**UNIT 5**

**India’s Foreign Trade Policy: Origin, Meaning, importance**

**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 1979-1980**

**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.

**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 20016-17, 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.

# Overview of various Export Promotion Schemes

### ****EXPORT PROMOTION SCHEMES****

Foreign Trade Policy 2015-20 and other schemes provide promotional measures to boost India’s exports with the objective to offset infrastructural inefficiencies and associated costs involved to provide exporters a level playing field. Brief of these measures are as under:

**Exports from India Scheme**

**(i) Merchandise Exports from India Scheme (MEIS)**

Under this scheme, exports of notified goods/ products to notified markets as listed in Appendix 3B of Handbook of Procedures, are granted freely transferable duty credit scrips on realized FOB value of exports in free foreign exchange at specified rate. Such duty credit scrips can be used for payment of basic custom duties for import of inputs or goods.

Exports of notified goods of FOB value upto Rs 5,00,000 per consignment, through courier or foreign post office using e-commerce shall be entitled for MEIS benefit. List of eligible category under MEIS if exported through using e-commerce platform is available in Appendix 3C.

**(ii) Service Exports from India Scheme (SEIS)**

Service providers of notified services as per Appendix 3D are eligible for freely transferable duty credit scrip @ 5% of net foreign exchange earned.

### ****DUTY EXEMPTION & REMISSION SCHEMES****

These schemes enable duty free import of inputs for export production with export obligation. These scheme consists of:-

**(i) Advance Authorization Scheme**

Under this scheme, duty free import of inputs are allowed, that are physically incorporated in the export product (after making normal allowance for wastage) with minimum 15% value addition. Advance Authorization (AA) is issued for inputs in relation to resultant products as per SION or on the basis of self declaration, as per procedures of FTP. AA normally have a validity period of 12 months for the purpose of making imports  and a period of 18 months for fulfillment of Export Obligation (EO) from the date of issue. AA is issued either to a manufacturer exporter or merchant exporter tied to a supporting manufacturer(s).

**(ii) Advance Authorization for annual requirement**

Exporters having past export performance (in at least preceding two financial years) shall be entitled for Advance Authorization for Annual requirement. This shall only be issued for items having SION.

**(iii) Duty Free Import Authorization (DFIA) Scheme**

DFIA is issued to allow duty free import of inputs, with a minimum value addition requirement of 20%. DFIA shall be exempted only from the payment of basic customs duty. DFIA shall be issued on post export basis for products for which SION has been notified. Separate schemes exist for gems and jewellery sector for which FTP may be referred.

**(iv) Duty Drawback of Customs/Central Excise Duties/Service Tax**

The scheme is administered by Department of Revenue. Under this scheme products made out of duty paid inputs are first exported and thereafter refund of duty is claimed in two ways:

* All Industry Rates : As per Schedule
* Brand Rate :   As per application on the basis of data/documents

**(v) Interest Equalization Scheme (IES)**

It provides interest equalization rate of 3% on Pre and Post Shipment Rupee Credit tor all manufacturing exporters and Merchant exporters exporting identified 416 four digit tariff lines and 5% on all merchandise products manufactured and exported by MSMEs.

### ****EPCG SCHEME****

**(i) Zero duty EPCG scheme**

Under this scheme import of capital goods at zero custom duty is allowed for producing quality goods and services to enhance India’s export competitiveness. Import under EPCG shall be subject to export obligation equivalent to six times of duty saved in six years. Scheme also allows indigenous sourcing of capital goods with 25% less export obligation.

**(ii) Post Export EPCG Duty Credit Scrip Scheme**

A Post Export EPCG Duty Credit Scrip Scheme shall be available for exporters who intend to import capital goods on full payment of applicable duty in cash.

### ****EOU/EHTP/STP & BTP SCHEMES****

Units undertaking to export their entire production of goods and services may be set up under this scheme for import/ procurement domestically without payment of duties. For details of the scheme and benefits available therein FTP may be required.

### ****OTHER SCHEMES****

**(i) Towns of Export Excellence (TEE)**

Selected towns producing goods of Rs. 750 crores or more are notified as TEE on potential for growth in exports and provide financial assistance under MAI Scheme to recognized Associations.

**(ii) Market Access Initiative (MAI) Scheme**

Under the Scheme, financial assistance is provided for export promotion activities on focus country, focus product basis to EPCs, Industry & Trade Associations, etc.  The activities are like market studies/surveys, setting up showroom/warehouse, participation in international trade fairs, publicity campaigns, brand promotion, reimbursement of registration charges for pharmaceuticals, testing charges for engineering products abroad, etc.

**(iii) Status Holder Scheme**

Upon achieving prescribed export performance, status recognition as one star Export House, two Star Export House, three star export house, four star export house and five star export house is accorded to the eligible applicants as per their export performance.  Such Status Holders are eligible for various non-fiscal privileges as prescribed in the Foreign Trade Policy.

In addition to the above schemes, facilities like 24X7 customs clearance, single window in customs, self assessment of customs duty, prior filing facility of shipping bills etc. are available to facilitate exports.

**Marketing plan for exports**

It’s essential to build a detailed export marketing plan, based on market research, for each of your overseas markets. Huge differences between markets and countries prevent the use of a ‘one size fits all’ approach.

Your export marketing plan should take into account your chosen approach to the market and your plans for logistics, order fulfilment, customer service and supplier management.

**Export marketing plan considerations**

Investigate your new market and how your product will fit into it. Consider the following questions:

* What’s your priority: Minimising potential costs or controlling the process?
* Do you have the market knowledge (and language skills) to make contacts and generate sales?
* Do you have the time and money to invest in setting up a local branch or subsidiary?
* Are there restrictions on the way you can enter the market? For example some countries may insist you form a joint venture with a local business.
* What is appropriate for your product? If it requires specialist after-sales support, selling through an intermediary may not be suitable.
* What are the usual distribution channels for products like yours in the target market?
* **Choose your target markets**

One of the key decisions you will make when exporting is choosing which markets to target. Trying to export to several different countries can be very expensive. Unless you tailor what you offer to suit each individual market, you may fail to offer what customers really want. Instead, it’s usually best to focus on selling to one or two individual markets.

* **Visit your target markets**

Trade visits are organised visits to target markets. While they provide an excellent opportunity to research overseas markets, you can also use them to generate business.

Invest NI offers a range of services to help businesses going on trade visits to generate advance publicity in their target market. It also offers a range of other advice and financial support.

* **Research partners, logistics, and infrastructure**

The distribution channels available for selling will vary between countries. There are several **different ways to enter overseas markets**.

Consider the following:

* How will you be paid by your overseas customers?
* Will the exchange rate be prone to excessive fluctuation?
* What’s the communications infrastructure like?
* Does your target market have widespread access to telephones, faxes or the internet?
* Do you need UK freight forwarders experienced in your chosen market and product?
* **Communicate with customers abroad**

As part of your promotion, you may want to communicate directly with customers in your export market. The choice you make will be defined by your budget and how effectively each method will reach the customers in your chosen market. Read more about the basics of advertising.

Alternatively, you may choose to buy in a database of potential customers from a direct mail agency. You should select the agency carefully to ensure you receive high-quality data. Read more about the basics of direct marketing.