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Daily Mains Answer Writing

(Day - 53)

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India's growth in External Sector is restrained not only by international factors but also by domestic factors. Comment.

Structure –

- Intro - Briefly tell about what is meant by External sector so as to impart a sense of context to your answer.
- Body - In first 2 lines, List 2-3 international factors which restrain India's external sector, this will impart a sense of affirmation to question asked.
- Then in next art, talk about the domestic factors which restrain India's external sector.
- Conclusion - Talk about present status of India's external sector and what measures have been taken by the government to improve external sector performance.

Answer -

An economy's external sector refers to all international economic transactions between residents of the country (private and public sector) and the rest of the world and consists of components included under Balance of Payment. Though India has a high potential for the growth of external sector but its growth is slower than expected.

Not only International factors such as acceptance of quality of products, fluctuating oil prices, import ban by international markets etc. but many domestic factors are restraining the growth of India's external sector such as -

1. Monetary constraints - Rising NPA with the banks and high interest rates has resulted a funding constrain for industries. Due to this lack of funding our industrial growth has been affected and unable to adopt new technologies which ultimately affect our competitiveness in international market.
2. Polity logjam - Several proposed reforms such as Tax simplification proposals, Land reforms, foreign investment promotion, banking reforms etc are continuously being delayed resulting into eroding the trust.
3. Infrastructure bottleneck – The lack of proper development of roads, railways and port infrastructure fails to provide efficient and cheap transportation facilities which ultimately affects our export potential and renders our products less competitive in international market due to increased costs.
4. Export policy – At points our export policy is not favourable to our domestic industry. In many cases we follow inverted duty structure, which render our exports less competitive in international market, Resulting in trade deficit.

Others factors such as Unskilled labour (Mismatch between demand and supply), non-utilisation of vast pools of natural resources especially energy resources sum up the domestic factors which restrain External sector.

On the brighter side, India is expected to witness current account surplus during the current financial year after a gap of 17 years and the foreign exchange reserves rose to an all-time high of US$ 586.1 billion. To sustain the improvement pace our government has started many initiatives like -

- Promoting Exports through Production Linked Incentive Scheme, Remission on taxes and duties on Exported Products.
- Improvement in Logistic Infrastructure through programmes such as Bharatmala Pariyoajana etc.
- Digital Initiatives like Digital India scheme.
- HELP policy to ease resources extraction.
- Liberalised FDI policy to attract more investments from abroad which would go a long way in strengthening external sector in general and exports in particular.