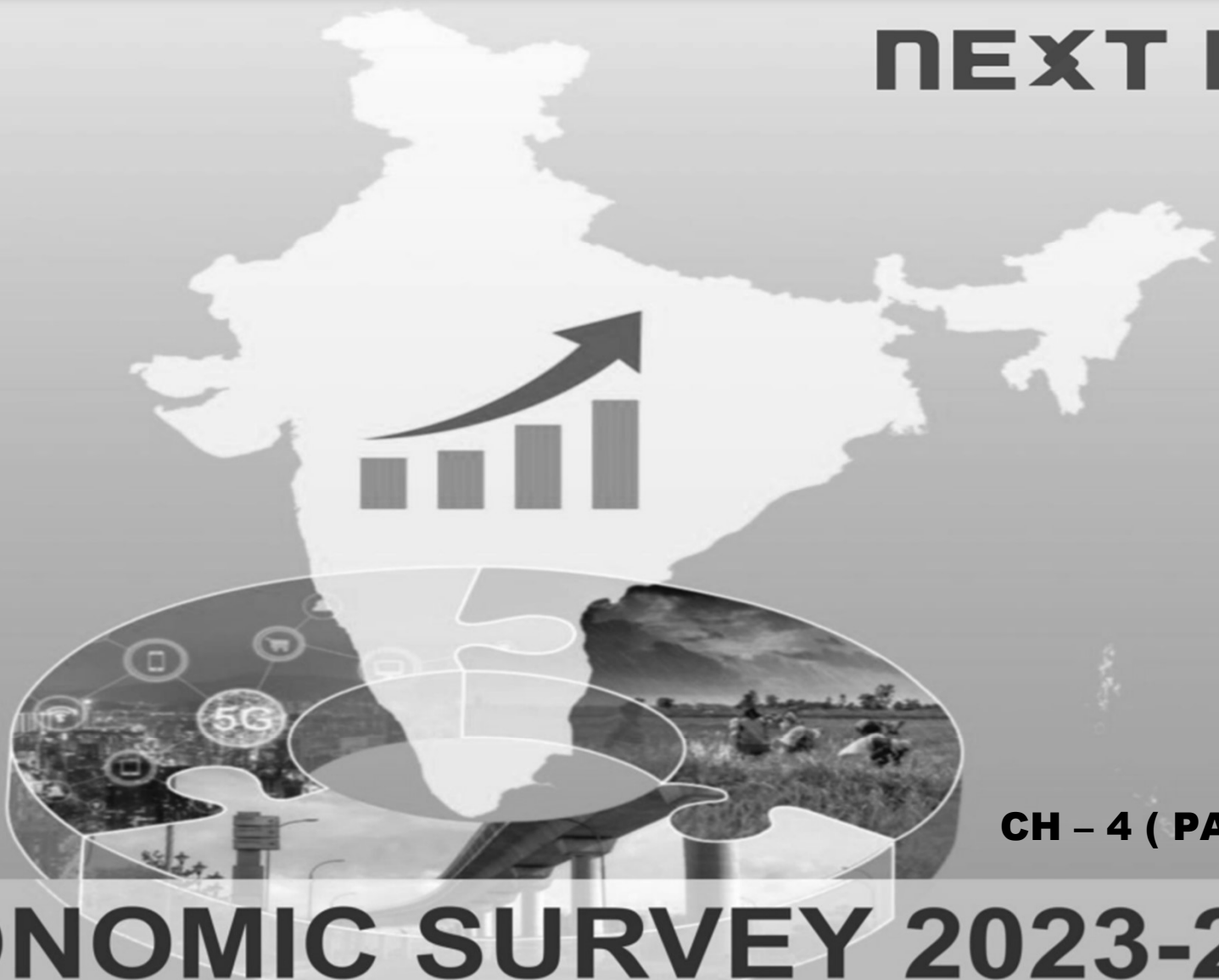




Dr. Vibhas Jha Sir

NEXT IAS



CH - 4 (PART - 2)

ECONOMIC SURVEY 2023-24

Changing landscape of India's global trade arrangements

India's Recent Free Trade Agreements (FTAs): Key Highlights and Strategic Engagement

Global Trade Dynamics and India's Approach:

Context: Amidst global economic uncertainties, India champions a rule based international trading system centered on the WTO, promoting open, inclusive, and non-discriminatory trade.

Strategy: India views FTAs as essential tools for trade liberalization, complementing the multilateral trading system to expand export markets and secure better terms for imports.

New FTAs Signed (2021-2024):

1. Mauritius (CECPA)- February 2021:

- **Trade Growth:** 168% increase in trade from FY06 to FY23.
- **Key Exports:** Petroleum, pharmaceuticals, cereals, and cotton.

Benefits: Access to 115 sub-sectors for Indian services, and preferential market access for Mauritian products

2. UAE (CEPA)- February 2022:

- **Bilateral Trade:** \$83.7 billion in FY24, with UAE being India's second-largest export destination.

Key Sectors: Gems, jewellery, cereals, and fuel.

Innovation: Introduction of digital trade, with provisions for government procurement and data usage.

Australia (ECTA) - April 2022

\$27 billion

Bilateral Trade: Expected rise to \$45 billion within five years.

- **Key Exports:** Labour-intensive goods receiving zero duty access.

Services Market: Access to 135 sub-sectors offered by Australia.

FTA (TEPA-Trade and Economic Partnership Agreement (TEPA)) - March 2024:

FTA countries- Switzerland, Norway, Iceland, and Liechtenstein.

Significance: First FTA with European countries, signaling India's commitment to trade liberalization.

Scope: Comprehensive coverage of goods, services, and bilateral investments.

10% of India's
Export will receive
0 duty

Criteria for FTA Engagement:

- **Natural Trading Partners:** Focus on trade complementarity, initial trade volume, and geographic proximity.
- **Strategic Markets:** Targeting Western and African markets alongside East Asian partners.

Future Negotiations:

- **Ongoing Talks:** India is negotiating FTAs with the UK, EU, Australia (CECA), Peru, Eurasian Economic Union, and Sri Lanka.
- **FTA Reviews:** Initiatives to review and update existing FTAs, such as with South Korea and ASEAN.

Key Takeaways:

- **Economic Integration:** India's FTAs aim to deepen economic ties, enhance export markets, and foster investment opportunities.
- **Market Access:** FTAs are designed to provide immediate and preferential access to key sectors, promoting economic growth.

strategic engagement underscores India's evolving role in the global trade landscape,

Government initiatives on trade facilitation measures and reduction in logistics cost.

Government Initiatives to Boost Production, Exports, and Logistics:

Production & Export Enhancement:

Export Targets: Set and monitored, followed by course corrections to ensure achievement.

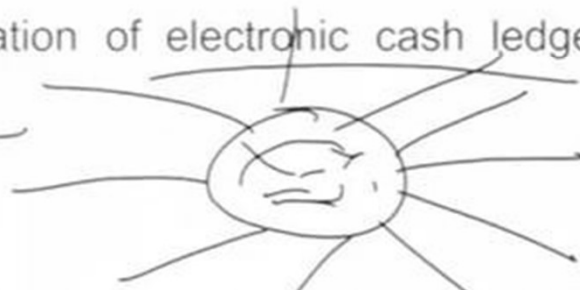
Export Credit Insurance: Available for both short-term and long-term exports.

- **MSME Support:** Encouraged banks to provide affordable credit to MSME exporters, helping them explore new markets and diversify products.

Trade Process Simplification:

- **Turant Customs & SWIFT:** Streamlined customs processes, enhancing transparency and cooperation.

Digital Initiatives: Implementation of electronic cash ledgers, IFSC code submissions, and electronic certificates of origin.



Postal Export Innovations:

- **Postal Bill of Export Automation System:** Developed by the Department of Posts for electronic processing of export parcels, eliminating the need for exporters to visit Foreign Post Offices.

Hub and Spoke Model: Partnership between CBIC and DoP simplifies the export process for small-scale exporters using India's vast postal network.

Logistics & Infrastructure Development:

PM GatiShakti National Master Plan:

- **National Logistics Policy (NLP):** Launched to boost logistics efficiency and reduce costs.
- **Digital Reforms:** Introduction of ULIP and Logistics Data Bank to improve logistics management.
- **Industry Engagement:** Over 614 industry players registered on ULIP, with 57 applications made live by September 2023.

Improved Trade Facilitation:

- **UNESCAP Global Survey:** India improved its score to 93.5% in 2023, excelling in transparency, formalities, institutional cooperation, and paperless trade.
- **National Time Release Study:** Showed a 20% improvement in average import release time in 2023, with significant advancements at key ports and airports.

World Bank's Logistics Performance Index (LPI):

- Rank Improvement India rose six places to 38th in 2023, with significant improvements in cargo tracking, infrastructure, and logistics competence.

Target India aims to be in the top 25 countries on the LPI by 2030.

Samudra Shiksha Scheme:

Port-Led Development Focused on utilizing India's coastline and waterways, with a goal to increase port capacity from 2,600 MTPA to 10,000 MTPA by 2047.

Waterways Cargo Movement Increased by 7.5% from April to November 2023.

12 w MTPA → 2014

GST Impact on Logistics:

- **Cost Reduction:** The 'One Nation, One Tax' regime has reduced logistics costs and increased the average distance covered by trucks, contributing to ease of business and manufacturing growth.

State-Level Logistics Performance:

- **LEADS 2023:** States and UTs have shown improvement in logistics services, infrastructure, and regulatory environment, attributed to multiple reforms and policy initiatives aimed at enhancing their logistics ecosystems.

These comprehensive measures underline India's commitment to improving its trade and logistics infrastructure, making the country more competitive on the global stage.

FAVOURABLE CURRENT ACCOUNT BALANCE

India's Current Account Dynamics in FY24:

- **Current Account Overview:** The current account records a country's international transactions.
- **Trade's Role:** Trade is the primary component of India's current account.
- **Narrowing CAD:** India's Current Account Deficit (CAD) reduced significantly in FY24 to USD 23.2 billion (0.7% of GDP), down from USD 67 billion (2% of GDP) in the previous year.

Contributing Factors:

- Reduction in the merchandise trade deficit.
- Growth in net services exports.
- Increase in remittances.

Imports ↓
from \$855bn - 854bn

↑ from
\$323bn

\$105bn

Current Acc.

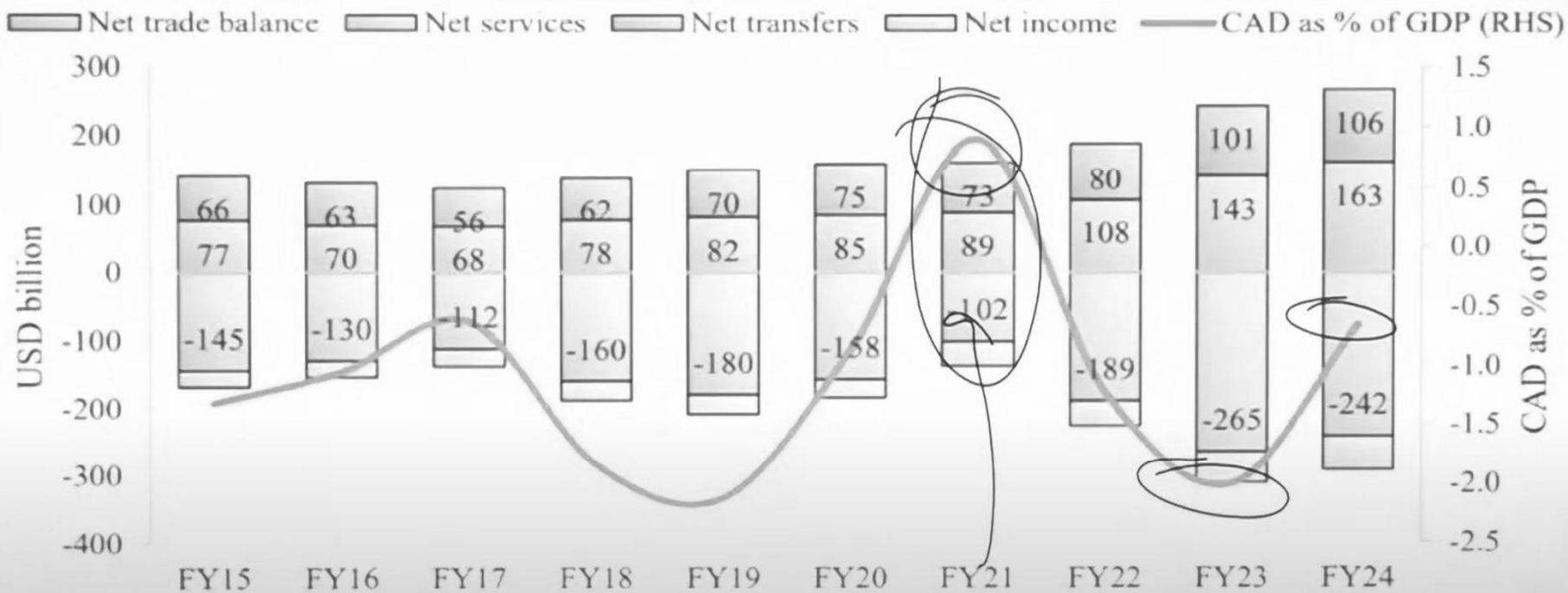
Net Export of goods

Net Export of services

Net inflow of remittances

Net Factor Income from Abroad

Chart IV.20: Improvement in CAD during FY24



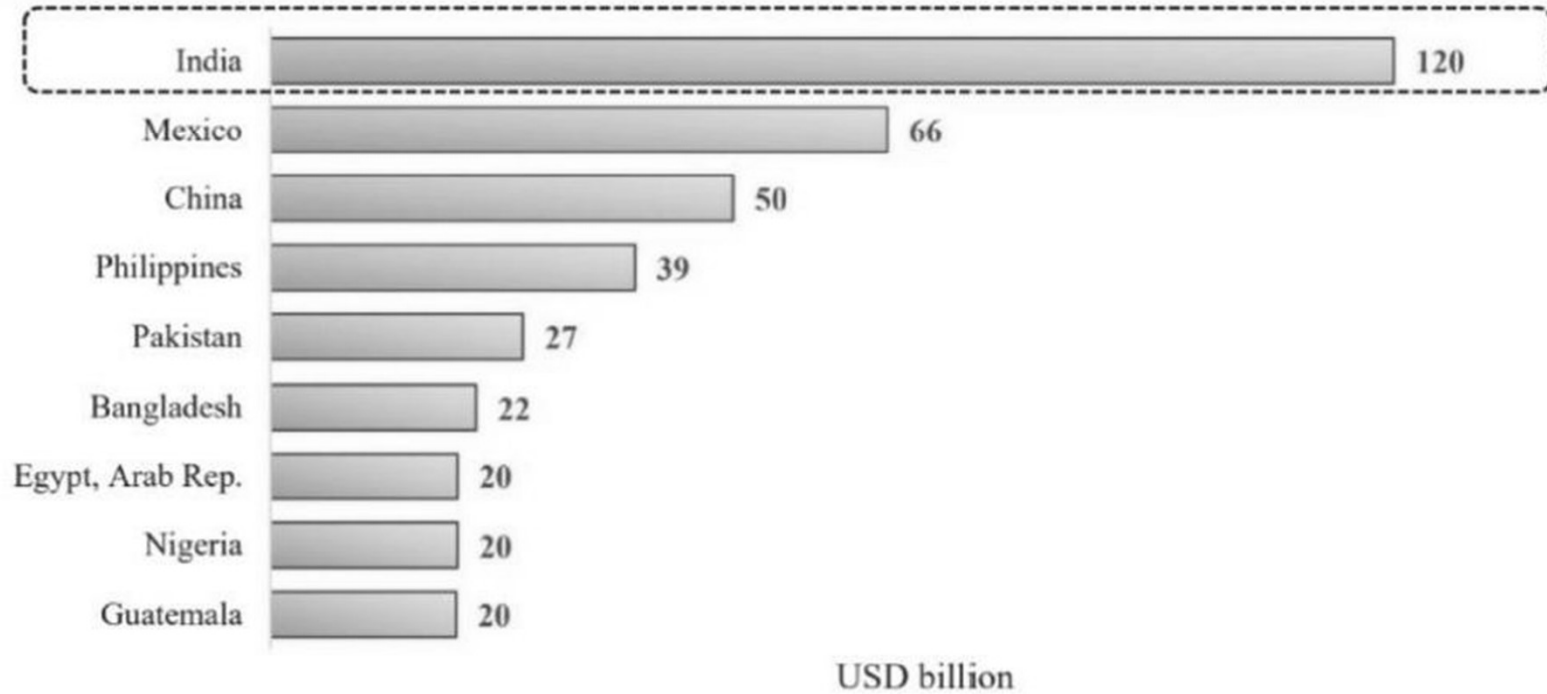
Source: Table No. 196, 'India's Overall Balance of Payments-Quarterly-USD Dollars', External Sector, Handbook of Statistics on the Indian Economy, RBI

Invisibles

India's Net Services and Remittances (FY24):

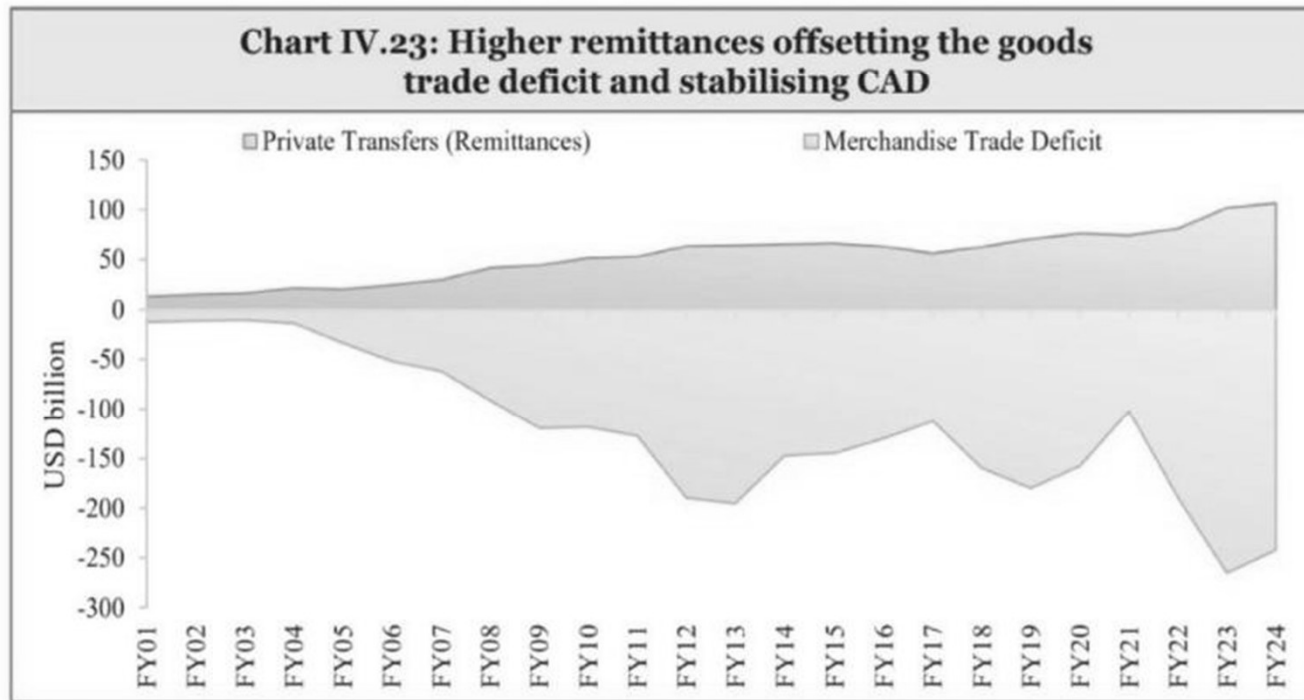
- **Net Services Receipts:** Increased to USD 162.8 billion in FY24 from USD 143.3 billion in FY23, driven by exports in software, travel, and business services.
- **Remittances:** Grew to USD 106.6 billion in FY24 from USD 101.8 billion in FY23, contributing significantly to the surplus in the invisible account and cushioning the trade deficit.
- **Global Standing:** India is the top remittance recipient, with USD 120 billion in 2023. This growth is due to declining inflation, strong labor markets in the U.S. and Europe, and demand for Indian workers in GCC countries.

Chart IV.22: India emerged as the top remittance recipient in the World in 2023



Source: World Bank

- **Forecast:** Remittances are expected to reach USD 124 billion in 2024 and USD 129 billion in 2025, further stabilizing the CAD.
- **Remittances vs. FDI:** Unlike FDI, which can be volatile, remittances are stable and directly benefit the economy, helping to finance the merchandise trade deficit and stabilize the CAD.



By Dr. Vibhas Jha Sir

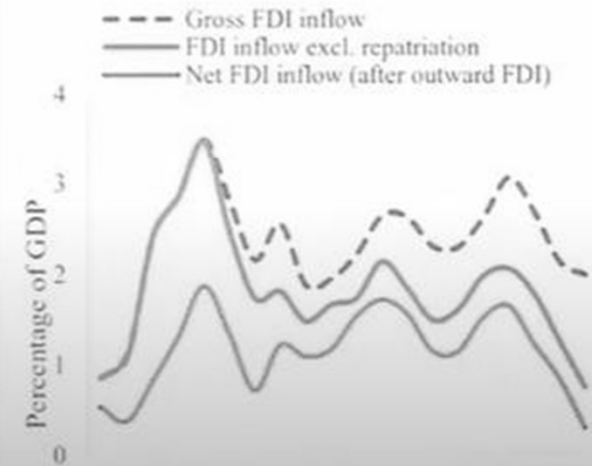
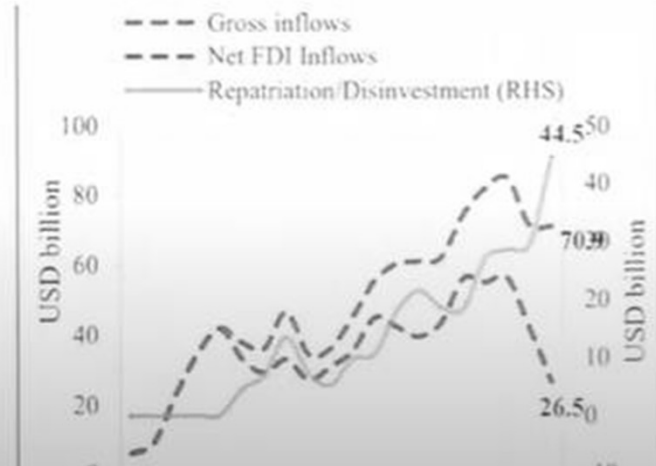
Key Factors Influencing India's Inward Remittances:

- **Global Job Market Recovery:** Post-pandemic job growth in OECD countries, particularly for immigrants, has bolstered remittance flows to India.
- **Oil Prices:** Higher global oil prices correlate with increased remittances due to greater demand for migrant workers in oil-exporting nations.
- **Exchange Rate:** A weaker rupee boosts remittance volumes, offering better value for money when converted to INR.
- **Outlook:** Remittances are expected to grow by 3.7% in 2024, reaching USD 124 billion, with UPI integration in partner countries reducing transfer costs and time.

CAPITAL ACCOUNT BALANCE

Net inflow of F.D.I.
 Net inflow of F.I.I.
 Net Borrowing (Borrowing - lending)
 Change in foren. reserves.

- Net Capital Flows: Increased to USD 86.3 billion in FY24, up from USD 58.9 billion in FY23.
- FPI Inflows: Reached USD 44.1 billion in FY24, marking the highest level since FY15.
- Sectors Attracting FPI: Financial services, automobiles, healthcare, and capital goods.
- Total FDI Decline: Fell by 2% in 2023 due to economic uncertainties and geopolitical tensions.

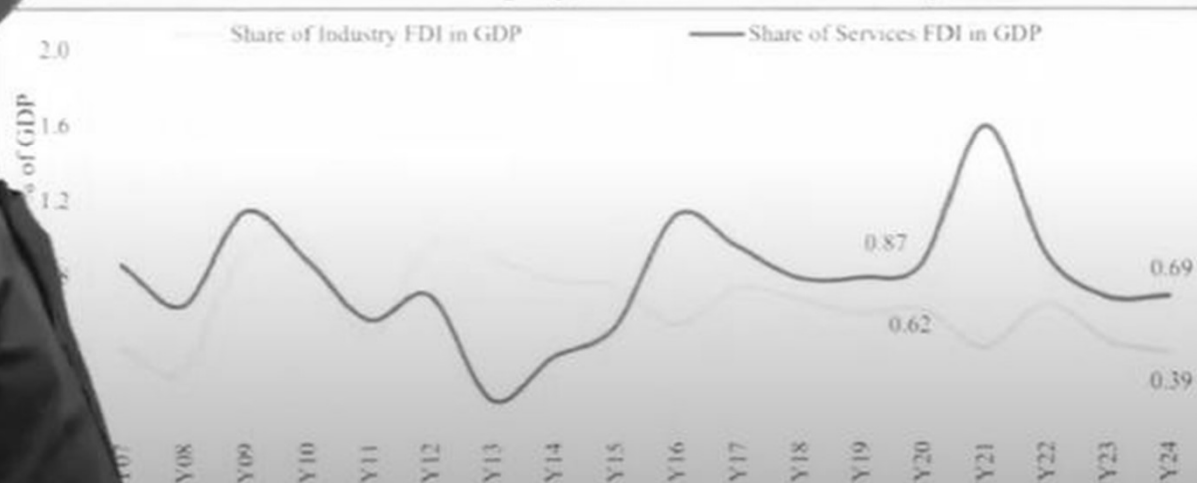


Gross FDI - repatriation of profit
 - Dividend paid to shareholders abroad

FDI in India:

- **Gross FDI:** Slightly decreased by 0.6% to USD 71 billion in FY24.
- **Net FDI:** Dipped to USD 26.5 billion in FY24 due to increased repatriation/ disinvestment.
- **Reinvestment:** Increased from USD 29.3 billion in FY23 to USD 44.5 billion in FY24.
- **Falling FDI Decline:** Higher interest rates in developed countries and attractive exit options in India.

Chart IV.28: Trends in FDI equity inflows to both Industry and Services



Physical FDI vs Digital FDI

- **FDI Classification:** FDI is divided into physical sectors (e.g., automobiles, pharmaceuticals, construction) and digital sectors (e.g., computer services, telecommunications, consultancy).
- **Trend Shift:** Digital FDI has risen due to increased foreign investment in software, hardware, and telecommunications, while physical FDI has relatively declined.
- **Stagnation in Physical FDI:** Rising protectionism and geopolitical tensions have led to stagnation, influenced by the shift to non-equity production modes like contract manufacturing and outsourcing.
- **Digital FDI Surge:** During the pandemic, digital FDI rose significantly due to the shift to remote work and strong digital infrastructure, increasing its share from 46.6% in FY17 to 69.2% in FY21.
- **Recent Decline:** Both physical and digital FDI have been declining, particularly in digital sectors due to a global decrease in investments in tech start-ups, a trend reflected in India.

Actual FDI vs intentions

- **FDI and Global Trade:** Despite declining FDI, India has gained market share in global trade in goods and services.
- **Investment Intentions:** Investment intentions in sectors like computers and chemicals have softened, while futuristic sectors (e.g., renewables, AI, EVs) are seeing increased interest.
- **AI Investments:** India led AI-related FDI in 2022 with 122 projects, driven by low operating costs and a large skilled workforce in AI and related fields.
- **Correlation with FDI:** A strong correlation (56%) exists between CMIE Investment Intentions and UNCTAD greenfield projects, indicating that intentions often predict future FDI inflows.
- **FDI Concentration:** FDI is concentrated in a few sectors, with surges in inflows often limited to these sectors rather than broad-based.
- **Ease of Doing Business:** To attract more FDI, India needs to improve the ease of doing business across all sectors, not just those currently attracting investment.
- **Global Competition:** India competes with advanced nations offering industrial policies and subsidies to attract FDI. Educated labor, a skilled workforce, political stability, and policy predictability are crucial for sustaining investor interest.
- **Future Focus:** Better educational and skill outcomes are essential for sustained FDI and knowledge accumulation in India.

China Plus One strategy

- **Global Manufacturing Shift:** Major MNCs, including Apple, are de-risking from China due to COVID-19 disruptions, US-China tensions, and rising costs. The "China Plus One" strategy aims to reduce reliance on China for high-tech products.
- **India's Opportunity:** India's large domestic market and PLI schemes, offering tax breaks and subsidies, make it an attractive destination for companies like Apple, which assembled \$14 billion worth of iPhones in India in FY24 (14% of global production).
- **Electronic Export Growth:** India's electronic exports have surged, turning a trade deficit with the US in FY17 into a surplus of \$8.7 billion in FY24. Mobile phone exports to the US increased from \$2.2 billion in FY23 to \$5.7 billion in FY24.
- **Integration into GVCs:** India is focusing on deepening its involvement in Global Value Chains (GVCs) by improving logistics and facilitating foreign investment, inspired by East Asian strategies. The PLI scheme is crucial for attracting high-quality foreign investment.

- **Western Integration Focus:** India is aligning its value chains with Western nations, particularly in renewable energy and advanced technologies (AI, semiconductors, next-gen telecom), through initiatives like the Australia-India FTA and US-India Clean Energy Initiative.
- **Renewable Energy Exports:** Exports of environmentally friendly technology, such as solar water heaters and wind turbines, to the US have grown from \$199.2 million in FY20 to \$326.9 million in FY24. Leading American and European companies are setting up operations in India to capitalize on this demand.
- **Balanced Approach to China:** Despite the "China Plus One" shift, total disengagement from China is unlikely. Nations like Vietnam and Korea have benefited from US trade diversion while also increasing Chinese FDI.
- **India's Strategic Choice:** India faces a choice between integrating into China's supply chain or attracting Chinese FDI. Focusing on FDI from China could boost India's exports to the US, following the example of East Asian economies.
- **FDI vs. Trade with China:** Prioritizing FDI from China may be more beneficial than relying on trade, given China's dominance in certain product categories and the risk of economic coercion. Balancing imports from China with Chinese FDI is crucial for India's economic strategy.

Comfortable Foreign Exchange Reserves

- **Capital Inflows and CAD:** Large capital inflows helped moderate the Current Account Deficit (CAD) in FY24.

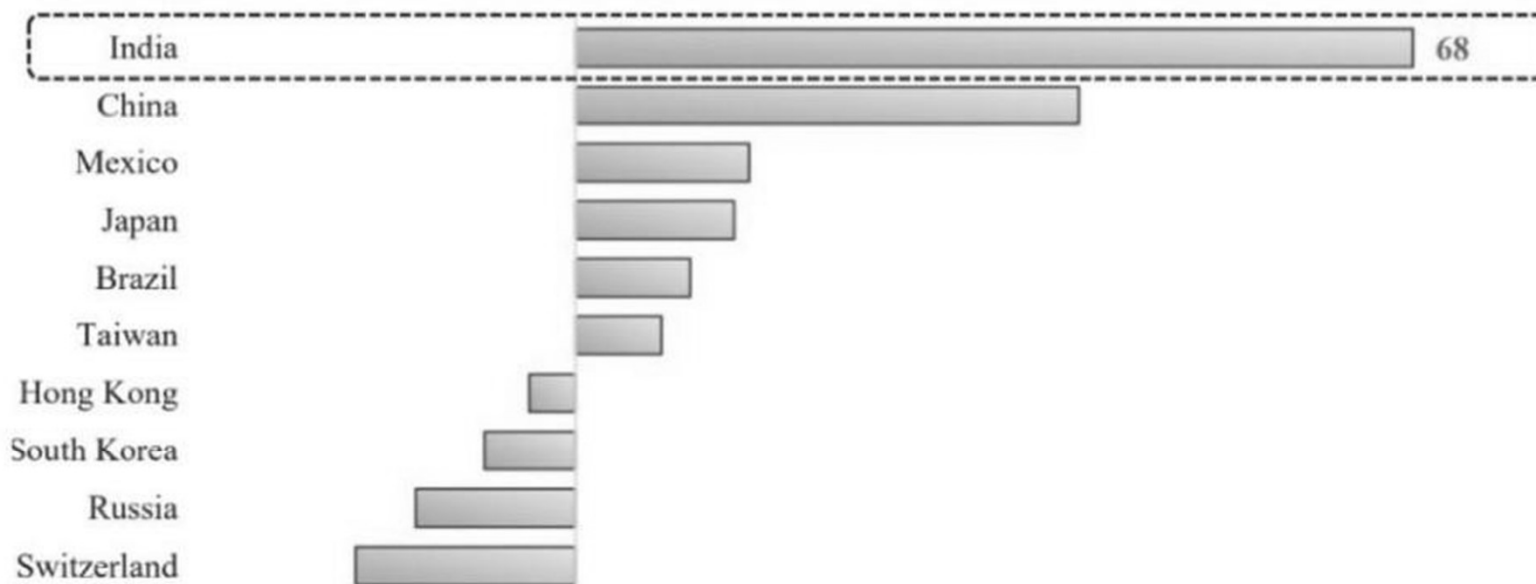
Foreign Exchange Reserves Increase: India's Foreign Exchange Reserves (FER) rose by \$68 billion in FY24, the highest increase among major reserve-holding countries.

Current FER Status: As of June 21, 2024, FER reached \$653.7 billion, covering over 10 months of imports for FY25 and more than 98% of total external debt as of March 2024.

Economic Cushion: The reserve buffer provides liquidity and shields domestic economic activity from global shocks.

July 2024 → \$670 bn

Chart IV.31: India witnessed the most significant increase in foreign exchange reserves holdings in FY24



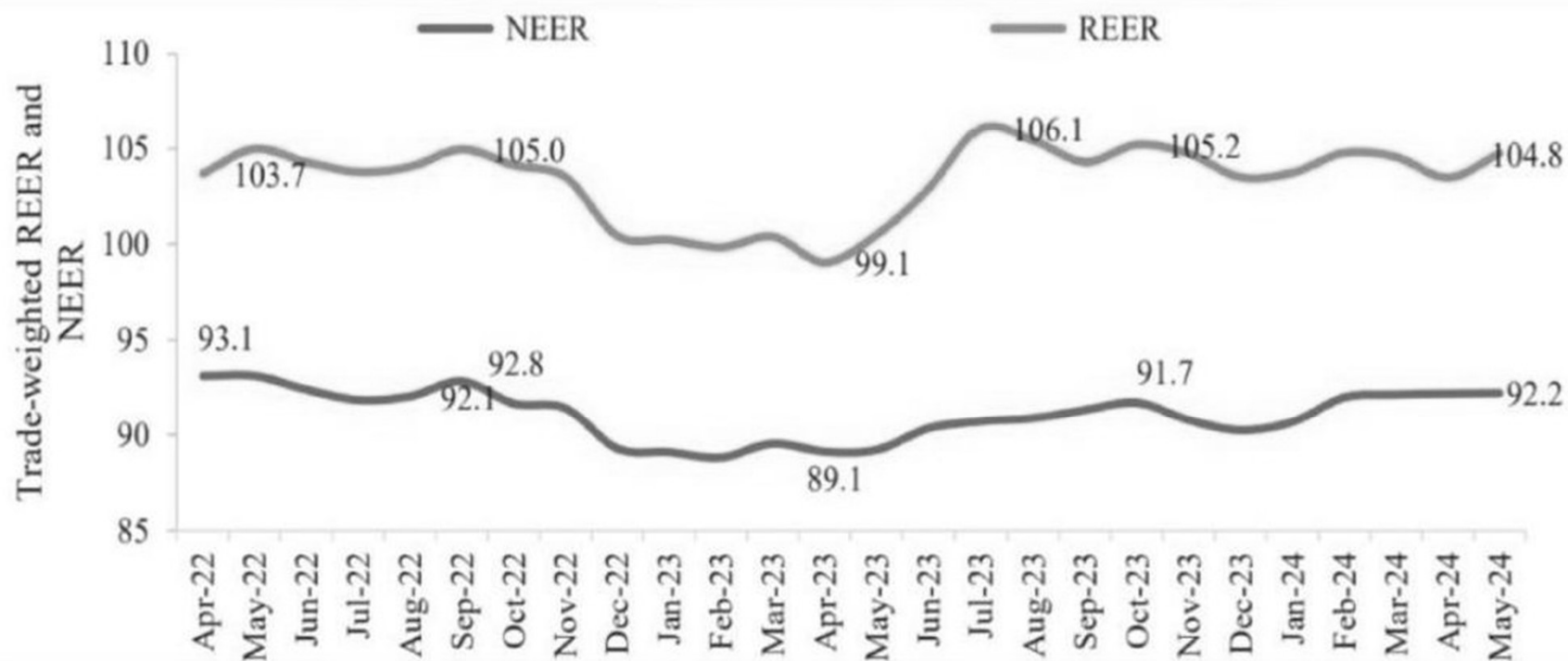
Change in foreign exchange reserves from April 2023 to March 2024 (USD billion)

Source: Bloomberg, RBI for India (Handbook of Statistics on Indian Economy, Foreign Exchange Reserves, Weekly, RBI)

Exchange Rate

- **US Dollar Strength:** The USD gained against most major currencies in FY24 due to geopolitical risks, rising interest rates, and global demand for safe haven assets.
- **INR Performance:** The Rupee (INR) depreciated by 2.9% against the USD but was among the least volatile major currencies, showing a CV of 0.58 in FY24, reflecting strong economic fundamentals.
- **Currency Movements:** INR depreciated by 6.9% against the Pound Sterling and 6.8% against the Euro, but appreciated by 3.5% against the Japanese Yen.
- **RBI's Role:** The RBI manages INR volatility and foreign exchange market stability, including recent measures to diversify forex funding sources and attract FPI investments in debt instruments.
- **Exchange Rate Indices:** NEER (Nominal Effective Exchange Rate) depreciated by 0.6%, while REER (Real Effective Exchange Rate) appreciated by 0.8% in FY24. In May 2024, NEER and REER showed slight increases of 0.03% and 1.2%, respectively.

**Chart IV.36: Movement of index of 40-Currency NEER and REER
(trade-based weight) (Base year 2015-16 = 100)**



INTERNATIONAL INVESTMENT POSITION (IIP)

- **Net International Investment Position (IIP):** As of March 2024, India's overseas financial assets were USD 1,028.2 billion (+11.9% YoY), driven by increases in reserve assets and other financial components.
- **External Liabilities:** Liabilities rose to USD 1,390 billion (+8.1% YoY), due to higher portfolio investments, loans, and direct investments. Debt liabilities constituted 51.1% of total external liabilities.
- **Non-residents' net claims on India** decreased to USD 361.7 billion, with international financial assets constituting 74% of financial liabilities.

Debt Position: India's external debt to GDP ratio fell to 18.7% by March 2024 from 19.0% the previous year. Short-term debt share declined to 18.5% from 20.6%. FER to total debt ratio was 97.4%.

Vulnerability: India's external debt indicators are favorable compared to peers, with lower total debt as a percentage of GNI and short-term external debt. A strong FER provides additional stability.

and Outlook

• **Policy Improvement** Lower international commodity prices and rising service exports helped reduce the trade deficit in FY24. The CAD turned positive at 0.6% of GDP in Q4 FY24, with a target to stay below 1% in FY24.

Handwritten notes:

$$100 \rightarrow \frac{\text{External debt}}{18.7} \quad \frac{\text{Short term}}{18.5-20.6} \rightarrow 18.7$$

Risks and Challenges:

- **Demand Decline:** The US's reduced import volume (-1.7% in 2023) affects Indian exports. Protectionism may further impact trade recovery.
- **Increased Trade Costs:** Disruptions like Red Sea attacks and Panama Canal drought have raised shipping costs, affecting India's maritime trade.
- **Commodity Price Volatility:** Fluctuations in critical imports (oil, metals) impact trade balance and inflation. Global growth slowdowns and trade restrictions can raise food prices.
- **Trade Policy Changes:** Rising export restrictions and trade policy shifts by major partners could limit India's export opportunities.

Strategic Response:

- **Manufacturing Boost:** India's focus on manufacturing through PLI and Make in India aims to address economic and security concerns.

Service Sector Growth: The ongoing demand for India's service exports supports globalization despite reduced global goods trade.

Infrastructure Investments: Projects like the INSTC and IMEC will enhance trade routes and connectivity.

Focus:

Competitiveness: India should enhance competitiveness, especially in agriculture, and strengthen regional trade ties.

Product Safety and Stability: Ensuring product safety, quality, and policy stability will be crucial for addressing global economic uncertainties.

Thank You