PAPER I - INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Module A: INDIAN ECONOMIC ARCHITECTURE

Chapter 8: Foreign Trade Policy, Foreign Investments and Economic Development

Quick Revision

8.1 - 8.3: Foreign Trade Policy (FTP)

- **Definition:** A Foreign Trade Policy (FTP) is a government's master plan that sets the rules for imports and exports to boost the nation's economy.
- **Structural Change:** Before 1991, India had a highly **protectionist** trade policy with high tariffs and import restrictions. After the 1991 economic crisis, India adopted a **liberalized** trade strategy to integrate with the global economy and make its industries more competitive.
- **FTP 2015-2020:** This policy aimed to nearly double India's exports to $900 billion (a target that was not achieved) and aligned with initiatives like 'Make in India'. It introduced two key reward schemes: the **Merchandise Exports from India Scheme (MEIS)** and the **Services Exports from India Scheme (SEIS)**.
- **New FTP 2023:** This is the current policy and has several key features:
    - It is **dynamic and open-ended** (no fixed end date).
    - It shifts from direct incentives to a **remission-based system** (refunding duties and taxes paid by exporters).

    - It focuses on promoting **Districts as Export Hubs (DEH)** and **e-commerce exports**.
    - It sets an ambitious target of reaching **$2 trillion in total exports by 2030**.

8.4: Challenges for Foreign Trade Policy The FTP needs to address several key challenges, including:

- **Diversifying** export products and markets beyond a few key partners.
- Further **simplifying processes** to improve the ease of doing business.
- Responding to the global trend of **deglobalisation and protectionism**.

8.5: Foreign Investments (FDI and FII/FPI) There are two main types of foreign investment:

- **Foreign Direct Investment (FDI):**
    - **Definition:** A long-term investment by a foreign entity to control ownership of a business in another country. It is considered a stable, long-term investment in productive assets like factories and machinery.
    - **Routes in India:** FDI enters through the **Automatic Route** (no prior government approval needed for most sectors) or the **Government Route** (requires prior permission).
    - **Types:** It can be **Greenfield** (building a new facility), **Brownfield** (acquiring an existing firm), or a **Joint Venture**.
- **Foreign Institutional Investment (FII) / Foreign Portfolio Investment (FPI):**

- **Definition:** A short-term investment in a country's financial assets, such as stocks and bonds.
- **Nature:** It is highly volatile and often called **"hot money"** because it can be withdrawn quickly during times of economic uncertainty, posing a risk of capital flight.

- **Key Difference:** FDI is a stable, long-term investment in physical assets, while FII/FPI is a volatile, short-term investment in financial markets.

8.6 & 8.7: Economic Development vs. Economic Growth These two terms are related but distinct:

- **Economic Growth:**
  - **What it is:** A quantitative increase in the production of goods and services in an economy. It is a narrower concept.
  - **How it is measured:** Through indicators like GDP, GNI, and Per Capita Income.
- **Economic Development:**
  - **What it is:** A broader concept that refers to a sustained improvement in the material well-being and quality of life of a society. It includes not just income growth, but also a reduction in poverty, unemployment, and inequality.
  - **How it is measured:** Through qualitative indicators like the **Human Development Index (HDI)**, literacy rates, and life expectancy.
- **Relationship:** Economic growth is a necessary condition for, but does not guarantee, economic development. A country can have high

economic growth without a corresponding improvement in the quality of life for its citizens.