# UNIT 190 – UPSC - India's Foreign Trade: Policy and trends(International Business)

Foreign Trade is the important factor in economic development in any nation. Foreign trade in India comprises of all imports and exports to and from India. The Ministry of Commerce and Industry at the level of Central Government has responsibility to manage such operations. The domestic production reveals on exports and imports of the country. The production consecutively depends on endowment of factor availability. This leads to relative advantage of the financial system. Currently, International trade is a crucial part of development strategy and it can be an effective mechanism of financial growth, job opportunities and poverty reduction in an economy. According to Traditional Pattern of development, resources are transferred form the agricultural to the manufacturing sector and then into services.


**Historical review:** Foreign trade in India began in the period of the latter half of the 19th century. The period 1900-1914 saw development in India's foreign trade. The augment in the production of crops as oilseeds, cotton, jute and tea was mainly due to a thriving export trade. In the First World War, India's foreign trade decelerated. After post-war period, India's exports increased because demand for raw materials was increased in all over world and there were elimination of war time restrictions. The imports also increased to satisfy the restricted demand. Records indicated that India's foreign trade was rigorously affected by the great depression of 1930s because of decrement in commodity prices, decline in consumer's purchasing power and unfair trade policies adopted by the colonial government. During the Second World War, India accomplished huge export surplus and accumulated substantial amount of real balances. There was a huge pressure of restricted demand in India during the Second World War. The import requirements were outsized and export surpluses were lesser at the end of the war. Before independence, India's foreign trade was associated with a colonial and agricultural economy. Exports consisted primarily of raw materials and plantation crops, while imports composed of light consumer merchandise and other manufactures. The structure of India's foreign trade reflected the organized utilization of the country by the foreign leaders. The raw materials were exported from India and finished products imported from the U.K. The production of final products were discouraged. For instance, cotton textiles, which were India's exports, accounted for the largest share of its imports during the British period. This resulted in the decline of Indian industries. Since last six decades, India's foreign trade has changed in terms of composition of commodities. The exports included array of conventional and non-traditional products while imports mostly consist of capital goods, petroleum products, raw materials, intermediates and chemicals to meet the ever increasing industrial demands. The export trade during 1950-1960 was noticeable by two main trends. First, among commodities which were directly based on agricultural production such as tea, cotton textiles, jute manufactures, hides and skins, spices and tobacco exports did not increase on the whole, and secondly, there was a significant boost in the exports of raw manufactures such as iron ore. In the period of 1950 to 1951, main products dominated the Indian export sector. These included cashew kernels, black pepper, tea, coal, mica, manganese ore, raw and tanned hides and skins, vegetable oils, raw cotton, and raw wool. These products comprised of 34 per cent of the total exports. In the period of 1950s there were balance of payments crunch. The export proceeds were not enough to fulfil the emerging import demand. The turn down in agriculture production and growing pace of development activity added pressure. The external factors such as the closure of Suez Canal created tension on the domestic financial system. The critical problem at that moment was that of foreign exchange scarcity. The Second Five Year Plan with its emphasis on the development of industry, mining and transport had a large foreign exchange factor. This tension on the balance of payments required the stiffening of import strategy at a later stage.

**Table: Measures initiated in India to Influence Foreign Trade during 1949-1950 to 1979-**

| Plans | Policy Measures |
|---|---|
| **First Plan** | The desire to save foreign exchange reserves was expressed in the first five year plan (1951-1956). To control and regulate exports and imports in the certain select commodities state trading was considered necessary plan. |
| **Second Plan** | Since the middle of second five year plan (1956-1961) a series of measures were initiated with the objective of stepping up exports. The measures in questions were fairly widely conceived and included organizational changes, increased facilities and incentives and diversification of trade. |
| **Third Plan** | The third five year plan (1961-1965) provided various measures for expanding exports. The plan divided the expanding of exports under two groups namely.<br>1. General policies |

**1980**

| | |
|---|---|
| | 2. Measures relating to specific commodities. Further the third five year plan asked for the availability of surpluses for exports at prices competitive with those of other suppliers in international markets. The third plan tried to explore the possibility of supplementing export earnings with external assistance. |
| **Annual Plan** | The three Annual Plans (1996-1969) began with the devaluation of rupee on 6th June 1966 to solve the balance of payment problems and trade problem. This was followed by import liberalization policies. The principal policy measures taken with devaluation included liberal import policy for 59 priority industries in which arrangements were made to meet the requirements for raw materials, components and spares in full (Initially for six months). Further modifications, adjustments and extensions in export policies were initiated. |
| **Fourth Plan** | The Fourth five year plan (1969-1974) stated that export quotas should be kept to the minimum, specially in case of primary agricultural products, unless there were overriding considerations to justify such action. The fourth plan laid stress on adequate provision for modernization and rehabilitation of manufacturing units as part of export promotion efforts in case of traditional exports. For increasing exports of non-traditional items, special emphasis was placed on wider publicity. |
| **Fifth Plan** | In order to have sustained level of growth rate of exports during the fifth five year plan (1974-1979), the exploitation of both supply and demand were considered necessary for export of products of manufacturing sector. This plan laid emphasis on tapping markets where India enjoyed distinct locational advantages. |

**Source: Inputs from various issues of Economic Survey, Ministry of Finance, Government of India, New Delhi.**

In the age of globalisation, India is new entrant to expand international trend. In 1991, the government initiated some changes in its strategy on trade, foreign Investment, Tariffs and Taxes under the name of "New Economic Reforms". Indian government mainly concentrated on reforms on Liberalization, openness and export sponsorship activity. It is witnessed that foreign Trade of India has considerably revolutionized export in the Post reforms period. Trade Volume increased and the composition of exports has undergone several noteworthy changes. In Post - reform Period, the major provider to export's growth has been the manufacturing sector.

Though India has steadily opened up its wealth, its tariffs are high as compared with other countries, and its conjecture norms are still restricted. Foreign trade in India in legal term is the Foreign Trade (Development and Regulation) Act, 1992. The Act provide with the development and regulation of foreign trade by assisting imports into, and supplementing exports from India. To fulfil the requirements of the Act, the government may make necessities for assisting and controlling foreign trade, may forbid, confine and regulate exports and imports, in all or particular cases as well as subject them to exclusion. Government is endorsed to devise and declare an export and import policy and also amend the same from time to time, by notification in the Official Gazette, and is also authoritative to appoint a 'Director General of Foreign Trade' for the purpose of the Act, including formulation and accomplishment of the export-import policy.

**The 15X15 Matrix** Strategies was introduced in 1995 and major aim of this policy was to recognize market diversification and commodity diversification. When reviewed the success of this, it represented that the share of the total top 15 product groups exported to the top 15 market destinations declined from 71% in 1996-97 to 66% in 2000-01 in respect of the total export of these 15 product groups for all destinations taken together. It clearly showed the market diversification for these product groups. The major items of India's exports controlled in the Matrix continue to remain the same during 2000 - 01 such as Gems and Jewellery, RMG Cotton including accessories and Cotton Yarn, Fabrics and Made Ups. The top three destinations changed from US, UK and Japan to US, Hong Kong and UAE. Another strategy was Focus LAC which was introduced in 1997 in order to enhance exports of chosen products such as Textiles including RMG, Engineering goods and Chemical products to Latin American Region. The highest growth rate of exports to this region was accomplished during period of 2000-01 when the value of exports was high of US$ 982 million. Though the current trade between LAC and India is still low, there is possibility to increase two-way trade between India and the LAC region. It is observed from the export strategies of previous time is that the composition, competitiveness and complexion of world products trade are changing rapidly and there is a need to review the market constantly for any medium term export strategy to achieve a higher share of global exports on a sustainable basis. The main concentration of previous foreign trade strategies was on the existing export products of India.

Nonetheless, presently, the government has made policy on trade and investment policy that has established an obvious change from protecting 'producers' to benefiting 'consumers'. It is reflected in its foreign trade strategy of India for 2004/09 which indicated that "for India to become a major player in world trade we have also to make possible those imports which are required to stimulate our economy". With numerous economic alterations, globalisation of the Indian economy has been the foremost factor to formulate the trade policies. The announcement of a new Foreign Trade Policy of India for a five year period of 2004-09, substituting until now taxonomy of EXIM Policy by Foreign Trade Policy is major step in the development of foreign trade policy. This policy made the overall development of India's foreign trade and offers guidelines for the development of this sector. Main purpose of the Exim Policy is to hasten the economy from low level of economic activities to high level of economic activities by making it a globally oriented energetic economy and to derive maximum benefits from expanding global market opportunities, to encourage continued economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production, to boost the techno local strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness, to generate new employment and opportunities and encourage the attainment of internationally accepted standards of quality. Finally, this policy provides quality consumer products at reasonable prices. A vibrant export-led growth strategy of doubling India's share in global commodities trade with an attention on the sectors having prospects for export development and potential for employment generation, represent the main factor of the policy. These activities augment India's international competitiveness and assist in increasing the suitability of Indian exports. The trade policy recognizes major strategies, outlines export incentives, and also focus on issues relating to institutional support including simplification of procedures relating to export activities. India is now violently pushing for a more moderate global trade management, especially in services. It has understood a leadership role among developing nations in global trade debates, and played a decisive part in the Doha negotiations. With economic reforms, globalisation of the Indian economy has been the major factor in devising the foreign trade policy of India.

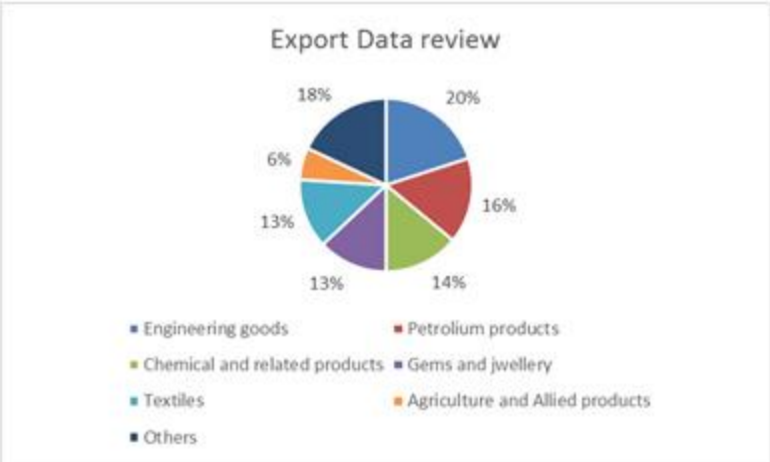
| Periods | Policy Measures |
|---|---|
| 1990-1991 | i) New Import –Export policy was formulated.<br>ii) Services exports were encouraged.<br>iii) Replenishment rates were modified to encourage higher value added products. |
| 1992-1993 | i) EXIM policy for five years 1992-1997 was implemented.<br>ii) Since 1992 imports were regulated through a limited negative list. |
| 1994-1995 | Under the Duty Exemption Scheme and the Export Promotion of Capital Goods scheme third party exports were given benefits. |
| 1995-1996 | i) Quantitative restrictions were phased out in the form of licensing and other discretionary controls.<br>ii) More than 3000 tariff lines covering raw materials, intermediates and capital goods were freed of import licensing requirements.<br>iii) Controls on imports were liberalised with only small list of items in negative list. |
| 1997-1998 | EXIM Policy 1997-2002 constituted. |
| 1998-1999 | i) In wake of the adverse impact of Asian crisis on India's exports , various measures were announced in August and September 1998, such as:<br>a) Exports under all export promotion schemes were exempted from Special Additional Duty.<br>b) Simplification of bond-furnishing procedures for exporters.<br>c) Tax holiday for EOU/EPZ to 10 years, etc. |

| | |
|---|---|
| 1999-2000 | i) Import of 894 items was made license free and another 414 items were allowed to be imported against Special Import License.<br>ii) Free Trade Zones replaced Export Processing Zones.<br>iii) Green card for exporters exporting 50% of their production.<br>iv) Duty free imports of consumables up to certain limits for gems and jewellery, handicrafts and leather sectors.<br>v) Golden status certificates for Export and Trading Houses. |
| 2001-2002 | i) Quantitative restrictions removed from 714 tariff fines .<br>ii) Setting up of Special Economic Zones. |
| 2002-2003 | Agricultural exports promoted. |
| 2006-2007 | Efforts were made to make India hub of gems and jewellery by accelerating their exports. |
| 2008-2009 | i) Continued emphasis on Special Economic Zones.<br>ii) Exports duty on Iron ore fines was eliminated. |
| 2010-2011 | i) 27 new markets added under the Focus Market Scheme (FMS) with incentive of duty credit scrip at 3% of exports.<br>ii) The Zero duty Export Promotion Capital Goods Scheme and Status Holder Incentive Scrip Scheme introduced in 2009 for limited sectors and valid only for two years initially, extended by one more year till 31 March, 2012 and the benefit of scheme expanded to other sectors. |

**Source: Inputs from various issues of Economic Survey, Ministry of Finance, Government of India, New Delhi.**

The objective of the Foreign Trade Policy is to twofold India percentage share of global merchandise trade and to act as an effectual instrument of economic growth by giving a thrust to employment generation, especially in semi-urban and rural areas. The growth performance of exports has been a result of watchful effort of the Government to lessen transaction costs and assist trade. The guidelines of the Foreign Trade Policy (2004-09) for a five year period clearly articulate objectives, strategies and policy initiatives that has been involved in putting exports on a higher growth line.

Reviewing data of exports by Principal Commodities for the period April - October 2006-07, the export growth was largely driven by petroleum products, engineering. Export of other products like Agriculture and Allied Products, Ores and Minerals, Leather and Leather Manufactures, Gems and Jewellery, Chemicals and related Products, Engineering Goods and other commodities are shown below:




There are numerous challenges and issues in foreign trade. These include burden of export promotion schemes, danger of circular trading, and risk of importing outdated machinery. Sometimes policy fails to take a holistic view of trade issues. Other issue is relative importance of the home market, the nature or the degree of State intervention and recessionary conditions in the global market. India's exports have suffered due to structural constraints operating both on the demand and supply side. On the demand side exports have continued to undergone the problems of adverse world trading environment, protectionist sentiments in the developed countries in the guise of technical standards, environmental and social concerns and tariff differentials in imports by the developed countries. At the supply end, the factors that have constrained exports from India include infrastructure constraints, high transaction costs, inflexibilities in labour laws, quality problems, constraints in attracting FDI in the export sector, etc

It is summarized that foreign trade has significant function in the fiscal development of any nation. India has made strong foreign trade policies and reformed these from time to time with the process of globalisation and liberalization. Since 1991, India's foreign trade considerably transformed. India's major exports include manufacturing and engineering goods. India has good trading relations with all developed countries in the world. More than fifty percent of India's total export trade is with Asia and ASEAN region and about sixty percent of India's total imports is with the same countries. India's wealth previously was agricultural economy. India's major requirement use to be food grains and other goods in import with fast industrialization, the composition of India's imports goods changed and needed chemicals, fertilizers and machinery which were required to meet the developmental requirements of country. In the composition of export; country sells agricultural products such as tea, spices, and other raw materials. However, with the industrialization of the financial system, compositions of exports changed. Currently, India exports products such as machinery chemicals and marine products. This may enhance the fiscal condition of India.