

SIGNIFICANCE OF FOREIGN TRADE POLICY IN MAGNIFYING INDIA'S EXPORTS

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ABSTRACT

Indian economy and foreign trade are on a growth trajectory. Indian exports have come a long way in value terms from the time of gaining independence in 1947. The composition of trade is now dominated by manufactured goods and services. India's services exports share in global exports is more than double of that of Indian manufacturing exports. East Asian countries, particularly China have become a major trading block. There is huge untapped potential for Indian foreign trade in years to come. Today, foreign trade has begun to play a significant part in the Indian economy reflecting its increasing globalisation. At the same time, the growing merchandise trade deficit, resulting in a persistently high current account deficit, has set alarm bells ringing. The trade performance of a country is so closely and inextricably linked with its overall economic performance that trade policy cannot be treated as a simple matter of manoeuvring the export or import of a product. Foreign trade policy has a direct connect with domestic economic policies. The objective of the paper is to discuss India's foreign trade policy trends, focusing on the last 15 years or so; the impact of these changes on trade performance – exports and imports. The paper also examines the various aspects and measures adopted in the New FTP which are expected to help in pushing India's exports.

Keywords : Global exports, Untapped potential, Merchandise, FTP, Inextricably.

INTRODUCTION

In the last decade of the 20th century, India suffered a major macroeconomic and balance of payment crisis which led her to rethink her trade policy. The current account deficit stood at a record 3.2 percent of GDP in 1990 with inflation exceeding 10 percent and foreign exchange reserves as low as barely sufficient to finance imports for 2 ½ months. In order to overcome the crisis India relinquished its inward-looking strategy and embarked on liberalization process. One of the basic objectives of the reform process was to incrementally integrate the Indian economy with the world. The process ushered in progressive liberalization of controls and elimination of discretionary licensing for imports and exports. The gradual liberalization of the Indian economy characterized by such policy reforms created a favourable environment for India's exports to flourish

and evolve into an engine of social and economic growth. In terms of trade openness index, India registered an increase during the period 1991-2000. Foreign Trade Policy was known as the EXIM Policy till 2004. It was in the year 2004 that modifications were made in third five year trade policy (2002-07) and it was incorporated into the new five year Foreign Trade Policy for the period 2004-09 by the new government. Thereafter, two five year trade policies have been adopted from the period 2009-14 and 2015-2020 respectively.

REVIEW OF LITERATURE

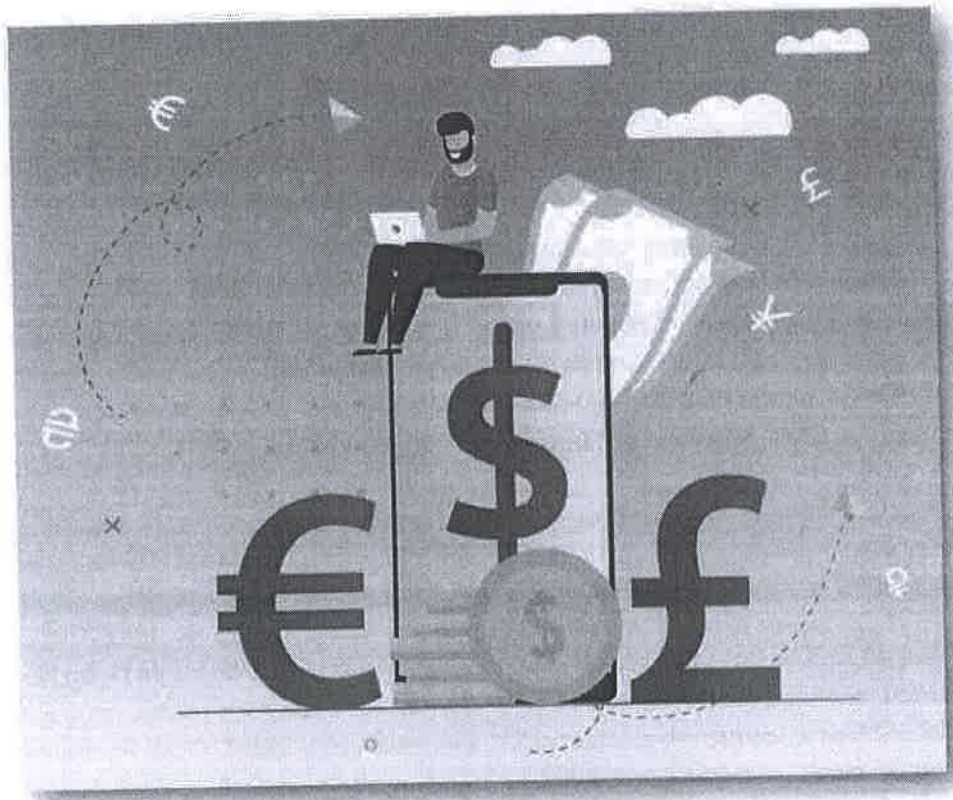
Sagar & Mathor (2015) state that the exports are increasing at a decreasing rate but the imports are increasing at an increasing rate. Trade deficit increased very sharply from 2004-05 to 2009-10. The composition of India's foreign trade has undergone substantial changes, particularly, after the liberalization and

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globalization. Our major exports now includes manufacturing goods such as Engineering Goods, Petroleum Products, Chemicals and allied Products, Gems and Jewelleries, Textiles, Electronic Goods, etc. India's Exports of Services Important: Since data below is for latest time period hence data above too should be of same period so as to maintain consistency. It is a remarkable achievement that we have transformed ourselves from a predominantly primary goods exporting country into a non-primary goods (manufactured goods)

exporting country. By exploiting the benefit of GATS now India is becoming the largest exporter of services.

Bhat (2011) reported that the post reform period in India has witnessed significant changes in the trend, pattern and structure of external trade. The share of manufacturing sector has marginally fallen in the GDP and significantly declined in the share of export. The growth of services was more pronounced in GDP growth and is reflected in the increasing share of services in exports.



Pillania (2008): Indian economy and foreign trade are on a growth trajectory. Indian exports have come a long way in value terms from the time of gaining independence in 1947. The total value of India's merchandise exports increased from US \$ 1.3 billion in 1950-51 to US \$ 63.8 billion in 2003-04 – a compound rate of 7.6 per cent. Trade growth has picked up post liberalization of 1991. The composition of trade is now dominated by manufactured goods and services. India services exports share in global exports is more than double of that of Indian manufacturing exports.

DATA AND RESEARCH METHODOLOGY

Data: the study uses secondary data published by Reserve Bank of India (RBI) (www.rbi.org.in)

MAJOR TRENDS IN INDIA'S FOREIGN TRADE (2000-16)

With the world based on complex interdependence, India's prosperity is intrinsically linked to the developments in the global economy. This is the reason that India has seen greater engagement with the world economy through its enhanced integration into global value chains over the last two decades. The data

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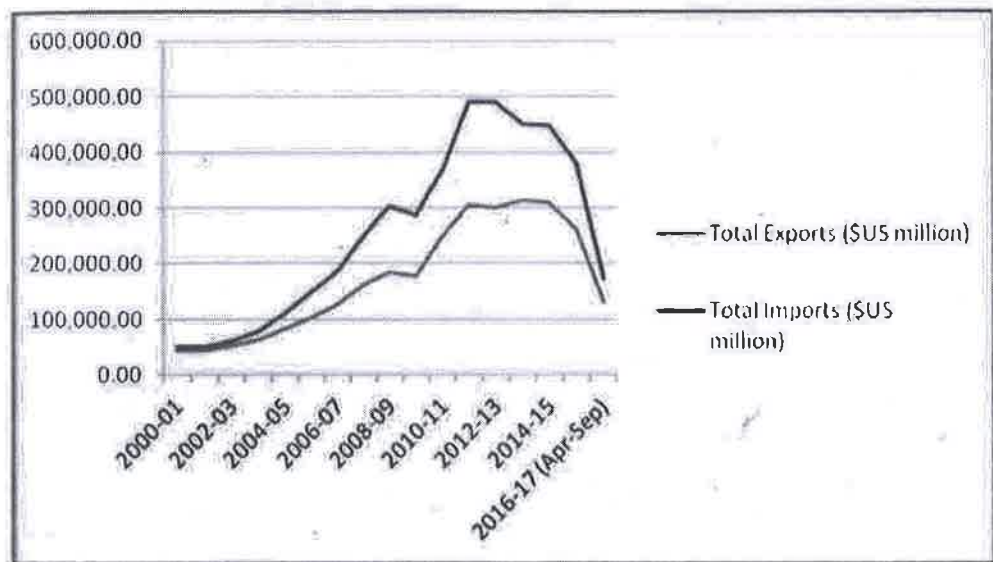
analysis of exports, imports and foreign investment inflows in terms of both FDI and FII are reflective of this trend. The foreign content of its exports, which is one of the indicators of integration, have more than doubled from less than 10 per cent in 1995 to 24 per cent in 2011.

TRENDS IN EXPORTS AND IMPORTS

India's exports have seen an upward trend since the

new millennium. Exports have increased from US\$ 44,560.29 million in 2000-01 to US\$ 314,405.3 million in 2013-14. Thereafter, exports have slowly declined to reach US\$ 262,290.13 million in 2015-16. Similarly, India's imports also increased from US\$ 50,536.45 million in 2000-01 to US\$ 490,736.65 million in 2012-13, and saw a downward trend with imports declining to US\$ 381,006.63 million in 2015-16.

INDIA'S TOTAL IMPORTS & EXPORTS (2000 – 2017)



Source: EXIM Bank: Ministry of Commerce & Industry

Despite a challenging global environment, reflected in sluggish economic and trade growth and

rising protectionism, India's total exports (goods and services combined) have been growing on a secular basis since 2016-17 for the last three years.



Source: DGCI&S

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Global Trade Slowdown

As per World Trade Organization (WTO), World trade will continue to face strong headwinds in 2019 and 2020 after growing more slowly than expected in 2018 due to rising trade tensions and increased economic uncertainty. WTO economists expect merchandise trade volume growth to fall to 2.6% in 2019-down from 3.0% in 2018. Trade growth could then rebound to 3.0% in 2020; however, this is dependent on easing of trade tensions.

As per the current rankings for the year 2018, India is the 19th largest exporter (with a share of 1.7%) and 10th largest importer (with a share of 2.6%) of merchandise trade in the world. China is the top ranked exporter and United States of America (USA) is the first largest importer of merchandise trade in the world. In Commercial Services, India is the 8th largest exporter (with a share of 3.5%) and 10th largest importer (with a share of 3.2%). USA is the top exporter as well as the top importer of commercial services trade in the world.

India's Trade

Through secular growth over the last three financial years, following the major downturn in the face of the global slowdown, merchandise exports for the year 2018-19(P) reached USD 330.07 Billion, the highest ever, surpassing the earlier peak of USD 314.4 Billion achieved in 2013-14. This has been achieved in a challenging global environment.

The following growth drivers have shaped merchandise exports growth:

A. Engineering Goods rose from USD 78,695.69

million in 2017-18 to USD 83,704.54 million in 2018-19, a growth of 6.36%.

B. Petroleum Products rose from USD 37,465.10 million in 2017-18 to USD 47,954.54 million in 2018-19, a growth of 28%.

C. Organic & Inorganic Chemicals rose from USD 18,508.48 million in 2017-18 to USD 22,573.87 million in 2018-19, a growth of 21.97%.

D. Drugs & Pharmaceuticals rose from USD 17,282.81 million in 2017-18 to USD 19,188.46 million in 2018-19, a growth of 11.03%.

E. Cotton Yarn/Fabs./made-ups, Handloom Products etc., rose from USD 10,260.38 million to USD 11,206.44 million in 2018-19, a growth of 9.22%.

F. Plastic & Linoleum rose from USD 6,851.12 million in 2017-18 to USD 8,609.08 million in 2018-19, a growth of 25.66%.

G. Electronic Goods rose from USD 6,393.12 million in 2017-18 to USD 8,880.96 million in 2018-19, a growth of 38.91%.

This has been achieved through concerted efforts by the Government working closely with various stakeholders, taking initiatives aimed at reduction in transactions costs through simplification, streamlining and digitization of export / import approval processes, IT enabled online implementation of various export promotion schemes, timely resolution of issues related to GST refunds, improved logistics, access to export credit at affordable rates and enhanced competitiveness through targeted incentives etc.



Source: RBI

HIGHLIGHTS OF THE PRESENT FOREIGN TRADE POLICY 2015-2020

- India to be made a significant participant in world trade by 2020.
- Commerce Minister announced two new schemes in Foreign Trade Policy 2015-2020 Two New Schemes announced in FTP Are MEIS & SEIS. FTP 2015-20 introduces two new schemes, namely "Merchandise For services, all schemes have been replaced by a 'Services Export from India Scheme'(SEIS), which will benefit all services exporters in India. Exports from India Scheme (MEIS)" and "Services Exports from India Scheme (SEIS)". These schemes (MEIS and SEIS) replace multiple schemes earlier in place, each with different conditions for eligibility and usage.
- Merchandize exports from India (MEIS) to promote specific services for specific Markets Foreign Trade Policy.
- For services, all schemes have been replaced by a 'Services Export from India Scheme'(SEIS), which will benefit all services exporters in India.
- Incentives (MEIS & SEIS) to be available for SEZs also. FTP benefits from both MEIS & SEIS will be extended to units located in SEZs. – Both MEIS and SEIS firms and service providers can now get subsidized office spaces in SEZ (Special Economic Zones), along with other benefits. With a view to boost the Special Economic Zones, Government has decided to extend both the incentive schemes for export of goods and services to units in SEZs.
- e-Commerce Exports Eligible For Services Exports From India Scheme. – As part of Digital India vision, mobile apps would be created to ease filing of taxes and stamp duty, automatic money transfer using Internet Banking have been proposed. > Online procedure to upload digitally signed document by Chartered Accountant/ Company Secretary/Cost Accountant to be developed.
- Nomenclature of Export House, Star Export House, Trading House, Premier Trading House

certificate changed to 1,2,3,4,5 Star Export House.

– Some major overhauling of nomenclature and naming have been done. For instance, Export House, Star Export House, Trading House, Star Trading House, Premier Trading House certificate has been changed to One, Two, Three, Four, Five Star Export House. The allocation of the status will now be based on US dollars, instead of Indian Rupees.

- No need to repeatedly submit physical copies of documents available on Exporter Importer Profile.
- Manufacturers who are also status holders will be enabled to self-certify their manufactured goods as originating from India. – Tax and duty on Indian manufacturers have been reduced, to boost Make in India vision.
- Export obligation period for export items related to defence, military store, aerospace and nuclear energy to be 24 months instead of 18 months.

TACTICS TO BOOST EXPORTS

- The introduction of online filing of documents would reduce trade transaction cost and help manufacturing exporters by increasing their cost competitiveness.
- Merchandise falling under the categories of handloom products, books/periodicals, leather footwear, toys and customized fashion garments, with FOB values of up to ₹25,000/consignment and their sale finalized through ecommerce, would get the benefit of FTP.
- The tax incentives under MEIS and SEIS which are in the form of fully transferable duty credit scrips with reward rate ranging between 2 per cent and 5 per cent. These scrips can be used by exporters to offset service tax, excise duty or customs duty.
- The government announced higher level of rewards under Merchandise Exports from India Scheme (MEIS) and Services Exports from India Scheme (SEIS) for export items with high domestic content and value addition.
- Agricultural and village industry products would be supported across the globe at the rates of 3 percent and 5 percent.



- Reduction of export obligation by 25 per cent under the EPCG (Export Promotion Capital Goods) Scheme is expected to boost indigenous production of capital goods.
- Focus on defence, pharma, environment-friendly products and value-added exports
- The exports from SEZs suffering from high MAT would now be eligible for incentives. These measures are expected to help in pushing India's exports.

CONCLUSION

The unveiling of trade facilitation measures, simplified procedures, reduced interface between the authorities and industry shall motivate the exporter to do the business with more vigor, in a more transparent environment. The new policy also encourages exploration of new markets and product diversification and is designed to complement the long term vision of the government of prioritizing the importance of trade for growth of Indian economy. The foreign trade policy pitches for increasing exports by connecting it to the objectives and vision of the Make-in-India initiative. Foreign Trade Policy gives a boost to make in India vision of the government. The focus of the policy is on building the India Brand and increasing share of Export Market of India, Exports infrastructure. It emphasized on „Make in India, Skill India, and Ease of Doing Business“ and also provides the mechanism of review. It affirms consistent policy mechanism for five years with the review mechanism after two and half years. It aims at improving India's exports by providing ample working space to the exporters, through easing norms, doing away with redundant policies. Foreign trade in India has been one of the most important determinants of economic development in India. A new Foreign Trade Policy gives a

boost to make in India vision of the government.

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