% GDP growth for 2019-20 based on CSO's first advance estimates.
- Expedient delivery on reforms for enabling the economy to strongly rebound in 2020-21.

## EXTERNAL SECTOR

### Balance of Payments (BoP)

- India's BoP position improved from US\$ 412.9 bn of Forex Reserves at the end March, 2019 to US\$ 433.7 bn by the end September, 2019.
- Current Account Deficit (CAD) narrowed from 2.1% in 2018-19 to 1.5% of GDP during H1 of 2019-20.
- Foreign Reserves stood at US\$ 461.2 bn as on 10th January, 2020.

### Global Trade

- In Sync with an estimated growth of 2.9% in Global output in Year 2019, global trade is estimated to growth at 1.0% after having peaked during the Year 2017 at 5.7%.
- However, it is projected to recover to 2.9% in 2020 with recovery in Global Economic Activity.
- India's merchandise trade balance improved from the Year 2009-14 to 2014-19, although most of the improvement in the latter period was due to more than 50% decline in crude oil prices during the Year 2016-17.
- India's Top five trading partners continue to be USA, China, UAE, Saudi Arabia and Hong Kong.

### Exports

- *Top* export items: Petroleum products, Precious stones, Drug Formulations & Biologicals, Gold and other Precious Metals.
- Largest Export Destinations in 2019-20 (April-November): United States of America (USA), followed by United Arab Emirates (UAE), China and Hong Kong.
- The merchandise Exports to GDP ratio declined, entailing a negative impact on BoP position.

## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

- Slowdown of world output had an impact on reducing the export to GDP ratio, particularly from 2018-19 to H1 of 2019-20.
- Growth in non-POL exports dropped significantly from 2009-14 to 2014-19.

### Imports

- *Top* import items: Crude Petroleum, Petroleum Products, Gold, Coal, Coke & Briquettes.
- India's Imports continue to be the largest from China, followed by USA, UAE and Saudi Arabia.
- Merchandise Imports to GDP ratio declined for India, entailing a net positive impact on BoP.
- Large crude oil imports in the Import basket correlates India's total imports with crude prices. As crude price raises, the share of crude oil in total imports will increase to GDP ratio.
- Significant gold imports also correlate India's total imports with gold prices. However, share of gold imports in total imports remained the same during 2018-19 and the first half of 2019-20, despite an increase in prices and due to increase in import duty reduce the import of Gold.
- Non-POL-non-gold imports are positively correlated with GDP growth.
- Non-POL-non-oil imports fell as a proportion to GDP from 2009-14 to 2014-19 when GDP growth accelerated.
- This may be because of consumption driven growth while investment rate declined lowering non-POL-Non-Gold Imports.
- Continuous decline in investment rate decelerated the GDP growth, weakened consumption, dampened the investment outlook, which further reduced the GDP growth and along with-it non-POL-non-gold Imports as a proportion of GDP from 2018-19 to H1 of 2019-20.
- Under Trade facilitation, India improved its ranking from 143 in 2016 to 68 in 2019 under the Indicator, "Trading across Borders", monitored by World Bank in its Ease of Doing Business Report.

### Logistics Industry of India

- Currently estimated to be around US\$ 160 billion.

- Expected to touch US\$ 215 billion by 2020.
- According to World Bank's Logistics Performance Index, India ranks 44th in 2018 Globally, up from 54th rank in 2014.
- Net FDI inflows continued to be buoyant in 2019-20 attracting US\$ 24.4 bn in the first eight months, higher than during the corresponding period of 2018-19.
- Net FPI in the first eight months of 2019-20 stood at US\$ 12.6 bn.
- Net remittances from Indians employed overseas continued to increase, receiving US\$ 38.4 billion in H1 of 2019-20 which is more than 50% of the previous year level.

### **External Debt**

- Remains low at 20.1% of GDP as at the end September, 2019.
- After significant decline since 2014-15, India's external liabilities (Debt and Equity) to GDP increased at the end of June, 2019 primarily due to increase in FDI, portfolio flows and external commercial borrowings (ECBs).

### **Targeting Ease of Doing Business in India**

- A jump of 79 positions to 63 in 2019 from 142 in 2014 in World Bank's Doing Business Rankings.
- India still trails in parameters such as Ease of Starting Business, Registering Property, Paying Taxes and Enforcing Contracts.

### **Survey has numerous Case Studies**

- For merchandise exports, the logistic process flow for imports is more efficient than for exports.
- Electronics exports and imports through Bengaluru Airport illustrate how Indian logistical processes can be world class.

The turnaround time of Ships in India has almost halved to 2.48 days in 2018-19 from 4.67 days in 2010-11.

### **Suggestions for further Ease of Doing Business**

- Close co-ordination between the Logistics division of the Ministry of Commerce and Industry, the Central Board of Indirect Taxes and Customs, Ministry of Shipping and the different Port Authorities.

- Individual sectors such as Tourism and Manufacturing require a more targeted approach that maps out the regulatory and process bottlenecks for each segment.

### **AGRICULTURE AND FOOD MANAGEMENT**

- Largest proportion of Indian population depends directly or indirectly on agriculture for employment opportunities as compared to any other sector.
- The share of agriculture and allied sectors in the Total Gross Value Added (GVA) of the country has been continuously declining on account of relatively higher growth performance of non-agricultural sectors, a natural outcome of development process.
- GVA at Basic Prices for 2019-20 from 'Agriculture, Forestry and Fishing' sector is estimated to grow by 2.8%.
- Agricultural productivity is also constrained by lower level of mechanization in agriculture which at about 40% in India is much lower than China (59.5%) and Brazil (75%).

### **Skewed pattern of Regional Distribution of Agricultural Credit in India**

- Low credit in Hilly, Eastern and North Eastern States (less than 1% of total agricultural credit disbursement).

### **Livestock Income has become an important Secondary Source of Income for Millions of Rural Families**

- An important role in achieving the goal of doubling farmers' income.
- Livestock sector has been growing at a CAGR of 7.9% during the last Five Years.

### **During the Last 6 years ending 2017-18, Food Processing Industries Sector has been growing**

- Average annual growth rate (AAGR) has been around 5.06%.
- Constitutes as much as 8.83% and 10.66% of GVA in manufacturing and agriculture sector respectively in 2017-18 when compared to 2011-12 prices.

### **While interests of the Vulnerable Sections of the Population need to be Safeguarded, Survey emphasizes on sustainability of Food Security Operations by**

- Addressing the burgeoning Food Subsidy Bill.

- Revisiting the rates and coverage under NFSA.

## Industry and Infrastructure

- The industrial sector as per Index of Industrial Production (IIP) registered a growth of 0.6 per cent in 2019-20 (April-November) as compared to 5.0% during 2018-19 (April-November).
- Fertilizer sector achieved a growth of 4.0% during 2019-20 (April-November) as compared to (-) 1.3 per cent during 2018-19 (April-November).
- Steel Sector achieved a growth of 5.2% during 2019-20 (April-November) as compared to 3.6% during 2018-19 (April-November).
- Total Telephone connections in India touched 119.43 crore as on September 30, 2019.
- The installed capacity of power generation has increased to 3,64,960 MW as on October 31, 2019 from 3,56,100 MW as on March 31, 2019.
- Report of the Task Force on National Infrastructure Pipeline released on 31.12.2019 has Projected Total Infrastructure Investment of ` 102 lakh crore during the period FY 2020 to 2025 in India.

## Services Sector

### Increasing Significance of Services Sector in the Indian Economy

- About 55% of the total size of the economy and GVA growth.
- Two-thirds of total FDI inflows into India.
- About 38 per cent of total exports.
- More than 50% of GVA in 15 out of the 33 States and UTs.
  - Gross value-added growth of the services sector moderated in 2019-20 as suggested by various high frequency indicators and sectoral data such as air passenger traffic, port and shipping freight traffic, bank credit etc.
  - On the brighter side, FDI into services sector has witnessed a recovery in early 2019-20.

The epic treatise of modern economics, written by Adam Smith in 1776, was interestingly titled "An Inquiry into the Nature and Causes of the Wealth of



Nations". With India having become the fifth largest economy in the World in 2019 and aspiring to be the third largest by 2025, it is only befitting to go back to one of the foundational questions posed by Smith, "What Causes Wealth and Prosperity of Nations?" The Economic Survey 2019-20 makes a humble attempt to craft a framework of policies that can foster wealth creation in India. This inquiry is particularly critical at this stage as India aspires to become a \$5 trillion economy by 2025 – an ambitious vision that should create, as Smith observed, "Universal opulence which extends itself to the lowest ranks of the People."

### **Levers for Furthering Wealth Creation**

The Survey Identifies several levers for furthering wealth creation entrepreneurship at the grassroots as reflected in new firm creation in India's districts; promote "pro-business" policies that unleash the power of competitive markets to generate wealth as against "pro-crony" policies that may favour incumbent private interests. The Survey makes the case that the churn created by a healthy pro-business system generates greater wealth than a static pro-crony system. Note that the Survey contrasts two systems; the arguments are not directed at any individual or entity. Instead, it argues for eliminating policies that undermine markets through government intervention even where it is not necessary; integrate "Assemble in India" into "Make In India" to focus on labour-intensive exports and thereby create jobs on a large scale; efficiently scale up the banking sector to be proportionate to the size of the Indian economy and track the health of the shadow banking sector; use privatisation to foster efficiency. Consistent with the hand of trust supporting the invisible hand, the Survey provides careful evidence that India's GDP growth estimates can be trusted.

### **COVID-19**

The COVID-19 pandemic has put India's economic growth path under scrutiny. For decades, analysts have argued that the growth-environment trade-off could be managed better. This, however, had little influence on economic policy. The ongoing public health emergency has crystallised many debates around this theme. It is now recognised that material prosperity has come at the cost of the environment, leading to climate change and worsening working conditions for labour. This inherent conflict has been given little attention over the decades. To continue to do so would be inviting greater economic vulnerability in times of shocks such as the current crisis.

Over two months since India first imposed a national lockdown, there is evidence that sustainability policies and not millions of Rupees spent on projects like “River Rejuvenation” produce superior outcomes in environment conservation. The air in dense cities like Delhi is cleaner, the rivers are blue again, and the skies are becoming clearer.

In many countries, the public health emergency has also fast emerged as a humanitarian crisis.

This, considering that nearly half of India’s annual gross domestic product (GDP) comes from the unorganised sector and 80 per cent of the workforce consists of informal labour who are employed without contracts, nor any retirement or health benefits. This huge informal workforce is outside the trade union system, with neither rights nor bargaining power. That such a large number of labourers are without recourse to savings or food stocks is a confirmation that they have been living in a day to day subsistence manner.

These two realities, the palpable improvements in air quality and other ecological outcomes, and the impact of the lockdown on the lives of many of India’s poor have shown the weaknesses in the country’s growth model. Indeed, the COVID-19 pandemic is serving as a call for India to rebalance its policy objectives. The crisis can serve as an opportunity to redefine the approach to economic growth, so that once the threat subsides , the country does not return to business-as-usual mode. The policy objective should be to build an economy for the future.

To be sure, the Indian government has declared that it is considering measures towards distress mitigation, relief disbursement, and a revival of growth. At the same time, however, the Government must aim for qualitative changes in the growth pattern. The relief policies should have built-in elements to repair the country’s broken economic model and aim for economic stimulation that considers objectives of pollution reduction and bridging inequities.

The ongoing COVID-19 pandemic serves as a warning that persisting with a flawed economic model has eroded the capacity of people, business and the Government to weather shocks. There is a need therefore to remodel the country’s approach to growth. Once urgent distress relief has been attended to, the focus must shift to correcting structural weaknesses. Wherever possible, distress relief measures must incorporate policy objectives of sustainability, repairing labour’s bargaining power, and reducing the

healthcare infrastructure deficit. Increased fiscal spending on such a package will provide income opportunities for individuals and business, and at the same time alleviate long-term bottlenecks.

Resources are not a binding constraint in doing this. An economic support package striving for these goals is unlikely to invite adverse sovereign rating action even if it involves a sharp surge in the Government's fiscal deficit. The primary challenges are in changing attitudes and redesigning policy.

Amsterdam and Milan illustrate how in the wake of the COVID-19 crisis, Western cities are revisiting the fundamentals on which they were built. Before they even begin to repair and reconstruct, they first have accepted that their current model is flawed. It would serve India well to do the same.

### **Covid-19 Impact on India's Economy: Challenges & Solutions**

There is no doubt that COVID-19 will have a severe impact on the Indian economy. With respect to India, it can be bifurcated into 2 Parts - India's Economy, and its Stock Markets.

The recovery of the underlying economy will be slow, and it will take around 2 years for normalcy to come back across sectors. While the overall economy might take a hit because of the Government lockdown, some sectors are set to see immense growth in the post-COVID era – FMCG, B2C specialised lenders, gold-dependent companies, food retail and pharmaceutical companies to name a few.

Stock markets have a mind of their own, formed by the collective emotions+ intelligence of millions. They are often skewed and aren't the best indicators of the underlying economy. Stock markets will have a strong recovery, not due to the fundamental strength, but due to Global liquidity which is available for almost free (as interest rates tend to near zero). Availability of debt capital will be scarce in India, whilst equity capital will be available in plenty over a period of time.

### **What can the Government do?**

Like its counterparts across the globe, the Indian Government has announced a slew of measures to prevent total collapse. However, it isn't enough. This works to alleviate some of the pain, not counter it. The following measures are needed:

- Loosen its purse and spend money on infrastructure development 'Rebuild India, Rejuvenate India'.

- Public Sector financial institutions need to be further capitalized and nudged by the RBI to lend out low-ticket loans below INR.1 Crore in the form of working capital to ensure that liquidity comes back into the system.
- Banking sector needs to be nudged to pass on rate cuts induced by RBI to the borrowers.
- Personal tax cuts & tax holidays for 6 – 12 months can be adopted to revive consumption, which will help spur economic growth.

The above is not an exhaustive list of measures but could help alleviate the impact of COVID-19 on the Indian economy while stimulating growth.

## Chapter-8

# Favourable Climate for Import Substitution Industries in India

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India's unprecedented rise in the World Bank's Ease of Doing Business Rankings 2020 to #63 (2019 - #77, 2014 - #142) is a testament to its persistence, drive, and effort to become the world's business destination of choice. Unparalleled legislative and procedural reforms have been implemented during the last 5 years. This will only gather further momentum in the coming months as both Central And State Governments gear up to stimulate the economy and improve their attractiveness for investments across sectors.

Most States have created single window mechanisms to grant permissions within stipulated time and have set service level agreements to grant permissions within 30 days, with provisions for deemed approval in cases of deviation. Information about industrial parks with plot-level details are being provided through GIS platforms. Dedicated relationship managers are being appointed to hand-hold investors through the entire project lifecycle.

India has one of the most attractive corporate income tax rate structure for manufacturing and services investments. A special window for manufacturing investments is open till 31 March 2023 with an attractive corporate income tax rate of 17.16%, lowest among BRICS. Government of India has signed 300 Advance Pricing Agreements with MNCs to give them assurance on tax structure.

Poised to become the World's third-largest consumer market within the next decade, India can safely be categorized as a growth engine for the foreseeable future.

India continues to make a mark on the world map as a manufacturing destination and is home to several major global manufacturers from diverse sectors. Certain Geographic clusters have emerged as epicentres for industrial activities, which are highlighted by the underlying drivers.

## India at the Pedestal of A New Industrial Growth

India stands at the pedestal of a new growth curve of rapid industrialisation, driven by technological prowess and inventive disruptions. It today hosts the world's third largest start-up ecosystem and a digital revolution that is powered and driven by Government initiatives percolating to every level of the nation's growth story. Make in India is a Great proposition. Key factors are the following:

### - Infrastructure

*Ports:* Number of Ports - 12 major + 205 minor Cargo Handled - 699 million MT (Major port), 1,229 million MT (All port).

*Roadways:* Length - 5,594,000 kms; National Highway 142,000 kms.

*Railways:* Track - 123,000 km ;Cargo handled - 1,221 million.

*MT Bharatmala:* USD \$100 billion Programme initiated in 2017.

- 3,200 kms Dedicated Freight Corridor (Western and Eastern) which was initiated around 2010 is partially in operation since 2019.
- 6,776 kms DFC is proposed in 2016 to connect East-West, North-South, East Coast and South-West part of the country.

### - Tax rates

Dividend Distribution Tax abolished in 2020

Competitive Corporate Tax Rate of 17.16% (for new manufacturing units operational by 2023)

### - Natural Resources

Barring Petroleum (Crude and other products), India's raw material imports are significantly less, indicating a strong indigenous availability of primary raw material for manufacturing and lower cost incurred.

Large reserves Of iron ore, manganese, mica, bauxite, rare earth elements, titanium ore, chromite, natural gas, diamonds, petroleum, limestone, arable land.

- Largest copper reserves in the World.
- 7th Largest reserve of manganese ore.

- Largest reserves of thorium.
  - Third Largest reserves of iron ore.
  - Fourth Largest reserves of coal.
  - Fourth Largest reserves of zinc.
  - Fifth Largest reserves of bauxite.
- **Agriculture Resources**
- India is a major producer of agricultural products and has huge opportunity in the food processing sector.
  - Largest producer of milk.
  - Largest producer of fruits & vegetables.
  - 2nd largest producer pulses.
  - 25% of world's cotton production.
- **Young Labour Force**
- Skilled and available Labour 49.8% Labour force participation rate in 2018.
  - Large young population & workforce (85% of population below 55 years).
  - Highest number of science and engineering graduates: India boasts of one of the largest education systems in the World, comprising of approx. 8 mn. students enrolled in science, technology & engineering.
- **Massive Demographic Dividend**
- 72% population working age (15 -65 Yrs.).
- **Young and Growing Workforce**
- With a median age of 29 in 2020, India entered the 37-year period
  - Demographic dividend in 2018.
  - India's working-age population is anticipated to expand to almost 1/5th of the Global labour force within the next 10 years.

- **Growing digital penetration & technology adoption**
  - Over 600 million Internet users in India. 44x increase in data consumption during 2015-19.
  - India is home to the world's 3rd largest start-up ecosystem, having added over 1,300 tech start-ups in 2019.
  - Number of Indian Unicorns could increase to 95-105 by 2025 (Source: NASSCOM).
  - **Readying for Industry 4.0:** The Government has been propagating radical digitisation to impel economic inclusiveness and social transformation, through many initiatives like Digital India, Make in India and Skill India. India is now readying for an era of increased digitisation, heralding the advent of Industry 4.0, powered by new age technologies such the Internet of things, artificial intelligence, and robotics.
  - **Third Largest Tech Start-up Hub;** after US and China.
  - **Future R&D Powerhouse of the World:** Host to over 40% the world's Global In-house Centers (GICs) are located in India and is the 7th largest patent filing office in the world as per WIPO.

## Other Supporting Systems for Import Substitution Industries (ISI)

- (a) Ministry of Commerce
- (b) Ministry of MSME
- (c) Director General of Foreign Trade
- (d) Financial Institutions
- (e) Atma Nirbhar Bharat

### Ministry of Commerce

#### *Functions of MoC:*

The long-term vision of the Department is to *Make in India* a major player in the world trade and assume a role of leadership in the international trade organisations commensurate with India's growing importance. The medium-term vision is to double India's exports of goods and services by 2017-18



over the level of 2008-09 with a long-term objective of doubling India's share in Global trade.

The Policy tools being adopted in this context are as under :

The Strategy Paper focussed on the targeted commodity and country-wise strategy in the medium term and the Strategic Plan / vision and the Foreign Trade Policy in the long run.

The Department formulates, implements and monitors the Foreign Trade Policy (FTP) which provides the basic framework of policy and strategy to be followed for promoting exports and trade. The Trade Policy is periodically reviewed to incorporate changes necessary to take care of emerging economic scenarios both in the domestic and international economy. Besides, the Department is also entrusted with responsibilities relating to multilateral and bilateral commercial relations, Special Economic Zones, State trading, export promotion and trade facilitation, and development and regulation of certain export-oriented industries and commodities.

The Department of Commerce is functionally organized into the following 10 Divisions:

- International Trade Policy Divisions.
- Foreign Trade Territorial Division.
- Export Products Division.
- Export Industries Division.
- Export Services Division.
- Economic Division.
- Administration & General Service Division.
- Finance Division.
- Supply Division.
- Logistics Division.

The various offices / organisations under the administrative control of the Department are:

- A. Two Attached Offices.
- B. Ten Subordinate Offices.

- C. Ten Autonomous Bodies.
- D. Five Public Sector Undertakings.
- E. One Advisory Body.
- F. Fourteen Export Promotion Councils and
- G. Five Other Organisations.

### *Process for Imports initiated by Ministry of Commerce*

#### *Import Authorization*

Import Policy Division in DGFT formulates the "Import Policy" of items in consultation with the concerned administrative Ministries / Departments and regularly updates the Indian Trade Classification (Harmonised System) which provides the import policy and policy conditions relating to Items being imported.

It also formulates and updates provisions for facilitating import and export of items. The Division deals with policy matters and procedural issues on issuance of Importer Exporter Code, Registration Cum Manufacturer Certificate, Free Sale Certificates, besides the registration of exporters under the REX system for exports under EU-GSP scheme.

Enlistment of Agencies for issuance of Certificate of Origin (non-preferential) and recognition of Pre-Shipment Inspection Agencies for issuance of Certificates for import of metallic waste and scrap are also done by Import Policy Division.

The Import Policy Division also revised the Foreign Trade (exemption) Order, issued in 1993, and issued the Order for amendment of Foreign Trade (Exemption from application of Rules in certain cases) Order, 2017 bringing it up-to-date with all measures aimed at "Ease of Doing Business".

1. **Restricted Items:** The Import cell considers applications for import of items which are "restricted" for import. The applications for issuance of import authorisation for import of such restricted items (such as live animals, cereals, petroleum and chemical products; minerals; wastes and scrap items, refrigerant gases, gold ore) are considered by an EXIM Facilitation Committee (EFC) consisting of representatives of various administrative Ministries and Departments. Cases are decided on receipt of written technical inputs / comments of the concerned

administrative Ministries and Departments. Apart from the above, the EFC also grants permission under Para 2.20 of FTP with the approval of DGFT for import of items (such as fuel, rice, wheat, fuel and petroleum products etc.) which otherwise is allowed only through the State Trading Enterprises.

2. ***Preferential Tariff Rate Quota:*** Imports of Vanaspati / bakery shortening and margarine, pepper and desiccated coconut under Indo - Sri Lanka Free Trade Agreement / Nepal are allowed.
3. ***Most Favoured Nation Tariff Rate Quota:*** Imports under Tariff Rate Quota Scheme are allowed on four items viz.,
  - (1) Skimmed and whole milk powder, milk food for babies etc. and white butter, butter oil, anhydrous milk fat.
  - (2) Maize (Corn).
  - (3) Crude sunflower seed or sunflower oil or fractions thereof
  - (4) Refined rape, colza or mustard oil, up to certain quantities as well as concessional rates of customs duty as per Para 2.60 of Handbook of Procedure, 2015-2020.
4. ***Temporary Restricted items like Peas / Pulses:*** In order to address the agrarian issues arising out of increased production in pulses, import of peas (HS Code 07131000) and pulses (HS Codes 07136000, 07139010 & 07139090) was amended from "free" to "restricted" for import during 2018-19. For distributing the annual quota of 2 Lakh MT of pigeon peas (toor) and 3 Lakh MT for urad and moong (1.5 Lakh MT for Urad and 1.5 Lakh MT for moong), applications were invited from miller/refiners and the quotas were distributed to 240 applicants for toor; 150 applicants for moong and 216 for urad during 2018-19. No objection certificate for import of 1,50,000 MT of pulses from Mozambique were also issued during the 2018-19 as per the Memorandum of Understanding between the Government of India and Mozambique.
5. ***Other Changes:*** The Foreign Trade (Exemption) Order issued in 1993 had become outdated in the light of various amendments made over the years and consequently, in consultation with Department of Revenue, the provisions were updated to implement Government's policy of "Ease of Doing Business "and the power of the n authorities

to issue import licenses in respect of goods related to manufacture of Defence items was delegated to the Department of Defence Production. On similar lines, Ministry of Home Affairs delegated their powers to issue Arms License to the Directorate General of Foreign Trade. The procedure to be followed for the security clearance of the entities importing arms & ammunition are as under:

- (a) *Category-1:* Items for end use of Indian Armed forces, DRDO, DPSUs, OFB, MHA, other Government Departments, and State Governments:
  - (i) The applicant may be asked to submit, *inter-alia*, a copy of PO/ supply order / End user Certificate duly signed by the applicant and countersigned by the end user. DGFT after examination of the PO / SU / EUC will take a decision within 15 days of the application.
  - (ii) Post issue of license, DGFT will verify the EUC for validation of record and mark the copy to Central Security Agency (IB) for their feedback, if any.
- (b) *Category- 2:* Items for any other purpose:
  - (i) The applicant may submit *inter-alia*, End user Certificate (EUC) / Self declaration for the import of items with relevant documents.
  - (ii) In case the applicant is a licensed arms manufacturer under Arms Act / IDR Act, copy of license and an undertaking that there is no change in Board of Director/shareholding needs to be submitted and any NOC from MHA or IB is not required.
  - (iii) Prior to issue of Import license, DGFT will consider the inputs / comments of central security agency (IB) which will be valid for 2 years unless an adverse report is received from IB subsequently.

### *Future Functions of MoC*

The Ministry of Commerce has to closely monitor the various import products from different countries and observe the following strategies to reduce the dependency:

## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

- MoC has to conduct the Feasibility Studies on of various imported products and encourages the prospective promoters, financial institutions to promote the Import Substitution Units in India.
- Need based approach to be followed while allowing the import goods from the other countries.
- In the Trade Policy of the Country, special focus to be provided for development of Import Substitution Industries in India.
- Like Incentives to Special Economic Zones, the Government has to provide incentives to the import substitution units in India.
- Research and Technology Developments in Export Oriented Units

### *Suggestions*

- The MoC is taking lot of measures / steps in promoting exports of the country and trade related Issues. In the present scenario, to reduce the dependency on Imports from the other countries, the MoC has to take the following steps / measures. These would not only save Foreign Exchange Reserves of the Country, but would also reduce the over dependence on other countries for various products imported by the country.

The end result of the measures / steps would further acceleratie the industrialisation growth in the country and also growth in GDP of the Country, reduce the unemployment of the country, ensure balanced regional growth, reduce the balance trade gap etc.

- Create separate division to study the scope on 'import substitution products to be manufactured in India'.
- From time to time analyse the various products imported from other countries, their quality, cost and quantity and scope to manufacture in the same in India etc. Based on the potential / scope to manufacture in India, they have to recommend measures to the MSME / Industries Ministers, Government of India / State Governments in this regard.
- Conduct workshops to promote the imported products and the scope to manufacture the same in the country etc.

### **Ministry of MSME**

Micro, Small and Medium Enterprises (MSME) sector has emerged as a

highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialisation of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

The Ministry of Micro, Small & Medium Enterprises (M/o MSME) envision a vibrant MSME sector by promoting growth and development of the MSME Sector, including Khadi, Village and Coir Industries, in co-operation with concerned Ministries / Departments, State Governments and other Stakeholders, through providing support to existing enterprises and encouraging creation of new enterprises.

The Micro; Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector. The Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises and with a wide range of advisory functions.

Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes / programmes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act.

On 9 May 2007, subsequent to an amendment of the Government of India (Allocation of Business) Rules, 1961, erstwhile Ministry of Small-Scale Industries and the Ministry of Agro and Rural Industries were merged to form

the Ministry of Micro, Small and Medium Enterprises (M/o MSME). This Ministry now frames policies and promotes/ facilitates programmes, projects and schemes and monitors their implementation with a view to assisting MSMEs and help them to scale up.

The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements the efforts of the State Governments through various initiatives. The role of the M/o MSME and its organisations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario. The schemes/ programmes undertaken by the Ministry and its organisations seek to facilitate/provide:

- (i) Adequate flow of credit from financial institutions/banks
- (ii) Support for technology upgradation and modernization
- (iii) Integrated infrastructural facilities
- (iv) Modern testing facilities and quality certification
- (v) Access to modern management practices
- (vi) Entrepreneurship development and skill upgradation through appropriate training facilities
- (vii) Support for product development, design intervention and packaging
- (viii) Welfare of artisans and workers
- (ix) Assistance for better access to domestic and export markets
- (x) Cluster-wise measures to promote capacity-building and empowerment of the units and their collectives.

### ***Organisational Setup***

The M/o MSME is having two Divisions called Small & Medium Enterprises (SME) Division and Agro & Rural Industry (ARI) Division.

The SME Division is allocated the work, *inter- alia*, of administration, vigilance and administrative supervision of the National Small Industries Corporation (NSIC) Ltd., a public sector enterprise and the three autonomous national level entrepreneurship development / training originations.

The Division is also responsible for implementation of the schemes relating to performance and credit rating and assistance to training institution, among

others. SME Division is also responsible for preparation and monitoring of Results - Framework Document (RFD) as introduced in 2009 by the Cabinet Secretariat under Performance Monitoring and Evaluation System (PMES). The ARI Division looks after the administration of two statutory bodies viz. the Khadi and Village Industries Commission (KVIC), Coir Board and a newly created organisation called Mahatma Gandhi Institute for Rural Industrialisation (MGIRI). It also supervises the implementation of the Prime Minister's Employment Generation Programme (PMEGP).

The National Board for Micro, Small and Medium Enterprises (NBMSME) was established by the Government under the Micro, Small and Medium Enterprises Development Act, 2006 and Rules made thereunder. It examines the factors affecting promotion and development of MSME, reviews existing policies and programmes and makes recommendations to the Government in formulating the policies and programmes for the growth of MSME.

### *Office of the Development Commissioner [MSME]*

The Micro, Small and Medium Enterprises- Development Organisation (MSME-DO) is headed by the Additional Secretary & Development Commissioner (MSME). The Office of the Development Commissioner (Micro, Small & Medium Enterprises) assists the Ministry in formulating, co-ordinating, implementing and monitoring different policies and programmes for the promotion and development of MSMEs in the country.

In addition, it provides a comprehensive range of common facilities, technology support services, marketing assistance, etc. through its network of the following: -

- 30 Micro, Small and Medium Enterprises-Development Institutes (MSME-DIs);
- 28 Branch MSME-DIs; 4 MSME Testing Centres (MSME-TCs);
- 7 MSME-Testing Stations (MSME-TSs);
- 2 MSME-Training Institutes (MSME-TIs); and
- 1 MSME-Technology Development Center-Hand Tools (MSME-TDC-Hand Tools).

The office of the DC (MSME) also operates a network of Tool Rooms and Technology Development Centres (including 2 Footwear Training Institutes) which are autonomous bodies registered as Societies under the Societies Act.



### *Khadi & Village Industries Commission*

The Khadi & Village Industries Commission (KVIC), established under the Khadi and Village Industries Commission Act, 1956 (61 of 1956), is a statutory organisation engaged in promoting and developing khadi and village industries for providing employment opportunities in rural areas, thereby strengthening the rural economy. The Commission is headed by full time Chairman and consists of 10 part-time Members. The KVIC has been identified as one of the major organisations in the decentralized sector for generating sustainable rural non-farm employment opportunities at a low per capita investment. This also helps in checking migration of rural population to urban areas in search of the employment opportunities. The main functions of the KVIC are to plan, promote, organize and assist in implementation of the programmes / projects / schemes for generation of employment opportunities through development of khadi and village industries. Towards this end, it undertakes activities like skill improvement, transfer of technology, research & development, marketing, etc. KVIC co-ordinates its activities through State KVI Boards, registered societies and cooperatives. It has under its aegis a large number of industry-specific institutions spread in various parts of the country.

### *Coir Board*

The Coir Board is a statutory body established under the Coir Board Industry Act, 1953 (NO. 45 of 1953) for promoting overall development of the coir industry and improving the living conditions of the workers engaged in this traditional industry. The activities of the Board for development of coir industries, *inter-alia* include undertaking scientific, technological and economic research and development activities; collecting statistics relating to exports and internal consumption of coir and coir products; developing new products and designs; organizing publicity for promotion of exports and internal sales; marketing of coir and coir products in India and abroad; preventing unfair competition between producers and exporters; assisting the establishment of units for manufacture of the products; promoting co-operative organisation among producers of husks, coir fibre, coir yarn and manufactures of coir products; ensuring remunerative returns to producers and manufacturers, etc.

The Board has promoted two research institutes namely,

- Central Coir Research Institute (CCRI), Kalavoor, Alleppey

- Central Institute of Coir Technology (CICT), Bengaluru for under taking research activities on different aspects of coir industry which is one of the major agro based rural industries in the country.

The two major strengths of the coir industry are it is export oriented and it is generating wealth out of the waste (coconut husk).

### *National Small Industries Corporation Limited (NSIC)*

- NSIC, established in 1955, is headed by a Chairman-cum-Managing Director and managed by a Board of Directors.
- The main function of the Corporation is to promote, aid and foster the growth of micro and small enterprises in the country, generally on commercial basis.
- NSIC provides a variety of support services to micro and small enterprises catering to their different requirements in the areas of raw material procurement; product marketing; credit rating; acquisition of technologies; adoption of modern management practices, etc.

NSIC implements its various programmes and projects throughout the country through its 9 Zonal Offices, 39 Branch Offices, 12 Sub Offices, 5 Technical Services Centres, 3 Technical Services Extension Centres, 2 Software Technology Parks, 23 NSIC-Business Development Extension Offices and 1 Foreign Office.

### *Energising the MSME Sector through 'Atmanirbhar Bharat Package'*

In the package announcement, the definition of micro manufacturing and services unit was widened by increasing the investment limits to ₹ 1 crore and turnover to ₹ 5 crores..

The limit of small unit was increased to ₹ 10 crore of investment and ₹ 50 crores of turnover. Similarly, the limit of a medium unit was increased to ₹ 20 crore of investment and ₹ 100 crores of turnover.

It may be noted that this revision was done after 14 years since the MSME Development Act came into existence in 2006. After the package announcement on 13th May, 2020, there were several representations that the announced revision is still not in tune with market and pricing conditions and it should be further revised upwards.

Keeping in mind these representations, the Government decided to further increase the limit for medium manufacturing and service units. Now it is be ₹ 50 crore of investment and ₹ 250 crores of turnover.

## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

It has also been decided by the GOI that the turnover with respect to exports will not be counted for the limits of turnover for any category of MSME units whether micro, small or medium.

This is yet another step towards ease of doing business. This will help in attracting investments and creating more jobs in the MSME sector.

The following table provides the details of revised limits:

<i>Category</i>	<i>Old Capital</i>	<i>Old Turnover</i>	<i>New Capital</i>	<i>New Turnover</i>
Micro	₹ 25 Lakhs.	₹ 10 Lakhs.	₹ 1 Crore.	₹ 5 Crores.
Small	₹ 5 Crores.	₹ 2 Crores.	₹ 10 Crores.	₹ 50 Crores.
Medium	₹ 10 Crores.	₹ 5 Crores.	₹ 50 Crores.	₹ 250 Crores.

- Approval for provisioning of ₹ 20,000 crores as subordinate debt to provide equity support to the stressed MSMEs. This will benefit ₹ 2 lakhs Stressed MSMEs.
- Approval for equity infusion of ₹ 50,000 crores for MSMEs through Fund of Funds (FoF). This will establish a framework to help MSMEs in capacity augmentation. This will also provide an opportunity to get listed in stock exchanges.

In the aftermath of COVID-19 pandemic, Government of India was quick to recognise the role of MSMEs in building the Nation. As such, MSMEs formed a very prominent part of the announcements made under the Atma nirbhar Bharat Abhiyaan.

Under this package, the MSME sector has not only been given substantial allocation but has also been accorded priority in implementation of the measures to revive the economy. To provide immediate relief to MSME sector, various announcements have been made under the Package.

The most Important ones include:

- Rupees Three lakh crore collateral-free automatic loans for MSMEs to meet operational liabilities, buy raw material and restart businesses.
- Revision of MSME definition to render maximum benefits to the sector;
- Dispensing with Global tenders for procurements upto ₹ 200 crores- to create more opportunities for domestic players,

- Clearing of MSME dues by the Government and Public Sector Units within 45 days.

The Government of India has been taking all necessary steps to ensure that the benefit of these landmark decisions reach the MSMEs at the earliest. In this regard, following policy decisions have been taken and the implementation strategy has been put in place:

- The scheme for ₹ Three lakh crore collateral-free automatic loans was earlier approved by CCEA and has formally been launched.
- Modalities have been worked out for upward revision of MSME definition making it more inclusive and broad-based providing greater avenues to MSMEs to harness their potentials.
- Similarly, amendments to the General Financial Rules mandating no global tenders for procurement upto ₹ 200 crores have been carried out. The new rules have already been issued and made effective. This will open up new business avenues for Indian MSMEs.
- To ensure that MSME payments are released within the time frame of 45 days, directions have been issued at the level of Cabinet Secretary, Expenditure Secretary and Secretary, MSME.
- To further ease the burden on MSMEs, RBI has extended moratorium on repayment of loans for another three months.

To manage all these, a robust ICT based system called CHAMPIONS has also been launched by the Ministry of MSME. The portal is not only helping and handholding MSMEs in the present situation, but is also providing guidance to grab new business opportunities and in the long run, become national and international Champions.

MSME Ministry is committed to support the MSMEs, and the people who depend on them. All efforts are being made to encourage MSMEs to take benefit of the initiatives under the Atmanirbhar Bharat package and other schemes.

*Back Ground of the Scheme:* Micro, small and Medium Enterprises (MSMEs) popularly called MSMEs are the backbone of Indian economy. Silently operating in different areas across the country, more than 6 crore MSMEs have a crucial role to play in building a stronger and self-reliant India. These small economic engines have a huge impact on the country's GDP-making a

contribution of 29 per cent. They contribute to almost half of exports from the country. Additionally, more than 11 crore people are employed in the MSME sector.

### **Directorate General of Foreign Trade**

Directorate General of Foreign Trade (DGFT) is an attached office of the Ministry of Commerce and Industry, and is headed by Director General of Foreign Trade. Right from its inception till 1991, when liberalization in the economic policies of the Government took place, this organisation has been essentially involved in the regulation and promotion of foreign trade. Keeping in line with liberalization and globalization and the overall objective of increasing of exports, DGFT has since been assigned the role of a "facilitator". The shift was from prohibition and control of imports / exports to promotion and facilitation of exports / imports, keeping in view the interests of the country.

This Directorate, with headquarters at the New Delhi, is headed by the Directorate General of Foreign Trade. It assists the Government in the formulation of Foreign Trade Policy and is responsible for implementing the Foreign Trade Policy and Schemes under FTP with the main objective of promoting India's exports. Further, it is responsible for implementations of Foreign Trade (Development and Regulation) Act, 1992 and Rules and Regulations notified thereunder. The DGFT also issues authorizations to exporters and monitors their corresponding obligations through a network of 35 Regional Offices and an extension counter at Indore.

<i>Sl.No.</i>	<i>Regional Office</i>
1 Ahmadabad	19 Mumbai
2 Bangalore	20 Nagpur
3 Bhopal	21 New Delhi (CLA)
4 Chandigarh	22 Panipat
5 Chennai	23 Patna
6 Coimbatore	24 Pune
7 Cuttack	25 Raipur
8 Dehradun	26 Rajkot

## Favourable Climate for Import Substitution Industries in India

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9 Guwahati	27 Shillong
10 Hyderabad	28 Srinagar
11 Jaipur	29 Surat
12 Jammu	30 Thiruvanthapuram
13 Kanpur	31 Varanasi
14 Ernakulum (Cochin)	32 Vishakhapatnam
15 Kolkata	33 Vadodara
16 Ludhiana	34 Vijayawada
17 Madurai	35 Belagavi
18 Moradabad	

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In addition to implementation of Foreign Trade Policy and FTDR Act, 1992, the Regional Offices provide facilitation to exporters in regard to developments in International Trade i.e. WTO agreements, Rules of Origin and antidumping issues, etc. to help exporters in their import and export decisions in an international dynamic environment.

Recognizing that State Governments are key stakeholders in the promotion of exports, DoC is now actively engaging with State Governments for promoting exports. DoC has advised State Governments to constitute State Export Promotion Committees, under the chairmanship of Chief Secretaries, for focusing on export promotion wherein Regional Authorities of DGFT are the co-conveners. Nodal Officers at the rank of Additional Secretary / Joint Secretary from DoC have been appointed to attend the meetings of the State Export Promotion Committees. Many States have constituted State Export Promotion Committees. Such Committees are overseeing the formulation and implementation of State Export Promotion Strategies in consultation with Export Promotion Councils and FIEO.

Regional Authorities of the DGFT have been assigned enhanced role and responsibilities to liaison with State Governments to assist in the formulation / implementation of State export policy / strategy and to represent the Department of Commerce in the State and UT Governments.

### ***Directorate General of Trade Remedies (DGTR)***

The Directorate General of Trade Remedies (DGTR) (earlier known as

Directorate General of Anti-Dumping & Allied Duties) is an attached office of the Department of Commerce, Ministry of Commerce & Industry. The Directorate General of Anti-Dumping & Allied Duties(DGAD) which was formed in 1997 has been restructured as DGTR in May 2018 by restructuring and re-designating DGAD into DGTR by incorporating all the trade remedial functions i.e. Anti-Dumping Duty(ADD), Countervailing Duty (CVD), Safeguards Duty(SGD), Safeguards Measures(QRs) under single window framework. Thus, the DGTR has been formed by merging of functions of DGAD, D/o Commerce, Directorate General of Safeguards, D/o Revenue and Safeguards (QR) functions of DGFT into its fold. The DGTR is a professionally integrated organisation with multi-spectrum skill sets emanating from officers drawn from different services and specializations.

It is the single National authority for administering all trade remedial measures including anti-dumping, countervailing duties and safeguard measures. The DGTR provides a level playing field to the domestic industry against the adverse impact of the unfair trade practices like dumping and actionable subsidies from any exporting country, by using Trade Remedial methods under relevant framework of the WTO arrangements, the Customs Tariff Act & Rules and other relevant laws and International agreements, in a transparent and time bound manner. It also provides trade defence support to our domestic industry and exporters in dealing with instances of trade remedy investigations instituted against them by other countries.

- (I) Directorate General of Commercial Intelligence and Statistics (DGCI&S)
- (II) Offices of Development Commissioners of Special Economic Zones (SEZs) at Cochin Special Economic Zone, Falta Special Economic Zone, MEPZ Special Economic Zone, Kandla Special Economic Zone, SEEPZ Special Economic Zone, Visakhapatnam Special Economic Zone and Noida Special Economic Zone.

The main objectives of the SEZ Scheme are generation of additional economic activity, promotion of exports of goods and services, promotion of investment from domestic and foreign sources, creation of employment opportunities along with the development of infrastructure facilities. All laws of India are applicable in SEZs unless specifically exempted as per the SEZ Act/Rules. Each Zone is headed by a Development Commissioner and is administered as per the SEZ Act, 2005 and SEZ Rules, 2006. Units may be

set up in the SEZ for manufacturing, trading or for service activity. The units in the SEZ have to be net foreign exchange earners but they are not subjected to any predetermined value addition except (Gems & Jewellery Units) or minimum export performance requirements. Sales in the Domestic Tariff Area from the SEZ units are treated as if the goods are being imported and are subject to payment of applicable customs duties.

(a) *Autonomous Bodies*

- (i) Coffee Board
- (ii) Rubber Board
- (iii) Tea Board
- (iv) Tobacco Board
- (v) Spices Board
- (vi) The Marine Products Export Development Authority (MPEDA)
- (vii) Agricultural and Processed Food Products Export Development Authority (APEDA)
- (viii) Export Inspection Council of India (EIC)
- (ix) Indian Institute of Foreign Trade (IIFT)
- (x) Indian Institute of Packaging (IIP)

(b) *Public Sector Undertakings (PSUs)*

- (i) State Trading Corporation of India Limited (STC)
- (ii) MMTC Limited
- (iii) PEC Limited
- (iv) ECGC Ltd (Formerly Export Credit Guarantee Corporation of India Ltd.)

ECGC Limited, a Premier Export Credit Agency (ECA) of the Government of India, was set up in 1957 in Mumbai, under Companies Act 1956, to provide export credit insurance services on short term (ST) and medium and long term (MLT) basis to exporters and banks on a "no-profit no-loss basis" to promote and support exports from India. It is a Central Public Sector Enterprise (CPSE) under the administrative control of Department of Commerce, Ministry of Commerce & Industry Government of India.



The vision of ECGC Ltd. is to excel in providing export credit insurance and trade related services. The mission of ECGC is to support the Indian Export Industry by providing cost effective insurance and trade related services to meet the growing needs of Indian export market by optimal utilization of available resources.

ECGC's services enable access to bank finance, access to information, and support in recovery of delinquent debts from foreign buyers/countries.

- (c) *India Trade Promotion Organisation (ITPO).*
- (d) *Government e-Marketplace- Special Purpose Vehicle created under Section 8 of the Companies Act, 2013 (GeM-SPV).*
- (e) *Export Promotion Councils (EPCs).*

At present, there are fourteen Export Promotion Councils (EPCs), under the Department of Commerce. The EPCs are registered as non-profit organisations under the Companies Act / Societies Registration Act and perform both advisory and executive functions. Roles and functions of these Councils are guided by the Foreign Trade Policy 2015-20 which also recognizes them as registering authorities for exporters.

- (f) *Indian Oilseeds & Produce Export Promotion Council (IOPEPC)*

IOPEPC has been set up for the development and promotion of exports of oilseeds, oils and oilcakes, Indian Oilseeds and Produce Export Promotion Council (IOPEPC), earlier known as IOPEA, has been catering to the needs of exporters since more than six decades. Besides focusing on exports, the Council also works towards strengthening of domestic supply chain by encouraging farmers, shellers, processors, surveyors and exporters to enhance the quality of oilseeds in India. The Council is headed by a Chairman.

The Council places higher emphasis on development of oilseeds, edible oils, oilcakes and other products under its purview. The Council works towards improvement of yield and quality of oilseeds being produced in India so as to match the requirement in global markets.

The Council also organizes workshops for promotion of Good Agricultural Practices (GAP) amongst Indian farmers and training sessions for processing

units for adoption of HACCP and Good Manufacturing Practices (GMP). The Council has developed an educative film on various aspects of GMP with the objective of exporting groundnuts meeting quality norms of importing countries. The Council also has developed a film on GAP so that yield and quality of groundnuts is improved.

Regional Meetings at various parts in India are also organized so as to strengthen supply-chain and create awareness regarding the quality issues amongst stakeholders in the trade and industry such as exporters, processors, traders, brokers and service providers in oilseeds and oils sector.

**Suggestions:** Similar structure as discussed above for Export Promotion, Trade related areas, has to be created by Government of India to promote "Import Substitution Industrialisation in India".

The additional measures to be taken by the Government of India in this regard are:

- Following Boards were created by Government of India to promote Exports, Increase the production through the farmers, guidelines to State Governments and other stakeholders etc. to improve the quality, latest technology, cost of cultivation, improve the productivity and implementation of latest technology etc.
  - Coffee Board.
  - Rubber Board.
  - Tea Board.
  - Tobacco Board.
  - Spices Board.
  - Marine Products Export Development Authority (MPEDA).
  - Agricultural and Processed Food Products Export Development Authority (APEDA).
  - Indian Institute of Packaging (IIP).

The above Boards are useful to develop "Import Substitution Products" in respect areas / products, Thereby making ISI take-off easy. Still India is importing most of products supported by the above Boards. If these Boards take the list of their products imported by the country

and do an analysis based on cost and quality, it would help the targeted farmers to produce the products within the country, whereby we can avoid import of these products.

Similarly manner, the following institutions have to provide services in related products to promote the import substitution industries in India.

- Cashew EPC.
- Indian Oilseeds and Produce EPC.
- Mineral Metals and Trading Corporation (MMTC).
- Council for Leather Exports.
- Footwear Design & Development Institute.
- Gem & Jewellery EPC.
- Sports Goods EPC.
- Chemicals, Cosmetics & Dyes Export Promotion Council.
- Plastics Export Promotion Council (PLEXCONCIL).
- Federation of Indian Granite & Stone Industry (FIGSI).
- National Council for Cement and Building Materials.
- CSIR-Central Glass & Ceramic Research Institute.
- Central Pulp & Paper Research Institute, Research and Product Development.
- Indian Institute of Metals.
- India Brand Equity Foundation (IBEF) and EEPC India.
- Association of Indian Medical Device Industry (AiMeD).
- Textile Committee of Government of India.
- Indian Institute of Carpet Technology.

### **Financial Institutions**

In a country like India with a population size of about 1.3 billion, the Micro, Small and Medium Enterprises (MSME) sector has a vital role in the economy. It fosters entrepreneurship and generates large employment opportunities.

As MSMEs absorb the surplus agricultural labour, they help reduce the problem of disguised unemployment in rural areas. MSMEs are also complementary to large industries as ancillary units and also play an important role in the whole eco-system of the secondary and tertiary sector.

As per the 73rd round of National Sample Survey (NSS) conducted during the period 2015-16, the estimated employment in MSME sector was around 11 crores. Within MSME sector, each of the three sub-sectors, namely, trade, manufacturing and other services accounted for about a third of total employment. Around 50 per cent of the total MSMEs operate in rural areas and provide 45 per cent of total employment.

Interestingly, the micro enterprises account for 97 per cent of total employment in MSME sector. This relates to the problem of what is called the missing middle, which suggests that micro firms have failed to grow into smaller and medium firms and so on over a period of time. This seems to have kept the micro sector bereft of enjoying economies of scale, investment into fixed assets, adoption of technology and innovation. The share of MSME sector in India's merchandise exports stood at around 48 per cent in 2018-19. This signifies that Indian MSMEs are becoming globally competitive and their products / services are being accepted overseas. In this background, special attention needs to be given to improve the competitiveness and technology up-gradation endeavours. Various schemes and programmes of the Government, therefore, should be continued and effectively implemented.

The Reserve Bank has taken several measures in the recent period to improve the flow of credit to the MSME sector. Banks form the predominant source of formal credit to MSMEs with all such loans qualifying for being classified as priority sector lending .

In August 2019, banks have further been incentivised to lend to MSMEs through the NBFC sector. Consequently, bank credit to registered NBFCs (other than Micro Finance Institutions) for on-lending to micro and small enterprises up to ₹ 20 lakh per borrower are eligible for classification as priority sector lending.

A scheme of one-time restructuring without an asset classification downgrade was permitted to GST registered MSME accounts that were in default but standard as on January 1, 2019. As the process of formalisation of the MSME sector has a positive impact on financial stability and this process is still underway, the scheme has been extended to accounts that

are standard but in default as on January 1, 2020 and restructuring, wherever eligible, has to be implemented latest by December 31, 2020.

This will enhance the scope of the scheme by benefitting the eligible MSME entities which could not be restructured under the provisions of the circular dated January 1, 2019 as also the MSME entities which have become stressed thereafter. So far, banks have restructured 6 lakh accounts out of 15 lakh eligible accounts under the scheme. Survey suggested lack of awareness about the scheme among the MSMEs.

Delay in getting payments is one the perennial problems faced by MSMEs. To address this issue, the Reserve Bank introduced the Trade Receivables Discounting System (TReDS) in 2014. TReDS is an electronic platform where receivables of MSMEs drawn against buyers (large corporates, PSUs, Government departments) are financed through multiple financiers at competitive rates. This is done through an auction-based mechanism. To widen the scope of TReDS and to incentivise more players to be part of this platform, banks' exposure through this platform were brought under priority sector lending in 2016. Presently, three entities [viz., Receivables Exchange of India Ltd. (RXIL), A. TReDS, and Mynd Solutions] licensed by the Reserve Bank are operating the platform for more than two years.

Further, the Reserve Bank recently allowed 'on tap' authorization to entities desirous to provide platforms for TReDS. Hence, in coming years, competition in receivables discounting space is bound to increase with the entry of new players. This requires the corporates, both in the public and private sector, to join the TReDS platform and make the system more efficient.

In 2018, the Government made it mandatory for all companies with a turnover greater than ₹500 crores to register with TReDS. As on February 2020, while 8,211 MSME sellers were registered only 1,530 buyers were participating on the platforms.

In the Union Budget 2020-21, the Government announced app.-based invoice financing products to obviate the problem of delayed payments of MSME. The mechanism may prove complementary to the TReDS platform and would further alleviate the problem of delayed payments.

The traditional bank lending system by banks is based on financial statements and collateral of the borrower.

With increased availability of data from several sources, including GSTN, income tax department, credit bureaus, etc., it is now possible to appraise the MSME loan proposals expeditiously by doing due diligence online.

Further, with the help of Account Aggregators (AA), lenders will have access to potential borrower's financial information at a single point, of course, with his / her consent. Furthermore, emergence of FinTech companies has made it possible to assess credit worthiness of MSMEs by utilising unexplored data sources such as digital transaction trails, data generated through e-commerce sites, etc.

Some lenders are collaborating with FinTech companies to take advantage of such surrogate data for speedier credit underwriting for extending loans to MSME sector. These new architectures would expand the reach of credit. While the new models are beneficial for those units which are digitally active, a large segment of MSME units access credit through traditional lending models. While micro enterprises act as a starting stage of entrepreneurship that requires low investment in technology, units graduating to small and medium enterprises have to enhance their technical capacity and explore newer markets in order to stay competitive for sustainable growth.

Recent policy efforts will provide an enabling environment and facilitate the MSME sector seize the new emerging opportunities. RBI has to safeguard financial stability while ensuring wider access to finance. Banks and other players on their part have to ensure prudent lending.

RBI has started launching cohorts under the Regulatory Sandbox. First such cohort was launched in November 2019 with the theme 'Retail Payments' to spur innovation in digital payments space to design and test newer payment services for the unserved and underserved segments. In due course, RBI proposes to run a regulatory sandbox for cohorts focussed on lending. This would promote innovation in MSME lending segment. The project on Public Credit Registry (PCR) will fundamentally address the information asymmetry that impedes access to credit for micro and small entrepreneurs.

PCR has been envisaged as a database of core credit information. The registry would play crucial role in reducing credit gap in the MSME segment.

### **Atma Nirbhar Bharat**

Indian Government has clearly chosen the strategic roadmap for India to emerge out of this economic crisis (by making India self-reliant and push towards local manufacturing) rather than tactical short-term fiscal stimulus. Infrastructure development and manufacturing led growth is the only sustainable model for India's development during medium to long term, given India's demographics. Gradual import substitution, growing domestic market and market share gains in global exports could help boost GDP growth trajectory and make development model more balanced.

## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

However, it's a long winded and arduous path which would test the patience of entrepreneurs and investors. If executed well, multiple sectors could emerge as winners over a 5-years' time frame, viz. speciality chemicals, pharma, agri. processing, consumer durables, defence, autos and capital goods.

### LIST OF MAJOR IMPORTS OF INDIA (in INR & \$)

Major Imports of India (\$ Mn)	Mar-19	6 Yr CAGR
Petroleum Crude & Products	140,884	-2.6%
Gems & Jewellery	64,666	1.7%
Electronic Items	55,476	9.4%
Chemical & Related Products	47,803	5.0%
Machinery (Capital Goods)	46,052	6.8%
Ores & Minerals	33,623	5.3%
Base Metals	32,364	7.0%
Transport Equipments	19,762	3.4%
Total Imports of Merchandise	507,410	2.0%

Major Exports of India (\$ Mn)	Mar-19	6 Yr CAGR
Petroleum Products	46,397	-5.0%
Chemical & Related Products	43,758	6.0%
Gems & Jewellery	40,190	-0.5%
Textiles & Allied Products	36,879	0.0%
Machinery (Capital Goods)	29,088	8.8%
Agri & Allied Products (FMCG)	28,434	-2.4%
Transport Equipments	26,699	3.2%
Total Exports of Merchandise	331,000	0.9%

*Self-reliant India, a more sustainable model for growth vs current model.* Last 10 years saw India's growth being largely led by consumption, fuelled further by government handouts to rural poor and financing led retail consumption

boom in urban (which resulted in strong performance of consumption stocks and retail banks/NBFCs). High food inflation, high fiscal and trade deficit which emerged as a consequence of above due to infrastructure and manufacturing bottlenecks acted as automatic stabilisers.

Enablers slowly falling in place to create a virtuous cycle of growth, Cost of traditional factors of production (land, labour, capital) went haywire in early part of decade due to imbalances in growth model which has stalled the growth engine. However, we are now in a better situation with falling land prices and cost of capital, stable labour costs and lower corporate taxes. While India's ranking has improved in terms of ease of doing business, several impediments are still there in land acquisition, flexibility of labour, rate transmission and availability of capital which will have to be ironed out soon if India were to be able to capitalise on this opportunity.

Technological innovation and entrepreneurship need to be revived as well in today's era; technological innovation and entrepreneurship are more relevant than traditional factors of production. India has lagged behind on these parameters as well during the last decade but clearly has the potential to bounce back.

*Global backdrop supportive for India:* Post Covid-19, global businesses will look to realign their supply chains and reduce over-dependence on China. Even assuming no draconian measures, we expect a gradual market share loss for china in global exports, which could help India, if it plays to its strengths (e.g. a small 100 bps shift away from China to India in US import basket, could mean a 50% jump for India even though competition from other emerging low cost Asian nations, Vietnam, Bangladesh, Indonesia etc, remains stiff for India).



## Chapter-9

# Potential for ISI in India (COVID-19)

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The outbreak of Coronavirus disease 2019 (COVID-19), first identified in Wuhan, the capital of Hubei, China, in December 2019 and since then having spread globally, has been recognised as a pandemic by the World Health Organisation (WHO) on 11 March 2020. India is widely affected by this pandemic.

While presenting the Finance Bill for the year 2020-21, the Union Government on 01.02.2020 had reasonably estimated India's nominal GDP growth rate (*i.e.*, real growth plus inflation) of 10 per cent; however, the same now seems far from reality and certainty. The slowdown in demand, closure of production activities, fall in the global price of crude oil, ban on foreign trade, price decrease in the commodities like energy, metals and fertilizers, restrictions on the aviation industry as also on tourism, amongst others, are bound to exert downward pressure on the inflation, thus adversely affecting the economy chart.

Corona virus had its impact in the industry in general, which has seen, not only cut in the salaries but also laying off of employees. Hotels are vacant and airlines have closed their wings.

Manufacturing sector, an important part of any economy, suffers from total lack of clarity. Lockdown has put great stress on the supply chains of essential commodities, and therefore, many of the Indian companies have focused on the production and supply of essential items only, thereby stopping all other production activities, thereby bringing down the production graph. Likewise, the other sectors like agriculture being the primary sector and the tertiary sector are also not free from its impact. There is hardly any manpower available for the agricultural purposes in different States. Lockdowns have manifestly made the farmers difficult to take their produce for sale to the markets. Informal sector of India, the backbone of its economy, will be hardest hit in view of economic activities coming to a total standstill. These lockdowns and restrictions on commercial activities and public gatherings are likely to strongly impact the domestic growth.

The United Nations Conference on Trade and Development (UNCTAD), has suggested that India's trade impact due to the COVID-19 outbreak could be around USD 348 million. For India, the overall trade impact is estimated to be

at 129 million dollars for the chemicals sector, textiles and apparel; 64 million dollars for the automotive sector ; 34 million dollars for electrical machinery; 12 million dollars for leather products; 13 million dollars for metals and metal products; 27 million dollars and 15 million dollars for wood products and furniture. As per UNCTAD estimates, exports across global value chains could decrease by USD 50 billion during the year in case there is a 2% reduction in China's exports of intermediate inputs. What is also worrisome is the effect of all the circumstantial conditions on the Rupee value which is at its lower value of more than ₹ 76 per USD, exerting extra burden and pressure on the cost of import of commodities and services in India, and on the accumulated foreign reserves.

To minimise the adverse effect in the economy caused by the COVID -19 outbreak, the Union Finance & Corporate Affairs Minister, on 24.03.2020, announced several important relief measures taken by the Government of India, especially on statutory and regulatory compliance matters related to several sectors. The Central Government, amongst others, announced a much-needed relief measures in areas of Income Tax, GST, Customs & Central Excise, Corporate Affairs, Insolvency & Bankruptcy Code (IBC) Fisheries, Banking Sector and Commerce, intended to boost the economy.

## Advantage to India — Great Places for Manufacturing

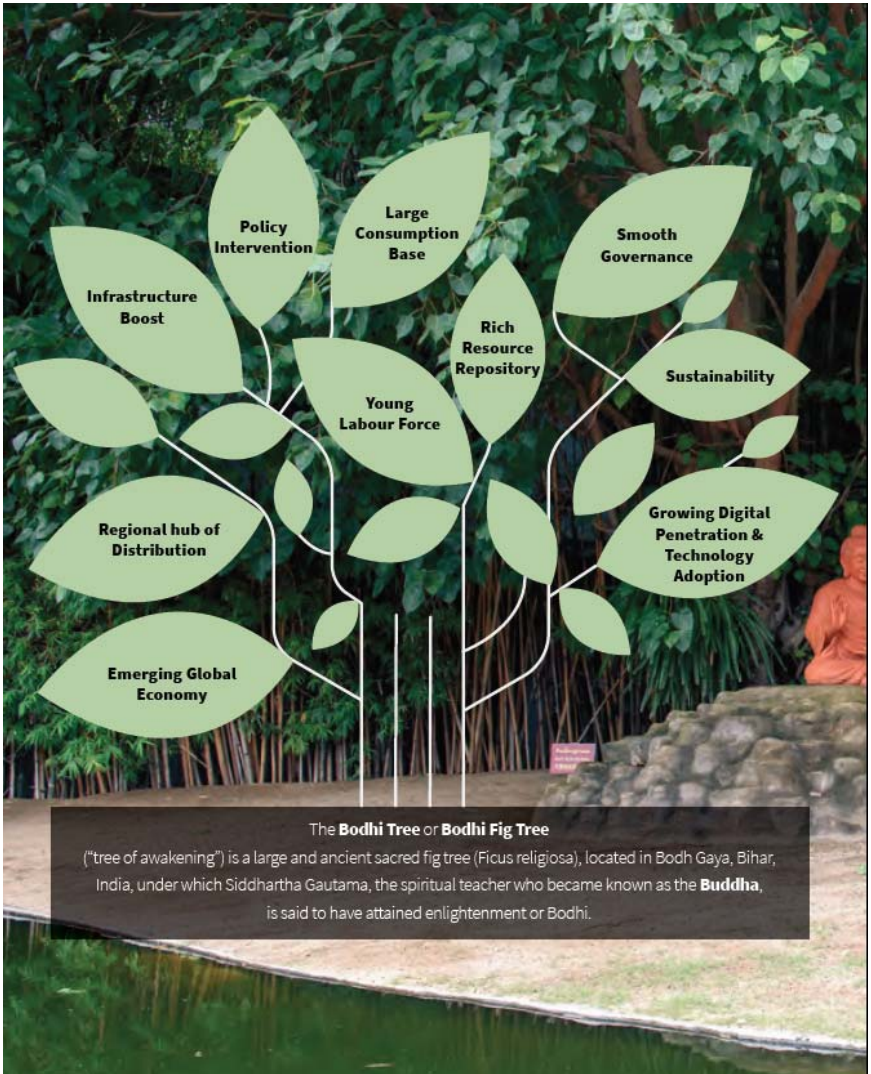
As businesses worldwide gear up for the "New Normal" post COVID-19, India has been steadfastly and proactively cementing its position as a resilient economy with swift action-oriented decision-making.

It has emerged as a forerunner for business continuity plans, with its inventory of low risk and asset light models like ready-built Industrial Infrastructure and build-to suit offering higher Capex savings, new tax incentives offering increased profitability, and a domestic market comprising 18% of world population.

India is an emerging economy with a young population. The Nation has witnessed a 257% growth in GDP between 2004-05 and 2018-19. As the 6th largest consumer market Globally and with 49% workforce participation, India ranked amongst the top 10 recipients of overseas investments in 2019, attracting \$49 billion in inflows. This was a 16% increase over the previous year. Over the next decade, we see India becoming the Global hub for manufacturing through its strong fundamentals lending well to continued growth.

Rooted in its traditional and spiritual ethos, India presents a unique ecosystem of massive size, diversity of resources and improved business-friendly policies. The dynamic market economy has risen 78 positions in the 'Ease of Doing Business' rankings since 2013. The Nation also strives to balance rapid growth with its sustainable development ambition.

## Land of The Great Banyan Tree



## Core Products Analysis (PAN-India) for ISI

### (a) Chemicals & Petrochemicals

Chemical and Petrochemical sector is one of the pioneering sectors having bearing on the day to day needs of the society. Presence of Chemicals and Petrochemicals can be seen in everyday life of the people at large. The Industry is a vital part of the agriculture and industrial development in India and has key linkages with several other downstream industries such as automotive, consumer durables, engineering, food processing etc. The Industry produces and supplies more than 80,000 products. With Asia's increasing influences as key consumption region, India emerges as one of the focus destinations for chemical companies worldwide. Government initiatives such as Make in India, Skill India, Digital India, Swatch Bharat Abhiyan etc. will accelerate growth of chemical industry.

**Market Size (FY18): USD \$ 165 bn**

- Expected to be \$304 bn by 2025 (CAGR: 9%)
- Total Production (FY18): 47.882 MMT
- (Alkali chemicals: 69%)

### *Policy Support*

- PCPIRs: 4 all over India

PCPIR or Petroleum, Chemicals and Petrochemicals Investment Regions is a specifically delineated investment region with an area of minimum 250 sq. km. planned for the establishment of manufacturing facilities for domestic and export led production, along with associated services and infrastructure. Each PCPIR would have a refinery/ petrochemical feedstock company as an anchor tenant.

- Plastic Parks: 10 all over India
- Central Institute of Plastics Engineering & Technology (CIPET): 36 all over India; 5 more upcoming

<i>Region / State</i>	<i>Remarks</i>
Dahej, (Gujarat)	Strategic Position: Within DMIC influence zone, as it is situated within 50 kms of the DFC

	Well established hub: RIL, OPaL, ONGC, GACL, Petro net LNG, BASF, ABG, Adani, Welspun, Godrej & Boyce, GAIL, GSPC, Pidilite, Grasim, NOCIL, China Steel among others Deep Sea Discharge Facilities available
Patalgang - Rasayani (Maharashtra)	Established Hub for sectors including chemicals, petrochemicals, pharmaceuticals and textiles, among others. Presence of players such as Cipla, Petronas, Castrol, Bombay Dyeing, Alkyl Amines, Balaji Formalin etc.
Cuddalore, (Tamil Nadu)	Presence of players such as Tanfac Industries, Asian Paints, Bayer Material Science, Chemplast in Cuddalore, and players such as Saint Gobain, Asahi in Sriperumbudur near Chennai.
Vizag-Kakinada, (Andhra Pradesh)	AP PCPIR covers 6 existing SEZs Deep Sea Discharge Facilities available Situated off Krishna-Godavari basin, a rich reservoir of oil and gas reserves.
Paradip, (Odisha)	Exclusive Plastics Park at Paradip Gopalpur industrial area & SEZ in vicinity.

### (b) Automobile & Automobile Components

The Automobile Industry in India is the world's fourth largest. India was the world's fourth largest manufacturer of cars and seventh largest manufacturer of commercial vehicles in 2019.

Indian automotive industry (including component manufacturing) is expected to reach a turnover of Rs 16.16 - 18.18 trillion (US\$ 251.4 - 282.8 billion) by 2026. Indian automobile industry received foreign direct investment (FDI) worth US\$ 23.89 billion between December 2019 and April 2000. Five per cent of total FDI inflow in India went to the automobiles sector.

Domestic automobile production increased at 2.36 per cent CAGR between FY16 - FY20 with 26.36 million vehicles being manufactured in the country in FY20. Overall, domestic automobiles sales increased at 1.29 per cent CAGR between FY16-FY20 with 21.55 million vehicles being sold in FY20.

Two wheelers and passenger vehicles dominate the domestic Indian auto market. Passenger car sales are dominated by small and mid-sized cars. Two wheelers and passenger cars accounted for 80.8 per cent and 12.9 per cent market share, respectively, accounting for a combined sale of over 20.1 million vehicles in FY20.

Overall, automobile export reached 4.77 million vehicles in FY20, growing at a CAGR of 6.94 per cent during FY 16-FY 20. Two wheelers made up 73.9 per cent of the vehicles exported, followed by passenger vehicles at 14.2 per cent, three wheelers at 10.5 per cent and commercial vehicles at 1.3 per cent.

The Government aims to develop India as a Global manufacturing and research and development (R&D) hub. It has set up National Automotive Testing and R&D Infrastructure Project (NATRiP) centres as well as National Automotive Board to act as facilitator between the Government and the industry. Under (NATRiP), five testing and research centres have been established in the country since 2015. NATRiP's proposal for "Grant-In-Aid for test facility infrastructure for Electric Vehicle (EV) performance Certification from NATRIP Implementation Society" under FAME (Faster Adoption and Manufacturing of (Hybrid) and Electric Vehicles in India) scheme was approved by Project Implementation and Sanctioning Committee (PISC) on January 03, 2019.

**Market Size (FY19):** 26.27 mn. vehicles sold; 30.92 mn. produced  
Automobile Mission Plan 2016-26: USD \$ 300 bn industry by 2026 (world's 3rd largest by volume).

**Policy Support**

- To make India an EV Hub.
- FAME (Faster Adoption and Manufacture of (Hybrid and) Electric Vehicles) Scheme ; National Electric Mobility Mission Plan 2020.

<i>Region / State</i>	<i>Remarks</i>
Pune-Aurangabad (Maharashtra)	Maharashtra accounts for ~35% of India's output of automobiles by value.
Chennai Sripurumbudur Oragadam, (Tamil Nadu) and Sri City (Andhra Pradesh)	Part of Chennai and surrounding areas, which are popularly nicknamed "Detroit of India", due to the large presence of auto industry.

Manesar Faridabad Gurugram, (Haryana)	Home to the first and largest plant of India's largest automobile manufacturer – Maruti Suzuki.
Sanand – Mandal Bechraji (Gujarat)	~102 sq. kms. of MBSIR (Mandal Bechraji Special Investment Region) being developed as an industrial hub, including a Japanese zone.
Bengaluru-Bidadi, (Karnataka) and Hosur, (Tamil Nadu)	Karnataka is the first State in India to roll out an Electric Vehicle and Energy Storage policy. It is also the R&D hub of India with 400+ R&D institutes.

*Pithampur, near Indore, Madhya Pradesh is an auto cluster with the presence of players such as VE (Volvo-Eicher) Commercial Vehicles, Man Trucks, Mahindra 2-wheelers, Force Motors, Bridgestone Tyres, Caparo India, Liugong, Pinnacle Auto, JBM etc.*

*KIA Motors established its first factory in India at Anantapur – Gudipalli, Andhra Pradesh in 2019. KIA Motor's supplier base is also establishing its base in the vicinity.*

*Haridwar – Pantnagar, Uttarakhand is home to world's largest integrated 2-wheeler plant by Hero MotoCorp. Tata Motors, Ashok Leyland, Bajaj and Mahindra are other notable players.*

### (c) Drugs & Pharmaceuticals

India is the largest provider of generic drugs globally. Indian pharmaceutical sector industry supplies over 50 per cent of global demand for various vaccines, 40 per cent of generic demand in the US and 25 per cent of all medicine in UK.

India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers who have the potential to steer the industry ahead to an even higher level. Presently over 80 per cent of the anti retro viral drugs used globally to combat AIDS (Acquired Immune Deficiency Syndrome) are supplied by Indian pharmaceutical firms.

**Market Size (FY18):** USD \$ 36.7 bn

- Expected to be \$55 bn by 2020

- 20% share of global supply volume of generic medicines.

**Policy Support:**

- Cluster Development Programme: 6 pharma parks in the pipeline.

<i>Region / State</i>	<i>Remarks</i>
Hyderabad, Medak, (Telangana)	Hyderabad contributes 40% of the total Indian bulk drug production and 50% of the bulk drug exports. Genome Valley in Hyderabad is the first and systematically planned and developed cluster dedicated to life sciences in India. Pharma City being planned.
Bengaluru, (Karnataka)	R&D Hub of India with 400+ R&D institutes, and 35 Clinical Research Organisations and 12 Adverse Drug Reaction Reporting Centres. Karnataka contributes ~12% of India's pharmaceutical exports and ~10% of India's pharmaceutical revenues.
Ahmedabad, Halol, Vadodara, (Gujarat)	40% of machinery for India's pharma sector is manufactured in Gujarat. Gujarat has 550+ WHO compliant manufacturing units of the 1,200 units in India. Gujarat is the world's largest producer of contraceptive pills.
Baddi, Solan district, (Himachal Pradesh)	Himachal Pradesh meets more than 1/3rd demand of the for pharmaceuticals in Asia. Proposed bulk drug pharma park in Kripalpur in Solan.
Goa (Union Territory)	Goa contributes ~10% of India's pharmaceutical output. The Goa pharmaceuticals industry is growing at a rate of 15% annually.



Haridwar, Pantnagar, Dehradun, (Uttarakhand)	More than 300 Pharmaceutical units. Pharma exports from the State were worth USD 100+ Mn during 2017- 18 mostly to USA, Russia and Australia. Proposed Medical device park in Haridwar.
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*Indore, (Madhya Pradesh) with players such as Cipla, Lupin, Piramal Group, Glenmark, Mylan etc. is also a notable cluster.*

*Maharashtra has multiple scattered clusters such as Pune, Nashik, Tarapur, Aurangabad etc. with players such as Wockhardt, Lupin, Cipla, Merck, J&J, GSK, Glenmark, Ranbaxy etc. and contributes ~20% to India's pharma output.*

*Vizag, (Andhra Pradesh) is an emerging cluster with an established pharma city (Mylan, Laurus Labs, Biocon, Aurobindo Pharma etc.), and a proposed second pharma city.*

### **(d) Electronics & Consumer Appliances**

Growth in the Indian consumer electronics market can be attributed to increases in demand from households, changing lifestyles of individuals, easier access to credit, and rising disposable incomes. Intentional reduction by the Government in the import bill, coupled with government and corporate spending is anticipated to complement the positive demand in this market. The India consumer electronics sector has attracted several strong investments in the form of merger & acquisition policies practiced by key participants of the global market and other FDI inflows.

**Market Size (FY18):** \$65 bn (production)

- Expected to be \$400 bn by 2025 (CAGR: 32%)
- Consumer Electronics & Appliance Industry in India: 5th largest by 2020.

#### **Policy Support:**

- Electronic Manufacturing Clusters Scheme
- National Policy of Electronics 2019, to support the achievement of \$400bn turnover by 2025
- Phased Manufacturing Program.

<i>Region / State</i>	<i>Remarks</i>
NOIDA-Greater NOIDA-Yamuna Expressway,( Uttar Pradesh)	Largest mobile phone and accessory manufacturing hub of India – 2/3rds of India's mobile phones manufacturing in NOIDA-Greater NOIDA. Samsung factory in NOIDA is world's largest mobile manufacturing facility. Significant investments by Chinese, Korean and Japanese investors.
Chennai Sriperumbudur, (Tamil Nadu )and Sri City-Tirupati, (Andhra Pradesh)	Sri Venkateswara Mobile and Electronics Manufacturing Hub and EMC-II are dedicated industrial areas for electronics in Tirupati. Significant hub for manufacturing of consumer appliances.
Pune (Chakan, Ranjangaon)-Aurangabad,( Maharashtra)	Noteworthy hub for manufacturing consumer electronics with several international brands of Refrigerators, Air conditioners, Washing machines being manufactured.
Ahmedabad, Sanand, (Gujarat)	Ahmedabad and Gandhinagar have been notified as EMCs. Prantij (60 kms from Ahmedabad) to have 2 semiconductor wafer fabrication manufacturing facilities by Hindustan Semi conductor Manufacturing Corporation, along with ST Microelectronics and Silterra.

*Two Electronic Manufacturing Clusters have been approved at E-City and Maheshwaram at Hyderabad, Telangana.*

## Potential Locations Analysis (PAN-India) for ISI

### (a) Mumbai – Aurangabad - Maharashtra's New Industrial Belt

- Mumbai is the financial, commercial and entertainment capital of India.
- *Aurangabad* is surrounded by the industrial areas of Chikhalthana, Shendra & Waluj MIDC and has been a growing industrial node of Marathwada region.

#### *Positive Factors*

Mumbai, the 12<sup>th</sup> wealthiest global city Contributes to

- 70% Capital transactions in India.
- 5% of India's GDP.
- 20% of India's warehousing activity located near Mumbai.

***Auto & Ancillaries:*** Aurangabad emerging as second Auto Hub of the State after Pune - Skoda, Bajaj Auto, Goodyear Tyres, Hero Chassis Systems, Perkins.

***Pharma & Lifesciences:*** State with highest number of US FDA approved plants. State with highest number of pharma units - Ajanta Pharma, Johnson & Johnson, Wockhardt, Lupin Pharmaceuticals.

***Consumer Durables:*** Brownfield EMCs at Navi Mumbai and Aurangabad - Videocon, Siemens, Liebherr Appliances.

#### *Emerging Sectors*

***Textiles:*** Three exclusive textile parks in Thane by MIDC Silk and cotton products are prominent in Aurangabad as well.

***IT/ ITeS:*** Mumbai headquarters notable companies like TCS, Infotech, Mastek & Oracle FinServ.

IIT Mumbai is India's Premier Engineering Institution.

***Engineering:*** Aurangabad emerging as second Auto & Engineering Hub of the State after Pune Greaves Cotton, Varroc Engineering, Hindalco Almex, Duro Valves.

## Prominent Industrial Areas for Greenfield

<i>Industrial Park</i>	<i>Remarks</i>
JNPT SEZ	Multi-product SEZ with focus on Pharma, Logistics, Electrical and Electronics, Automobile and Auto Components, Food processing, among others.
Panvel – Rasayni Cluster: (Mahad: 2,522, Nagothane: 1,989, Roha: 605, Usar: 536, Vile – Bhagad: 1,846)	Multi-product industrial cluster mostly in Chemical, Steel and Petrochemicals.
Waluj MIDC	<i>Focus Sectors:</i> Auto & Ancillary, Engineering, Pharmaceutical.
Chikhalthana MIDC	Prime industrial area in Aurangabad. <i>Focus Sectors:</i> Pharmaceutical & Engineering.
Shendra MIDC	<i>Focus Sectors:</i> Engineering, Electronics.
Wockhardt Infrastructure Development Ltd. SEZ, Shendra	Proposed Pharmaceutical & Bio-pharmaceutical manufacturing and research facility.
Aurangabad Industrial City (AURIC)	Greenfield Industrial Smart City as part of DMIC. Massive potential to attract large units.

*The major industrial clusters that can be identified in Mumbai are Bhiwandi and JNPT vicinity, and Waluj, Chikhalthana and Shendre in Aurangabad . The land rates in these corridors range between ₹ 2,400 to ₹ 13,600 per sqm. The rates mentioned are indicative and may vary on other parameters as well.*

**(b) Pune - A unique culmination of IT and Manufacturing**

Pune attracts about 20% of the entire industrial investment in the country. It is an established Automobile Hub, Durable Goods manufacturing Hub and an IT Hub with several Indian and foreign industry majors.

It is often referred to as “Oxford of the East” for its Education and Research

Sector with 4 Universities, more than 200 Colleges and Ubiquitous Research facilities.

### *Positive Factors:*

Pune is -

- the second Largest city of Maharashtra, contributing 1/5th of State's GDP
- the Engineering R&D hub with Volkswagen, Mercedes Benz, JCB, John Deere, Force Motors, Tata Motors, Bajaj Auto, Mahindra etc.
- the city with high concentration of German, American, Korean and Chinese manufacturers
- the third largest contributor to India's IT exports
- the Emerging Start-up Hub with 3,200 active start-ups with 2% of India's tech start-ups based out of Pune.
- Ranked #1: Indian cities in Mercer's Quality of Living Index, 2018.

**Auto & Ancillaries:** Automotive Research Association of India by NATRIP carries out 90% of India's homologation activities - Tata Motors, Bharat Forge, Mahindra & Mahindra, Bajaj Auto, Visteon, Volkswagen, Mercedes Benz, JLR.

**Pharma & Biotech:** Pune, Nashik, Aurangabad & Mumbai/ Thane form the state's pharma quadrilateral - Cipla, Lupin, Genova, Hindustan Antibiotics.

**Capital and Durable Goods:** Brownfield EMC Cluster to be set up Ranjangaon & Khed are well-established consumer durable hubs - JCB, Sany, LG, Haier, Thyssenkrupp, Schindler, Bosch, Hyundai Elevators, Qualcomm, Phillips, Emerson, Bluestar, Whirlpool, Zoom lion.

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### *Emerging Sector*

**Food Processing:** Ample availability of dairy, horticulture and fruits.

**Notable presence:** Amul Dairy, Gits Food, Weikfield Products, Mars, Ferrero Rocher, Pravin Masale, Parampara Brands, etc.

**Industrial Parks and Logistics:** Amongst the hottest markets in India for development of light industrial parks and warehouses - Several local and international players - such as Indo-space, Embassy, ESR, KSH, Global, Hiranandani - have footprints of 50 - 100 acres in industrial areas of Pune.

**Prominent Industrial Areas for Greenfield**

<i>Industrial Park</i>	<i>Remarks</i>
Chakan Industrial Area (Indospace industrial Park, Chakan: All Phases – 185 acres	One of the most sought-after industrial areas of India. It has both MIDC leasehold and resale freehold properties and has emerged as a major automotive hub. Developed in 5 phases. Phase 5 is under acquisition.
Pimpri Chinchwad Industrial Area	Oldest automobile industrial area in India located within extended city limits of Pune. Concentration of consumer durables and electronics manufacturing, apart from Automobiles.
Talegaon Industrial Area	Fast developing industrial area adjacent to Chakan. First 2 phases were launched in 2018 and are already leased out.
MIDC, Ranjangaon (Indo-space industrial Parks -104 acres)	Located on Pune-Ahmednagar highway. <i>Focus Sectors:</i> Engineering, Chemicals, Electronics and Textiles.
Khed City	A private park - JV between Bharat Forge (75%) and MIDC (25%).
Kurkumbh MIDC	Predominantly, bio-pharma & life sciences industrial area
Hinjewadi Industrial Area	Previously mixed sector industrial area. Now evolved into a major IT and Biotech Center.

Serum Bio-pharma Park (SEZ)	India's first bio-tech Special Economic Zone. <i>Focus Sectors:</i> Pharmaceuticals & bio-technology
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*The major industrial corridors can be identified along Nagar Road, Hinjewadi, PCMC Bhosari and Chakan Talegaon. The land rates in these corridors range between ₹ 4,900 to ₹ 12,500 per sqm. The rates mentioned are indicative and may vary on other parameters as well.*

**(c) NH48: Gurugram-Bhiwadi-Neemrana Corridor - India's Oldest Auto Cluster**

Erstwhile NH08, now NH48 is the main highway connecting Delhi NCR with Mumbai. Several industrial clusters (Gurugram, Manesar, Bhiwadi, Bawal, Neemrana and Ghiloth) have developed along the highway (especially in the vicinity of NCR) that connects the Northern hinterland to Jawaharlal Nehru Port, Navi Mumbai. Today, it has become the conceptual spine of the DMIC along with WDFC and is one of the fastest growing industrial belts in North India.

***Positive Factors***

Haryana contributes:

- Twenty per cent of India's Largest Automobile OEMs.
- Third Largest exporter of software.
- Fifty per cent of Passenger Cars manufacturing in India.
- Sixty per cent of Motorcycles manufacturing in India.

Rajasthan contributes:

- More than 100 Auto component manufacturing units.
- Second Largest mineral producing State, sole producer of lead & zinc.
- Largest producer of blended fabric & wool.
- Only State with all raw materials for ceramics & glass industry – silica, feldspar, ball clay, etc.

***Auto & Ancillaries:*** NH48: Largest auto ecosystem in India Gurugram-Manesar-Bawal belt is known as "Auto Hub" which accounts for 50% of 4-wheelers & 37% of 2-wheelers manufactured in India - Maruti Suzuki, Hero

MotoCorp, Suzuki Motorcycles, Taiyo Daiichi, Mitsubishi, Jonson Matthey, Minda Group, Keihin, Suzuki powertrain, Munjal Showa, Denso, HMSI, JBM, Musashi, Harley Davidson.

**IT / ITeS:** Gurugram has 1500+ start-up companies - Zomato, Shop clues, Uber, Facebook, Google.

**FMCG:** Significant presence of large FMCG sector - Unicharm, British Health Products, Gillette India.

**Emerging Sectors**

**Ceramic and Glass:** Industrial Zone at Ghiloth by RIICO: First such attempt in India - Major players: Saint Gobain, Kajaria, Jaquar, Parry ware, Roca, JCPL.

**ESDM:** Launch of Electronics Cluster of 100 acres at Bhiwadi A few electronics companies starting operations in Gurugram, Bawal and Manesar - Major Players: Fiem Industries, Deki Electronics, Elin Electronics, Vsun-Electric Vehicles and Batteries: Dedicated policy under formulation.

**Prominent Industrial Areas for Greenfield**

<i>Industrial Park</i>	<i>Remarks</i>
<b>Haryana</b>	
Udyog Vihar, Gurugram	Industrial estate having more than 1,200 industrial & commercial units & is developed in 6 phases.
Reliance MET	Integrated industrial township consisting of Electronic Manufacturing Cluster, Small & Medium Enterprises Park, Footwear Park & Engineering Park.
IMT Bawal	Focus Sectors: Auto & Ancillaries, Engineering.
<b>Rajasthan</b>	
Export Promotional Industrial Park (EPIP), Neemrana	Largest Export-Park in Northern India with export-oriented manufacturing facilities for Gems and Jewellery, Electronics, Garment,



	Handicrafts, Engineering, Leather goods & IT Park.
RIICO Industrial Park, Neemrana (Phase 1 & 2)	<i>Focus Sectors:</i> Auto & Ancillaries, Pharmaceuticals, Electronics.
Japanese Industrial Zone, RIICO Neemrana	MoU between RIICO & JETRO: Encourage Japanese investments through streamlined license process
RIICO Industrial Park, Ghiloth	<i>Focus Sectors:</i> Glass & Ceramic industries, General Industries.
RIICO Industrial Park, Karoli	Auto Zone, EMC zone and General zone.

*The major industrial corridors can be identified along NH48 as Gurugram, Bhiwadi, Neemrana, Ghiloth, Manesar and Bawal. The land rates in these corridors range between ₹ 3,500 to ₹ 20,480 per sqm. The rates mentioned are indicative and may vary on other parameters as well.*

**(d) Noida-Greater Noida-Yamuna Expressway - India's Electronics Manufacturing Corridor**

Noida-Greater Noida-Yamuna Expressway was conceptualized and is being developed as a suburb to India's national capital Delhi since 1970s. It has witnessed immense interest from IT/ITeS and electronics hardware manufacturing firms. So far, Noida's development and positioning has been secondary to millennium city Gurugram. Noida-Greater Noida is likely to turn tables over the next decade on the strength of its excellent connectivity - 2 National Highways (NH-24, NH-58), Eastern Peripheral Expressway and expansion of Noida Metro. It is located at the intersection of the Western and Eastern Dedicated Freight Corridors (DFCs) and is also the gateway to the Delhi Mumbai Industrial Corridor (DMIC). Jewar Airport will be the largest airport in India. This region will be India's electronics manufacturing hub and home to largest foreign direct investments cases.

***Positive Factors***

Noida-Greater Noida contributes:

- Forty per cent of India's total Mobile manufacturing.
- Biggest agglomeration of Chinese factories in India - Several South Korean and Japanese OEMs and ancillaries present in electronics and

auto sector - Large number of units in garment, metal fabrication, rubber & plastic parts are present.

- Fifty five per cent of India's Mobile Component Manufacturers.
- Eastern Peripheral Expressway - 135 Kms 6 - lane access-controlled expressway has improved connectivity of Noida-Greater Noida-Yamuna - Expressway region with the busiest national highway of India NH-48. It connects in an arterial format NH58, NH24, NH91 and NH2, and is fully operational since 2016.
- Largest Electronics Cluster in India with multiple anchor tenants such as Samsung, OPPO, Vivo, LG, Haier, Dixon, Delphi, Denso

**Electronics Manufacturing (ESDM):** Largest electronics manufacturing zone of India 94 large mobile phones & components manufacturing facilities. ~2,900 medium and small electronics units - Samsung, LG, Haier Appliances, OPPO, Vivo, Dixon, Delphi, Denso, Hipad, Transission.

**Auto & Auto Ancillaries:** 4 major OEMs manufacturing cars, tractors and two-wheelers ~30 ancillary units supplying auto components established in the catchment - Honda Cars, Yamaha, Hero Motors, New Holland Tractors, Mahle, Caparo Engineering, Subros, JBM.

### **Emerging Sectors**

**IT/ITeS:** Presence of large IT & e-commerce companies in Noida: Paytm, Adobe India, Oracle India, Wipro, HCL Technologies.

**Food Processing Sector:** Noida & Greater Noida will also attract industries like Food Processing targeting the huge consumption market of Delhi and nearby suburbs such as Gurugram, Ghaziabad, Faridabad.

### **Prominent Industrial Areas for Greenfield**

<b>Industrial Park</b>	<b>Remarks</b>
Noida Special Economic Zone	Established in 1985, hosts over 250 units employing 40,000 employees mainly in Gems & Jewellery, Engineering and Software development sector.
Noida – Industrial plots at Sectors 57–68 (except Sector 66)	No vacant plots but heavy sub-leasing activity since 2015 when Chinese and Korean suppliers of electronics

## HB on Potential for 'NEO Import Substituting Industrialization in India'...

	components started entering Indian market.
Noida – Industrial plots at Sectors 80–90 (except Sector 86 & 88) and Sectors 138–140 A	Samsung is the key occupier: TV production (1997), expanded to microwaves, air-conditioners, refrigerators, mobile phones (2005), expanded smartphone capacity to 120 million units (2018).
Surajpur Industrial Area (Phases A, B, C, IV, V)	UPSIDC industrial parks. <i>Focus Sector: Auto &amp; Ancillaries.</i>
EPIP Greater Noida	Encourages the export of various commodities and services.
Integrated Industrial Township Greater Noida Limited (IITGNL)	Being developed as an integrated industrial township under DMIC.
World Trade Center (WTC), Greater Noida	Vivo has leased 800,000 Sq Ft at WTC Noida for its production facilities since 2015.
Greater Noida – Ecotech I & Extn I, II, III	Greater Noida's exclusive industrial area with focus sector: electronics manufacturing.
Greater Noida – Ecotech VI, VII, VIII	Ecotech VII (110 acres) was leased to OPPO and 100 acres at Ecotech VI leased to JV of OPPO and TEEMA in 2016.
Greater Noida – Ecotech X, XI, XII	Electronics component units are key occupiers.
Yamuna Expressway – Sectors 24, 24A, 28, 29, 32, 33	Greenfield facilities attracting electronics companies operating on rented factories in Noida and Greater Noida.

*Land rates in Greater NOIDA and Yamuna Expressway vary between ₹ 4,000-11,000 per sq.m. Rentals vary between ₹ 22-23 per sq.ft per month.*

### (e) Bengaluru - India's Silicon Valley

Bengaluru often referred to as the Silicon Valley of India, is also an

established headquarters to some of the largest public sector heavy engineering industries. Over the last few decades, the city has marched ahead by leaps and bounds to emerge as a leader in a plethora of sectors, backed by a robust IT, R&D and start-up ecosystem, its highly skilled workforce and amiable weather are two standout features.

### *Positive Factors*

Bengaluru contributes:

- Seventy per cent of India's chip designers work in Bengaluru.
- Sixty per cent of India's machine tools production in terms of value.
- Thirty per cent of all IT start-ups in India.

Besides, Bengaluru -

- Is the Start-up capital of India: 3rd highest number of start-ups in the world & among the top 15 start-up ecosystems in the world.
- Has Established vendor ecosystem: 2,000+SMEs focused on component manufacturing, tooling and testing equipment and assembling.
- Is the Home to 535 of IoT start-ups out of 970 in India.
- Has the Largest number of R&D centers in India: home to 400+MNCs with global R&D centers.
- Is the 4th largest technological hub in the world & largest in Asia.

**Aerospace:** Dedicated Aerospace Policy - Major presence of HAL, NAL, Taneja Aerospace, Air Works Engineering, ThyssenKrupp, etc. - Tech Support Offices of Boeing, Dynamic Technologies, Airbus, QuEST Global, Collins Aerospace.

**IT & ITeS:** 38% of India's IT export - NASSCOM Start-up WH, GIFTS, Mobile 10X Start-up Hub, ELEVATE 100, IIIT-B among others.

**Heavy Engg. & Machine Tools:** Integrated Machine Tool Industry Park - Industry Park Well established foundry clusters at Belagavi & Shivamogga, emerging at Dobbaspet.

**Textiles & Apparel:** First State to roll out State Textile Policy - Gokaldas Exports, Goodwill Fabrics among others - Established handloom clusters, Planned Apparel Zones, 4 planned Integrated Textile Park, Silk City.

**Pharma & Biotech:** Dedicated Bio-tech Policy - Bengaluru Bio-Innovation Center with instrumentation facilities, Pharma & Med Tech zone.

**Emerging Sector**

**Automobile:** Well established hub of automobiles. Likely to emerge as important cluster for electric vehicles and storage solutions - Mahindra Electric, Ather Energy, Bosch - Electric Vehicle & Energy Storage Policy.

**Prominent Industrial Areas for Greenfield**

<b>Industrial Park</b>	<b>Remarks</b>
Narasapura – Kolar	Dedicated area for Automobile & General Industries which include, Power, ESDM, etc. GSK has its largest greenfield tablet manufacturing facility.
Vemagal	
Harohally (Phase I, II, III)	Multi-product industrial park.
Vasantha Narasapura (Phase I, II, III)	IT/BT Precision & Electronic Industries, Garments & Food Processing/Chemicals, & Other General Industries (Machine parts, Automobile industry, etc.).
Tumakuru Machine Tool Park	India's 1st integrated machine tool industry park.
Japanese Industrial Park	Industrial cluster to facilitate OEMs and ancillary units with exclusive township-cum-industrial zone.
Taiwanese Park, Devanhalli	Part of Hardware Park, to be established by CDC & will be accommodating 100 companies from Taiwan.
Sira Phase I	To be developed as model industrial layout through private sector participation.
Bengaluru Aerospace Park	Earmarked Zone for Aerospace Component Industries, IT Industries, Defence Industries.

Bengaluru Aerospace SEZ	In collaboration with US Aerospace Supplier Development Mission to India in order to introduce American companies to Indian joint venture groups.
Bengaluru Hardware Park	Hard Ware Park, IT/BT Park & General Industrial Area.
Bidadi (Phase I, II)	Industrial area for automobiles, Heavy Engineering & FMCG.

*The major industrial corridors can be identified along Tumakur Road, Hosur Road, Hoskote – Naraspura – Vengal and along Mysore Road – Bidadi. The land rates in these corridors range between ₹ 3,500 to ₹ 8,500 per sqm. The rates mentioned are indicative and may vary on other parameters.as well.*

#### (f) Chennai - Detroit of India

Chennai is the largest industrial and commercial center of South India. From Madras to Chennai, this city has historically embraced diversified industries. The city is a hub for the manufacturing of automobiles and auto components, engineering, textiles and garments, leather products, software and IT-enabled services.

#### ***Positive Factors***

*Chennai contributes:*

- Thirty per cent of India's 4-wheeler automobile industry.
- Thirty three per cent of India's auto parts production.
- Sixteen per cent of India's electronics hardware production (computers, electronics & optical products manufacturing).

***Auto & Ancillaries:*** 45% of India's total automobile exports (FY18)  
 Dedicated Auto R&D Hub: Mahindra Research Valley, NATRiP & CVRDE facilities - BMW, Hyundai, Ford, Peugeot, Mitsubishi, TVS Motor, Ashok Leyland, Royal Enfield, CEAT, Daimler, TVS, Mitsubishi, Michelin, Yamaha, Mahindra & Mahindra, Apollo Tyres, MRF, Renault-Nissan.

***ESDM:*** 20+ electronic hardware technology firms at Sriperumbudur, Oragadam & Mahindra World City - Foxconn, Flex, Samsung, Nokia, SalComp, Dell, Sanmina.

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**Heavy Engineering:** 3rd in India's production of General Purpose and Special Purpose Machinery - Ashok Leyland, Doosan, Alstom, Bonfiglioli, Vestas, Caterpillar, Komatsu, Siemens Gamesa, Toshiba.

**IT & ITeS:** Data Centre Hub: City with largest bandwidth in India through 3 submarine OFC cables 10% of India's total IT exports (FY19) - TIDEL Parks, IT Corridor on Old Mahabalipuram.

### **Emerging Sectors**

**Medical Technology:** HLL Medipark being developed as a medical technology manufacturing cluster, in 330 acres of land in Chengalpattu.

**Life Sciences & Biotechnology:** TIDCO Centre for Life Sciences (TICEL) Biotechnology Park I: First biotechnology Incubation Park in Tamil Nadu.

**Aerospace & Defence:** One of two India's dedicated defence corridors (Chennai, Hosur, Salem, Coimbatore, Tiruchirappalli). Other one is in Uttar Pradesh.

### **Prominent Industrial Areas for Greenfield**

<b>Industrial Park</b>	<b>Remarks</b>
Mahindra World City	First operational greenfield SEZ in India comprising IT, Auto & Apparel SEZs. Most successful integrated industrial township in India.
Ascendas One Hub	Integrated Industrial township for auto & general machinery, one of 12 Japanese Industrial Townships in India.
SIPCOT Oragadam Industrial Growth Centre	Major concentration of automotive & auto ancillary units in Chennai. Several private parks with ready built infrastructure have sprung near this zone.
SIPCOT Vallam – Vadagal	Automotive & auto ancillary cluster.
SIPCOT Aerospace Park, Vallam	Integrated manufacturing SEZ with exclusive zone for Aerospace components & defence production

	and aircraft MRO. Identified as one of the two Defence Industrial Production Corridor by GoI.
Pillaiappakkam & R&N Industrial Park	Automotive & auto ancillary cluster.
SIPCOT Irungattukottai	Automotive & auto ancillary cluster: Hyundai is the major occupier along with ~ 15 component suppliers.
SIPCOT Sriperumbudur	Automobiles, Electronics and Float Glass.
SIPCOT Hitech SEZ	Focus greenfield industrial area for Electronics Manufacturing.
Madras Export Processing Zone (MEPZ)	One of the seven Export Processing Zones in India set up by the central government.
Gummidipoondi Industrial Complex and EPIP	Heavy Engineering, Power, Chemicals.
Mahindra Origins, Pudukkottai	Private Industrial Park for engineering, food processing, automotive, logistics and aerospace developed with Sumitomo Corporation. Designated Japanese Industrial Township.
Thervoykandigai Indl. Park	Auto ancillary, Power, Heavy Engineering.

*The major industrial corridors can be identified along Irungattukottai-Sriperumbudur, Ponneri-Periyapalam, Oragadam-Marai Malai Nagar & Cholavaram-Madhavaram-Ennore. The land rates in these corridors range between ₹ 2,960 and ₹ 27,200 per sqm. The rates mentioned are indicative and may vary on other parameters as well. Other private Industrial Parks include Indospace, Embassy & Hiranandani at multiple locations viz.: Oragadam, Sriperumbudur, Polivakkam, Pudukkottai, etc. which have large area under development and existing occupiers.*



(g) Tirupati-Chennai-Nellore -The Tri-City Industrial Corridor:

*Positive Factors*

*Tri-City Hub (Tirupati-Chennai-Nellore)*

- Tirupati-Chennai-Nellore is known as the tri-city industrial growth corridor.
- This region falls under the influence zone of two industrial corridors – Chennai-Bengaluru Industrial Corridor (CBIC) & Vishakhapatnam-Chennai Industrial Corridor (VCIC).
- Tirupati is now emerging as an Electronics Cluster by developing Electronics Manufacturing Clusters right next to the newly developed airport terminal.

*Sri City*

- Largest industrial park in South India, and is home to ~200 companies from 27 countries.
- Attracted total investments of ~USD 4 billion.
- Located on Andhra Pradesh - Tamil Nadu border. Thrives on Chennai's industrial ecosystem and port capacity.

*Naidupeta Cluster*

- Proposed Naidupeta Cluster comprises of Naidupeta MPSEZ, IP-Naidupeta and IP-Attivaram.
- It comes under the VCIC within the Yerpedu-Srikalahasti Node.
- Naidupeta Cluster is where the State wants to attract pharma companies.

*ESDM:* 20 EMCs planned across the region. 3 EMCs in this clusters - Amara Raja, TCL, Celkon, Karbonn, Voltas, Dixon Technologies, Exatron Services.

*Auto & Ancillaries:* Isuzu Motors, Hero Motor Corp Alstom, TVS, TATA TRAD.

*Pharmaceutical:* Synergy Remedies, Ashwini Bio Pharma, Malladi Drugs & Pharmaceuticals, Artura Pharma, TIL Healthcare.

*FMCG:* Sri City an emerging hub - Largest factory of PepsiCo in India at Sri City. Largest plant of Mondelez in Asia-Pacific region at Sri City – Also, Kellogg's, and Colgate Palmolive.

*[Favourable business environment, fantastic facilities, infrastructure, access to great talented people, strong workforce, and most importantly the Government support of Andhra Pradesh, really led us to Sri City. That is the reason why we are trying to build something special here in Sri City.” Daniel Myers, Executive Vice President Integrated Supply Chain, Mondelēz International]*

**Prominent Industrial Areas for Greenfield**

<i>Industrial Park</i>	<i>Remarks</i>
Sri City (Includes Indo-space Park: 30 acres)	It includes a multi-product SEZ, a DTZ, an FTWZ, a Logistics & Warehousing Cluster & an Electronics Manufacturing Cluster.
APIIC Industrial Park, Mambattu	Multi-product Industrial Park. Apache Footwear exports Adidas brand and employs 10,000+ people.
Sri Venkateswara Mobile & Electronics Hub (EMC-I), Tirupati	India’s first Electronics Manufacturing Cluster: Dedicated mobile handset & electronics manufacturing facility.
Electronic Manufacturing Cluster II, Tirupati	Located near EMC-I & adjacent to Tirupati International Airport.
TCL Industrial Park, Tirupati	World’s third largest TV panel manufacturing Chinese firm TCL’s first industrial plant in India.
Naidupeta MPSEZ	Focus sectors: Automobile & Ancillary, Pharmaceuticals.
Naidupeta Industrial Park	Focus sectors: Textiles & Apparel, Pharmaceuticals, Chemicals.
Attivaram industrial Park	Focus sectors: Engineering & Machine Tools.

*The major industrial clusters can be identified as Sri City, Tirupati and Naidupeta, and their adjoining areas. The land rates in these corridors range between ₹ 1,750 to ₹ 2,550 per sqm. The rates mentioned are indicative and may vary on other parameters as well.*

**(h) Hyderabad - Fostering new innovations in manufacturing sector**

Hyderabad has emerged as the second Silicon Valley of India and is often referred to as Cyberabad. The region is a significant contributor to the IT, pharma, bio-tech, medical devices, aerospace, defence and ESDM sectors.

***Positive Factors***

Hyderabad Contributes:

- One third of global vaccine production.
- 2/5Two fifths of domestic pharma production.
- Sixteen per cent of India's software exports.
- With 53 IT SEZs, it is the Largest cluster of IT SEZs in the country.

***Pharma & Lifesciences:*** Genome Valley (Genome Valley 2.0 planned) - India's first and largest R&D and biotech cluster. Includes Life sciences focused incubators and multi-tenanted lab space.

***Aerospace & Defence:*** Adibhatla Aerospace SEZ & GMR Aerospace Park - India's only multiproduct SEZ near an airport, along with domestic tariff area.

***Hardware & ESDM:*** NIMZ & Fab City – e-City Dedicated manufacturing zones for ESDM.

***IT & ITeS:*** Established and expanding cluster around HITEC City and Gachibowli.

***Emerging Sectors***

***T- HUB:*** India's largest technology incubator. It is a first-of-its-kind PPP, incorporated in 2015: - 457 start-ups incubated till Jan 2019.

***T-Works:*** India's largest prototyping centre for ESDM hardware and mechanical start-ups; launched in 2019.

***B-HUB (Biotech Hub):*** Announced in 2018, a scaled-up manufacturing facility for biopharma R&D companies, with a turnkey incubator.

**Prominent Industrial Areas for Greenfield**

<b><i>Industrial Park</i></b>	<b><i>Remarks</i></b>
Kakatiya Mega Textile Park	Biggest textile park in India. Envisioned for an integrated value chain concept of 'Fibre Fabric'

	Facility. Korean company Young one is the anchor investor	
Hyderabad Pharma city	Proposed integrated development with the objective to set up the entire value chain of the pharmaceutical industry.	
EMC E City	Greenfield electronics manufacturing cluster.	
EMC Maheshwaram		
IKP Knowledge Park	Part of Genome Valley, India's First organized R&D cluster.	Ready-to-use multi-tenanted modular wet labs and land for customised R&D facilities.
MN Park		India's first Industrial Park to offer turnkey fully fitted lab & office spaces.
Medical Devices Park, Sultanpur	Private Industrial Park for engineering, food processing, automotive, logistics and aerospace developed with Sumitomo Corporation.	
GMR Aerospace Park	Automobiles, Electronics and Float Glass.	
Adibatla Aerospace SEZ	Focus greenfield industrial area for ESDM.	
Zaheerabad NIMZ**	Automotive & auto ancillary cluster.	

*The major industrial clusters can be identified as Kompally – Medchal, Shamshabad, Cherlapally – Uppal – Nagole and Patancheru - Balanagar. The land rates in these corridors range between ₹ 3,700 to ₹ 19,800 per sqm. The rates mentioned are indicative and may vary on other parameters as well.*

#### (i) Ahmedabad - India's Emerging Auto Hub

Ahmedabad – India's first heritage city declared by UNESCO – has been an industrial base for sectors such as chemicals, textiles, pharmaceuticals and Agro & food processing industries. Sanand – Mandal – Becharaji industrial

## HB on Potential for 'NEO Import Substituting Industrialization in India'...

belt is fast emerging as a major automotive manufacturing cluster, driven by investments by Japanese companies.

### *Positive Factors*

Ahmedabad contributes:

- Six per cent of market share of Indian Automobile Sector.
- Ten per cent of India's Pharmaceuticals Market.

**Auto & Ancillaries:** Well-developed auto clusters – Sanand, Mandal-Becharaji with major players like Tata Motors, Suzuki Motors, Honda Motorcycle & Scooter, etc. - Japanese Industrial Township, Japanese Industrial Zone & Auto Value Chain Park.

**Pharma & Lifesciences:** Products: APIs, Formulations, Biological Products, Contract Manufacturing - 1/3rd of State's pharma units across 1500 ha.

**Textiles & Apparel:** 3 Textile SEZs in Ahmedabad with investment of ~INR 5 billion - ATIRA – India's largest textile research & first textile testing lab.

### *Emerging Sectors*

**Capital Goods:** Hub for Textile machinery, plastic moulding machinery - ESDM: Ahmedabad has been notified as an EMC (Electronics Manufacturing Cluster).

### Prominent Industrial Areas for Greenfield

<i>Industrial Park</i>	<i>Remarks</i>
GIDC Sanand Industrial Estate	<i>Focus sectors:</i> Engineering, Automobiles & ancillary units, Engineering plastics, Semiconductors, Electronics, Medical Devices.
Japanese Industrial Township, Sanand III (Khoraj)	An ecosystem of core manufacturing, allied industries & supporting facilities for Auto & ancillaries, Engineering & Pharmaceuticals sectors.
Mandal – Becharaji SIR	Completed- Suzuki Motors has already operationalized two car

	manufacturing plants with 0.5 Mn. capacity. Honda has established world's largest scooter plant with 1.2 Mn. annual capacity.
Japanese Industrial Estate, Mandal	Gujarat's first country specific industrial estate delineated for Japanese companies focussing on Auto & ancillaries, & Engineering sectors with options of ready built facilities for immediate operations.
Dholera SIR	Greenfield Industrial City with focus sectors in Defence, aviation, general manufacturing, etc.
Pharmez (Zydus) Industrial Park	Gujarat's first pharmaceutical SEZ.
Ahmedabad Apparel Park	Focused at value addition to textile manufacturing. To be converted into a product specific SEZ later.
Vraj Integrated Textile Park	Greenfield Textile SEZ with proposed further expansion.
Origins by Mahindra World City	Plug & play infrastructure with focus on Engineering, Automotive, Pharmaceutical & Medical Device, Plastic & Packaging, Textile and Food Processing etc.

*Major industrial corridors can be identified along Changodar – Bhayala road, Aslali – Kheda and Sanand – Becharaji. The land rates in these corridors range between ₹ 2,400 to ₹ 8,650 per sqm. The rates mentioned are indicative and may vary on other parameters as well.*

**(j) Vadodara - Bharuch-Ankleshwar Cluster - Country's Power Engineering and Chemicals Cluster**

Vadodara is Gujarat's third largest city with an urban population of 1.8 million. The city is also an educational hub and has a vibrant manufacturing landscape spanning across sectors like Power Transmission & Machine tools, Pharmaceuticals, Chemicals, Biotechnology, Engineering, Auto and Defence.

### *Positive Factors*

Vadodara Contributes:

- Thirty five per cent of India's power transmission & distribution equipment manufacturers.
- Home to Indian Oil Corporation's second largest refinery in India: presently undergoing expansion to increase capacity to 18 MMTPA to become India's largest refinery (by 2023).
- India's first Railway University - National Rail & Transportation Institute (NRTI) with multi-disciplinary techno-commercial curriculum.
- Twenty eight per cent of State's manufacturing sector.
- *Chemical & Petrochemical:* Large petrochemical & chemical fertilizer complex, petroleum refineries, Chloralkali plants, etc. - GACL, GSFC, Reliance, GIPCL, IOCL, BASF, Nandesari GIDC, ONGC, Dahej PCPIR.

*Heavy Engineering:* Downstream industries for power, rail - related infrastructure & auto industry - Oriental Manufacturers, Jindal Rail Infra, Mahindra Accelo, Trans-Rail Lighting.

*Power Transmission & Energy:* Home to an estimated 800 ancillary units - GE Power, ABB, Aspen SEZ (formerly Suzlon Energy Ltd.), TBEA, Schneider Electric, Siemens Gamesa, DuPont.

*Pharma & Biotech:* Second largest hub for Pharma in Gujarat after Ahmedabad - Alembic Pharma, Sun Pharma, Elysium Pharma, BDR Pharma, Brooks Laboratories, Savli Biotech Park.

*Auto & Ancillary:* One of the major & fast-growing hub for auto & ancillaries in Gujarat - MG Motors, Hero Moto Corp, Apollo Tyres, Ceat Tyres, Philips, Crompton Greaves, JCB.

### *Emerging Sectors*

*Defence:* Emerging support base for defence sector - L&T Defence Manufacturing (Ranoli), Vizebh Composite.

## Prominent Industrial Areas for Greenfield

<i>Industrial Park</i>		<i>Remarks</i>
Dahej PCPIR	Saykha Industrial Estate	Focus sectors are Chemicals, engineering & textiles.
	Dahej Industrial Estate – Phase 1, 2 & 3	Major concentration of chemical & petrochemical companies as it is part of Dahej PCPIR.
	Payal Industrial Park (Arete)	Part of Dahej PCPIR near Bharuch, and is the largest privately held business park in India.
Savli Industrial Estate		Focus sectors are biotechnology, Agri-biotech, engineering, plastics, export-oriented units.
Savli Biotech Park (SEZ)		Endeavour to address the biotech industry's need for specialized infrastructure and encourage new biotech enterprises.
Halol Industrial Estate		Focus sectors are Engineering, Automobiles & ancillary units, Electronics.
Makarpura Industrial Estate		One of the oldest industrial area in the city and located along NH 48.
Bharuch Industrial Estate		Formidable industrial base in sectors like chemicals & petrochemicals, textiles, drugs & pharmaceuticals.
Ankleshwar Industrial Estate		Largest GIDC estate with presence of 2000+ industries including ~1500 chemical industries.

*The major industrial clusters can be identified as Savli, Makarpura, Halol, Dahej, Bharuch and Ankleshwar. The land rates in these corridors range between ₹ 1,600 to ₹ 6,400 per sqm. The rates mentioned are indicative and may vary on other parameters as well.*



## Factors Influencing Industrial Location

Generally, location of industries is influenced by economic considerations though certain non-economic considerations also might influence the location of some industries. Maximisation of profit which also implies cost minimization is the most important goal in their choice of particular places for the location of industries. There are several factors which pull the industry to a particular place.

Some of the major factors influencing location are discussed below in the following paragraphs.

- ***Availability of Raw Materials:*** In determining the location of an industry, nearness to sources of raw material is of vital importance. Nearness to the sources of raw materials would reduce the cost of production of the product produced. . For most of the major industries, the cost of raw materials forms the bulk of the total cost. Therefore, most of the Agro-based and forest-based industries are located in the vicinity of the sources of raw material supply.
- ***Availability of Labour:*** Adequate supply of cheap and skilled labour is necessary for any industry. The attraction of an industry towards labour centres depends on the ratio of labour cost to the total cost of production which Weber calls 'Labour cost of Index'. The availability of skilled workers in the interior parts of Bombay region was one of the factors responsible for the initial concentration of cotton textile industry in the region.
- ***Proximity to Markets:*** Access to markets is an important factor which the entrepreneur must take into consideration. Industries producing perishable or bulky commodities which cannot be transported over long distance are generally located in close proximity to markets. Industries located near the markets could be able to reduce the costs of transportation in distributing the finished product as in the case of bread and bakery, ice, tins, cans manufacturing, etc. Accessibility of markets is more important in the case of industries manufacturing consumer goods rather than producer goods.
- ***Transport Facilities:*** Transport facilities, generally, influence the location of industry. The transportation with its three modes, i.e., water, road, and rail collectively play an important role. Therefore the

junction points of water-ways, roadways and railways become humming centres of industrial activity. Further, the modes and rates of transport and transport policy of Government considerably affect the location of industrial units. The heavy concentration of cotton textile industry in Bombay has been due to the cheap and excellent transportation network both in regard to raw materials and markets.

- **Power:** Another factor influencing the location of an industry is the availability of cheap power. Water, wind, coal, gas, oil and electricity are the chief sources of power. Both water and wind power were widely sought at sources of power supply before the invention of steam engine. During the nineteenth century, nearness to coal-fields became the principal locating influence on the setting up of new industries, particularly, for heavy industries. With the introduction of other sources of power like electricity, gas, oil, etc. the power factor became more flexible leading to dispersal and decentralization of industries.
- **Site and Services:** Existence of public utility services, cheapness of the value of the site, amenities attached to a particular site like level of ground, the nature of vegetation and location of allied activities influence the location of an industry to a certain extent. The Government has classified some areas as backward areas where the entrepreneurs would be granted various incentives like subsidies, or provision of finance at concessional rate, or supply of power at cheaper rates and provision of education and training facilities. Some entrepreneurs induced by such incentives may come forward to locate their units in such areas.
- **Natural and Climatic Considerations:** Natural and climatic considerations include the level of ground, topography of a region, water facilities, drainage facilities, disposal of waste products, etc. These factors sometimes influence the location of industries. For instance, in the case of cotton textile industry, humid climate provides an added advantage since the frequency of yarn breakage is low. The humid climate of Bombay in India and Manchester in Britain offered great scope for the development of cotton textile industry in those centres.

- ***Personal Factors:*** In deciding location of industrial units, sometimes an entrepreneur may have personal preferences and prejudices against certain localities. For instance, Mr. Ford started to manufacture motor cars in Detroit simply because it was his home-town. In such cases, personal factor dominates other considerations. However, this kind of domination is rare.
- ***Strategic Considerations:*** In modern times, strategic considerations are playing a vital role in determining industrial location. During war-time a safe location is assuming special significance. This is because in times of war the main targets of air attacks would be armament and ammunition factories and industries supplying other commodities which are required for war. The Russian experience during the Second World War provides an interesting example.
- ***External Economies:*** External economies also exert considerable influence on the location of industries. External economies arise due to the growth of specialized subsidiary activities when a particular industry is mainly localized at a particular centre with port and shipping facilities. External economies could also be enjoyed when a large number of industrial units in the same industry were located in close proximity to one another.
- ***Miscellaneous Factors:*** Historical incidents also play a dominating role in determining the location of industries in certain cases. The development of cotton-textile industry in Lancashire provides an interesting example for this. Further, the size of an industrial unit, Government support, Tax Incentives, Subsidies, SEZs etc. would also have much influence in choosing the location. This is because the size of industrial units depends upon the radius of the circle within which they can profitably distribute their goods and upon the density of population living within the circle.

## Ideal Locations and Strategies for ISI of Principal Commodities

### Plantation Crops

Table – 1  
Import of Principal Commodities

Values in ₹ Crore

<i>Commodity</i>	<i>Apr-Mar 2018</i>	<i>Apr-Mar 2019</i>	<i>% Growth</i>	<i>% Share</i>
PLANTATION	6,697.22	7,410.78	10.65	0.21
Tea	356.99	324.53	-9.09	0.01
Coffee	996.50	958.99	-3.80	0.03
Natural Rubber	5,343.74	6,127.66	14.67	0.17

(Data Source: DGCIS, Kolkata)

Import of Plantation crops during 2018-19 Apr-Mar increased by 1.73 per cent in US\$ terms. The value of import increased from US\$ 1039.28 million in Apr-Mar 2017-18 to US\$ 1057.26 million in Apr-Mar 2018-19. This positive growth is contributed by positive growth of natural rubber by 5.32 per cent, which has a share of 82.60 per cent in plantation imports. The growth rate of imports of plantation crops like tea, coffee, natural rubber in India is 10.65 in FY 2019 when compared to FY 2018. It contributes 0.17% in total Exports of the country and the amount of Imports of these 3 Products is ₹ 7,410.78 Crs. in the FY 2019. Potential to develop import substitution industries in India for the 3 products mentioned below.

**Tea:** India is ranked second among the largest tea producing countries in the world, next only to China. More than 70% of tea is consumed in India itself. The major tea-producing States in India are Assam, West Bengal, Tamil Nadu, Kerala, Tripura, Arunachal Pradesh, Himachal Pradesh, Karnataka, Sikkim, Nagaland, Uttarakhand, Manipur, Mizoram, Meghalaya, Bihar, Orissa.

**Coffee:** India is a leading country in the world in terms of coffee production and stands among top 10 coffee producing countries in the world. The coffee grown in India is of one of the finest qualities in the world, which is grown in the shade. Coffee production is an important source of employment in India

and more than 2.5 Lakh coffee growers are present in India. In India, coffee is mainly produced in Karnataka, Kerala, Tamil Nadu, Andhra Pradesh and Odisha. Among all coffee producing States, Karnataka stands on top with a share of more than 70% of the total coffee produced in India.

**Rubber:** The top 10 States in India that produce rubber are – Kerala, Tamil Nadu (Kanyakumari), Punjab, Karnataka, Goa, Andhra Pradesh, Odisha, Maharashtra, Andaman and Nicobar Islands, and North-eastern States especially Tripura. Kerala contributes 90% of the rubber production, followed by Punjab and Maharashtra.

**Recommendations:** Ideal Locations for tea, coffee and natural rubber Industries are West Bengal, Karnataka and Kerala States where the raw materials for these products are available and also the Government of India established product specific Boards to promote these products and these Boards will assist to improve the quality of these products. The Government of India has to provide additional responsibility to these Boards to promote the import substitution industries in India.

- (a) **Tea Board, 14, BTM Sarani, Brabourne Road, P.B. No.2172, Kolkata 700001, West Bengal:** To assist and facilitate growth and development of the tea industry. To work for furtherance and promotion of tea consumption in India and abroad. To organize and mount exporters' delegations to overseas countries and assist inbound delegations from tea importing countries towards promoting Indian tea exports.
- (b) **Coffee Board, 1, Dr. B.R. Ambedkar Veedhi, Bangalore 560001, Karnataka:** The activities of the Board are broadly aimed at
- (i) Enhancement of production, productivity & quality.
  - (ii) Export promotion for achieving higher value returns for Indian Coffee
  - (iii) Supporting development of Domestic market.
- (c) **Rubber Board, Sub-Jail Road, P.B. No.1122, Kottayam 686002, Kerala:** The main functions of the Board are to promote the development of rubber industry, initiate action for undertaking, assisting or encouraging scientific, technical and economic research, and impart training in improved methods of planting, cultivation, manuring and spraying and giving technical advice to rubber growers.

## Agriculture and allied Products

Table – 2  
 Import of Principal Commodities

Values in ₹ Crore

AGRI & ALLIED PRODUCTS	143,230.24	129,693.90	-9.45	3.61
Rice-Basmati	-	-	-	-
Rice (Other than Basmati)	12.18	32.18	164.09	0
Wheat	2,357.84	5.44	-99.77	0
Other Cereals	433.90	471.28	8.61	0.01
Pulses	18,748.57	8,035.35	-57.14	0.22
Tobacco Unmanufactured	69.47	102.89	48.10	0
Tobacco Manufactured	185.92	257.52	38.51	0.01
Spices	6,385.26	7,886.40	23.51	0.22
Cashew	9,134.33	11,162.32	22.20	0.31
Cashew Nut Shell Liquid	5.66	21.05	271.91	0
Sesame Seeds	176.77	875.17	395.10	0.02
Niger Seeds	29	40.62	40.09	0
Groundnut	13.04	8.14	-37.61	0
Other Oil Seeds	364.59	745.21	104.40	0.02
Vegetable Oils	74,995.91	69,023.80	-7.96	1.92
Oil Meals	746.67	869.17	16.41	0.02
Guergam Meal	3.30	5.90	79.04	0
Castor Oil	2.54	5.32	109.17	0
Shellac	18.38	19.35	5.32	0
Sugar	6,035.84	3,175.32	-47.39	0.09
Molasses	69.29	1.38	-98.01	0
Fruits / Vegetable Seeds	768.26	832.48	8.36	0.02
Fresh Fruits	12,524.55	13,931.65	11.23	0.39
Fresh Vegetables	25.64	23.40	-8.72	0
Processed Vegetables	134.83	161.54	19.81	0

## HB on Potential for 'NEO Import Substituting Industrialization in India'...

Processed Fruits and Juices	803.81	909.28	13.12	0.03
Cereal Preparations	659.68	976.14	46.61	0.03
Cocoa Products	1,473.10	1,845.85	25.30	0.05
Milled Products	13.02	15.60	19.79	0
Misc. Processed Items	2,249.73	2,559.34	13.76	0.07
Animal Casings	-	-	-	-
Sheep / Goat Meat	13.36	10.83	-18.89	0
Other Meat	27.80	30.65	10.27	0
Processed Meat	3.22	4.14	28.40	0
Dairy Products	312.59	254.12	-18.70	0.01
Poultry Products	26.87	41.80	55.55	0
Floriculture Products	136.46	174.09	27.58	0
Alcoholic Beverages	3,876.14	4,678.72	20.71	0.13
Ayush And Herbal Products	392.72	509.43	29.72	0.01

(Data Source: DGCIS, Kolkata)

During Apr-Mar 2018-19, import of agriculture and allied products decreased by 16.48 per cent over the corresponding period of the previous year. The value of import decreased from US\$ 22223.10 million in Apr-Mar 2017-18 to US\$ 18560.25 million in Apr-Mar 2018- 19. Out of 39 commodities under this group, 10 have registered negative growth during this period.

### ***Recommendations***

The following is the list of products imported from other countries and at present these products are growing in India (States mentioned against each product). If the Government (State / Central) take necessary steps, the imported products can be grown in the concerned States with little efforts of State / Central Governments. As these products are agriculture related, the prospective promoters can take the guidance / support from Agriculture Research Institutes / Institutions in this regard. Quality and cost of production of these Products are very important to control the Imports from the other countries.

Technical support in respect quality of the product and cost of cultivations of produce and guidance can be obtained from the concerned research centres mentioned below:

- **Tobacco Board**, P.B.No.322, Guntur 522004, Andhra Pradesh.
- **Spices Board**, Sugandha Bhavan, N.H. Bypass, PB2277, Palarivattom P.O. Kochi 682025, Kerala.
- **Agricultural & Processed Food Products Export Development Authority**, NCUI Building, Siri Institutional Area, August Kranti Marg, New Delhi 110016.
- **Cashew EPC**, P.B.No.1709, Chittoor Road, Ernakulam South, Cochin-682016, Kerala.
- **Indian Oilseeds and Produce EPC**, 78-79 Bajaj Bhawan, Nariman Point, Mumbai-400021, Maharashtra.

Import Products	Growing Areas in India
Rice-Basmati	J&K, Himanchal Pradesh, Punjab, Haryana, Uttarakhand.
Rice	West Bengal, Uttar Pradesh, Punjab, Tamilnadu, Andhra Pradesh.
Wheat	Uttar Pradesh, Punjab, Madhya Pradesh, Rajasthan.
Cereals	Rajasthan, Karnataka, Andhra Pradesh, Telangana, Maharashtra.
Pulses	Madhya Pradesh, Maharashtra, Uttar Pradesh, Rajasthan and Andhra Pradesh.
Tobacco	Andhra Pradesh, Karnataka, Gujarat, Uttar Pradesh.
Spices	Rajasthan, Gujarat, Andhra Pradesh, Telangana.
Cashew	Maharashtra, Andhra Pradesh, Odisha, Karnataka.
Vegetable Oils	Madhya Pradesh, Rajasthan, Gujarat, Maharashtra, West Bengal.
Oil Meals	Madhya Pradesh, Rajasthan, Gujarat, Maharashtra, West Bengal.
Guergam Meal	--
Castor Oil	Gujarat, Rajasthan and Andhra Pradesh.
Shellac	In India, the chief areas of lac cultivation are the districts of Chhattisgarh, adjacent districts of Madhya Pradesh, plateau of Bihar, West Bengal,



## HB on Potential for 'NEO Import Substituting Industrialization in India'...

	Orissa and Assam. Limited quantity is also produced in Uttar Pradesh, East Punjab, Mysore and Madras.
Sugar	Uttar Pradesh has the largest area almost 50 per cent of the cane area in the country, followed by Maharashtra, Karnataka, Tamil Nadu, Andhra Pradesh, Gujarat, Bihar, Haryana and Punjab. These nine are the most important sugarcane producing States. Sugarcane production is also highest in U.P.
Molasses	Andhra Pradesh, North Bihar, Gujarat and Haryana.
Fruits / Vegetable Seeds	Andhra Pradesh, Maharashtra, Gujarat and Tamilnadu.
Fresh Fruits	Andhra Pradesh, Maharashtra, Gujarat and Tamilnadu.
Fresh Vegetables	West Bengal accounted for 15.9 per cent of the country's total vegetable production in 2018-19 while UP produced 14.9 per cent. Madhya Pradesh (9.6 per cent), Bihar (9 per cent) and Gujarat (6.8 per cent) were the other major vegetable producers.
Processed Vegetables	Karnataka, Maharashtra, Andhra Pradesh, Punjab and Gujarat
Processed Fruits and Juices	Karnataka, Maharashtra, Andhra Pradesh, Punjab and Gujarat
Cereal Preparations	Uttar Pradesh, Punjab, Haryana, West Bengal, Andhra Pradesh, Chhattisgarh, Tamil Nadu, Madhya Pradesh, Maharashtra, Rajasthan, Gujarat and Rajasthan.
Cocoa Products	Cocoa is an important plantation crop grown for chocolates around the world. In India cocoa is being cultivated in the States of Kerala, Karnataka, Andhra Pradesh and Tamil Nadu in an area of 78,000 ha with total production of 16,050 MT.
Milled Products	Milled rice (white rice) is husked rice from which all or part of the bran and germ have been removed by milling. West Bengal, is the largest rice producer

	(16.39 per cent), followed by Uttar Pradesh (13.38 per cent), Andhra Pradesh (12.24 per cent), Punjab (9.47 per cent), Orissa (7.68 per cent) and Tamil Nadu (7.38 per cent).
Misc. Processed Items	--
Animal Casings	Animal casings. India, being a country with numerous States and vast area, has resources for production of animal casings of high quality with excellent calibration and shining colour. This makes India one of the major exporters of animal casing in the world. Andhra Pradesh, West Bengal, Maharashtra, Kerala, Delhi, Uttar Pradesh, Rajasthan are the key areas of processed meat production in India.
Sheep / Goat Meat	The top 5 states in terms of the goat milk production estimate in India were: Rajasthan, Uttar Pradesh, Madhya Pradesh, Gujarat and Maharashtra.
Other Meat	--
Processed Meat	Andhra Pradesh, West Bengal, Maharashtra, Kerala, Delhi, Uttar Pradesh, Rajasthan are the key areas of Processed meat production in India
Dairy Products	Uttar Pradesh, Rajasthan, and Gujarat have been the major milk producing States in India. Uttar Pradesh is the largest dairy and milk-producing state because it is home to the highest buffalo population and the second-highest cattle population in the country.
Poultry Products	Maharashtra, Tamilnadu, Haryana, West Bengal, Andhra Pradesh.
Floriculture Products	Tamilnadu, West Bengal, Andhra Pradesh, Maharashtra, Karnataka.
Alcoholic Beverages	India's alcohol industry is the third largest in the world with a value of \$35 billion. The industry is divided into three categories: Indian Manufactured

	Foreign Liquor (IMFL), beer, and homemade liquor. Whiskey dominates the IMFL category, and India has the largest whiskey industry in the world. The top five, on the basis of market capitalisation or value, are United Spirits, United Breweries, Radico Khaitan, Tilaknagar Industries and Som Distilleries & Breweries.
Ayush And Herbal Products	India has a huge wealth of over 8000 medicinal plants found in the Himalayan region, around its coastline, deserts and rainforest eco-system. Telangana, Sikkim, Rajasthan, Himachal Pradesh. Gujarat.

## Marine Products

Table – 3  
Import of Principal Commodities

Values in ₹ Crore

Marine Products	793.30	1,088.13	37.16	0.03
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(Data Source: DGCIS, Kolkata)

During Apr-Mar 2018-19, import of Marine products increased to US\$ 155.70 million from US\$ 123.06 million in the corresponding period of the previous year registering a positive growth of 26.52 per cent.

### Recommendations

Marine production (3.5 Million MT) - The top five States are Gujarat, Kerala, Maharashtra, Andhra Pradesh and Tamil Nadu, contributing close to 74% to the total production.

The Government of India and the concerned State Governments have to take steps to promote more processing units of marine products with the support of *Marine Products Export Development Authority (MPEDA), MPEDA House, Panampilly Avenue, Kochi 682036, Kerala* which is established by Ministry of Commerce to promote the Marine Products in India. MPEDA should not only focus on Exports of Marine Products but also Import substitution Marine Products Processing Units in India, thereby Imports under this segment will reduce substantially.

## Ores and Minerals

Table – 4  
Import of Principal Commodities

Values in ₹ Crore

ORES & MINERALS	204,632.10	234,934.31	14.81	6.55
Iron Ore	4,223.93	5,907.82	39.87	0.16
Mica	10.81	13.31	23.08	0
Coal, Coke and Briquettes etc.	147,641.10	183,004.80	23.95	5.10
Bulk Minerals and Ores	40,011.98	26,961.15	-32.62	0.75
Processed Minerals	9,578.45	14,883.34	55.38	0.41
Sulphur, Unroasted Iron Pyrite	1,068.35	1,527.82	43.01	0.04
Other Crude Minerals	2,097.48	2,636.07	25.68	0.07

(Data Source: DGCIS, Kolkata)

During Apr-Mar 2018-19, import of ores and minerals increased to US\$ 33622.63 million from US\$ 31743.71 million in the corresponding period of the previous year registering a positive growth of 5.92 per cent. All the commodities in this group have reflected a positive growth except bulk minerals and ores which fell by 37.53 per cent.

### Recommendations

India's 98% magnetite resources are located in five States, namely, Karnataka (7,802 million tonnes or 72%) followed by Andhra Pradesh (1,392 million tonnes or 13%), Rajasthan (627 million tonnes or 6%), Tamil Nadu (507 million tonnes or 5%) and Goa (226 million tonnes or 2%).

Additional responsibility to be given to Minerals and Metals and Trading Corporation (MMTC) to reduce the over dependency on iron ore and mineral imports from other countries. The processing units under this segment have to be encouraged by the Ministry of Industries, Government of India and States in co-ordination with *MMTC Ltd., Scope Complex, 7, Institutional Area, Lodhi Road, New Delhi-110003*. By this substantial reduction is possible in imports of ores and minerals in India.

Leather and Leather Manufactures

Table – 5  
Import of Principal Commodities

Values in ₹ Crore

LEATHER & LEATHER MANUFACTURES	6,809.61	7,644.59	12.26	0.21
Raw Hides and Skins	301.77	241.38	-20.01	0.01
Finished Leather	3,665.93	3,824.21	4.32	0.11
Leather Goods	436.34	504.94	15.72	0.01
Leather Garments	16.53	16.07	-2.79	0
Footwear of Leather	2,250.15	2,896.59	28.73	0.08
Leather Footwear Components	134/99	154.80	14.68	0
Saddlery and Harness	3.88	6.60	69.92	0

(Data Source: DGCIS, Kolkata)

Import of leather and leather manufactures recorded a positive growth of 3.47 per cent during Apr-Mar 2018- 19 as the value of import increased to US\$ 1093.22 million from US\$ 1056.60 million during the corresponding period of the previous year. This is mainly due to rise in the growth rate of footwear of leather and leather goods which exhibits positive growth of 18.26 per cent and 6.41 per cent respectively.

**Recommendations**

The major production centres for leather and leather products in India are located in the States of:

- Tamil Nadu – Chennai, Ambur, Ranipet, Vaniyambadi, Vellore, Pernambur, Trichy, Dindigul and Erode.
- West Bengal – Kolkata.
- Uttar Pradesh – Kanpur, Agra, Noida, Saharanpur;
- Maharashtra – Mumbai.

**Apex governing bodies**

- *Council for Leather Exports*, No.1, CMDA Tower II, 3rd Floor,

Gandhi Irwin Road, Egmore, Chennai600008. Tamil Nadu (Tel. 044-28594367; Fax: 044- 28594363).

- *Footwear Design & Development Institute*, A-10/A, Sector-24, Noida 201301, Gautam Budh Nagar, Uttar Pradesh.

The Central / State Government have to promote the existing Industrial clusters located in Tamil Nadu, West Bengal and Uttar Pradesh by way of incentives to manufacture leather products and encourage the Start-up Industries for import substitution for these products.

### Gems & Jewellery

Table – 6  
Import of Principal Commodities

Values in ₹ Crore

GEMS & JEWELLERY	481,433.73	451,127.46	-6.3	12.57
Pearl, Precious, Semiprecious Stones	220,965.76	188,880.59	-14.52	5.26
Gold	217072.07	229,447.33	5.70	6.40
Silver	20,724.89	26,188.63	26.36	0.73
Other Precious and Base Metals	2,323.70	1,937.88	-16.60	0.05
Gold and other Precious Metal Jewellery	20,347.31	4,673.03	-77.03	0.13

(Data Source: DGCIS, Kolkata)

During Apr-Mar 2018-19, import of Gems & Jewellery decreased to US\$ 64666.22 million from to US\$ 74668.31 million during the corresponding period of the previous year registering a negative growth of 13.40 per cent. Except silver all commodities in this group registered negative growth.

### Recommendations

Various major clusters (ports) have been contributing to India's gems and jewellery sector, that is, Mumbai, New Delhi, Jaipur, Hyderabad, Chennai, Cochin, Nellore, Bangalore, Kolkata, Surat, and Coimbatore. State and Central Governments should provide additional infrastructure facilities to the existing clusters of Gems and Jewelleries located in India through -

- **Gem & Jewellery EPC**, Diamond Plaza, 5th Floor, 391-A, Dr. D. B. Marg, Mumbai- 400004, Maharashtra.

It would not only help to promote the exports of the country but would also to reduce the imports of gems and jewellery products substantially. For this the Gem & Jewellery EPC has to conduct research on import substitution products of gem & jewellery.

### Sports Goods

**Table – 7**  
**Import of Principal Commodities**

*Values in ₹ Crore*

Sports Goods	1,882.37	2,325.24	23.53	0.06
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(Data Source: DGCIS, Kolkata)

During the period Apr-Mar 2018-19, import of sports goods increased to US\$ 332.06 million from US\$ 292.05 million in the corresponding period of the previous year registering a positive growth of 13.70 per cent.

### *Recommendations*

In India, Jalandhar has grown as the major centre of India's sports goods industry. Meerut in Uttar Pradesh is the second and Gurgaon in Haryana is the third largest cluster of sports goods manufacturing.

If Government encourages the existing clusters, there is a scope to reduce the imports of sports goods from other countries. For this Sports Goods EPC play a vital role.

- **Sports Goods EPC**, 1-E/6, Swami Ram Tirth Nagar, Jhandewalan Extension, New Delhi- 110055.

### Chemicals and Related Products

**Table – 8**  
**Import of Principal Commodities**

*Values in ₹ Crore*

CHEMICALS & RELATED PRODUCTS	260,368.59	334,076.77	28.31	9.31
Fertilizers Crude	4,694.40	5,828.12	24.15	0.16
Fertilizers Manufactured	29,959.48	46,266.56	54.43	1.29

## Potential for ISI in India (COVID-19)

Bulk Drugs, Drug Intermediates	19,291.11	24,850.08	28.82	0.69
Dye Intermediates	5,618.48	6,995.42	24.51	0.19
Dyes	2,166.87	2,507.02	15.70	0.07
Drug Formulations, Biologicals	11,869.81	14,126.38	19.01	0.39
Agro Chemicals	8,466.79	9,267.04	9.45	0.26
Inorganic Chemicals	30,715.97	39,486.88	28.55	1.10
Organic Chemicals	80,112.70	99,671.76	24.41	2.78
Other Miscellaneous Chemicals	4,210.13	5,822.34	38.29	0.16
Cosmetics and Toiletries	8,511.91	11,249.45	32.16	0.31
Essential Oils	982.61	1,046.64	6.52	0.03
Residual Chemical and Allied Products	42,038.74	52,780.38	25.55	1.47
Paint, Varnish and Allied Products	10,824.79	13,026.65	20.34	0.36
Graphite, Explosives and Accessories	904.81	1,152.05	27.33	0.03

(Data Source: DGCIS, Kolkata)

During the period Apr-Mar 2018-19, the import of chemicals and related products increased to US\$ 47802.56 million from US\$ 40392.72 million during the corresponding period of the previous year registering a positive growth of 18.34 per cent. Out of 15 commodities under this group, all have registered positive growth except essential oils.

### ***Recommendations***

Chemicals Industry in India is highly diversified, covering more than 80,000 commercial products. It is broadly classified into bulk chemicals, specialty chemicals, agrochemicals, petrochemicals, polymers and fertilizers. India's proximity to the Middle East, the world's source of petrochemicals feedstock, enables economies of scale.

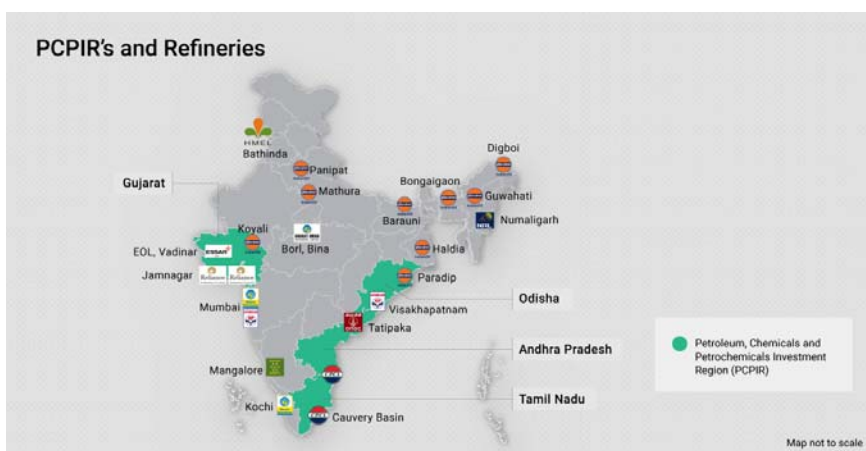
India is a strong global dye supplier, accounting for approximately 16% of the world production of dyestuff and dye intermediates. Chemicals Industry in India has been de-licensed except for few hazardous chemicals. Upcoming



## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

Petroleum, Chemicals and Petrochemicals Investment Regions (PCPIRs) and Plastic parks will provide state-of-the-art infrastructure for Chemicals and Petrochemicals sector.

- The Indian chemicals industry is projected to reach a turnover of \$304 bn by 2025.
- India ranks 14th in export and 8th in import of chemicals (Excluding Pharmaceuticals products) globally.
- Demand of chemical products is expected to grow at approximately 9% p.a. over the next 5 years.
- Indian chemical industry employs more than 2 million people.



*Chemexcil, Jhansi Castle (4th Floor), 7-Cooperage Road, Mumbai-400039, Maharashtra.*

Basic Chemicals, Cosmetics & Dyes Export Promotion Council popularly known as CHEMEXCIL is set up by the Ministry of Commerce & Industry Government of India in the year 1963 with the objective of promoting exports of the following items from India to various countries abroad. These items have been grouped into four separate Panels:

Panel-I: Dyes and Dye Intermediates.

Panel-II: Basic Inorganic & Organic Chemicals including Agrochemicals.

Panel-III: Cosmetics, Soaps, Toiletries &

Panel-IV: Speciality Chemicals, Lubricants and Castor Oil.

This council is an interface with the Industry and the Government of India to formulate export-oriented policies and also to create a favourable environment to augment exports of the above items from India. It assists its members in locating and pinpointing the source of their requirements.

The Government of India has to design a policy through CHEMEXCIL to focus on Import products of “chemicals and related products”, and make efforts to reduce the import dependency. Encourage the start-up companies to start ‘Chemicals and related products’ which are imported from the other countries in India in a phased manner in Co-ordination with Ministry of MSME and Ministry of Industries.

One more panel to be established by the CHEMEXCIL i.e., Panel-V to oversee the Import Substitution Policy implementation with regard to “Chemical and Related Products” in India.

### Plastic & Rubber Articles

Table – 9  
Import of Principal Commodities

Values in ₹ Crore

PLASTIC & RUBBER ARTICLES	109,822.14	129,129.48	17.58	3.60
Other Rubber Product Except Footwear	13,797.44	16,728.00	21.24	0.47
Footwear of Rubber / Canvas Etc.	2,043.28	2,188.24	7.09	0.06
Moulded and Extruded Goods	9,017.69	9,908.24	9.88	0.28
Plastic Raw Materials	68,910.05	79,855.02	15.88	2.23
Plastic Sheet, Film, Plates etc.	9,132.60	13,307.82	45.72	0.37
Stationary / Office, School Supply	597.86	585.67	-2.04	0.02
Other Plastic Items	6,323.21	6,556.49	3.69	0.18

(Data Source: DGCIS, Kolkata)

During the period Apr-Mar 2018-19, import of plastic & rubber articles increased to US\$ 18468.86 million from US\$ 17038.02 million in the corresponding period of the previous year registering a positive growth of 8.4 per cent. Out of 7 commodities under this group, 4 have registered positive growth includes Plastic raw materials, Other rubber product except footwear plastic sheet, film, plates etc., moulded and extruded goods.

### *Recommendations*

Tyre Industry forms the core of rubber industries. Some of the tyre majors with footprint in India are:

- MRF Ltd.
- Apollo Tyres.
- CEAT Tyres.
- JK Tyres.
- Michelin.
- Bridgestone.

Reliance and ISRL are the TWO Indian Industries that manufacture Synthetic Rubber. Apart from these there are various Industries which specializes in footwears, engineered products, latex products etc.

The major plastic industries in India are

- Finolex Industries Ltd.
- Plastiblends India Ltd.
- AGA Group International.
- ACRY Plus Company.
- Kay Kay Global Suppliers.

*The Plastic EPC*, Crystal Tower, Gundivali Road No.3, Off Sir M.V. Road, Andheri East, Mumbai400069, Maharashtra.

The Plastics Export Promotion Council (PLEXCONCIL) was established by the Ministry of Commerce & Industry, Department of Commerce, Government of India on 15th July, 1955. It was one of several Export Promotion Councils (EPCs) launched by the Government to project India's image abroad as a reliable supplier of high-quality products in order to give a boost to the country's exports.

PLEXCONCIL is the Apex Body of the plastics industry in India and represents over 2,500 exporters who manufacture / trade in plastics products ranging from plastics raw materials to semi-finished and finished items.

The best promoters to start Import substitution industries in India are the existing players in the market as mentioned above. To achieve this task, PLEXCONCIL should develop a plan in consultation with Ministry of Commerce, MSME and Industry.

**Articles of Stone, Plaster, Cement Asbestos, Mica or similar materials, Ceramic products, Glass and Glassware**

**Table – 10**  
**Import of Principal Commodities**

*Values in ₹ Crore*

ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS MICA OR SIMILAR MATERIALS, CERAMIC PRODUCTS, GLASS AND GLASSWARE	17,498.27	19,518.23	11.54	0.54
Granit, Natural Stone and Product	2,719.01	2,460.49	-9.51	0.07
Cement, Clinker and Asbestos Cement	1,130.64	1,104.63	-2.30	0.03
Ceramics and Allied Products	5,201.14	5,831.57	12.12	0.16
Glass and Glassware	8,447.48	10,121.54	19.82	0.28

(Data Source: DGCIS, Kolkata)

During the period Apr-Mar 2018-19, import of goods in this category increased to US\$ 2789.97 million from US\$ 2715.30 million during the corresponding period of the previous year registering a positive growth of 2.75 per cent. Out of 4 commodities under this group, 2 have registered positive growth including glass and glassware, ceramics and allied products.

### ***Recommendations***

**Granite:** Geologically the Southern and Eastern belts of the nation are places where granite is available in abundance such as those in Tamil Nadu,

Andhra Pradesh, Karnataka, Maharashtra, Assam, Bihar, Rajasthan, Orissa, Meghalaya and Madhya Pradesh.

**FIGSI:** Federation of Indian Granite & Stone Industry (FIGSI) has been working since 1983 for their progress and scientific development as well as in removing obstacles to achieve rapid and constant growth. Over the years, it has successfully created maximum awareness in the international stone markets for exotic Indian stones and brought continuous interaction between Indian ornamental stone industries and world stone trade.

The principal objective of the association is promotion of the Natural Stone Industry to the benefit of its members and the Nation. Our association endeavours to act as a bridge between Industry and the Government in bringing constant improvement in mineral regulation, policies, processes, systems and procedures. It pro-actively promotes up gradation of technology aimed at mine safety, productivity, cost efficiency and quality improvement. It is initiating to start an Institute for Research & Development as well as training to benefit the industry.

**Cement, Clinker and Asbestos Cement Products:** List of Major Cement Producing States and Plants are **Chhattisgarh** – Jamul, Durg, Mandhar. **Andhra Pradesh** – Vijayawada, Krishna, Guntur, Kurnool, Adilabad; **Telangana**, Visakhapatnam. **Rajasthan** – Sawai Madhopur, Vdaipur, Lakheri, Churu, Chittorgarh. **Gujarat** – Porbandar, Jamanagar, Dwarika.

**NCB:** National Council for Cement and Building Materials - NCB Bhavan, NCB Bhavan, Old Mumbai Road, Gachibowli, Hyderabad, Telangana 500008.

**Ceramic and Glass Industry:** The size of the Indian ceramic tile industry is estimated at US\$ 0.35 billion and India is ranked fifth globally in the production of ceramic tiles. The industry has been experiencing increased demand, growing nearly two and a half times in the period between 2001 to 2005 from 97 million tonnes to 207 million tonnes. Apart from domestic demand, exports of ceramic tiles from India have also been increasing. From a level of US\$ 33.3 million in 2001-02, exports of ceramic tiles from India have gone up to US\$ 58.5 million in 2006-07, at a CAGR of 12 per cent.

The Indian glass industry has been growing across all segments driven by India's booming automotive and construction sectors. The industry has been growing across all segments with sheet and float glass recording the fastest growth, at a CAGR of nearly 67 per cent between 2001 and 2005.

The improving capability of Indian players is reflected in increasing exports across both ceramics and glass offering a bright picture for existing players, as well as potential investors in the glass and ceramics industry.

**CSIR-Central Glass & Ceramic Research Institute, Kolkata:** To carry out basic and applied research in the fields of glass, ceramics, refractories, vitreous enamels, composites and allied materials that can be developed into appropriate technologies relevant to the country's security, economic, industrial and socio-economic needs. To undertake advanced R&D projects which are internationally competitive and public-private partnership projects sponsored by private/public sector enterprises. To provide technical advisory and infra-structural services like project engineering, testing & evaluation, training & education and dissemination of scientific information to the public domain.

Optimum utilization of various Research Institutes developed by the Government of India like NCB, Hyderabad - Federation of Indian Granite & Stone Industry (FIGSI) – CSIR - Central Glass & Ceramic Research Institute, Kolkata are to be used to provide solutions to improve the quality and to cut the cost in Import Substitution Industries like granite products, cement & clinker and asbestos cement products, ceramics, glassware etc. to reduce the Imports. To achieve these tasks, these institutions are to be co-ordinated with MSME and Industries Ministry, Government of India.

### Paper & Related products

Table – 11  
Import of Principal Commodities

Values in ₹ Crore

PAPER & RELATED PRODUCTS	53,350.56	61,302.31	14.90	1.71
Books, Publications and Printing	2,051.78	2,425.95	18.24	0.07
Newsprint	5,006.53	6,854.23	36.91	0.19
Paper, Paper Board and Product	21,285.11	24,885.70	16.92	0.69
Plywood and Allied Products	8,955.65	10,207.47	13.47	0.28

## HB on Potential for 'NEO Import Substituting Industrialization in India'...

Other Wood and Wood Products	8,569.46	7,743.11	-9.64	0.22
Pulp and Waste Paper	7,442.03	9,185.85	23.43	0.26

(Data Source: DGCIS, Kolkata)

During the period Apr-Mar 2018-19, import of paper & related products increased to US\$ 8760.99 million from US\$ 8276.87 million during the corresponding period of the previous year registering a positive growth of 5.85 per cent. All commodities under this group have registered positive growth during the period except Other wood and wood products.

### *Recommendations*

Maharashtra is a major paper producing State in India. It has 63 mills, accounting for 16.52 per cent of the installed capacity and produces 18 per cent of the paper produced in India. Other States are:

- Andhra Pradesh. This state has 19 mills, accounts for 11.3 per cent of installed capacity and 13 per cent of India's total production of paper.
- Madhya Pradesh.
- Karnataka.
- Gujarat.

As per Mr Singhanian (JK Paper's), the Indian paper industry is growing at over 7 per cent and projected to grow at over 4 per cent per annum till 2030. This translated into 20 million tonnes in 2020 and 27 million tonnes by 2030.

**Central Pulp & Paper Research Institute, Paper Mill Rd, Himmat Nagar, Saharanpur, Uttar Pradesh 247001** is a National level Institute established in 1980 as an autonomous body under the administrative control of Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Govt. of India to promote R&D in the field of pulp & paper. The origin of CPPRI dates back to the year 1975 when the UNDP-GOI Project became operational. After the conclusion of the UNDP Project, the facilities thus created were utilized to fulfil the long felt need for R&D needs of Indian pulp and paper industry. Thus, after the approval of the Cabinet, Central Pulp & Paper Research Institute (CPPRI) came into existence in November 1980. Existing R&D facilities were continuously upgraded with the aid of plan funds received from the Government of India.

This is the right time for CPPRI to do Research on “Import Products to India” Quality-wise and Cost-wise and explore the possibility of the establishment of commercial production of these import substitution industries in India to reduce the burden of import bill on ‘paper and related products’ to the Government of India and these Units are to be established in the potential States in India (Paper and related products) as mentioned above.

**Base Metals**

**Table – 12**  
**Import of Principal Commodities**

*Values in ₹ Crore*

<b>BASE METALS</b>	<b>176,790.42</b>	<b>226,349.99</b>	<b>28.03</b>	<b>6.31</b>
Iron and Steel	67,235.42	87,929.20	30.78	2.45
Products of Iron and Steel	26,970.77	35,387.58	31.21	0.99
Aluminium, Products of Aluminium	29,684.84	38,747.21	30.53	1.08
Copper and Products made of Copper	29,493.25	37,420.70	26.88	1.04
Lead and Products made of Lead	5,250.38	5,475.49	4.29	0.15
Nickel, Product made of Nickel	4,110.72	5,186.20	26.16	0.14
Tin and Products made of Tin	1,564.79	1,555.10	-0.62	0.04
Zinc and Products made of Zinc	5,332.43	5,646.30	5.89	0.16
Other Non-Ferrous Metal and Product	7,147.83	9,002.21	25.94	0.25

(Data Source: DGCIS, Kolkata)

During the period Apr-Mar 2018-19, import of base metals increased to US\$ 32363.63 million from US\$ 27429.26 million during the corresponding period of the previous year registering a positive growth of 17.99 per cent. Except for zinc and products made of zinc, lead and products made of lead, tin and



products made of tin, all commodities in this group have registered a positive growth.

### *Recommendations*

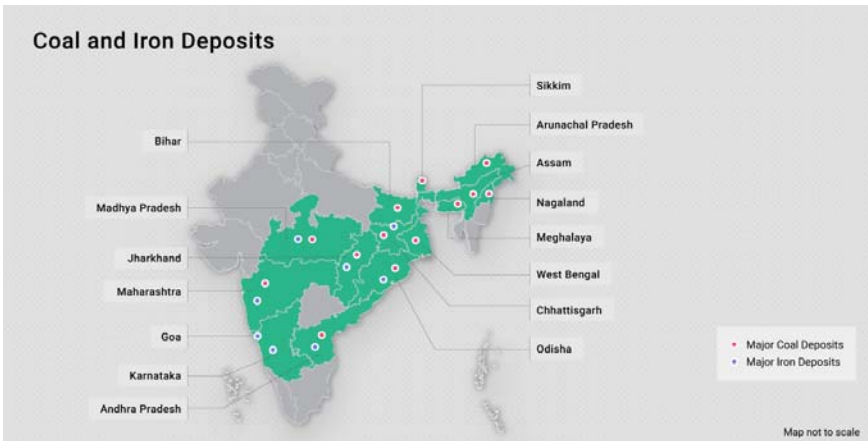
India is home to 1,531 operating mines and produces 95 minerals – 4 fuel-related minerals, 10 metallic minerals, 23 non-metallic minerals, 3 atomic minerals and 55 minor minerals. India is the second largest producer of coal. coal production grew at CAGR 4.6% over FY14-FY19 (to 730.35 MT) and is expected to grow 6-7% Y-o-Y over FY20 as miners focus on the surface mining of coal. Coal's share in India's primary energy consumption is expected to be 48% in 2040. India is the second largest crude steel producer in the world, generating an output of 106.5 MT in 2018, a growth of 3.7% Y-o-Y. India's steel consumption rose 7.5% Y-o-Y and 7.9% Y-o-Y over the last 2 years, outpacing a 2.1% to 5% growth globally.

- Over 2030-31, crude steel demand / production forecasted to reach 255 MT.
- Per capita finished steel consumption also expected to rise to 158 kg by 2030-31 (from 74.1 kg in 2018).

India has large reserves of iron ore, bauxite, chromium, manganese ore, baryte, rare earth and mineral salts.

The metals and mining sector in India is expected to witness a major reform in the next few years, owing to reforms such as Make in India Campaign, Smart Cities, Rural Electrification and a focus on building renewable energy projects under the National Electricity Policy as well as the rise in infrastructure development.

- The production level of important minerals in March 2020 were: Coal 958 lakh tonnes, Lignite 42 lakh tonnes, Natural gas (utilized) 2323 million cu. m., Petroleum (crude) 27 lakh tonnes, Bauxite 1634 thousand tonnes, Chromite 582 thousand tonnes, Copper conc. 11 thousand tonnes, Gold 153 kg, Iron ore 204 lakh tonnes, Lead conc. 26 thousand tonnes, Manganese ore 181 thousand tonnes, Zinc conc. 117 thousand tonnes, Apatite & Phosphorite 133 thousand tonnes, Limestone 272 lakh tonnes, Magnesite 8 thousand tonnes and Diamond 3213 carat.
- The production of important minerals showing positive growth during March 2020 over March 2019 includes 'Chromite' (15.9%), 'Iron ore' (8.3%) and 'Coal' (4.3%).



*The Indian Institute of Metals, "Metal House", Plot 13/4, Block AQ, Sector V, Salt Lake, Kolkata-700091:* The idea of formation of an Indian Institute for metallurgists was conceived as early as in 1945. This was possible by the efforts of a few metallurgists, who realised the need for an adequate body for professional metallurgists in India. During that time many of the technical information were not easily available in India. Communications with other countries were difficult because of the war. The ordnance factories and many other industries involved in manufacture of various products for the war efforts were greatly handicapped because of the non-availability of technical information on metallurgy. The Inspectorate of Metals in the ordnance factory was the only reliable organisation who could undertake investigations on metal products.

There is need to explore the objectives of the institutions which were established and operated in India by the Ministry of Mines and are responsible for survey and exploration of all minerals, other than natural gas, petroleum and atomic minerals; for mining and metallurgy of non-ferrous metals like aluminium, copper, zinc, lead, gold, nickel etc. and for administration of the Mines and Minerals (Regulation and Development) Act, 1957 in respect of all mines and minerals other than coal, natural gas and petroleum.

By these measures the Indian Government may curtail the import bill on base metals which are imported from other countries.

Optical, Medical & Surgical Instruments

Table – 13  
Import of Principal Commodities

Values in ₹ Crore

OPTICAL, MEDICAL & SURGICAL INSTRUMENTS	34,426.31	41,203.72	19.69	1.15
Surgical	3,776.16	4,930.59	30.57	0.14
Optical Items (Including Lens etc.)	3,819.94	3,898.34	2.05	0.11
Medical and Scientific Instrument	26,830.20	32,374.79	20.67	0.90

(Data Source: DGCIS, Kolkata)

During the period Apr-Mar 2018-19, import of Optical, Medical & Surgical Instruments was US\$ 5891.82 million compared to US\$ 5340.29 million in the corresponding period of the previous year registering a positive growth of 10.33 per cent. This is mainly due to the fact that all commodities under this group have registered positive growth during the period except optical items (including Lens etc).

**Recommendations**

India is now the limelight for its expertise in some segments of the medical devices sector. Owing to its high growth potential in terms of domestic manufacturing and global exports, the medical devices, surgical equipment's and pharmaceutical machineries have emerged as the 'Sunrise Sector' of India.

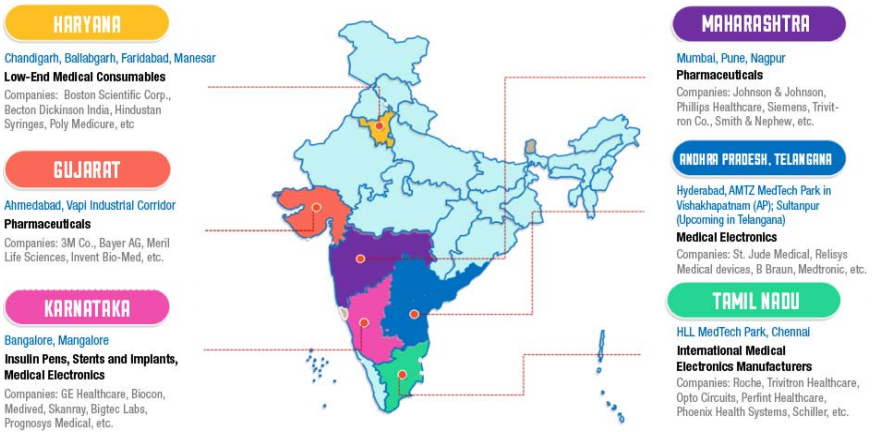
India Brand Equity Foundation (IBEF) and EEPC India under the aegis of Ministry of Commerce and Industry, Government of India have identified the medical devices as one of the four focus sectors under the 'Brand India Engineering'. The 'Brand India Engineering' is an initiative being implemented by IBEF and EEPC India under the aegis of the Ministry of Commerce and Industry, in close cooperation with the industry to enhance India engineering exports, by highlighting and showcasing Made in India products and their capabilities in the global market.

The initiative involves 360° approach in promoting branding of Indian engineering products. The Indian medical devices industry is currently valued

at around US\$ 5 billion which is 2% of the US\$ 250 billion industry. The overall healthcare industry in India is valued at USD 90 Billion which is expected to reach US\$ 220 billion by the year 2020.

Thus, India's medical devices, surgical equipment and pharmaceutical industry is poised to grow significantly in the coming years and emerge as the cost effective supplier of the products to the whole world. The Indian surgical equipment, medical device and pharmaceutical machinery industry is fragmented with close to 1,800 domestic firms which are predominantly MSMEs, primarily competing in the range of low to medium technology products.

However, in recent years there has been a paradigm shift in the manufacturing landscape which now has expanded for producing more Cost-effective to number High End Products including Hi-tech R&D and Testing in the Sector.



There are a range of Medical Device Clusters that have emerged due to supportive State-level policies as well as the availability of skilled labour. There are a few Medical Device Parks planned across India, including Andhra Pradesh MedTech Zone Limited (AMTZ), a park in Sultanpur village (Telangana) and HLL Lifecare Mediparks in Tamil Nadu, Maharashtra and Gujarat.

*Association of Indian Medical Device Industry (AIMED), 901-902, Narain Manzil, 23, Barakhamba Road, New Delhi – 110001* is an umbrella association of Indian manufacturers of medical devices covering all types of medical devices including consumables, disposables, equipment's, instruments, electronics, diagnostics and implants.

## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

With a primary membership of over 300 manufacturers and additionally over 200 associate members representing the interest of over 1,200 manufacturers of medical devices this Association is meant to address the manufacturer's problems.

The aim behind forming AiMeD is to allow the Indian Government to access a single point of contact and provide various services to the manufacturers like advocacy on policy issues, information services, regulations for medical devices, education and training, services, testing assistance and guidance for quality certification (ISO, CE, GMP), lobbying for funding for R&D from the Government, encourage innovations from member units, Improve clinician and patient access to the modern, innovative and reliable medical device technologies through organizing and supporting meeting, seminars, symposia, exhibitions and demonstrations and also, to promote global harmonization and respect for the Indian Device Industry.

AiMeD ensures convergence at one common platform, when needed, for ensuring overall growth of Indian medical devices industry and further address the needs of all members of the medical device industry irrespective of their affiliation or their company size. It also helps in wider dissemination of information to each player of the industry. AiMeD has been horizontally divided into common groupings like – R&D and Product Development, Legal & Tax Issues, Export Related Issues, Medical Device Regulatory Issues common to all vertical groups of different families of product lines with Zonal Representations."

To start "import substitution industries" in medical equipment industries, the Cluster States as mentioned above, *AiMeD* should prepare a master plan for manufacturing of these equipments in co-ordination with the Ministry of MSME and Industries, Government of India.

This not only helps the 'Health Sector' of the country but also substantial savings will happen in 'Foreign Exchange Reserves' on account of control the Import of such equipments from the other countries.

## Electronic Items

Table – 14  
Import of Principal Commodities

Values in ₹ Crore

ELECTRONICS ITEMS	332,201.12	388,149.60	16.84	10.82
Computer Hardware, Peripherals	52,924.23	62,615.63	18.31	1.75
Consumer Electronics	28,216.11	33,977.82	20.42	0.95
Electronics Components	65,621.26	110,389.18	68.22	3.08
Electronics Instruments	44,621.26	56,060.47	25.64	1.56
Telecom Instruments	140,818.10	125,106.50	-11.16	3.49

(Data Source: DGCIS, Kolkata)

During the period Apr-Mar 2018-19, import of electronic items was US\$ 55475.52 million compared to US\$ 51540.86 million during the corresponding period of the previous year registering a positive growth of 7.63 per cent. All commodities under this group have registered positive growth except Telecom instruments.

### Recommendations

The Indian electronics industry is being driven by macro factors such as the growing middle-class population and rising disposable income. In addition, declining electronics prices and adoption of high-end technology devices is leading to an uptick in consumption of electronics devices.

Furthermore, technology transitions such as the rollout of 4G/ LTE networks and IoT are driving the accelerated adoption of electronic products. Initiatives such as 'Digital India' and 'Smart City' projects have raised the demand for IoT in the market. Similarly, the digital banking sector like wallet players and payment banks will raise the demand for POS and VSAT-enabled mobile ATMs, which will further give a fillip to the growing industry.

- One of the largest electronics markets in the world anticipated to reach \$ 400 bn by 2025
- The consumer electronics and appliances industry in India is expected to become the fifth-largest in the world by 2025.

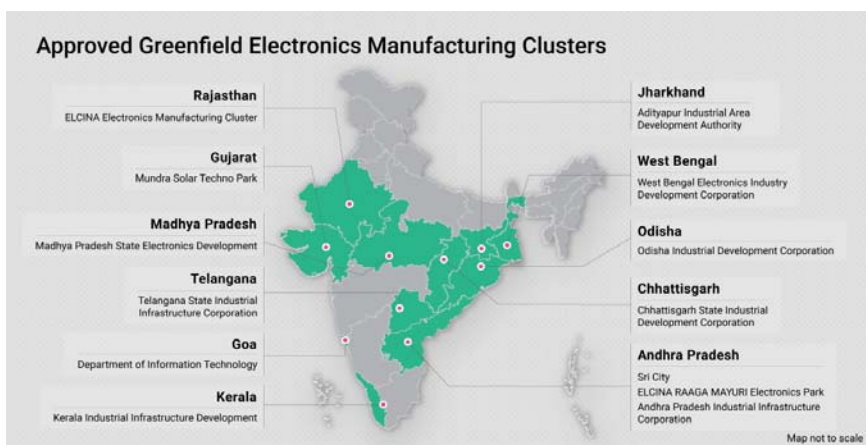
## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

- India's share in global electronics manufacturing has grown from 1.3% in 2012 to 3.0% in 2018
- The electronics manufacturing sector accounts for 2.5% of India's GDP, and employs over 13 million people through direct and indirect jobs.

A growing middle-class population, rising disposable income, and declining electronics prices have led to an uptick in consumption of electronic devices in India. Quick technology transitions such as the rollout of 5G and Internet of Things (IoT) are ushering a new era for electronic products.

India is undoubtedly undergoing a digital revolution. The country has experienced large-scale digital adoption between 2013 and 2018.

- Digital transactions have increased 10x during the past 5 years.
- By 2025, India could create a digital economy of \$800 billion to \$1 trillion, and India's digital economy could fuel 18–23% of overall economic activity by 2025.



### *Potential States to start Start-up Companies in Electronic Goods in India*

**Chhattisgarh:** The 'Electronics, IT and ITES Investment Policy of Chhattisgarh aims to make the State an all-rounder in electronics. The State Government is looking to create an environment wherein every facet of life in Chhattisgarh is touched by electronics. The policy aims to promote SMEs, which can put technology to good use in order to become global leaders. The State also plans to establish *Naya Raipur* as the first smart city in the country.

**Gujarat:** The Government of Gujarat has a holistic approach towards making the State one of the leading electronics manufacturing hubs in India. One of the main objectives of the State's Electronics Policy, is to make Gujarat an ESDM hub with a turnover of US\$ 16 billion by 2020, and to drive investments of US\$ 6 billion so that 500,000 people are employed in the industry by 2020. In addition, the exports from the ESDM sector are targeted to reach US\$ 1 billion by 2020.

**Madhya Pradesh:** Madhya Pradesh has chosen a unique path to make the State self-sufficient in electronics manufacturing. The State's latest policy is called the Analogue Semiconductor Fabrication (fab) Investment Policy.

**Uttar Pradesh:** The Uttar Pradesh Electronics Manufacturing Policy has a simple approach to promoting the electronics manufacturing industry. While its vision is similar to other states in making UP a leading electronics hub, it intends to focus on its skilled human resources and put them to good use. While the development of EMCs and fab units are some of the main focus areas, there are other notable aspects of the state's electronics policy as well.

**Andhra Pradesh:** Andhra Pradesh's biggest strength has been its pool of talented professionals with entrepreneurial skills. Since these abilities are just perfect to develop an electronics manufacturing ecosystem, the State came up with its own electronics policy titled Andhra Pradesh Electronics Policy. The policy aims to attract investments of US\$ 5 billion into the ESDM sector and generate employment opportunities for 0.4 million people by 2020.

**Karnataka:** The Karnataka Electronic System Design and Manufacturing (ESDM) Policy has been formulated with some clear targets. The State Government wants to make Karnataka one of the leaders in the Indian ESDM sector by contributing at least 10 per cent of the US\$ 400 billion target set by the NPE.

In an attempt to achieve this, the State intends to account for more than 20 per cent of the country's export targets in the ESDM sector (US\$ 80 billion) by 2020 and thus create at least 240,000 job opportunities.

**Kerala:** Kerala has never had an electronics policy earlier. But the Kerala Industrial & Commercial Policy as Amended in 2015 has enough elements that can benefit the ESDM sector. The latest policy has a part of it dedicated to the ESDM sector and intends to provide enough support to make this an integral part of the state's economic growth.



**West Bengal:** West Bengal has not launched any policy for the electronics manufacturing sector recently, but the 'West Bengal Policy on Information & Communication Technology, 2012' promised a good number of things to the IT, ITES and ESDM sectors. With an aim to make the State's share in the production of electronics goods in India 15 per cent by 2020, the State Government intends to provide all kinds of support to the afore mentioned sectors, right from providing educated and skilled human resources to facilitating quality assurance and effective e-waste management, among other things.

**Telangana:** Telangana does not have a policy dedicated to electronics manufacturing yet. But as a new State, which envisages becoming one of the most productive, it has an industrial policy which has earmarked electronics, IT hardware, cellular communications and fabs to be a part of the thrust sectors. The key focus areas include the IT software and hardware sectors, along with the Central Government's approval for an IT investment region for Hyderabad as well as two EMCs. Besides, a large health industry in the State will provide support to the bio-medical devices industry and medical electronics. The industrial policy covers a large chunk of sectors but since electronics is one of the key focus areas, some of its objectives and incentives are expected to benefit electronics manufacturing and IT to a considerable extent.

### Machinery

Table – 15  
Import of Principal Commodities

Values in ₹ Crore

MACHINERY	252,340.03	321,884.92	27.56	8.97
Electrodes	661.43	1,113.79	68.39	0.03
Accumulators and Batteries	8,038.72	12,222.88	52.05	0.34
Hand Tool, Cutting Tool of Metals	6,326.02	7,820.13	23.62	0.22
Machine Tools	16,353.71	24,670.37	50.85	0.69
AC, Refrigeration Machinery etc.	21,825.42	26,090.32	19.54	0.73
Cranes, Lifts and Winches	9,134.80	11,870.22	29.95	0.33

## Potential for ISI in India (COVID-19)

Electric Machinery and Equipment	53,454.46	68,848.46	28.80	1.92
IC Engines and Parts	17,009.96	16,938.78	-0.42	0.47
Industrial Machinery for Dairy etc.	67,551.31	87,276.38	29.20	2.43
ATM, Injecting Moulding Machinery etc.	6,008.43	7,520.34	25.16	0.21
Nuclear Reactor, Industrial Boiler Parts	1,874.67	2,748.11	46.59	0.08
Other Construction Machinery	13,287.65	15,850.14	19.28	0.44
Other Misc. Engineering Items	22,329.86	27,315.27	22.33	0.76
Prime Mica and Mica Products	1,612.65	2,976.61	84.58	0.08
Pumps of all Types	6,870.94	8,623.14	25.50	0.24

(Data Source: DGCIS, Kolkata)

During the period Apr-Mar 2018-19, import of machinery was US\$ 46052.29 million compared to US\$ 39148.54 million during the corresponding period of the previous year registering a positive growth of 17.63 per cent. Except for IC engines and parts all articles in this group have registered a positive growth.

### *Recommendations*

The machinery sector is of strategic importance to the Indian economy and forms the backbone of the manufacturing activity. The sector has a multiplier effect on the overall economic growth and facilitates development of a wide range of user industries by providing critical inputs necessary for manufacturing.

Therefore, the sector influences the core manufacturing development within India. An analysis of India's trade as per Broad Economic Categories (BEC) classification indicates that main sectors contributing to India's trade deficit include capital goods (except transport equipment), parts and accessories of capital goods, and industrial supplies not elsewhere specified (both primary and processed).

## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

The relative attractiveness of different States for the machine tools sector can be assessed on the following key parameters:

- Presence of key user industries, which could offer easy and assured market access.
- Availability of key factors of production – labour, supporting industries, etc.
- Supportive Government policies. Based on these parameters, Tamil Nadu, Maharashtra, Gujarat, Andhra Pradesh and Haryana could be potential locations for investors in this sector.

Also, some States such as Uttarakhand have recently attracted manufacturing investments and could be attractive locations in the future.

India's machinery sector is a critical part of the overall manufacturing sector, as it provides the machinery that delivers manufacturing output and drives productivity and growth. Growth in the manufacturing sector has led to a rapid increase in demand, especially for increasingly sophisticated CNC machines. While imports have risen to meet the demand, local capacity in machine tools needs to be built to cater to long term growth.

Several States in India are seeking to attract investments in this industry. Among them States, such as, Tamil Nadu, Maharashtra, Gujarat, Andhra Pradesh, Karnataka, Haryana and Punjab have managed to attract sizeable investments and are key industrial hubs. Other States like Madhya Pradesh and Uttarakhand, have been focusing on this area and are emerging as attractive locations.

Players who look to succeed in the sector in the long term, need to focus on key success factors, such as, developing capacity and scale, design capability, acquiring the latest technology and managing costs through productivity improvement.

### Office Equipment:

Table – 16  
Import of Principal Commodities

Values in ₹ Crore

Office Equipment	302.09	369.17	22.21	0.01
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(Data Source: DGCIS, Kolkata)

During the period Apr-Mar 2018-19, import of office equipment increased to US\$ 52.73 million from US\$ 46.83 million during the corresponding period of the previous year registering a positive growth of 12.60 per cent.

### *Recommendations*

The global furniture market can be broadly categorised into the following categories –

- Domestic furniture, office/corporate furniture,
- Hotel furniture and furniture parts.
- Globally, domestic furniture accounts for 65 per cent of the production value, whilst corporate/office furniture represents 15 per cent, hotel furniture 15 per cent and furniture parts 5 per cent.

According to a World Bank study, the organised furniture industry is expected to grow by 20 per cent every year. A large part of this growth is expected to come from the rapidly growing consumer markets of Asia, implying significant potential for growth in the Indian furniture sector.

The office furniture segment caters to the commercial and office space. This segment has witnessed rapid growth in recent years, in line with the growth in the Indian economy and subsequent demand for office space. The thrust on real estate and office construction is expected to sustain in the near future, indicating continued growth for the furniture industry.

The Key players are the following :

#### *1. Godrej & Boyce Manufacturing Co. Ltd.*

It mainly manufactures consumer products, office equipment, consumer appliances, chemicals, agro products, security equipment, industrial products and offer office automation and storage solutions.

- The company's manufacturing facility is located in Mumbai, Maharashtra.

#### *2. Featherlite*

- Featherlite has been retailing furniture for the past 20 years and the first outlet was opened in Bangalore in 1987.
- The company has a state-of-the-art manufacturing plant and is engaged in continuous R&D.

### 3. *Style Spa*

- Style Spa Furniture Limited is promoted by the Zuari-Chambal Group. Established in India in 1997, to manufacture and retail furniture. The company is headquartered in Chennai
- The US\$ 15 million manufacturing facility at Kakkalur, near Chennai, in the State of Tamil Nadu, is a sophisticated and fully automated plant, which is one of Asia's most modern and largest manufacturing facility . The ISO-certified plant produces around 0.2 million furniture pieces annually.
- The company manufactures home and office furniture that is retailed through about 92 exclusive retail outlets, spread across the country.

### 4. *Nilkamal*

- Nilkamal Group of Companies has a turnover of over US\$ 125 million.
- It is the leader in plastic moulded furniture
- The company has diversified into the lifestyle furniture business by launching @home, which is a complete home solution store offering contemporary readymade wooden furniture. The company has eight manufacturing locations in India.

The above companies are having good expertise in manufacturing office equipment and are the pioneers in the line of activity. If State / Central Government encourages by way of incentives / subsidies, these key players are also capable of manufacturing office equipment which are now imported from other countries. At these States / Centres there is scope for start-up companies to manufacture office equipment particularly import substitution items.

### Transport Equipment:

Table – 17  
Import of Principal Commodities

Values in ₹ Crore

TRANSPORT EQUIPMENT	123,576.78	138,551.91	12.12	3.86
Auto Tyres and Tubes	3,214.93	3,127.85	-2.71	0.09

Auto Components / Parts	33,084.25	37,807.81	14.28	1.05
Bicycle and Parts	1,694.55	1,945.77	14.83	0.05
Aircraft, Spacecraft and Parts	49,475.49	47,162.57	-4.67	1.31
Motor Vehicle / Cars	2,162.27	2,549.55	17.91	0.07
Railway Transport Equipment's Parts	2,748.83	4,929.14	79.32	0.14
Ship, Boat and Floating Structure	30,878.70	40,691.22	31.78	1.13
Two and Three Wheelers	317.76	338.01	6.37	0.01

(Data Source: DGCIS, Kolkata)

During the period Apr-Mar 2018-19, import of transport equipment stood at US\$ 19761.84 million compared to US\$ 19175.01 million during the corresponding period of the previous year registering a positive growth of 3.06 per cent. This is mainly due to high import growth of ship, boat and floating structure and railway transport equipment and parts with positive growth of 20.85 per cent and 65.65 per cent respectively.

### *Railways*

Indian railways is a symbol of growing level of technology in the country. It produces all the requirements of its rolling stock, i.e. railway engines, wagons and coaches. Railway engines are of three types: steam, diesel and electric. Engines are manufactured at Chittranjan in West Bengal, Varanasi in Uttar Pradesh and Jamshedpur in Jharkhand. Rails and sleeper bars are manufactured at iron and steel plants.

**Coaches:** Coaches are manufactured at Perambur (Chennai), Bangalore, Kapurthala and Kolkata, while wagons are produced in private sectors and railway workshops. The Integral Coach factory at Perambur near Chennai started production of railway coaches with Swiss collaboration in 1955. It now produces almost all types of coaches including air-conditioned coaches, electric and diesel rail cars and electrical multiple units.

The Bharat Movers at Bangalore has an installed capacity of 400 broad gauge coaches per annum. Ail Coach Factory at Kapurthala in Punjab was set up in March, 1988. It has an installed capacity of 1000 coaches per annum. It is manufacturing AC 3-tier coaches also.

**Wagons:** Wagon manufacturing industry is fully geared to meet the growing demands of the railways. Most of the wagons are produced in private sector. There are 13 units with an installed capacity of 30,625 wagons (in terms of 4 wheelers) in private sector and three railway workshops with an annual capacity of about 4,000 units. About 60 per cent wagons are produced in West Bengal and the rest come from Maharashtra, U.P., Punjab and Delhi.

**Other Railway Equipment:** Rails and sleeper bars are manufactured in iron and steel works at Bhilai and Jamshedpur and wheels and axles at Durgapur, Jamshedpur and Rourkela. Coaches and wagons are manufactured both in public and private sector units.

### ***Road Transport***

Road transport is far more wide-spread than the railways. At present, motor vehicles like trucks, passenger buses, cars, motor cycles, scooters, etc., are manufactured in large numbers. India is the second largest producer of three wheelers.

Tractors and bicycles are also manufactured in large numbers. India currently produces about 15 million bicycles and 3.8 million scooters and motorcycles in a year. The industry is widely distributed around Delhi, Gurgaon, Mumbai, Pune, Chennai, Kolkata, Lucknow, Indore, Hyderabad, Jamshedpur and Bangalore.

**Automobiles Industry:** Automobile industry did not exist in India in the real sense before Independence. Only assembly work was being done from the imported parts. General Motors (India) Ltd. started assembling trucks and cars in 1928 in their factory at Mumbai. Ford Motor Co. (India) Ltd. started assembling of cars and trucks at Chennai in 1930 and at Mumbai in 1931. Check -Standard Motors at Madras was also assembling cars even prior to independence

The real development of the industry began with the establishment of the Premier Automobiles Ltd. at Kurla (Mumbai) in 1947 and the Hindustan Motors Ltd. at Uttarpara (Calcutta) in 1948. Automobile Industry in India has made considerable progress during the last three decades. Today, it is one of the most vibrant sectors of the economy.

No industrial license is now required for setting up any units for manufacture of automobile except in some special cases. At present 100% foreign direct investment is permissible under automatic route in this sector.

Gurugram in Haryana, Mumbai, Chennai, Jamshedpur, Jabalpur and Calcutta are the chief centres producing automobiles. These centres produce almost all sorts of vehicles including trucks, buses, passenger cars, three wheelers and two wheelers.

Tata Engineering and Locomotive Co. Ltd. (TELCO) is the leading producer of medium and heavy commercial vehicles and accounts for over 70 per cent of such vehicles produced in India. Four plants, each at Hyderabad, Pithampur (M.P.), Arson near Rupnagar (Punjab) and Surajpura in Ghaziabad district of U.P. manufacture light commercial vehicles.

What about Bharat Benz at Chennai and Volvo at Bangalore – buses and trucks

### *Shipbuilding*

Ship building capacity of unit is defined in terms of the number of ships built and their carrying charring capacity measured in terms of dead weight tonnage shipbuilding is a large industry which requires huge capital. At present there are five major shipbuilding centres, namely, Vishakhapatnam, Kolkata, Kochi, Mumbai, and Marmagao. They are all in public sector.

Cochin Shipyard Ltd possesses the maximum ship building capacity (110 thousand DWT followed by Hindustan Shipyard Ltd. (70 thousand) (DWT).

Hindustan Shipyard Ltd., Vishakhapatnam was set up by M/s Scindia Steam Navigation Company in 1941 and the first ship was launched on 14th March 1948.

Cochin Shipyard Ltd. at Kochi started its commercial production in 1976. It has capacity to build vessels upto 85,000 DWT and to repair vessels upto 1,00,000 DWT.

The Garden Reach Workshops at Calcutta specialise in manufacturing coasters, harbour crafts, inland transport vessels like tugs, barges, dredgers, etc. Located on the east bank of the Hugli, it has 5 slipways and 2 dry docks.

The Mazgaon Dock at Mumbai builds dredgers, dock cranes, cruisers, frigates, etc. for the Indian Navy. It can also build ocean-going vessels up to 15,000 DWT. The dock also undertakes the repair of the ships.

In addition to the above-mentioned main centres, there are 33 smaller shipyards manufacturing vessels of small size meant for domestic purposes. Goa Shipyard undertakes the manufacture of fibre glass boats, trawlers, dredgers and barges.



### **Aircraft Industry**

India has not yet entered into civil aircraft manufacturing industry. For defence requirement, however, it has developed aircraft industry at Bangalore, Koraput, Nashik, Hyderabad, Kanpur and Lucknow. Each place specialises in the manufacture of a certain type of aircraft. India manufactures helicopters also.

Different parts of aircrafts are manufactured at different places due to security reasons. The main divisions of the HAL are:

- (i) A three-unit MIG complex comprising the Nasik division where MIG airframe is manufactured,
- (ii) The Koraput division where the engine for MIG aircraft is manufactured
- (iii) The hydrated division where electronic equipment for the MIG is manufactured.

Transport aircrafts are manufactured at Kanpur. Recently a factory was set up at Lucknow for producing equipment for aircraft. Among the other major products, mention may be made of Jaguars, Maruti, Gnat Fighter Aircraft, Jet Trainer Aircraft, etc. and some helicopters.

### ***Recommendations***

Transport equipment industry in India is vast and varied type of engineering industry which includes railway equipment (locomotives, coaches and wagons), auto-vehicles (trucks, buses, cars, three wheelers, two wheelers, shipbuilding, aircraft, and cycle manufacturing).

The above discussed locations where at present transport equipment industries are located are the best / ideal locations to start the import substitutions units due to the following reasons:

- Skilled Labour is readily available.
- Infrastructure facilities like Roads, Electricity, Transport Systems etc. already in place.
- The existing Industries may start their subsidiaries / new ventures at these locations, if Government is providing incentives, subsidies, land etc. Thereby the technical know-how, managerial expertise from the existing units may be transferred to the new import substitution industries also. It is win-win situation both to the existing industries and also to the Government.

Project Goods

Table – 18  
 Import of Principal Commodities

Values in ₹ Crore

Project Goods	13,392.28	16,617.76	24.08	0.46
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(Data Source: DGCIS, Kolkata)

Import of project goods increased to US\$ 2375.57 million during Apr-Mar 2018-19 as compared to US\$ 2077.61 million during the corresponding period of the previous year showing a rise of 14.34 per cent.

**Recommendations**

*Project Construction Items / Project Goods:* The construction industry has recorded enormous growth world-wide and particularly in India during the last decade. Projects (domestic or overseas) require a host of project construction items / project goods.

India's capital goods manufacturing industry serves as a strong base for its engagement across sectors such as engineering, construction, infrastructure and consumer goods, amongst others. The capital goods industry in FY 2018 -19 had an overall production figure amounting to \$13.6 bn. Capital goods industry in India provides approximately 1.4 mn direct and 7 mn indirect jobs.

The State / Central Governments should focus on the following States to start import substitutions in respect of project goods.



Textiles & Allied Products

Table – 19  
Import of Principal Commodities

Values in ₹ Crore

TEXTILES & ALLIED PRODUCTS	41,257.71	47,273.37	14.58	1.32
Manmade Staple Fibber	2,378.27	3,274.73	37.69	0.09
Cotton Yarn	205.38	147.35	-28.25	0
Cotton Fabrics, Makeup's Etc.	3,043.62	3,490.54	14.68	0.10
Other Textile Yarn, Fabric Makeup's Article	6,215.54	6,389.74	2.80	0.18
Silk, Raw	1,218.14	1,041.40	-14.51	0.03
Natural Silk Yarn, Fabrics, Makeup's	385.17	341.39	-11.37	0.01
Manmade Yarn, Fabrics, Makeup's	12,221.94	15,401.94	-14.51	0.03
Wool, Raw	1,884.60	2,159.56	14.59	0.06
Woollen Yarn, Fabrics, Makeup's etc.	510.76	804.92	57.59	0.02
RMG Cotton Including Accessories	2,261.23	3,841.61	69.89	0.11
RMG Silk	33.29	73.82	121.76	0
RMG Manmade Fibbers	1,505.90	2,281.90	51.53	0.06
RMG Wool	84.52	110.36	30.57	0
RMG of other Textile Material	1,097.60	1,462.34	33.23	0.04
Coir and Coir Manufactures	48.60	30.05	-38.17	0
Handloom Products	70.16	107.77	53.61	0
Silk Waste	11.99	36.37	203.30	0

Jute Raw	289.02	235.86	-18.39	0.01
Jute Yarn	310.94	292.13	-6.05	0.01
Jute Hessian	122.38	184.40	50.69	0.01
Floor Covering of Jute	6.86	8.96	30.48	0
Other Jute Manufactures	440.25	466.49	5.96	0.01
Silk Carpet	0.23	0.03	-86.26	0
Cotton Raw including Waste	6,306.77	4,382.89	-30.50	0.12

(Data Source: DGCIIS, Kolkata)

During the period Apr-Mar 2018-19, import of textiles & allied products was US\$ 6759.21 million compared to US\$ 6401.90 million during the corresponding period of the previous year registering a positive growth of 5.58 per cent. Out of 25 commodities under this category, 15 have registered positive growth in imports.

### *Recommendations*

India is among the world's largest producers of textiles and apparel. The domestic textiles and apparel industry contribute 2.3% to India's GDP and accounts for 13% of industrial production, and 12% of the country's export earnings.

The textiles and apparel industry in India is the second-largest employer in the country providing employment to 45 million people. It is expected that this number will increase to 55 million by 2020.

India has also become the second-largest manufacturer of PPE in the world. More than 600 companies in India are certified to produce PPEs today, whose global market worth is expected to be over \$92.5 bn by 2025, up from \$52.7 bn in 2019.

FDI in the textiles and apparel industry has reached up to \$3.1 bn during 2018-19. Exports in the textiles and apparel industry are expected to reach \$300 bn by 2024-25 resulting in a tripling of Indian market share from 5% to 15%.

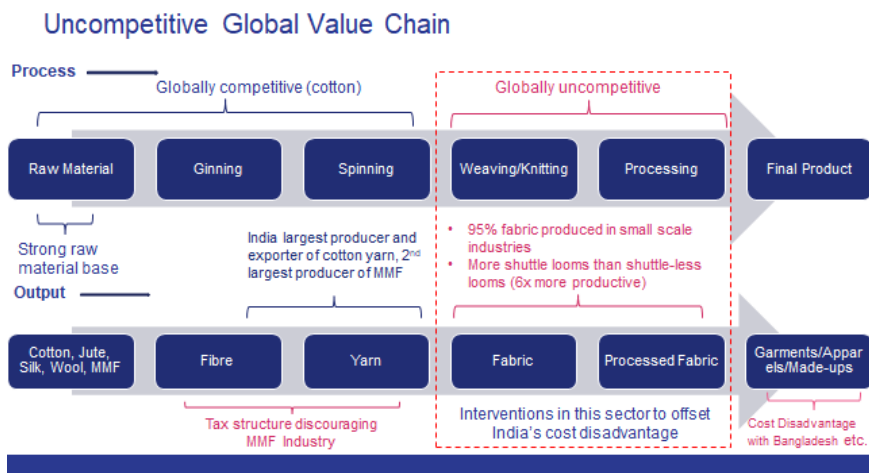
The future for the Indian textile industry looks promising, buoyed by both strong domestic consumption as well as export demand. With consumerism and disposable income on the rise, the retail sector has experienced a rapid

## HB on Potential for 'NEO Import Substituting Industrialization in India' ...

growth in the past decade with the entry of several international players like Marks & Spencer, Guess and Next into the Indian market.

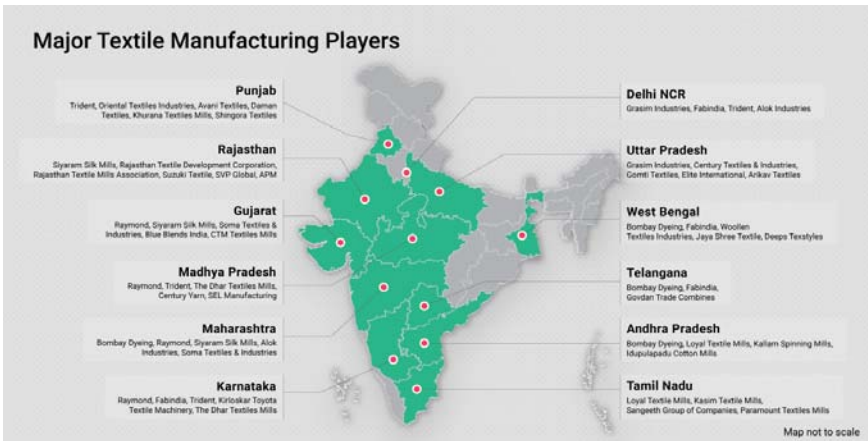
High economic growth has resulted in higher disposable income. This has led to rise in demand for products creating a huge domestic market.

While India has the advantage of the entire value chain in the industry, currently the value chain is uncompetitive. The figure below indicates the current status of textile value chain (GVC) in India:



***Textile & Garments Industry in India is expected to reach \$ 223 bn by 2021 from \$ 137 bn in 2016***

The textiles and apparel industry in India has strengths across the entire value chain from fiber, yarn, fabric to apparel. It is highly diversified with a wide range of segments ranging from products of traditional handloom, handicrafts, wool and silk products to the organized textile industry. The organized textile industry is characterized by the use of capital-intensive technology for mass production of textile products and includes spinning, weaving, processing, and apparel manufacturing.



The Textiles Committee's main objective is to ensure the quality of textiles and textile machinery both for internal consumption and export purposes. The Textiles Committee, as corollary to its main objective of ensuring the quality of textiles and textiles machinery has been entrusted with the following functions, under Section 4 of the Act:

- To undertake, assist and encourage, scientific, technological and economic research.
- To establish standard specifications for textiles, textile machinery and the packing materials.
- To establish laboratories for the testing of textiles and textile machinery.
- To provide training in the techniques of quality control.
- To provide for the inspection and examination of textiles and textile machinery.
- To promote export of textiles.
- To collect statistics and
- To advise the Central Government on all matters relating to textiles and textile machinery, etc.

Government of India has to take steps to minimize the Imports of textiles in a and allied products in a phased manner, as India is pioneer in Textile and related products Industry.

Steps should be initiated by Textile Committee of Government of India on the Imports List of Textile and Allied Products and take into the confidence the

potential States which are manufacturing textiles and allied products within the Country and allow them to manufacture related products which are Imported from the other countries. It will be a win-win situation both to the existing Industries and also Government at a large. The Committee should also focus on Import Substitution Policy in addition to Export Promotion Policy of Textile and Allied Products.

### Petroleum Crude & Products:

Table – 20  
Import of Principal Commodities

Values in ₹ Crore

PETROLEUM CRUDE & PRODUCTS	700,320.81	986,019.61	40.80	27.48
Petroleum: Crude	563,097.71	798,158.32	41.74	22.25
Petroleum Products	137,223.10	187,861.29	36.90	5.24

(Data Source: DGCIS, Kolkata)

Import of petroleum crude & products increased to US\$ 140883.78 million during Apr-Mar 2018-19 as compared to US\$ 108658.69 million during the corresponding period of the previous year registering a positive growth of 29.66 per cent. This is due positive growth of Petroleum Crude by 30.52 per cent and Petroleum products by 26.10 per cent.

### Recommendations

A Committee was constituted by the Government for preparing a roadmap to reduce the dependency on import in energy by 10% by 2021-22. The Report submitted by Committee was accepted by the Government which envisages five-pronged strategy, broadly comprising of increasing domestic production of oil and gas, promoting energy efficiency and conservation measures, giving thrust on demand substitution, capitalizing untapped potential in biofuels and other alternate fuels / renewables and implementing measures for refinery process improvements. The Ministry is working in collaboration with various Central Government Ministries on the matter.

The Government has taken several steps to enhance exploration & production of oil and gas in the country which include: Policy for Relaxations, Extensions and Clarifications under Production Sharing Contract (PSC) regime for early monetization of hydrocarbon discoveries, Discovered Small

Field Policy, Hydrocarbon Exploration and Licensing Policy, Policy for Extension of Production Sharing Contracts, Policy for early monetization of Coal Bed Methane, Setting up of National Data Repository, Appraisal of Unapprised areas in Sedimentary Basins, Re-assessment of Hydrocarbon Resources, Policy framework to streamline the working of Production Sharing Contracts in Pre-NELP and NELP Blocks, Policy to Promote and Incentivize Enhanced Recovery Methods for Oil and Gas, Policy framework for exploration and exploitation of Unconventional Hydrocarbons under existing Production Sharing Contracts, Coal Bed Methane contracts and Nomination fields.

The Government in February, 2019 approved major reforms in exploration and licensing policy to enhance exploration activities, attract domestic and foreign investment in unexplored/unallocated areas of sedimentary basins and accelerate domestic production of oil and gas from existing fields. The policy reforms inter alia aims to boost exploration activities with greater weightage to work programme, simplified fiscal and contractual terms, bidding of exploration blocks under Category II and III sedimentary basins without any production or revenue sharing to Government, early monetization of discoveries by extending fiscal incentives, incentivizing gas production including marketing and pricing freedom, induction of latest technology and capital, more functional freedom to National Oil Companies for collaboration and private sector participation for production enhancement methods in nomination fields, streamlining approval processes and promoting ease of doing business including electronic single window mechanism.

The Government is also promoting the usage of environment friendly transportation fuel, i.e. CNG by expanding the coverage of City Gas Distribution (CGD) network in the country. Government has also taken a number of initiatives to encourage the use of alternative fuels like ethanol and bio-diesel through Ethanol Blending in Petrol (EBP) Programme and Bio-diesel blending in diesel. Government has formulated a National Bio Fuel Policy 2018 to boost availability of biofuels in country.

***Petroleum Products:*** There is a scope for manufacturing of petroleum related products in India (those are imported from other countries). For this the Ministry of Petroleum has to take measures to encourage the start-up companies to manufacture the imported related "Petroleum Products" in India as there is little scope for exploring Crude Oil in the Country. Thereby the country will save to a large extent of forex reserves.



Other articles/products

Table – 21  
Import of Principal Commodities

Values in ₹ Crore

OTHERS	39,907.76	43,012.65	7.78	1.20
Human Hair, Products thereof	33.38	38.02	13.89	0
Packaging Materials	1,948.25	2,369.82	21.64	0.07
Handicrafts (Excl. Handmade Carpets)	5,943.42	5,556.16	-6.52	0.15
Other Commodities	31,982.71	35,048.64	9.59	0.98

(Data Source: DGCIS, Kolkata)

**Recommendations**

**Human Hair:** A large portion of human hair used in wigs and extensions comes from India and China. Religious people make pilgrimages to temples such as the Lord Venkateswara Temple in Tirumala, India, Eluru and Visakhapatnam of Andhra Pradesh and Important Pilgrim Centres located in South like Tamilnadu, Telangana, Karanataka and Kerala States where they shave / tonsure their heads in a ritual of devotion. State and Central Governments should encourage 'Start-up Companies' under IS Industries where temples are located to reduce the imports burden of human hair related products. These Units can be started under MSME Sector.

**Packaging Materials:** Balmer Lawrie & Company Limited, Kolkata, Ester Industries Limited, Gurgaon, Flexituff Ventures International Limited in various Locations in India, TCPL Packaging Limited, Various Locations in India, Time Technoplast Limited in various Locations in India, Uflex Limited, Noida etc. are the main players in the packaging materials industry. If, State / Central Governments incentivise these Industries to manufacture imported packing material, then the dependency on imports will reduce to a large extent. In the coming years, there will be considerable demand for the packing material on account of growth of e-commerce in India like Amazon, Flip cart etc.

The **Indian Institute of Packaging, Maharashtra** develops strategies and research in this regard to produce low cost packing material in India to meet our countries demand.

**Handicrafts:** India is also known as the powerhouse of handicrafts. This unique form of the woodwork is practiced in Jammu & Kashmir, Karnataka, Kerala and Uttar Pradesh. The Traditional form of Handicraft is found in the States of Madhya Pradesh, Rajasthan and Gujarat. Handicrafts India, Development Commissioner (Handicrafts), Ministry of Textiles, Government of India, New Delhi and also the concerned State Governments' Handicraft Corporations are to take measures to curtail the Import of Handicrafts by manufacturing the related Imported products in India itself so that it helps to the domestic Handicrafts Industry, Artisans and it also creates huge employment opportunities under this sector and also save foreign exchange outgo.

**Handmade Carpets:** States of Uttar Pradesh, Jammu and Kashmir, Rajasthan, Haryana, Punjab, Himachal Pradesh, Gujarat, Tamil Nadu, North East Region of India, Andhra Pradesh, Odisha, Telangana, Chhattisgarh and Jharkhand are the primary manufacturing centres for carpets and other floor coverings.

**The Indian Institute of Carpet Technology, Srinagar** has been established with the objective to provide necessary technical support to Carpet Industry of the State of Jammu and Kashmir.

To create additional demand of handmade carpets in the market, the above State Governments have to take measures through Handicrafts Department to obtain the list of imported Handmade Carpets from other countries, and encourage the MSME Units to produce the same in the respective States, whereby it would not only create employment opportunities to people in the State but also generate additional revenue to the State through GST etc.

## COVID-19 and Opportunities Post-Pandemic

The year 2020 presents challenges as uncertainty grips the world with the outbreak of COVID-19. While the world continues recovering gradually, industries world over are revisiting their global supply chain and reworking alternative business continuity plan.

While there has been a growing emergence of Southeast Asian countries (Especially MITIV) as the preferred choice, India has three distinct advantages in this regard:

- Recent reduction of corporate income tax rates for setting up of New Industries (lowest among the MITI-V Countries).

## HB on Potential for 'NEO Import Substituting Industrialization in India'...

- Host to Global In-house Centres (GICs) and Global Centre of Excellence (GCoEs) for several manufacturing companies that provide for more robust ecosystem and R&D.
- Added attraction of a large domestic market along with prospects of a Manufacturing Export / Import Substitutions Hubs.

## Chapter-10

# Suggestions and Conclusions

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Import substitution policies evidently have wider aims that transcend overcoming of foreign exchange gap which in itself is a symptom of deeper structural imbalances. They are motivated by long-run considerations bearing on an "efficient" pattern of trade (and hence of domestic production) from each country's national standpoint. They seek to radically alter the quantity and quality of factors of production, and productivity. These and other considerations involve numerous second-best problems, and raise serious doubts about the validity of abstract trade-theoretic and equilibrium growth models. Judgment about many issues connected with import substitution involves an understanding of the basic structural problems which prompt such efforts.

Import substitution policy is a set of measures aimed at stimulating production and competitiveness of domestic goods, increasing of domestic demand optimization of demand for imports. It is determined by the need to reduce the dependence of transitive economy on economic leaders. The main objective of the policy of import substitution is to encourage national production, to development the new products to stimulate demand and import restrictions.

## Actual Directions

Industrial restructuring, the balance of foreign trade, protection of the domestic market during the transition period. In the Commonwealth of Independent states import substitution is a complementary mechanism for diversification of production.

## Mechanisms for Implementation

Preferential loans and taxation, overvaluation of the national currency, government al regulation.

## Ways to Restrict Imports

Tariff regulation, Quotas, Introduction of limitation lists and multiplicity of the national currency. Improving the competitiveness of new production provides

vertical strategy of import substitution. It is aimed at meeting the intermediate demand of domestic enterprises.

## Factors contributing to the policy of import substitution

Large capacity of the domestic market, natural resources, ability to provide investments in the industry due to raw materials export.

The IS strategy is an attempt to replace commodities that are being imported, usually manufactured consumer goods, with domestic sources of production and supply. The typical strategy is first to erect tariff barriers or introduce quotas on certain imported commodities, then to try to set up a local industry to produce these goods (for instance, radios, bicycles, or household electrical appliances). This may or may not involve joint ventures with foreign companies, which are encouraged to set up their plants behind the protective wall. Although initial costs of production may be higher than former import prices, the economic rationale put forward for the establishment of import substituting manufacturing operations is either that the industry will eventually be able to reap the benefits of large-scale production and lower costs or that the balance of payments will improve due to imports of fewer consumer goods. Often a combination of both arguments is advanced. Eventually, it is hoped that the infant industry will grow up and be able to compete in world markets. It will then be able to generate net foreign exchange earnings once it has lowered its average cost of production.

German economist and politician Friedrich List (1841) was perhaps the first to put forward the infant industry argument. Infant industries may be defined as production activities that generate external economies in the form of learning-by-doing at the early (infant) stage of establishment. Infant industries may also include exporting activities. Procuring commodities in domestic markets and selling them at international markets can generate substantial (time-limited) external economies in the form of learning-by-doing.

An IS strategy has two major advantages, which explain the support from both policy makers (political bosses as well as bureaucrats) and entrepreneurs.

*First*, the market for the relevant industrial products already exists prior to the IS strategy, as evidenced by imports of these commodities, so that risks are reduced in setting up an industry to replace imports.

*Second*, it is easier for developing nations to protect their domestic market against foreign competition than to persuade developed nations to lower trade barriers against their manufactured or primary exports.

Against the above advantages, the following are the disadvantages:

Domestic industries can grow accustomed to protection from foreign competition and have no incentive to become more efficient; and import substitution can lead to inefficient industries because of the smallness of the domestic market in many developing countries does not allow them take advantage of scale economies.

Moreover, after certain simple manufactured imports are replaced by domestic production, further import substitution of more advanced products becomes more and more difficult and costly in terms of requirements for technology and capital.

Objectively contribute to the implementation of the Industrial Policy of Import-substitution taking into account the following factors:

- Positive stable dynamics of labour productivity.
- Financial stability of the country, which enables the implementation of a targeted Industrial Policy to stimulate domestic demand for domestic products, and exports of industrial products competitive for a long period.
- Deterioration of macroeconomic conditions, particularly the downward trend in energy prices, which stimulates both Import Substitution and the replacement of the low level of exports processed products of higher level of processing to increase the share of value added and technological level;
- Russia's participation in the European and world "Technology Platforms", her involvement in global processes of technological exchange, which allows, if not to create new advanced manufacturing technologies, to effectively replicate the existing ones.

Factors of choice of strategic directions of development of Import Substitution in different companies and industries are different, but they can be divided into two groups.

The external uncontrolled factors include market forces (demand for domestic and foreign markets, competition in the industry), the system of

state regulation of export-import transactions (the level of protection of domestic markets, the level of export promotion).

The internal factors applied to the resources of the enterprise are (investment resources, production capacity, technology, skilled employees), system of management enterprise (the system of strategic goals and objectives of the quality management system).

Reserves of increase of efficiency of activity of the company is at the stage of import substitution production of individual or multiple elements of the product.

At the enterprise, import substitution can be organized in one of two directions:

- The transition to the use of available on the market domestic analogy,
- The organisation of domestic production of import-substituting elements.

The most important condition of import substitution is the ability to provide quality and recognition of domestic analogy on foreign markets, especially in markets abroad. At the same time, it should be noted that there are differences in the perception of the level of quality in geographical terms. That is the level of quality that is acceptable for domestic consumption and consumers, for example, from the CIS countries, does not satisfy the demands of consumers, such as the EU, the US.

The effectiveness of import substitution at the production stage is defined by the effect of the resulting saving of resources in terms of money for use in the production of import-substituting element based on the volume of production within the time interval scheduling (compared to the resources spent for the purchase of imported counterparts), and investment costs for the organisation of its Production.

It should be noted that the organisation of import-substituting products "from scratch" in today's economic environment is complicated by the lack of investment resources. The most important direction of development of import substitution should become the location of production of import-substituting products based on existing companies. The implementation of the strategy of import-substituting industries is possible in two main ways:

- With a focus on investment demand and

- With a focus on stimulating consumer demand.

The Russian industrial enterprises can offer three options of import-substitution strategy:

- Strategy internal of import substitution,
- Strategy external of import substitution,
- Strategy of mixed import substitution.

Strategic directions of development of import substitution and identification of measures is reduced to determining the classifications of import-substituting products and target markets.

In this way, the basic principles of the implementation of Import-Substituting Industrial Policy in Russia are:

- De-industrialisation, increase in the share of industry in GDP and advanced from a technological point of view of production in the industrial structure.
- Stimulating domestic demand for industrial enterprises, including "subsidies" of prices and the system of public order.
- Long-term of the activities, to attract long-term investments;
- Keeping a high degree of openness of the economy. Development of cooperation with foreign partners in the areas of technological exchange, scientific cooperation and the creation of advanced manufacturing technologies. Keep in mind that the creation of simulated restrictions on the import and export of technologies reduces the efficiency and competitiveness of products;
- State support of export of competitive industrial products.

## Import Substitution- Need of the Hour

While crude, gold and metals imports (~50% of total imported goods basket) won't be easy to substitute, the other key import items such as electronics items, chemicals, machinery etc. form a major chunk (~30% of Total Imports) which should be the thrust area for India to shore up local manufacturing capabilities.

Electronics (Smartphones, Durables) boom in India cannot continue unless we start manufacturing locally. Apart from low cost advantage of China, the



entire ecosystem will have to be created from app developers to small component manufacturing which requires specialisation and focus.

### List of Major Commodities Imported in India

Major Imports of India	\$ Mn	% of Merchandise imports
Commodity	Mar-19	Mar-19
Petroleum Crude & Products	140,884	27.5%
Gems & Jewellery	64,666	12.6%
Electronic Items	55,476	10.8%
Chemical & Related Products	47,803	9.3%
-Bulk Drugs, Drug Intermediaries	3,560	0.7%
-Drug Formations, Biologicals	2,019	0.4%
Machinery (Capital Goods)	46,052	9.0%
Ores & Minerals	33,623	6.6%
Base Metals	32,364	6.3%
Transport Equipments	19,762	3.9%
-Auto Equipments	5,860	1.2%
-Vehicles	413	0.1%
Agri & Allied Products (FMCG)	18,560	3.6%
Plastic & Rubber Articles	18,469	3.6%
<b>Total Imports of Merchandise</b>	<b>507,410</b>	

Another Area of Import Substitution is lower value-added items (~10% of import basket) such as agriculture and allied products, plastics and rubber articles, furniture, apparel, footwear etc. where the key advantage for china is low cost of production and scale advantage.

"Swadeshi" sentiment would imply the need to pay up higher for most goods (as it would be difficult to match China's cost of production) resulting in higher inflation.

These Sectors are also labour Intensive and can help provide employment in SME segment.

**India Imports from China vs Total Imports CY2018 (US\$ Bn)**

Particulars	Imports from China	Total Imports	% Share in India's Total Imports
Machinery and electrical equipment	36.87	115.46	31.93%
Textiles & Clothing	4.40	8.84	49.75%
Metals	6.12	39.81	15.37%
Transportation	1.86	17.29	10.74%
Plastic or Rubber	3.23	23.12	13.97%
Footwear	0.92	1.01	91.69%
Chemicals	12.88	57.96	22.22%
Stone & Glass	2.18	83.10	2.62%
Wood	0.88	9.96	8.85%
Hides & Skins	0.65	1.36	47.55%
Food Products	0.15	3.40	4.36%
Animals	0.01	0.24	2.15%
Vegetables	0.19	21.54	0.86%
Fuels	1.00	205.11	0.49%
Minerals	0.16	10.60	1.55%
Miscellaneous	5.40	19.14	28.22%
<b>TOTAL</b>	<b>76.88</b>	<b>617.95</b>	<b>12.44%</b>

**Analysis**

The major imported items from China are machinery and electrical equipment followed by chemicals, metals, textiles & clothing i.e., US\$ 36.87 Bn, US\$ 12.88 Bn, US\$ 6.12 and US\$ 4.40. Government of India should take measures to boost these Industries in the first phase as the total amount contributed is US\$ 60.27 Bn i.e., 78.40% of total Imports from China.

China accounts for a sizable portion of India's top imports, especially where intermediate products or components and raw materials are concerned. It has also been the top exporter of products like electrical machinery, equipment and their parts, nuclear reactors, organic and inorganic chemicals, fertilisers as well as vehicles, their parts and accessories. In several cases, China's contribution is much higher than the second-largest exporter countries of these products to India.

The neighbouring country also accounts for 45 per cent of India's total electronics imports. A third of machinery and almost two-fifths of organic chemicals that India purchases from the world comes from China, according to the Confederation of Indian Industry. Automotive parts and fertilisers are other items where China's share in India's import is more than 25 per cent.

Several of these products are used by Indian manufacturers in the production of finished goods, thus thoroughly integrating China in India's manufacturing

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supply chain. For instance, India sources close to 90 per cent of certain mobile phone parts from China.

### Compounded Annual Growth Rate of Major Imports of India

Major Imports of India Commodity	\$ Mn						CAGR
	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	
Petroleum Crude & Products	164,765	138,326	82,944	86,964	108,659	140,884	-2.6%
Gems & Jewellery	58,436	62,351	56,509	53,739	74,668	64,666	1.7%
Electronic Items	32,384	36,857	40,022	41,930	51,541	55,476	9.4%
Chemical & Related Products	35,645	38,554	36,888	33,681	40,393	47,803	5.0%
-Bulk Drugs, Drug Intermediaries	3,147	3,246	3,248	2,738	2,993	3,560	2.1%
-Drug Formations, Biologicals	1,492	1,563	1,583	1,662	1,841	2,019	5.2%
Machinery (Capital Goods)	31,103	32,023	33,217	32,769	39,149	46,052	6.8%
Ores & Minerals	24,604	26,918	20,684	21,637	31,744	33,623	5.3%
Base Metals	21,563	27,047	24,704	21,552	27,429	32,364	7.0%
Transport Equipments	16,168	15,288	15,394	19,560	19,175	19,762	3.4%
-Auto Equipments	4,264	4,668	4,885	4,571	5,632	5,860	5.4%
-Vehicles	339	336	337	369	385	413	3.3%
Agri & Allied Products (FMCG)	13,492	19,004	20,674	23,211	22,223	18,560	5.5%
Plastic & Rubber Articles	12,769	14,327	13,761	14,020	17,038	18,469	6.3%
Total Imports of Merchandise	450,200	448,034	381,007	384,356	465,581	507,410	2.0%
Total Imports of Services	78,700	81,600	84,600	95,900	117,500	125,500	8.1%
Total Imports	528,900	529,634	465,607	480,256	583,081	632,910	3.0%

Based on the above information, India has not been able to lower dependence on Imports in electronics, machinery etc. as it has continued to grow in-line with domestic demand. Lower crude prices and lower gold tonnage consumption have helped keep overall Imports in check.

A number of measures taken from the best practices of other countries, which achieved high results in the course of implementation of this strategy, contributed to the import substitution in Russia. The analysis shows that the greatest results for all classification criteria were achieved by the countries of East Asia. Thus, according to their experience, the improvement of the competitiveness of the national industry is possible due to their own initiative to initiate the import substitution policy, as well as the transfer and further development of the advanced scientific and technical developments, the State financial support for the creation and modernization of the production infrastructure, but, above all, due to orientation to the foreign markets and the improvement of the export potential of the industry.

Particular attention should be paid to the mechanisms for attraction of the foreign investment into the economy, used by China, India, Malaysia, the

Philippines, Indonesia, Thailand and Belarus. Then, despite all the difficulties related to the policy of import substitution, with a proper approach to the implementation of the plan, Russia will be able to show the rapid economic growth in the long term.

### **MSME**

Developing capabilities for reducing Import burden and dependence on overseas for local demand fulfilment.

Increasing the share of MSME contribution across key public and private industry sectors fulfilling increasing domestic demand, growth in exports, indigenisation and import substitution.

### **Indigenisation**

Incentivise any investments and outputs by large players and their MSME vendors to indigenise and / or enable Import Substitution particularly adapting to Research and Development, Innovation and Global Technologies.

### **Indigenisation and Import Substitution**

India is heavily dependent on imports for a large number of goods and services. While import of certain goods like crude is inevitable, many other products across consumer sectors like electronic white goods, lighting, and consumables which are not technology intensive, have a significant potential to be substituted by local enterprises.

Further, there is potential to incentivise investments in high technology areas in order to develop capabilities in high engineering import substitution and indigenisation in many areas of healthcare, automotive, defence, electronics and telecom.

A strong support of industry association and academia is also needed to guide MSME foray into areas where they can substitute Imports. Line Ministries / Departments can help identify major imports of products of their respective domain whose manufacturing involves low to Medium end Technology complexity.

## Focus on Technology

Technology is increasingly seen as business enabler and a vital tool for bringing in process efficiencies and higher degree of standardisation. In order for MSMEs to develop a competitive advantage to operate in the global market, a strong focus on implementing new age technology, developing indigenous technology as well as technology collaboration with global partners is likely to play a crucial role.

Technology plays a pivotal role for MSME to help them stand up to the stiff competition from large enterprises and imports. A strong technology-enabled sector levels the playing field, to a great extent, between MSMEs and their established counterparts globally. The increasing pace of change is rapidly driving customer, businesses and technology firms in a tight embrace, with the convergence of disruptive technologies eroding the boundaries separating them. Businesses are becoming more and more agile, and technologies such as social media, mobility, analytics and cloud computing are coming together to unleash great value and opportunity.

This convergence also known as SMAC (Social Media, Mobility, Analytics and Cloud Computing) will emerge as a key business enabler over the next few years. In the context of the Indian MSME sector, there is a gradual adoption of the SMAC amongst the urban enterprises at least aspects of mobility and social media. With respect to developing indigenous technology, across sectors like IT, electronics, manufacturing, pharmaceuticals and Biotechnology, various industry stakeholders, industry bodies and associations, academia, government and large enterprises need to come together to help pull MSME one notch up in the value chain and lead them to focus on innovation and automation.

Local institutions and academia can help set-up cluster specific incubation cells to provide guidance in terms of technology implementation, development and scaling up. Institutions should also collaborate with the Industry, particularly MSME, on research initiatives and help provide technology support to commercialise innovative products and service ideas.

## Funding

SMEs with business models revolving around Import Substitution and exporting from India often require funds to set up facilities and scale up

operations. Schemes for speedy financial assistance should be formulated, including funding for market access and development.

In the U.K. and U.S., particularly, new sources of equity and debt funding for SMEs are opening up via the Crowd-funding and peer-to-peer (p2p) movement.

Sponsorship, Grants and incubation stage funding by Government Bodies / Universities (Brazil, Italy, Sweden, Denmark, U.S., Australia, Malaysia, Taiwan, Japan).

Banks to Support financing to SMEs / start-ups with specific products and services (Brazil, Sweden).

Programmes to Support Start-up funding by the Government (Brazil, Canada).

Allow MSMEs to Issue Bonds or Raise finance in a regulated way (Italy, U.K.). Government to provide a platform whereby MSME players can get finance from international development funds (Italy).

U.K. - Incentivising the Banks - Banks are allowed to draw £5 in the scheme for every £1 of net lending to SMEs – in order for them to proactively increase their SME lending.

Easy Funding, Bank Credit, Credit Mediation Services for needy MSMEs (France, Germany).

MSME specific Financial Institutions, which will provide Credit / Loan to MSME Sector only (France).

Tax Incentives for Individuals / Investors in MSMEs (France, Germany, Italy, U.K.).

U.K. also has a “Small Business Rate Relief” – Discount on the rate of borrowing for SMEs.

## Performance Incentives

Direct tax exemption on export income and Income generated directly or indirectly from indigenisation and Import Substitution Exemption for a period of five years.

Direct tax exemptions for 5 to 10 years for a foreign company wanting to set shop in India with a JV/collaboration with MSMEs.

Technology upgrade: Exemption from import duty for capital equipment for technology upgradation and innovation.

Investments made by SME to move towards sustainability and energy conservation must be incentivised.

## **Strategies for ISI - Measures to be taken by Indian Government**

One of the ISI Policy aims of the Government of India is Import Assistance such as ISI Credit, Cash Assistance, Free ISI Trade Zones, Development of Transport, Quality Control and Inspection, and guidance to Indian entrepreneurs to set up Import Substitution Units.

### **1. Presence in all States of the Country – Wide Publicity**

The Director of Exhibitions makes arrangements for participation in various exhibitions, holds exhibitions at all States, runs show rooms in State Capitals and, sets up Trade Centres at all State Capitals of the Country particularly the Goods which are earlier imported by the Country and the same was manufactured in our Country (Cost-wise and Quality-wise comparison to be highlighted).

### **2. Import Substitution Councils**

The Director of Commercial Intelligence is concerned with commercial publicity through various media, monthly publications, the cost and quality of other country products vis-à-vis similar Indian Products manufactured in India.

Import promotion councils are to promote the different products manufactured in India, offering services such as price, quality, packing, marketing, transport etc. They can conduct market surveys, publish reports on ISI, administer various ISI schemes, quality control, joint participation in trade fairs and exhibitions.

### **3. Setting up of Commodity Boards for IS Products**

Commodity Boards are set up to help IS products. They advise the government on its policies etc. on IS Products to the prospective promoters of the country.

### **4. Trade Representatives**

There are Trade Representatives in India who conduct market surveys for IS Products furnish information on IS Products and pass on information to Ministry of MSME, Ministry of Industries for establishment of More Number of IS Units in India to reduce the dependency on the Imports to the country.

### **5. Import Substitution Products Institute of India**

The Government of India has to set up Import Substitution Products Institute of India in co-operation with trade, industry, universities, educational and research institutions to train people / prospective promoters or entrepreneurs in IS Products, conduct research, survey and organize training programmes etc.

### **6. Participation**

To promote, organize and participate in IS products Government has to set up Trade Fair Authority of India exclusively for promoting IS Products within India. It should assist in development of new items for diversification and expansion of India's IS Products industries in India.

### **7. Trade development Authority**

In addition to the above, the Trade Development Authority to collect information, conduct research and render Import Substitution Units finance, quality improvement and help in establishment and implementing ISI in India.

### **8. Financing for IS Units**

In 1982, the Government set up EXIM Bank with head office in Mumbai, branch offices in other major cities in India and abroad.

EXIM Bank finances exports and imports of machinery, finances joint ventures, provides loan, undertakes merchant banking functions such as underwriting stocks, shares and bonds or debentures, develops and finance export oriented industries, undertakes techno marketing studies and, promotes international trade.

Now the EXIM Bank should take up more responsibility to promote the ISI in India to curtail the Imports from other countries and to save the foreign exchange reserves in India.

### **9. Advisory Councils**

Some of the State Governments have set up specialized Export Trade



Corporations which undertake export promotion. They are established in Andhra Pradesh, Bihar, Karnataka, Uttar Pradesh, Madhya Pradesh, Himachal Pradesh. In the similar manner they have to start Import Substitution Corporations to promote IS Products manufactured in India. There are also Advisory Councils like Board of Trade, Export-Import Advisory Council, etc.

### **10. Technical assistance and Training**

The Small Industries Development Organisation (SIDO) with 26 small industries service institutions, provide techno-managerial assistance like motivating entrepreneurs to export, provide information on export-import and offer consultancy services with respect to IS Units.

It also provides training programmes to educate entrepreneurs on IS Products, conduct seminars, meetings, holds discussions with IS promotion agencies and publish small industry IS bulletin, besides liaison with the IS promotion organisations for solving the problems of IS-MSME Units.

### **11. Business and Legislative Reforms Committee**

It is time to shift from a policy of continuity to radical and accelerated reforms for greater strategic engagement with the world, i.e., it is time to Reform, Perform and Transform. A comprehensive, actionable, outcome-oriented industrial policy will enable Industry to deliver a larger role in the economy; to fulfil its role as the engine of growth and to shoulder the responsibility of adding more value and jobs.

In the backdrop of an increasingly uncertain global economic environment, the timing of the policy announcement will help boost overall business sentiment and help stem the decline in growth of industrial output. Its implementation will serve as a trigger to transform the manufacturing sector as well as the economy. It will also place the sector on a higher growth trajectory by increasing manufacturing output and creating job opportunities

Business and Legislative Reforms Committee should be constituted to address very deficiencies in the system. As of now, as per estimates, about 1800 plus permissions / compliances are required in India to start manufacturing.

### **12. Big Push by Government of India**

Import Substitution Industrialisation-ISI initiative to be popularised Like 'Make

in India”, “Digital India” Initiatives of Government of India, in a big way. Financial Institutions, Industries Department of Various State Governments, Reserve Bank of India has to take lead role in Nation's Interest. This idea to be floated in various new initiatives like Start-up companies launched by different State Governments. Publicity through Print and Electronic Media to be placed in a Big Way by GOI. Government has to take the lead role, thereby prospective promoters will show the interest to start ISI Units in India in a big way. The Ministry of Commerce has to provide required information / data on import products, origin countries, quality, quantity, price and the end users in India to the prospective promoters of ISI Units etc.

### **13. Guidance and Support from ‘Research Wing’ of Professional Institutes like Institute of The Institute of Chartered Accountants of India, New Delhi**

A high-powered Joint committee may be formed with the Members from various Ministries like Ministry of Finance, Ministry of MSME, Ministry of Commerce and by including Professional Institute like The Institute of Chartered Accountants of India, New Delhi and in particular Research Committee Wing of ICAI. Research Committee Chairman may be taken as ex-officio member of the Joint Committee to offer their valuable suggestions in order to move this initiative quickly i.e., Import Substitution Industrialisation in India.

## **Strategies for Import Substitution Industrialisation Through MSMEs Sector**

- **Reforms in labour laws** - Formulate flexible and uniform labour laws across the country. Flexibility is required in terms of freedom to hire contract labour, the freedom to retrench workers (based on Productivity, Quality and Discipline) and close down undertakings without prior government endorsement.
- **Capital Gain Tax** - Growth of MSME industry generates employment, state revenue on a regular basis which is recurring revenue for the government whereas capital gain tax is one-time revenue. Reconsidering the applicability of capital gain tax on the capital (generated out of selling a property) invested would encourage the growth of MSMEs across the country. The section 54 of the Income Tax Act,1961 must be extended to cover the industrial sector.

- **Indirect Tax Benefits** - Indirect tax benefits could be provided under GST similar to that provided in VAT regime through Industrial Promotion Scheme. Lower rate of tax should be levied on products manufactured by MSME manufacturing industry. Incentive schemes can be launched in GST regime also as provided in the earlier VAT regime. Matching of Invoices both Inwards and Outwards must be done by GSTN without hiccups availing of Input Tax Credit (ITC) under GST.
- **Equal treatment for PSU and MSME entities** - There should be equal treatment for PSU and MSME entities and all government procurement agencies must accept supplies from PSUs and MSMEs against a guarantee certificate.
- **Coordination among States** – Co-ordination and co-operation among the states must be ensured so that there is no overlapping of business regulations. Best practices of top ranked states in BRAP rankings should be adopted by other states also.
- **New Bill of Definition of MSMEs** - This will give a huge boost to investment and employment along with productivity.
- **Simplify land acquisition** - Simplification of land acquisitions are required as it remains complex, because of the difficulties in establishing legal ownership and a 'clean' holding for purchase.
- **Increase awareness among MSMEs** - Frequency of awareness campaigns for MSMEs sector need to be increased so that every industry can take optimum benefit of the Government schemes.
- **Speedy addressing of intellectual property rights** - Cutting the average time for addressing pending intellectual property rights applications from more than five years to 18 months.
- **Reduction in logistics cost**- Logistics cost should be reduced from 14% of invoice to 8% to make MSMEs competitive internationally.

## India - An Alternative Business Continuity Plan (BCP) Destination

India stands at the pedestal of a new growth curve of rapid industrialisation. In the COVID-19 pandemic scenario, India has projected a more resilient and diversified economy to fight the crisis and projected as a major attractive destination.

As multinationals rethink their sourcing plans and re-organize supply chains, India is one of the most viable locations for Business Continuity Plans (BCP).

India, on account of its large domestic market and low cost production base, is well-positioned to host new investments in a range of sectors such as textiles & apparels, electronics & consumer appliances, pharmaceuticals, medical devices, automobiles & components, capital goods, electrical machinery, footwear & leather products, chemicals & petrochemicals, food processing, plastic products, telecom equipment, etc.

### India's Distinct Advantages:

- The recent reduction of corporate taxes for setting up of new industries (lowest among the MITI-V countries)
- Host to Global In-house Centres (GICs) and Global Centre of Excellence (GCoEs) for several manufacturing companies that provide for more robust ecosystem and R&D#
- GICs in India now number about 1,100, employing more than 800,000 individuals and generating approximately \$23 billion in revenue. ##
- Very large domestic market - as big as 18% of world population along with prospects of a manufacturing export hub to the rest on 82%.

# NASSCOM Report ## GIC REPORT 2018, Peepal

### Lower Cost to Serve for Global Clientele

#### Ultra-fast Approvals

- Most State Governments are offering all approvals to start factory establishments within 30 days. Ready built factories are already preapproved for new investments.
- Non-polluting industries categorized as White Industries relaxed from several permissions.
- All states offer permissions through online platforms with proper tracking mechanisms.

### Increased Profitability Through Tax Incentives

- Three-year special window to book lowest Corporate Tax of 17.16%

for new manufacturing units operationalizing before 31 March 2023 among MITI-V countries.

- Attractive incentives to boost capital expenditure, increase production, employment creation and encourage exports.
- Exemption/deferment of customs duties under several schemes such as Special Economic Zones and Bonded Manufacturing.

## **Fast Improving Business Environment**

- Indian is seventh largest country by area and second largest by population. Only 4 countries in ASEAN are bigger than India's largest state in size.
- India has repealed over 1,000 regulations in the last 5 years to reduce compliance burden on investors.
- Large scale infrastructural investments directed towards intra-country connectivity and as industry enablers.
- Multitude of FTAs with several countries or group of countries.
- Only a handful country in the world offer a bigger canvas than India.

In view of the distinct advantages in Indian Economy for the Industrial / Business Climate, it is the right time to the Government of India to encourage IS Industries / Business Units in India in order to reduce the over dependency on other countries to Import certain commodities. It can be concluded that the Import Substituting Industrial Policy is a Tool for improving the Competitiveness of the National Economy and ensure the Security Economic of the Country.