

**Q.1 Do you think India needs to adopt a more liberal trade regime for its economy to prosper? Critically analyse.**

**Approach**

Start with basic intro on liberal trade regime and then critically analyze with various alternative arguments on liberal trade regime.

**Introduction**

Liberal trade regime is the removal or reduction of restrictions or barriers on the free exchange of goods between nations. These barriers include tariffs, such as duties and surcharges, and nontariff barriers, such as licensing rules and quotas.

**Body**

Easing or eradication of restrictions for promoting free trade:

- Increased exports: A liberalized trade policy would allow Indian firms to access new markets and increase their exports, which would boost economic growth.
- Improved relations with trading partners: Adopting a liberalized trade policy can also help to improve relations with other countries, as it shows a commitment to open and fair-trade practices. This can be beneficial in terms of building partnerships and strengthening international cooperation.
- Increased foreign investment: A liberalized trade policy can also attract foreign investment, as it signals to foreign firms that India is open for business and willing to engage in international trade. This can help to create new jobs and drive economic growth.
- Improved competitiveness: Liberalized trade can help Indian firms become more competitive by exposing them to international competition. This can drive innovation and improve the quality of their products and services.
- Diversification of the economy: Liberalized trade can help to diversify the Indian economy, as it exposes the country to a wider range of goods and services. This can help to reduce the reliance on any one particular sector or industry, which can be beneficial in terms of economic stability.

Trade liberalization can negatively affect trade within a nation:

- Poor working conditions: Outsourcing of Indian workers from countries without adequate labour protections will result in poor working conditions. Workers can work for long hours with low wage rates.
- Threat from developed countries: Trade liberalization can affect the Indian economy of a developing nation due to stiff competition from other established nations. Stiff competition can affect local industry diversity.
- Crowd out of local business: Promoting free trade will force Indian small-scale farmers out of the market because they can't compete with subsidized agricultural products from well-developed nations.
- Reduce tax revenue: Trade liberalization will make India struggle in order to replace revenue lost through import tariffs and other fees.

- Destruct Indian native culture: Developments of a nation can led to the destruction of indigenous cultures. It may lead to the uprooting of local people due to the increased importation of foreign products.

### Conclusion

India's trade regime should work in a phased manner to address export constraints, review the regulatory and operational framework to reduce the transit costs and create a low-cost operating environment through developed logistics and utility infrastructure for making Indian trade globally competitive.

**Q.2 In the last few years, the question of environmental sustainability has become increasingly important for industrial policy. Do you think the concerns for the environment should be viewed as an opportunity and not as a roadblock while designing the industrial policy? Why or why not? Substantiate with the help of suitable arguments.**

### Approach

Candidates can start the answer by writing on environment sustainability and then as per questions demand write both side of arguments.

### Introduction

Environmental sustainability can be defined as the ability to meet the needs of the present without compromising the ability of future generations to meet their own needs.

### Body

Opportunity to build better industrial policy:

- Nature-Based Solution (NBS) industrial policy: Sustainable management and use of nature for tackling industrial challenges. NBS creates harmony between people and nature, enables ecological development and represents a holistic, people-centred response to climate change.
- Effective Waste Management: For the water-heavy industries of pharmaceuticals, paper, food and beverage, adopting best practices in minimising water consumption would progress them towards Zero Liquid Discharge (ZLD).
- Bio-treatment of industrial effluents such as chemicals, detergents and toxic sludge are also well within our capacities, but their compliance needs to be mandated to keep the rivers clean.

- Structural economic change with environment sustainability, green industrial policies, and investments in green industries in support of SDG 9 can operationalize the structural change necessary for economic recovery, competitiveness, and new jobs (SDGs 1, 8, and 9), while respecting planetary boundaries.
- Carbon-based energy generation, with bad AQI to one powered by renewable energy in order to provide the means that are both economical and mitigate against climate change.
- Resource efficiency and reuse of secondary resources has enormous potential to save energy. Scarcity of resources and their measurement is at the centre of the Green Economy and resource efficiency can help solve this problem.

Limitations and challenges in transition to environment sustainability from tried-and-true traditional industrial policy:

- Increasing Densification-prompted activities causing a rapid loss and fragmentation of both public and private green space and sustainability are one of the major challenges influencing green industrial policy.
- Developing country like India often don't have the financial resources to plan and implement sustainable projects.
- Governments are unwilling to manage or incapable of managing the tension between ready profit and the long-term costs of shifting toward sustainable development, even when those long-term investments might pay off in the future.
- Fruits of the transition to environment sustainability may not be evenly distributed and will require a range of social and labour market policies that address adverse impacts, safeguard the vulnerable and deliver a just transition.

### Conclusion

Sustainable industrial development offers plenty of economic benefits. The industry itself promotes jobs and income associated with reducing environmental impact. Improved environmental performance can also lead to increased labor productivity and product quality, contributing to a healthier economy and also require a perhaps unprecedented degree of global coordination.

**Q-3 - What are the key factors deciding the export competitiveness of India's manufacturing sector ? where does India lack of this front ? Do critical assessment ?**

### Approach -

In this question candidates need to write about key factors which decides India's export competitiveness in manufacturing sector, in second part write about where India lack on this front .

### Introduction-

India has reached USD 418 billion dollars of manufacturing exports in the fiscal year 2022 (FY22) with rapid growth over the last 2 years. Despite having the fifth-largest economy in the world, contributing to 3.1% of the GDP, India's export contribution to global trade is still only 1.6%.

### Body -

The factors are Value of exports is taken as a dependent variable while inflation rate, Exchange rate, FDI inflows and USAGDP and Indian GDP were taken as Explanatory variables.

- First, the decision to lower the corporate tax rate to 22% for all firms and 15% for new manufacturing firms, will encourage the domestic manufacturing sector.

Production linked incentive scheme-

- The introduction of the Production-Linked Incentive (PLI) schemes in several key sectors, for the first time, incentivise production, rather than inputs.
- These schemes will help domestic manufacturing achieve size and scale. As many as 29 Central labour laws were rationalized into four codes.

MSME's -

- The definitions of MSMEs have been raised upwards, allowing them to grow in size, whilst maintaining the benefits of MSMEs. All these steps should help in domestic industry achieve size and scale.

Domestic GDP-

- It is important to know whether exports will accelerate the domestic growth and employment. The empirical studies indicated that there existence positive relationship between Export and economic Growth of Country reveals the contribution of exports in the acceleration of GDP growth found that the liberalization of trade policies is helpful in sustaining economic growth and exports cause growth in India.

Real Effective Exchange Rate-

- Real exchange rate is commonly known as a measure of international competitiveness. It is also known as index of competitiveness of currency of any country and an inverse relationship between this index and competitiveness exists. Lower the value of this index in any country, higher the competitiveness of currency of that country will be. The studies indicated that the exchange rate has significant negative impact on real exports implying that higher exchange rate fluctuation tends to reduce real exports in India.

Inflation rate-

- Increases in domestic inflation lead to higher prices for exported goods and a decrease in exports as foreign consumers substitute in favour of lower priced alternatives produced within their own country or imported from elsewhere. It reveals from empirical estimates that high inflation rate and an abundance of natural resources tended to be associated with a low exports and slow growth

Foreign direct investment-

- FDI a potential non-debt creating source of finance and a bundle of assets, viz., capital, technology, market access (foreign), employment, skills, management

techniques, and environment, which could solve the problems of low income growth, shortfall in savings, investments and exports and unemployment.

- The evidence from the FDI promotes the manufactured exports of recipient countries showed the spill over effect of FDI on export in Bangladesh the entry of single Korean Multinational in apparel industry exports led to the establishment of a number of domestic export firms, creating the country's largest export industry.

USA GDP-

- The performance of export sector is highly depends on other countries economic activity. It evident from that the financial crisis of 2008 had a dampening effect on global demand and slowed down capital inflows which affected India's export sector.

What are the Challenges Related to Indian Export Growth?

- Rising Protectionism and deglobalization: Countries around the globe are moving towards protectionist trade policies due to disrupted global political order (Russia-Ukraine War) and westernization of supply chain, that is in way shrinking India's export capacities.
- Lack of Basic Infrastructure: India's maufacturing sector lacks sufficient manufacturing hubs, internet facilities and transportation are costly when compared to developed nations which is a huge deterrence to Industries.
- Uninterrupted power supply is another challenge.
- Lack of Innovation Due to Low Spending On R&D: Currently, India spends about 0.7% of GDP on research and development. This prevents the manufacturing sector from evolving, innovating and growing.
- Specialization versus Diversification: Indian exports are characterized by high diversification combined with low specialization, implying that India's exports are spread thin over many products and partners, resulting in lack of competitiveness compared to other countries.

Way Forward-

- Exploring Joint Development Programme: Amidst a wave of deglobalization and slowing growth, exports cannot be the sole engine of growth. India can also explore joint development programme with other countries in sectors like space, semiconductor, solar energy to improve India's medium-term growth prospects.
- Dedicated Export Corridors: The economic policy should also strive to promote export dynamism and product specialization alongside product diversification through Dedicated Export Corridors to offer the best of the best service across the globe and propel the Indian economy to the path of long term sustained economic growth.
- It is important for India to link Special Economic Zones with the MSME sector and incentive small businesses.
- Filling Up Infrastructural Gaps: A robust infrastructure network - warehouses, ports, testing labs, certification centers, etc. will help Indian exporters compete in the global market.
- It also needs to adopt modern trade practices that can be implemented through the digitization of export processes. This will save both time and cost.

**Conclusion-**

India's manufacturing sector needs up-gradation and reforms for becoming globally competitive. Absence of effective, flexible and targeted policy support along with supportive measures like the development of infrastructure and education would mean the stagnation of the sector. The government needs to address the core problems of manufacturing sector to grow.

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