An Export-forward Budget

An analysis of the Union Budget 2025, which lays out the roadmap for 10x export growth for Viksit Bharat 2047

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With a clear line of sight towards Viksit Bharat (Developed India) by 2047, the Union Budget 2025 called out, for the first time, exports as the fourth engine of the economy. Of the USD 30 trillion figure that the Viksit Bharat vision targets, USD 8.67 trillion (close to 30%) is projected to come from exports.

The current exports stand between USD 800-900 million. This means, that in two decades, Indian exports need to go up to 10x the current level. The Budget has set out a roadmap to achieve this lofty ambition through various initiatives and announcements.

The Niti Aayog has marked out five focus areas for boosting exports: infrastructure development, technological innovation, skill development, diversification of export sectors, and policy reforms. The Budget had something for each of them and details are included in the later pages.

Perhaps the most important indicator of the emphasis on exports was the establishment of the Export Promotion Mission. The Mission will provide support to MSMEs in various forms. The primary focus will be to drive access to export credit, which will help companies plan their shipments better; cross-border factoring support, which will help expedite money realization; and support to MSMEs to tackle non-tariff measures in overseas markets through treaties and foreign trade agreements (FTAs).

In all, it was a Budget that clearly sets its sights on a long-term vision rather than delving too much into the here and now. Prioritizing domestic production and encouraging exports in the Budget will not just make India self-reliant but also place it firmly in the developed part of the global market.

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Infrastructure Development

Year after year, when it came to infrastructure, the emphasis was on building and enhancing physical facilities like ports and airways. This year, the announcement of shipbuilding clusters, the creation of the Maritime Development Fund, the modified UDAN scheme to enhance regional connectivity to 120 new desti-

nations, and efforts to increase nuclear energy capacity ensured that physical infrastructure remains steady on its course.

The higher priority this time was on building the digital infrastructure, and the big announcement was the establishment of BharatTradeNet (BTN). The continued push towards digitalization makes India one of the front-runners in the world, and BTN is another step in that direction.

BTN will be set up as a unified platform for trade documentation and financing solutions and will be added to the India stack, along with UPI, Aadhaar, DigiLocker, and ONDC. It will complement the Unified Logistics Interface Platform (ULIP) and will be aligned with international practices.

Technological Innovation

The Budget displays the Government's intent to push technology innovation at various levels. These include sector-specific initiatives, like allocating funds for textile innovation, as well as national initiatives.

There is an aggressive push towards the investment, spread, and adoption of artificial intelligence. This year, the Finance Minister announced the setting of a Centre of Excellence (CoE) in Artificial Intelligence for Education, in addition to the three CoEs already introduced in 2023 for AI in agriculture, health, and sustainable cities.

With the announcement of 50,000 Atal Tinkering Labs and increased support to the IITs, the Budget is also looking at rooting innovation among the children and youth to build a base for the future.

Skill Development

The Budget had a two-pronged agenda for skill development. The first, and the most obvious one, was to address unemployment, which has risen from 6% in 2021 to 9.2% in 2024. The second is to pave a path towards capability building for the Viksit Bharat vision, which has, as one of the parameters, 100% skilled labour with meaningful employment.

The significant step for this was the announcement of five National Centres of Excellence for Skilling with global expertise and partnerships to equip youth with necessary skills tailored for the manufacturing sector.

To tap into the talent in the tier-2 cities, the Budget also announced the setting up of Global Capability Centres (GCCs) in these cities.

Diversification of Export Sectors

A substantial 36% of the onus of that production rests on the over 1 crore registered MSMEs, employing 7.5 crore people. This was so that in the two-decade run-up, many of them can grow to become larger and contribute more to the 10x export goal.

The MSME engine, consequently, received generous attention in this Budget. There were also specific announcements for sectors not usually targeted, like toys, footwear, handicrafts, fisheries, and others.

Access to finance has been a significant challenge for MSMEs, as has been the path to scaling up. So measures like a Rs 10,000 crore fund of funds for startups, easy access to term loans of up to Rs 20 crore will ease some of that anxiety.

The Budget also announced a much-needed National Manufacturing Mission for MSMEs for furthering "Make in India". This will focus on ease of doing business, skill-building, availability of technology, and other ways to make the road to production easier for them.

Policy Reforms

None of this is possible without taking some bold policy measures. In a nutshell, the thrust of the Budget was to make it easy for manufacturers to ensure there is enough supply of critical raw materials so that they can focus on value addition, domestic supply, and export. Additionally, the intent was to reduce the pressure of reporting and compliance on them to enhance ease of doing business.

Before we go into the details, let's look at the fiscal markers. After the COVID peak, the fiscal deficit and debt are both on a downward trend. The revised estimate for fiscal deficit stands at 4.8% with an aim to bring it to 4.4% in 2026. The slight increase in capital expenditure (CapEx), from Rs 11.11 lakh crore to Rs. 11.21 lakh crore is an investment in capacity building that will pay off in 10 years' time.

The most impactful investment here was the rationalisation of customs tariff structure. Seven tariff rates were removed over and above the seven removed last time, leaving only eight rates, including 'zero'. The Finance Minister also announced that there won't be a levy of more than one cess or surcharge.

Several policies to support trade facilitation were also announced. Introducing a time limit of two years (extendable by a year) to finalize Provisional Assessments will reduce uncertainty.

The new provision for importers or exporters (after clearance of goods) to voluntarily declare material facts and pay duty with interest but without penalty will incentivise voluntary compliance.

The Budget also announced exemption or reduction of basic customs duty (BCD) on several critical materials and equipment. Some of the industry-specific initiatives have been outlined later in this article.

Another welcome announcement was the extension of the time limit for the end-use of imported inputs from six months to one year. This will provide operational flexibility in view of cost and uncertainty of supply. Additional ease will come from having to file only quarterly statements instead of a monthly statement.

Key Growth Factors

Finally, let's come to the sector-specific announcements. While it remains the highest spend for the government, Defence didn't find a mention in the Finance Minister's speech. Here are some of the sectors that did.

Automotive

A few imperatives were guiding the decisions impacting the auto sector. The first is the pressure on oil channels, given the geopolitical tensions, needing India to decrease dependence on petroleum and move towards EVs. The other is the stride towards net zero emissions.

While the Budget didn't specifically call out the sector, exempting 35 capital goods for EV battery manufacturing is a clear signal towards boosting EV manufacturing. The customs rate rationalisation also directly impacts domestic production.

Metals and Mining

Here too, the thrust of the Budget was to push domestic manufacturing. Duty was removed on several critical minerals where we are not self-sufficient, like cobalt powder and waste, the scrap of lithium-ion battery, lead, zinc and 12 more critical minerals. The July 2024 Budget had already exempted BCD on 25 minerals.

While there was no direct announcement for iron or steel, the overall infrastructure development, manufacturing and EV push will bolster the market for steel.

Pharmaceuticals

There were big announcements in the pharmaceutical sector this time, especially to make it easier to import APIs and life-saving drugs. This includes the addition of 36 life-saving drugs to the BCD exemption list and 6 to the 5% BCD list.

The Budget's BCD exemptions also included drugs and medicines under Patient Assistance Programmes (to support those who can't afford healthcare and are uninsured) run by pharmaceutical companies, provided the medicines are supplied free of cost to patients. It also added 37 more medicines along with 13 new patient assistance programmes.

While there were no direct announcements on medical equipment, the overall emphasis on 'Make in India' will support domestic production.

Consumer Products & Goods

The Budget features personal tax reliefs, which are expected to enhance disposable income for the middle class, thereby stimulating consumer spending across various categories, including essential and aspirational products in the FMCG sector.

A strong emphasis on improving agricultural productivity through initiatives like a six-year mission for pulses is expected to enhance food security and quality. This will positively affect the food and beverage segment of the CPG industry by ensuring a steady supply of raw materials.

Investments in rural infrastructure and job creation have been prioritized, which will likely boost economic activity in rural areas and drive higher consumption of consumer products. This is particularly important as rural markets constitute a significant portion of total consumer spending.

Textiles

The budget introduces a 20% import duty or Rs 115 per kg (whichever is higher) on nine types of knitted fabrics. This measure is intended to curb cheap imports and protect domestic manufacturers.

The customs duty on certain types of shuttle-less looms has also been exempted to promote domestic production of technical textiles. Moreover, the extension of the RoSCTL scheme will continue until March 31, 2026, providing rebates on embedded state and central taxes/levies on exports of apparel and made-ups. The budget also emphasizes technological upgrades and infrastructure development within the textiles sector, aiming to increase competitiveness and value addition in domestic manufacturing.

Niche Sectors

Encouraging some of the niche industries, the Budget looked to leverage the latent strengths of the country and diversify India's export portfolio.

Fisheries

The Budget announced an enabling framework to boost India's Rs 60,000 crore seafood exports. Currently India ranks second-largest globally in fish production and aquaculture. The framework will support sustainable harnessing of fisheries from the Indian Exclusive Economic Zone and High Seas, with a special focus on the Andaman & Nicobar and Lakshadweep Islands. The Budget also announced lowering of BCD on some chemicals and material needed to manufacture fish and shrimp feeds.

Footwear

A special product scheme was announced for supporting design capacity, component manufacturing, and machinery required for production of non-leather quality footwear, besides the support for leather footwear and products. The scheme will lead to a turnover of Rs 4 lakh crore and exports of over Rs 1.1 lakh crore.

Toys

In June 2024, the Government had announced a comprehensive National Action Plan for Toys (NAPT). Building on that, the Budget announced a scheme to make India a global hub for toys. The scheme will focus on development of clusters, skills, and a manufacturing ecosystem that will create high-quality, unique, innovative, and sustainable toys that will represent the 'Made in India' brand.

Gems and Jewellery

The condition of Import of Goods at Concessional rate of duty or For Specific End Use (IGCR) has been removed for customs duty exemption on import of seeds for use in manufacture of rough lab-grown diamonds. This paves the way for increasing production for these.

Repairs

Leveraging India's strength in services, including repair capabilities, the Government is supporting the setting up of maintenance, repairs and operations (MROs) units. In this Budget, the time limit for export of foreign origin goods imported for repairs has been extended from 6 months to one year (further extendable by one year for railway goods). The other measure is for ship-breaking in Indian yards, for which a financial assistance policy was announced.

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