



TOWARDS A RETURN OF INDUSTRIAL POLICY?  
ARTNeT SYMPOSIUM  
25-26 JULY 2011  
ESCAP, BANGKOK

**RETURN OF INDUSTRIAL POLICY: ENHANCING  
INFLOW OF INVESTMENTS BY THE LEAST  
DEVELOPED COUNTRIES OF ASIA PACIFIC REGION  
FOR ENHANCING MARKET ACCESS  
OPPORTUNITIES UNDER DUTY FREE TARIFF  
PREFERENCES SCHEME BY INDIA**

**Rajan Sudesh Ratna**  
**Manab Majumdar**

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**ARTNeT Symposium “Towards a return of Industrial policy?”**

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# PRESENTATION STRUCTURE

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- × **India's Duty Free Tariff Preference (DFTP) Scheme**
- × **RTAs and FDI**
- × **India Sri Lanka FTA: Case Study**
- × **Asia-Pacific LDCs - possibility for attracting FDI**
- × **Way Forward...**

# DFQF

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- **Duty Free Quota Free (DFQF) market access to LDCs mandated under WTO's Hong Kong Ministerial Declaration, 2005.**
- **Developed countries to provide market access for at least 97% of products originating from LDCs.**
- **Developing countries encouraged to provide preferential market access to LDCs with some flexibilities.**



# INDIA'S DFTP SCHEME

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- **Mindful of India's strong relationship with LDCs, India announced the Duty Free Tariff Preference (DFTP) Scheme in April 2008.**
- **Scheme to grant unilateral tariff preferences on the imports of India originating from LDCs**
- **Aimed at promoting development of LDCs.**

# MODALITIES FOR TARIFF PREFERENCES

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- Duty Free List: 85% of the total tariff lines (at 6-digit HS) to become duty-free.
- Positive List: In addition, on 9% tariff lines limited tariff concessions would be available (ranging from 10% to 100%).
- Exclusion List: Only 6% of the tariff lines are excluded from the preferential tariff treatment.
- Reduction process:
  - 5 equal cuts
  - 5 year implementation period
- Rules of Origin
  - CTH + 30%



# REVIEW PROCESS

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## ➤ **DFTP Scheme to be reviewed based on:**

- **Inputs from Beneficiary LDCs**
- **Performance/ Utilisation of the Scheme**

# WHO IS ELIGIBLE

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- **All LDCs-49, including 33 LDCs in Africa, named as ‘Beneficiary Country’.**
- **To avail benefits under the Scheme, LDC to send Letter of Intent to the GoI that they wish to be covered under this Scheme and that they would comply with the provisions of this Scheme.**



# **PRESENT STATUS (AS ON APRIL , 2011)**

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- **Letters of Intent received from 26 LDCs namely:**
  - **Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central African Republic, East Timor (Timor Leste), Eritrea, Ethiopia, Gambia, Lao PDR, Lesotho, Madagascar, Malawi, Maldives, Mali, Mozambique, Myanmar, Rwanda, Samoa, Senegal, Somalia, Sudan, Tanzania, Uganda and Zambia.**

# ASIA PACIFIC LDCs AND INDIA

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- × **15 LDCs from Asia – Pacific that are entitled to utilize this Scheme:**
  - + **Afghanistan, Bangladesh, Bhutan, Cambodia, East Timor, Kiribati, Lao PDR, Maldives, Myanmar, Nepal, Samoa, Solomon Islands, Tuvalu, Vanuatu and Yemen**
- × **Bangladesh, Cambodia, East Timor, Lao PDR, Maldives, Myanmar and Samoa have chosen to become beneficiary country to avail DFTP benefits**
- × **Bhutan, Nepal & Afghanistan : already availing equivalent concessions in their bilateral / regional RTA with India and have not yet shown interested in DFTP**
- × **Other countries are either not aware of benefits and opportunities, or have not evaluated the pros and cons.**



## WHY BENEFICIAL ?

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- Will facilitate value added manufacturing in LDCs
- Attract India investment to LDCs for taking advantage of DFTP.
- DFTP mandates for providing need based “*Technical Assistance*” to Beneficiary Countries
- Process of “*Consultations*” have been built.

# RTA & FDI

Various studies pointed the positive impact of RTA on intra-regional FDI inflows:

Authors & finding	RTA
Jeon and Stone 2000	ASEAN
Srinivasan and Mody 1997, Brenton <i>et al.</i> 1998, Pain and Landsbury 1996	EU
Blomström and Kokko 1997	MERCOSUR
DFAIT 1999 Blomstorm and Kokko 1997, A. Monge-Naranjo 2002, Waldkirch 2003	NAFTA
ADB and UNCTAD Report (2008)	SAFTA
World Investment Report (2003)	ISLFTA
Yeyati et al. (2003)	OECD countries (1982-1999)
Jaumotte (2004)	South-South RTAs (1980-1999)



# CASE STUDY OF INDIA SRI LANKA FTA

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- ✖ **A Free Trade Agreement was signed by the Prime Minister of India and the President of Sri Lanka in New Delhi on 28<sup>th</sup> December, 1998. The Agreement came into force in the year 2000 and the elimination of tariffs were to be carried out in a phased manner. As per the Agreement, India granted duty free access to Sri Lanka from March, 2003. Sri Lanka granted duty free access to Indian exports from 2008.**
- ✖ **Historically, Foreign Direct Investment (FDI) from India to Sri Lanka had been low; however, there was a dramatic increase after the signing of the bilateral FTA. A major attraction for Indian investors has been the ability to re-export to India while benefiting from lower tariffs on raw materials in Sri Lanka. India became the biggest FDI investor in Sri Lanka in 2002 and 2003.**
- ✖ **India is one of the largest investor to Sri Lanka even now.**

## **UNCTAD Report on India – Sri Lanka free trade agreement and FDI**

**Free Trade Agreement gives duty-free market access to India and Sri Lanka on a preferential basis. Covering 4,000 products, it foresaw a gradual reduction of import tariffs over three years for India and eight years for Sri Lanka.**

**To qualify for duty concessions in either country, the rules of origin criteria spelled out value added at a minimum of 35% for eligible imports. For raw materials sourced from either country, the value-added component would be 25%.**

**The effect? Sri Lankan exports to India increased from \$71 million in 2001 to \$168 million in 2002. And India's exports to Sri Lanka increased from \$604 million in 2001 to \$831 million in 2002. Although the agreement does not address investment, it has stimulated new FDI for rubber-based products, ceramics, electrical and electronic items, wood-based products, agricultural commodities and consumer durables. Because of the agreement, 37 projects are now in operation, with a total investment of \$145 million.**

**Source: WIR (2003)**



# PLAN OF ACTION FOR DFTP BENEFICIARIES

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- **Submit (if not already done so) the**
  - **Letter of Intent**
  - **List of agencies/ officials authorised to issue the Certificate of Origin**
- **All the LDCs enjoying preferences under the GSP Scheme or a member of other Regional Trade Agreements. Should nominate the same agencies for issuing the DFTP Certificate of Origin without any additional burden or cost.**
- **DFTP beneficiaries need to concentrate on products of export interest and tailor their policy measures.**

## **PLAN OF ACTION ( CONTD.)**

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- **Promoting business to business meet**
- **Identify technical assistance needs and take up with India**
- **Government of India willing to provide TA to LDCs on a need based basis.**



# EXPORTS TO INDIA: AN ANALYSIS

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- ✖ Most of the LDCs from the Asia Pacific region have very weak trade and investment linkages with India.
- ✖ Their significant exports are directed to the rest of World than India.
- ✖ Only Bhutan, Nepal, Afghanistan and Myanmar have substantial portion of their exports directed towards India.
- ✖ Significant gap exists in top 20 items that are exported by the LDCs to World and their exports to India.

# EXPORTS TO INDIA: AN ANALYSIS

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- × On their top 20 items: India has significant global import values.
- × Good market exists in India.
- × LDCs have two options:
  - + Export to India by diverting their goods meant for their conventional markets.
  - + Enhance capacity to produce more so that the excess capacity can be used for exporting to India.
  - + FDI inflows would need to be attracted.
  - + Identification of sectors where potential exists and what kind of FDI policy needs to be formulated is very important.



# WAY FORWARD

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- ✖ It is thus necessary that each of the Asia Pacific LDC evaluates its benefits that may come on their way due to the DFTP Scheme of India.
- ✖ Perhaps, they are not equipped to do such an assessment and also evaluate the FDI policies that they need to formulate for attracting FDI in certain sectors where the opportunities exist.
- ✖ It is thus important that inter-governmental agencies like UN-ESCAP/ARTNeT evaluates country wise position and then assists these LDCs in formulating their FDI policies that are sustainable and bring over all development in these countries.

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**THANK YOU**