

Trade-related Infrastructure Development under India's Foreign Trade Policy

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Introduction

In July 2005, five Parliamentarians cutting across party lines proposed setting up of a Parliamentarians' Forum on Economic Policy Issues (PARFORE). The idea behind the Forum is to discuss the divergent opinions on the core economic policy issues reflected in and out of the Parliament and the media.

The PARFORE was conceived as non-partisan and informal forum where MPs are able to air their views on a periodic basis on the core economic issues in the field of trade, competition, regulatory reforms, investment and their cross linkages.

CUTS, dedicated to policy research, advocacy, networking and capacity building on consumer welfare, hosts this Forum as a neutral platform by facilitating meetings and providing research-based inputs for discussions. In this manner, CUTS enables the policy and law makers to think and guide both the establishment and the public about what is in the best interests of the nation. Details are available at www.parfore.in.

Objective

The objective of this meeting was to facilitate an informed discussion among the Indian parliamentarians on issues of trade-related infrastructure in India and how it is being dealt in the National Foreign Trade Policy (NFTP) of India, 2009-14.

Background

Infrastructure services can produce positive externalities. For example, developing a new road infrastructure project to relieve congestion in access to a port produces advantages not only for the users of the project but also for users of other roads where congestion is lessened as a result of a new project. Even non-users gain through reduction of pollution and improvement of the natural environment, and the country as a whole benefits as a result of increased trade benefits.

In order to make efforts to take advantage of economies of scale in production, procurement, and/or marketing firms to look beyond national borders for both trade and investment opportunities. Promoting efficient financial intermediation, coordinating and promoting regional public goods, reducing macroeconomic vulnerability to shocks, and strengthening security ties offer governments similar incentives to design, develop, and manage regional infrastructure cooperation and integration.

In short, regional infrastructure coordination can lower infrastructure costs and limit environmental and other negative social impacts, while contributing to trade expansion. For example, in the Greater Mekong Sub-region (GMS), special forums have been established to coordinate transport infrastructure developments, particularly for the development of cross-country economic corridors.

Infrastructure investment that reduces trade costs facilitates regional economic integration through trade and investment expansion, which motivates regional cooperation, including cooperation in infrastructure development, generating a virtuous cycle of trade expansion and development.

Given this background and context, this meeting was aimed at sensitising the Indian parliamentarians to the importance of trade-related infrastructure in expanding trade opportunities and generating better regional cooperation.

Participants



There were seven Parliamentarians present in the meeting. They were Y S Chowdary MP, Rajya Sabha; E M Sudarsana Natchiappan, MP, Rajya Sabha; V P Singh, MP, Rajya Sabha; Ishwarlal Shankarlal Jain, MP, Rajya Sabha; Kalikesh Narayan Singh Deo, MP, Lok Sabha; Bhakta Charan Das, MP, Lok Sabha; and Modugula Venugopala Reddy, MP, Lok Sabha. Apart from the above-mentioned MPs, R S Ratna, Joint Director General, Foreign Trade, and representatives from eight civil society organisations also participated.

Discussion

At the outset, Pradeep S Mehta, Secretary General, CUTS International mentioned the objective of the meeting. He said that it is a meeting to facilitate an informed discussion among the Indian parliamentarians on issues of trade-related infrastructure in India and how it is being dealt with in the NFTP of India, 2009-14. Further, he explained that in order to comply with the target of increasing exports and with the goal of developing a robust and sound economy, the Indian government should pay more attention to developing an efficient and competitive infrastructure system. This can be done in a more coherent way not only by infusing government funds to build roads and telecom networks but also by putting infrastructure services and financing at the centre of India's trade policy.



Mehta also said that the main point is that infrastructures can be traded and, similar to all other sectors of an economy, their cost and quality can be improved by opening the market of infrastructure production and supply to foreign competition.

Finally, he raised certain questions (mentioned below) and sought answers through discussion.

- Why trade-related infrastructures are essential for boosting a country's trade performance?
- Should India not liberalise infrastructure services as there is no economic rationale to keep them protected and focus especially on building regional infrastructure networks?
- Should infrastructure be not treated as any other services and, besides putting more resources to build them, should also focus on increasing their efficiency by:
 - ✓ More services liberalisation (in those sectors where it is politically feasible);
 - ✓ Liberalisation of government procurement for all the sectors relevant to infrastructure, especially for those sectors that cannot be liberalised?

Y S Chowdary, MP, Rajya Sabha

Chowdary mentioned that NFTP states' improvements in infrastructure related to exports as the three pillars of NFTP. Technology is an important part of capacity building and infrastructure and under the Export Promotion Capital Goods (EPCG) scheme the government would levy zero percent tariff on such imports.



He also mentioned that NFTP also identifies "Towns of Export Excellence" (TEE) that would be granted additional support. The criteria of selection of TEE is 750 crores, which is extremely steep.

Also, money under Assistance to States for Developing Export Infrastructure & Allied Activities (ASIDE) given to the state government for creation of adequate infrastructure should be allowed in more spheres and not be only limited to trade, for a more holistic development. At present, the categories for which the ASIDE money can be taken are reasonable and pro-development, but need to be expanded.

R S Ratna, Joint Director General Foreign Trade, Department of Commerce

Ratna mentioned that the basic objective of the ASIDE scheme is to involve the states in the export efforts by providing incentive-linked assistance to the state governments and to create appropriate infrastructure for the development and growth of exports.

The objective has been achieved in spite of various constraints, as is evident from the active participation of states/UTs in sponsoring a large number of export-related projects for assistance from ASIDE Scheme and the efforts made by them to leverage funds for taking up several projects. However, the demands the funds received from the states still remain substantially more than the availability of funds.

He also mentioned that factors like high freight costs, delays in customs clearance, unofficial payments, slow port landing and handling and poor governance create barriers to trade. Institutional bottlenecks (administrative, legal, financial, regulatory and other logistics infrastructure), information asymmetries and discretionary powers that give rise to rent-seeking activities by government officials at various steps of trade transactions only accentuate costs.

These costs can be lowered through coordination between authorities, which would facilitate trade logistics for merchandise and services in both inbound and outbound shipments.

E M Sudarsana Natchiappan, MP, Rajya Sabha

Natchiappan shared that the impacts of trade-related infrastructure can be leveraged by coordination across borders, taking advantage of economies of scope and scale, to facilitate trade expansion. In the GMS, special forums coordinate transport, telecommunications and electric power infrastructure developments, particularly for cross-country economic corridors.



He also added that in the international context, harmonised and coordinated soft infrastructure will complement physical infrastructure connections. These, supported by a conducive policy environment, would help capitalise on regional externalities through cooperative arrangements and enhanced infrastructure services can reduce trade costs and facilitate trade expansion, regional integration and economic development.

V P Singh Badnore, MP, Rajya Sabha

Singh mentioned that infrastructure services can yield positive externalities. For example, developing a new road infrastructure project to relieve congestion in port access produces advantages not only for the users of the project but also for users of the road, as congestion is lessened as a result of the new project. Infrastructure development has positive spill-overs which are beyond trade.