UNIT 1 OVERVIEW OF FOREIGN TRADE

Structure

1.0. OBJECTIVES

After you have studied well this unit, you will be able to:

- Describe the legal framework for foreign trade;
- Discuss the importance of international trade;

- Analyze the foreign trade and economic growth;
- State the trade policy and strategy;
- Highlight key aspects of India's foreign trade;
- Explain recent trends of India's foreign trade;
- Describe exports of services;
- Explain foreign trade policy 2015-20.

1.1 INTRODUCTION

Flows of goods, services and capital across national boundaries have been the hallmark of economic life since times immemorial. With progress of science and technology these flows kept gaining more weight and capability. In more recent times, a stage has been reached where economic isolation cannot be imagined even as a delusion. Interdependence among nations is a fact of life. Strong supply chains are getting build up that only further the bonds between the nations that further open up the prospects of development in societies globally.

In a developing country like India, trade policy is one of the many economic instruments which are used to suit the requirements of economic growth. The twin objectives of India's trade policy have been to promote exports and to restrict the level of imports to the level of foreign exchange available to the government. The basic problem of a country like India happens to be non-availability or acute shortage of crucial inputs like industrial raw materials, capital goods and technology. The bottleneck can be removed only by imports. In the short run, import can be financed through foreign aid, borrowings, etc., but in the long run, imports must be financed by additional export earnings. The basic objective of the trade policy, therefore, revolves round the instruments and techniques of export promotion and import management.

Over the years, there have been significant changes in the policy reflecting the need and compulsion for India to become a major player in world trade by adopting an all compassing, comprehensive view for the overall development of the country's foreign trade. Therefore, the policy in recent years emphasizes coherence and consistency among trade and other economic policies, including the promotion of the services sector, small industries and employment generation. In this Unit, You will learn the legal framework for foreign trade, importance of foreign trade, foreign trade and economic growth, trade policy and strategy, key aspects of India's foreign trade and recent trends of India's foreign trade will be further discussed. You will also be familiarized with the exports of services and foreign trade policy 2015-20.

1.2 AN OVERVIEW OF LEGAL FRAMEWORK FOR FOREIGN TRADE

The foreign trade of a country consists of outward and inward movement of goods and services giving rise to inflow and outflow of foreign exchange. While the foreign trade of India is governed by the Foreign Trade (Development & Regulation) Act, 1992 and the Rules and Orders issued there under, the payments for export and import trade transactions in terms of foreign exchange are regulated under the Foreign Exchange Management Act, 1999. The physical operation of the foreign trade transactions of export and import, both of goods and services through various modes of transportation, is conducted and regulated under the Customs Act,

1962. In order to project the image of the country as a producer and exporter of quality goods and services, a detailed programme of quality control and pre-shipment inspection is also in vogue under the Export (Quality Control and Inspection) Act, 1963. Besides the above four major Acts governing the foreign trade operation of the country, there are a number of other rules and regulations relating to export of commodities, modes of transportation, cargo insurance, international conventions, etc. which need to be strictly observed while conducting the export and import business.

An overview of the four major Acts governing the foreign trade would help you in better understanding of the Foreign Trade Policy of the country as also its operational requirements. Let us now learn them.

1.2.1 Foreign Trade (Development and Regulation) Act, 1992

The Foreign Trade (Development and Regulation) Act, 1992 and the Foreign Trade (Regulation) Rules, 1993 and the Foreign Trade (Exemptions from Application of Rules in Certain Cases) Order, 1993 issued there under, replaced the earlier legal regime consisting of the Imports and Exports (Control) Act, 1947 and the Import (Control) Order, 1955 and the Export (Control) Order, 1988 issued there under and amended from time to time. With the operation of new legal regime, the era of foreign trade controls witnessed its demise.

The primary objective of this Act is to provide for the development and regulation of foreign trade by facilitating imports into and augmenting exports from India and for matters connected therewith or incidental thereto. The Export and Import Policy of India now renamed the Foreign Trade Policy is issued under this Act and any amendments to the Policy provisions are also made there under. The permission for export and import is also given under this Act by granting the Importer-Exporter Code Number (IEC). The maximum punishment for the commitment of any offence, contravention of any law, harming country's trade relations or bringing disrepute to the credit or the goods of the country while conducting the export-import trade transactions, is also operated through the suspension and/or cancellation of the Importer-Exporter Code Number.

The necessary provisions relating to Appeal and Revision are also provided. This Act provides the powers under the Code of Criminal Procedure, 1973 relating to searches and seizures and Code of Civil Procedure, 1908 for making any adjudication or hearing any appeal or exercising any powers of revision under this act.

1.2.2 Foreign Exchange Management Act, 1999

The exchange control in India was introduced on September 3, 1939 as a war time measure in the early period of Second World War under the powers conferred by the Defence of India Rules. The emergency powers were subsequently replaced by the Foreign Exchange Regulations Act, 1947 which came into operation on March 25, 1947. This Act witnessed comprehensive revision in the wake of the changed needs of the economy during the post-independence period and was replaced by the Foreign Exchange Regulations Act, 1973 known as FERA. The onset of the era of liberalisation of the external sector of the economy and the industrial licensing followed by Partial Convertibility of Rupee and full convertibility on current account necessitated the need for further extensive amendments in the FERA, which were brought about by the Foreign

Exchange Regulations (Amendment) Act, 1993. FERA was replaced by Foreign Exchange Management Act (FEMA), 1999.

FEMA has been brought to consolidate and amend the law relating to foreign exchange. The basic objective of this Act is to facilitate external trade and payments and to promote the orderly development and maintenance of foreign exchange market in India. This Act deals with various regulations of foreign exchange like holding and transactions of foreign exchange, export of goods and services, realisation and repatriation of foreign exchange, etc. The role of authorised person, the provisions of contravention and penalties and the procedures of adjudication and appeal and the power of Directorate of Enforcement are dealt at great length in this Act.

The Reserve Bank of India frames rules and regulations as per FEMA provisions, which are amended periodically. Main comprehensive Notifications incorporating the same are:

i) Foreign Exchange Management (Export of Goods and Services) Regulations, 2000;

ii) Foreign Exchange Management (Current Account Transactions) Rules, 2000;

iii) Foreign Exchange Management (Manner of Receipt and Payment) Regulations, 2000.

1.2.3 The Customs Act, 1962

The consolidated and self-contained Customs Act, 1962 came into operation on December 13, 1962. repealing the earlier three Acts known as Sea Customs Act, 1878, Land Customs Act, 1924 and the Aircraft Act, 1934, each one of which was related to a particular mode of transportation. This comprehensive Act provides the legal framework, guidelines and procedures related to all situations emerging from the export and import trade transactions.

The primary objectives of this Act are to (a) regulate the genuine export and import trade transactions in keeping with the national economic policies and objectives, (b) check smuggling, (c) collect revenue, (d) undertake functions on behalf of other agencies, and (e) gather trade statistics. Details about the rate and nature of customs duty leviable on any item, as decided by the Central government, are specified in the First and Second Schedule of the Customs Tariff Act, 1975 with regard to imports and exports, respectively.

1.2.4 Export (Quality Control and Inspection) Act, 1963

The Export (Quality Control and Inspection) Act was enacted in the year 1963 with a view to strengthening the export trade through quality control and preshipment inspection. The Act empowers the Government not only to notify the commodities which may be subject to compulsory quality control and/or inspection prior to export but also specify the type of quality control or inspection. The Act prohibits the export of sub-standard goods as well as the goods which do not fulfill the requirements as laid down under the Act. However, the following categories of export are exempted:

i) Star Export Houses; ii) Export Oriented Units (EOUs) and units set up in FTZs, etc.; iii) Exports made against a letter from the foreign buyer stating that he does not require pre-shipment inspection from any official inspection agency: iv) Products bearing ISI mark/AGMARK.

For smooth operation of the Export (Quality Control and Inspection) Act, 1963, the Government of India established the Export Inspection Council (EIC) on January 1, 1964, and the Export Inspection Agencies (EIAs). While the EIC acts as an advisory body to the Government on matters related to quality control and inspection, the EIAs are the actual agencies which inspect the goods and issue the export-worthiness certificates.

All out encouragement is given to the trade and industry for the purpose of upgrading the quality of products under the current Foreign Trade Policy so as to project the image of the country as a producer and exporter of world-class quality products.

Other Regulations: All imported goods are also subject to domestic laws, rules, orders, regulations, technical specification, environmental and safety norms as applicable to domestically produced goods.

1.3 IMPORTANCE OF INTERNATIONAL TRADE

The basis of international trade is to be found in the diversity of economic resources in different countries. All countries have not been endowed by nature with the same production facilities. There are differences in climatic conditions and geological deposits as also in the supply of labour and capital. Due to these differences each country finds it advantageous to specialise in the production of some specific commodities. Such specialisation is facilitated by the exchange of surplus production through international trade. International trade takes place when buyers find foreign markets cheaper to buy in and sellers find them more profitable to dispose of their products than the domestic market. Thus a more effective use of world's resources is made possible through international trade. The importance of foreign trade has been discussed as below:

(i) **Greater availability of goods and Services**: Through international trade, it is possible for a country to obtain those goods which it cannot produce or cannot produce as cheaply as other counties. Thus a country's well-being is determined to a great extent by the extent to which it participates in international trade. Consumers benefit from international trade as much as they can purchase from the cheapest source. India depends upon foreign countries for a substantial portion of her supplies of capital goods and petroleum products. US consumers depend upon imports for the supply of coffee and sugar while the UK consumers obtain the major portion of their foodstuffs and the entire supply of tea from foreign countries. Foreign trade can also help countries to overcome the adverse effects of famines and crop failure.

(ii) **Better use of country's resources**: International trade helps in the utilization of country's resources in the best possible manner. In many cases, domestic industries depend upon foreign markets for the disposal of their production. For example, the jute and tea industries of India are mainly dependent upon export markets. Japanese industry depends upon exports for its prosperity. Though the US dependence on foreign trade is not so great, yet more than 25% of US production of a number of agricultural and industrial production is exported. In many cases, the existence of an export market enables the producers to increase their production and thus avail themselves of the economies of large-scale production. Some domestic industries depend upon foreign countries for the supply of capital goods and equipment as also for their supply of raw materials and components.

(iii) **Division of Labour and Specialization:** As a result of foreign trade, the country may export those products where it is in an advantageous position. Similarly the country may import those products where the country is in a disadvantageous position or is in the need of those products. By focusing more on advantageous products, the country may manufacture and exports those products in large quantity. Thus, there may be division of labour and the country may attain specialization in the manufacturing of those products and services. The country may also attain economies of scale by manufacturing large quantities of products for export.

(iv) **Enhances Competitiveness**: The international trade provides opportunities to trade with the various countries. As a result, there are more exports and imports of goods or services. In order to enter into the new market, the country has to manufacture high quantity products or provide high quality of services to compete with the other players. Thus, there may be very high level of competition among the manufacturers and service providers. Such competition and high level of quality adherence may enhance overall competitiveness of the country.

(v) **Reduction in costs of production**: As capital goods and raw materials are purchased from the cheapest sources, the overall cost of production goes down leading to lower prices.

(vi)**Stability of prices**: Whenever the price of some commodity tends to increase in a country, it can increase the level of its imports of that commodity to check the rise in prices. Similarly, whenever the price of a commodity falls due to a glut in its supply, the trend may be checked by exporting the same. This in turn leads to more or less uniform price throughout the world. Foreign trade could also be utilised to control the nefarious activities of monopolists.

(vii) **Greater employment opportunities**: Foreign trade leads to an increase in domestic agricultural and industrial production which in turn generates more employment in the country.

(viii) **High rate of economic development**: Foreign trade leads to rapid economic development and higher rate of growth in national income. In fact, foreign trade was considered as an engine of growth. Many developed countries like the UK, the USA and Japan owe their prosperity to their exports of manufactured products. In recent years. many developing countries like South Korea, Taiwan, Thailand, Singapore and Hongkong have benefited a lot by active participation in foreign trade.

(ix) **Contribution to government revenues**: Most governments impose duties on imports and sometimes on exports too. These duties generate substantial revenues for the State exchequer.

(x) **Helps in Balance of Payments:** The country imports various commodities like capital goods, petroleum products, etc. as well as services to meet the requirements. The payments of imports are made in foreign currency. By exporting the commodities or services, the country earns foreign currency. If the exports earnings are more than the imports payment, there will be favourable balance. Moreover, more exports may also require more investment. If the inflows of foreign investment are more than the payment, there may be favourable balance. Thus, the foreign trade may facilitate in the maintenance of balance of payments position of a country.

(xi) **Harmonious relationship among various countries**: Foreign trade is a major force in linking various countries to each other. It promotes harmonious and cordial relationship among all of them. It can lead to world economic integration, This in turn leads to political peace and greater cooperation among counties regarding socio cultural developments. Growth of trade can thus reduce the likelihood of war also.

1.4 FOREIGN TRADE AND ECONOMIC GROWTH

Foreign trade has worked as an *'engine of growth'* in the past (witness Great Britain in the 19th century and Japan in the 20th, besides others). In recent times the “outward-oriented growth strategy" adopted by the Newly Industrialising Economies of Asia, *viz.,* Hong Kong, (now a special administered area of China), Singapore, Taiwan, Malaysia, Thailand, and South Korea, has enabled them to overcome the constraints of small resource poor under-developed economies.

Contribution of Foreign Trade to Economic Development

Foreign trade contributes to economic development in a number of ways. These area as follows:

1. The primary function of foreign trade is to explore means of procuring imports of capital goods, without which no process of development can start.
2. It provides for flow of technology which allows for increases in total factor productivity, and some short-run multiplier effects for countries with unemployed labour.
3. It generates pressure for dynamic change through:
   (i) competitive pressure from imports,
   (ii) pressure of competing for export markets, and
   (iii) a better allocation of resources.
4. Exports allow fuller utilisation of capacity, increased exploitation of economies of scale, separation of production patterns from domestic demand, and increasing familiarity with absorption of new technologies.
5. These, in turn, help increase the profitability of the domestic business without any corresponding increase in price. This can be illustrated with the help of Fig 1.1.

In Fig. 1.1, AC is the average cost curve. The average cost of production per unit will be the lowest if the quantity of production is Oq_1. However, because of the domestic constraint the output level is only Oq and the corresponding average cost is OC. If the firm can export qq_1 quantity, it can operate at optimum capacity and reduce the average cost by CC_1. Under such a situation exporting even on no-loss-no-profit basis is advisable because by optimum utilisation of the capacity, the profitability of the firm from domestic operations is increased. The profitability per unit will be increased by CC_1 and the total profit from domestic operations will increase by $CC_1\ QS$. Thus, exports increase the profits without increase in price.

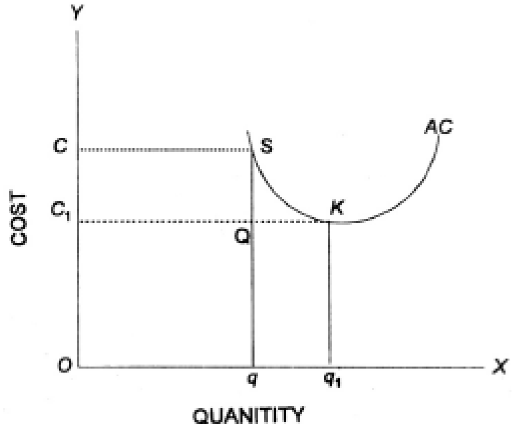

Fig. 1.1

6. Foreign trade increases most worker's welfare. It does so at least in following four ways:
   (i) Larger exports translate into higher wages;
   (ii) Because workers are also consumers, trade brings them immediate gains through cheaper imports;
   (iii) It enables most workers to become more productive as the goods they produce increase in value;
   (iv) Trade increases technology transfers from industrial to EEs and the transferred technology is biased in favour of skilled labour;
7. Increased openness to trade has been strongly associated with the reduction of poverty in most developing countries, as the historian Arnold Toynbee said *'civilisation'* has been spread through *'mimesis':* simple copying.

Level of Trade and Balance of Trade

A country's level of trade tells how much of its production it exports. This is measured by the per cent of exports out of GDP. It indicates how globalized an economy is. Some countries, such as Germany, have a high level of trade - they export almost 50% of their total production. The balance of trade tells us if the country is running a trade surplus or trade deficit. A country can have a low level of trade but a high trade deficit. (For example, the United States only exports 14% of GDP, but it has a huge trade deficit of 540 billion $.)

Three factors strongly influence a nation's level of trade:

i) the size of its economy,

ii) its geographic location, and

iii) its history of trade.

In short, it is quite possible for nations with a relatively low level of trade, expressed as a percentage of GDP, to have relatively large trade deficits. It is also quite possible for nations with a near balance between exports and imports to worry about the consequences of high levels of trade for the economy. It is not inconsistent to believe that a high level of trade is potentially beneficial to an economy. It allows nations to play to their comparative advantages, and to also be concerned about any macroeconomic instability caused by a long-term pattern of large trade deficits.

1.5 TRADE POLICY AND STRATEGY

The term *trade policy* refers to all the policies that have either direct or indirect bearing on the trade behaviour of a country. The details of the various policies depend upon the broad trade strategy adopted in the country; the trade strategy, in turn, depends upon the broad strategy of development adopted by the planners. Under this strategy, in its extreme form, *no* foreign aid is permissible, *no* movement of factors of production to or from outside, *no* multinational corporations and *no* freedom in international communications. In the present world economy, such an extreme form of inward-orientation hardly exists in any country. *Only a silkworm lives in a cocoon, but its life is brief.*

The opposite of this extreme form of inward orientation is the form of *outward-orientation* in which free movement of capital, labour, goods, multinational enterprises, open communications are permitted.

Arguments for Outward-orientation

Advocates of outward-orientation argue that openness is useful to bring about good educational effects, new ideas and new techniques, growth of new forms of organisation, etc. They believe that free trading (or what has also been called international market place) encourages learning by trade and implies achievements of dynamic transformation of the economy into higher standards of living. Free trade is a win-win situation, all the trading partners stand to gain through productivity improvements, notwithstanding diversities in their domestic institutions and policies.

Quotas and other quantitative restrictions, on the other hand, interfere with the price mechanism, involve allocative and X-inefficiencies (i.e., failure to minimise costs), create distortions and impede the progress of competitive firms and industries.

Arguments for Inward-orientation

As against these arguments the advocates of inward orientation plead that inward-looking policies encourage indigenous talent, learning to do things by oneself, domestic technological development and suitable range of products, avoiding the ill-effects of demonstration from the outside world. Given gaps of development between the developing and the developed countries, inward-orientation is advocated as an inevitable policy.

Effects of these two types of strategies on growth of output, employment, income generation and income inequalities could also be of diverse nature, and no general inference can be drawn in this context.

Check Your Progress A

1. Write three importance of foreign trade.

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2. Write three contribution of foreign trade to economic development.

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3. Distinguish between inward orientation and outward orientation.

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1.6 KEY ASPECTS OF INDIA'S FOREIGN TRADE

Let us analyse the Key aspects of India's trade.

Table 1.1: **Key aspects of India's trade (2019 to 2021)**

	2019	2020	2021
Export performance (in per cent)			
Share in World Merchandise Exports	1.7	1.6	1.8
Share in World Commercial Services Exports	3.5	4.0	4.0
Share in World Merchandise Plus Services Exports	2.1	2.1	2.2
Import Performance (in per cent)			
Share in World Merchandise Imports	2.5	2.1	2.5
Share in World Commercial Services Imports	3.0	3.2	3.5
Share in World Merchandise Plus Services Imports	2.6	2.3	2.7
India's rank in world trade			
Merchandise Exports	18	21	18

Merchandise Imports	10	14	10
Services Exports	8	7	8
Services Imports	10	10	10

Source: DGFT, Monthly Foreign Trade Statistics, November 2022 (based on data till October 2022)

Look at Table 1.1, which shows the key aspects of India's foreign trade. In the year 2020, India's share in world merchandise exports is 1.6% and the share in world commercial services exports is 4%. The share in world merchandise plus services exports is 2.1%. While, the share in world merchandise imports is 2.1% and the share in world commercial services imports is 3.2%. The share in world merchandise plus services imports is 2.3%.

In the year 2021, India's share in world merchandise exports is 1.8% and the share in world commercial services exports is 4%. The share in world merchandise plus services exports is 2.2%. While, the share in world merchandise imports is 2.5% and the share in world commercial services imports is 3.5%. The share in world merchandise plus services imports is 2.7%.

In 2020, in the merchandise exports India's rank is 21st and in merchandise imports the rank is 14th. While in services exports the rank is 7th and in services imports the rank is 10th. In 2021, in merchandise exports India's rank is 18th and in merchandise imports the rank is 10th. While in services exports the rank is 8th and in services imports the rank is 10th.

1.7 RECENT TRENDS OF INDIA'S FOREIGN TRADE

Look at Table 1.2, which shows the India's foreign trade from the year 1983-2021. The exports have shown an increasing trend. The exports have increased significantly from the year 1991-92 onwards and reached to 422004.4 million US dollar during the year 2021-22. Similarly imports have also shown increasing trend. The imports have increased significantly from the year 1994-95 onwards and reached to 613052.1 million US dollar during the year 2021-22. The table 1.2 shows that the imports have been increasing at a faster rate than the exports. As a result, the trade balance has been increasing. The trade balance has been increasing significantly from the year 1994-95 and reached to 613052.1 million US dollar during the year 2021-22.

Table 1.2: India's foreign trade (US$ million)

Year	Exports	Imports	Trade balance
1983-84	9449.4	15310.9	-5861.5
1984-85	9878.1	14412.3	-4534.2
1985-86	8904.5	16066.9	-7162.4
1986-87	9744.7	15726.7	-5982.0
1987-88	12088.5	17155.7	-5067.2

1988-89	13970.4	19497.2	-5526.8
1989-90	16612.5	21219.2	-4606.7
1990-91	18145.2	24072.5	-5927.3
1991-92	17865.4	19410.5	-1545.1
1992-93	18537.2	21881.6	-3344.4
1993-94	22238.3	23306.2	-1067.9
1994-95	26330.5	28654.4	-2323.8
1995-96	31794.9	36675.3	-4880.4
1996-97	33469.7	39132.4	-5662.7
1997-98	35006.4	41484.5	-6478.1
1998-99	33218.7	42388.7	-9170.0
1999-00	36822.4	49670.7	-12848.3
2000-01	44560.3	50536.5	-5976.2
2001-02	43826.7	51413.3	-7586.6
2002-03	52719.4	61412.1	-8692.7
2003-04	63842.6	78149.1	-14306.5
2004-05	83535.9	111517.4	-27981.5
2005-06	103090.5	149165.7	-46075.2
2006-07	126414.1	185735.2	-59321.2
2007-08	162904.2	251439.2	-88535.0
2008-09	185295.0	303696.3	-118401.3
2009-10	178751.4	288372.9	-109621.4
2010-11	251136.2	369769.1	-118632.9
2011-12	305963.9	489319.5	-183355.7
2012-13	300400.6	490736.6	-190336.1
2013-14	314415.7	450213.6	-135797.9
2014-15	310352.0	448033.4	-137681.4
2015-16	262291.1	381007.8	-118716.7
2016-17	275852.4	384357.0	-108504.6
2017-18	303526.2	465581.0	-162054.8
2018-19	330078.1	514078.4	-184000.3
2019-20	313361.0	474709.3	-161348.2
2020-21	291808.5	394435.9	-102627.4
2021-22	422004.4	613052.1	-191047.7

Source: Directorate General of Commercial Intelligence and Statistics.

1.7.1 Exports

Look at Table 1.3, which shows exports of top 10 Commodities in the year 2020-21. In the list, engineering goods (26.29%) were at the top position followed by Gems and Jewellery (8.92%), Petroleum products (8.84%), Drugs and pharmaceuticals (8.38%), Organic and inorganic chemicals (7.57%), RMG of all textiles (4.21%), Electronic goods (3.80%), Cotton yarn/fabs./made-ups handloom products etc. (3.37%), Rice (3.03%), and Plastic and linoleum (2.56%).

You may notice from Table 1.3 that the top four products i.e. Engineering goods, Gems and Jewellery, Petroleum products and drugs and pharmaceuticals account for more than 50 percent of India' exports. Therefore, sincere efforts should be made to diversify the export basket of the country.

Table 1.3: Exports of Top 10 Commodities in the year 2020-21

(Values in US$ billion)

Rank	Commodity	2020-21	Share% in 2020-21
1	Engineering goods	76.72	26.29
2	Gems and jewellery	26.02	8.92
3	Petroleum products	25.80	8.84
4	Drugs and pharmaceuticals	24.44	8.38
5	Organic and inorganic chemicals	22.09	7.57
6	RMG of all textiles	12.27	4.21
7	Electronic goods	11.09	3.80
8	Cotton yarn/fabs./made-ups, handloom products etc.	9.83	3.37
9	Rice	8.83	3.03
10	Plastic and linoleum	7.46	2.56

Source: DGCI&S

1.7.2 Imports

Look at Table 1.4, which shows imports of top 10 Commodities in the year 2020-21. In the table, Petroleum, crude and products (20.96%) were at the top position followed by Electronic goods (13.76%), Gold (8.77%), Machinery, electrical and non-electrical (7.63%), Organic and inorganic chemicals (5.03%), Pearls, precious and semi-precious stones (4.79%), Transport equipment (4.73%), Coal, coke and briquettes, etc. (4.13%), Artificial resins, plastic materials, etc. (3.43%), and Iron and steel (3.05%). India should manage the imports in such a way that export earnings should be sufficient to make payment for the imports. For this purpose exports should be promoted.

Table 1.4: Imports of Top 10 Commodities in the year 2020-21

(Values in US$ billion)

Rank	Commodity	2020-21	Share% in 2020-21
1	Petroleum, crude and products	82.68	20.96
2	Electronic goods	54.29	13.76
3	Gold	34.60	8.77
4	Machinery, electrical and non-electrical	30.08	7.63
5	Organic and inorganic chemicals	19.83	5.03
6	Pearls, precious and semi-precious stones	18.89	4.79
7	Transport equipment	18.65	4.73
8	Coal, coke and briquettes, etc.	16.27	4.13
9	Artificial resins, plastic materials, etc.	13.51	3.43
10	Iron and steel	12.04	3.05

Source: DGCI&S

1.7.3 Export Destinations

Look at Table 1.5, which shows India's top 10 export destinations in the year 2020-21. In the list USA (17.69%) was at the top position followed by China (7.26%), UAE (5.72%), Hong Kong (3.48%), Bangladesh(3.32%), Singapore(2.97%), UK(2.81%), Germany(2.78%), Nepal(2.34%), and Netherland(2.22%). The table shows that more than one third of our export destination has been concentrated in four countries. Therefore, the exports should be diversified in several countries.

Table 1.5: Top 10 Export Destinations of India in the year 2020-21

(Values in US$ billion)

S. No.	Country	2020-21	Share% in 2020-21
1	U S A	51.63	17.69
2	China	21.19	7.26
3	U A E	16.68	5.72
4	Hong Kong	10.16	3.48
5	Bangladesh	9.69	3.32
6	Singapore	8.68	2.97
7	U K	8.21	2.81
8	Germany	8.13	2.78
9	Nepal	6.84	2.34
10	Netherland	6.47	2.22

Source: DGCI&S

1.7.4 Import Destinations

Look at Table 1.6, which shows India's imports from top 10 import destinations in the year 2020-21. In the list China (16.53%) was at the top position followed by USA (7.32%), UAE (6.75%), Switzerland (4.62%), Saudi Arab (4.1%), Hong Kong (3.85%), Iraq (3.62%), Germany (3.46%), Singapore (3.37%), and Korea Rp (3.24%).

Table 1.6: Top 10 Import Destinations of India in the year 2020-21
(Values in US$ billion)

S. No.	Country	2020-21	Share% in 2020-21
1	China	65.21	16.53
2	U S A	28.89	7.32
3	U A E	26.62	6.75
4	Switzerland	18.23	4.62
5	Saudi Arab	16.19	4.1
6	Hong Kong	15.17	3.85
7	Iraq	14.29	3.62
8	Germany	13.64	3.46
9	Singapore	13.30	3.37
10	Korea Rp	12.77	3.24

Source: DGCI&S

Check Your Progress B

1. Write five leading products exported from India.

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2. Write five leading products imported from India.

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3. Write five leading exports destinations of India.

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1.8 EXPORTS OF SERVICES

Exports of services supplement the merchandise exports as a source of foreign exchange earnings. Services encompass telecommunications, transportation, tourism, banking, insurance, construction, computer-related services, and professional ones. Trade in services, and high technology industries are also virtually symbiotic.

World Trade in Services

World trade in service exports has taken a big leap forward with service exports growing at a rate of 10 per cent in recent years. There are factors both on demand and supply sides that have contributed to this trend.

On the *demand side,* world trade in services is certain to accelerate in the coming years with advances in generic technology of computers and telecommunications. It is considerably influenced by the emerging demand for a whole range of business services due to innovations, new technology, sophisticated buyer needs, opening of new markets, service-based inputs and globalisation strategies.

On the *supply side,* the factor that has contributed most to growth in world trade in services is that many services which were earlier in-house activities of business firms, for instance legal services—are getting highly specialised and are splintering off to outside business firms possessing the required expertise.

The lead in the growth of service trade is likely to increase in the new millennium due to the expected expansion of the freer market supported by the WTO agreements on telecommunications, information technology and financial services.

1.8.1 India's Exports of Services

The services are in the form of four modes of delivery as defined in the WTO's General Agreement on Trade in Services (GATS). Mode 1 refers to cross- border supply, for instance call centres. Mode 2 relates to consumption abroad. Medical care, education and tourism are few of the services delivered by this mode. Mode 3 refers to commercial presence, where delivery requires FDI, for instance banking and financial services. Mode 4 refers to movement of natural persons, where services are delivered by individuals travelling to other countries, *e.g.,* IT professionals.

For the year India's Services exports were 206.09 US billion dollar and imports were 117.52 US billion dollar. The balance of service trade was 88.57 US billion dollar. As far as balance of trade in services is concerned, the present trends indicate that there is not much parity between service exports and imports. This is especially true of items like transportation and business services coupled with a factor service like investment income.

The latter has grown fast on account of interest and service payments on foreign loans and credit. Nevertheless, service trade balance is in surplus. But we cannot afford to sit back and relax.

Determinants of Exports of Services

A recent study identifies the following as the principal determinants of exports of services:

(i) Travel receipts have been mainly dependent on expansion of tourist facilities in the country.

(ii) Transportation receipts have been dependent on merchandise exports originating from the country.

(iii) Insurance receipts have been dependent generally on exports of merchandise.

(iv) Receipts of repatriation of international investment income have been mainly dependent on growth of world economy.

(v) Professional, technical and other services receipts abroad have been mainly dependent on development of the expertise in the country.

1.8.2 Need and Prospects to Push Exports of Services

Trade deficits on account of services may emerge if service exports do not respond appropriately to the technology inflows from abroad. The impact of these deficits will be felt on BOP and external value of rupee. Hence, it is important that India should make efforts to reap the benefits of booming services the world over.

India's competitive advantages in selected services can be identified and targets and incentives distributed at the micro level with appropriate support for marketing and other infrastructure. Two kinds of services which India can vigorously pursue for exports are tourism and business services based on its respective strength as a tourist attracting country and large inventory of skilled human resources. For this to happen, it is necessary to learn in terms of flexibility, customised operations, technologies and global strategies from the service providers.

India has a comparative advantage in Mode 1 as captured by outsourcing activities, Mode 3 as seen in increasing outward investment by Indian companies in US, UK and other developed and developing countries markets and Mode 4 as captured by movement of Indian software professionals in the US, EU, etc.

The most ambitious area is that of software exports. Software exports can be in physical forms or non-physical forms. All software exports in physical forms are captured in DGCI&S data of merchandise exports of goods. Receipts on account of software exports in non-physical forms (called software service exports) are recorded under computer services of 'miscellaneous receipts' of non-factor services.

SWOT analysis of India's services exports indicates clear possibilities for these exports to surge ahead.

Threats and weaknesses have to be given due attention, particularly technological upgradation to augment competitiveness.

Our services performance should make us think the way we look at WTO. If we have a natural space in the services arena, our misplaced concerns in agriculture and merchandise trade should not compromise our interests in services.

Table 1.7: SWOT Analysis of India's Services Exports

Strengths	*Weaknesses*
Economical wage and other bills, and the favourable time-zone difference between Indian and Western cities	Traditional, labour constrained financial system
Trained/skilled, English speaking, younger manpower	Still developing telecommunications
Well-established financial network	Higher inflation (Consumer prices)
Promotional fiscal and Exim policy	Regional disparities
Opening up of world markets	Technological lag
Euro-zone as one market	Low telecommunication intensity
Global business links and FDI possibilities	Rigid labour situation
Emerging conclaves with good image	Restricted capital account compared to all competing countries

Source: EPW, Vol. XXXIV, No. 47, November 26,1999.

1.9 FOREIGN TRADE POLICY 2015-20

The Foreign Trade Policy Statement explains the vision, goals and objectives of the Foreign Trade Policy 2015-2020. It describes the market and product strategy. It further highlights the measures required for export promotion. It focuses on the enhancement of the entire trade ecosystem.

Vision

The vision of the foreign trade policy is as follow:

i) To make India a significant participant in world trade by the year 2020

ii) To enable the country to assume a position of leadership in the international trade discourse

iii) The policy aimed to raise India’s share in world exports from 2 percent to 3.5 percent.

Objectives

The objectives of Foreign trade Policy 2015-20 are as follow:

(i) To provide a stable and sustainable policy environment for foreign trade in merchandise and services;

(ii) To link rules, procedures and incentives for exports and imports with other initiatives such as “Make in India”, “Digital India‟ and “Skills India‟ to create an “Export Promotion Mission” for India;

(iii) To promote the diversification of India’s export basket by helping various sectors of the Indian economy to gain global competitiveness with a view to promoting exports;

(iv) To create architecture for India’s global trade engagement with a view to expanding its markets and better integrating with major regions.

(v) The focus has been to increase the demand for India’s products and contributing to the government’s flagship “Make in India‟ initiative;

(vi) To provide a mechanism for regular appraisal in order to rationalise imports and reduce the trade imbalance.

The major highlights of the policy are as follow:

Whole-of-Government‟ Approach & Role of State/UT Governments: Foreign trade plays a significant part in India’s economy. The foreign trade policy deserves a special focus and dedicated attention as a key constituent of India’s economic policies. The formation of policy requires a “whole-of-government‟ approach. The central government, State government, Union territory and other government departments are required to be involved in a well coordinated manner.

Addressing In-House Challenges: The mega regional agreements and global value chains will affect India’s trade profoundly. The biggest challenge has been to address the constraints within the country. These constraints are: infrastructure bottlenecks, high transaction costs, complex procedures, constraints in manufacturing and inadequate diversification in our services exports, etc. These issues are to be resolved on the priority basis for the growth of foreign trade.

Making export promotion schemes more focused while rationalizing imports: Winners and potential winners have been identified separately. They are identified from amongst industrial and agricultural products in order to make the export promotion schemes more focused and effective. At the same time, an institutional mechanism for continuous import appraisal has been put in place. Such mechanism ensures coordinated and rational import policies in various sectors.

The Multilateral Trading System and India: The policy has ensured that the FTP is aligned with India’s interests in the negotiations along with the obligations and commitments under various WTO Agreements. In line with the Doha Round of trade negotiations, India will continue to work towards fulfilling its objectives. India will work with like-minded members to remove any asymmetries in the multilateral trade rules. As a result of these asymmetries rules, the developing countries are in a disadvantageous position. For example the rules relating to public stockholding for food security purposes.

The current WTO rules as well as those under negotiation envisage the eventual phasing out of export subsidies. This is a pointer to the direction that export promotion efforts will have to take in future. The export promotion should focus on the more fundamental systemic measures rather than incentives and subsidies alone.

The Mega Agreements: Implications for India

The three mega agreements that are currently being negotiated are:

i) The Trans Pacific Partnership
ii) Trans-Atlantic Trade and Investment Partnership and
iii) The Regional Comprehensive Economic Partnership (RCEP).

These agreements provide completely new dimension to the global trading system. India is a party to the RCEP negotiations.

The mega agreements are bound to challenge India's industry in many ways. India requires to erode existing preferences for Indian products in established traditional markets such as the US and EU. India will have to establish a more stringent and demanding framework of rules. In such cases, the Indian industry needs to gear up to meet these challenges. The Government will have to create an enabling environment for this purpose.

Market Strategy

India's future bilateral/regional trade engagements will be with regions and countries which are promising markets. They should be the major suppliers of critical inputs as well. They also should have complementarities with the Indian economy. The focus of India's future trade relationship with its traditional markets in the developed world would be on exporting products. These products should have a higher value addition. India should supply high quality inputs for the manufacturing sector in these markets. The customs duties on inputs for India's manufacturing sector should also be optimized.

As far as market for India is concerned, **the US** is one of India's top trading partners. The US is back on a growth path now. The future bilateral trade prospects of India are bright with US. Employment-generating sectors such as textiles, agriculture, leather and gems & jewellery will continue to receive major attention for promoting exports to the US market.

Important aspects of the India-US economic relationship for India include: access for our high skilled professionals in US markets, and increased investment. Regular dialogue with the US to make India's perspective clear on issues such as intellectual property rights, immigration policies of the US Government, labour and skill related policies of the US Government, will also be a key part of the India-US economic relationship. **Canada and Mexico** are other important trading partners in North America.

In the **European Union**, which is a highly discerning market, our exporters face several challenges. These challenges are in the form of stringent sanitary and phytosanitary standards, a complex system of quotas and tariffs and trade remedial actions against Indian products.

The EU is a significant market for India's information technology services. EU market has been underutilized because of the data security related constraints posed by EU regulations. India will focus trade promotion activities on new products with higher value addition. These products are in the categories of defense equipment, medical equipment, construction material, processed foods, as also services. Some of the non-EU countries are promising markets for project exports from India and also offer viable investment opportunities for Indian firms.

There is considerable scope to widen and deepen India's economic relations with both **Australia and New Zealand**, underpinned by trade and investment linkages. India is negotiating Comprehensive Economic Cooperation/Partnership Agreements with both countries.

India's trade relations with its immediate neighbours in **South Asia** are a special focus area for the government. The relationship aimed at a larger goal of building regional value chains in different sectors. These sectors are: textiles, engineering goods, chemicals, pharmaceuticals, auto components, plastic and leather products. An added advantage of such integration will be an expanded role for North East India in regional trade. This relationship will facilitate the developmental process in the North East India. A better connected South Asia can provide additional trade routes to South East Asia and Central Asia.

Another focus area is **South-East Asia**. Trade integration with the **(Cambodia, Lao PDR, Myanmar and Vietnam (CLMV)** countries has been an important part of India's future regional trade strategy.

India's most important trading partner amongst the countries of North East Asia is **China**. Engagement with China requires a comprehensive approach on trade, investment and economic cooperation issues. India will continue to pursue market access issues and removal of Non-tariff Barriers on India's exports. These issues involve: export of pharmaceuticals and agro commodities, seek to obtain market access for Indian IT Services and encourage other service sectors such as tourism, film and entertainment. The Chinese investment should be sought for boosting India's manufacturing capacities. India should also be vigilant against any unfair trade practices.

Efforts to intensify outreach work on bilateral trade agreements with **Japan and Korea** will also be an important element of India's engagement in North-East Asia.

There is enormous untapped potential for enhancing India's economic relations with the **African continent.** India should tap the trade and investment opportunities in African courtries. The capacity development, technical assistance and provision of services such as healthcare and education should be focused. Agro-processing, manufacturing, mining, textiles, FMCG, infrastructure development and construction are highly promising areas for Indian companies. India is engaging actively with countries and regional groupings in Africa for trade agreements, project exports and capacity building initiatives.

The **West Asia & North Africa Region** is a dynamically growing region with concomitantly high absorptive capacity for exports and deserves greater focus. India is negotiating two FTAs in the region, with Israel and with the six countries comprising the Gulf Cooperation Council.

The plan for greater engagement with the Latin American and Caribbean region encompasses the expansion and deepening of various existing trading arrangements as well as new ties. Efforts will also be made to diversify India's exports to the region and to encourage project exports through easy access to credit facilities. Another promising area to be explored is the potential for largescale farming by Indian companies/individuals in this region.

India's economic engagement with most of the countries in the **CIS (Commonwealth of Independent States)** region, except Russia, has been much below its potential. Therefore the focus of action should be to promote investment in these areas. The investment may be made for the exploitation of raw materials; to operationalise the International North South Transport Corridor; to promote export of products of India's strength. Investments should also be facilitated in some of these countries to build value chains, for example, in the pharmaceutical sector. The Indian diamond industry stands to benefit from the Special Notified Zones proposed for consignment import and export of rough diamonds.

Impact and Utilisation of FTAs: Signing an FTA is the beginning, not the end of the process. Recognizing that it is important to review whether the concessions under these agreements are being gainfully utilized. At the same time the concessions have resulted in meaningful market access gains, an "Impact Analysis" of FTAs has been instituted. It is necessary to simplify and ease rules of origin criteria to position India effectively in global and regional value chains. The likelihood of duty inversions will continue to be closely monitored to ensure that industry is not put to any disadvantage. A system for capturing preferential data will be put in place at the earliest.

The lack of information about India's FTAs is a common complaint. To address this, an intensive FTA outreach programme has been launched. In addition, information has been provided on the website of the Department of Commerce, including FAQs and a web portal on FTAs has been developed.

Initiatives for LDCs: India is committed to helping LDCs in various ways such as duty concessions, capacity building, development assistance in specific sectors and market access for products and services. Initiatives already taken include a Duty Free Tariff Preference Scheme for LDCs; Preferential treatment for LDCs in the Services sector, technical assistance for the cotton sector in six African countries and various other capacity-building initiatives.

Product Strategy: The focus will be on promoting exports of high value products with a strong domestic manufacturing base, including engineering goods, electronics, drugs and pharmaceuticals. The challenges posed to the pharmaceuticals sector by NTBs in Japan and regulatory hurdles in China have to be addressed. A track and trace policy for all exports of medicinal products will be effective from 1st April 2015. A composite programme for promotion of healthcare products and services will be conducted in various regions to showcase and market India's unique strengths.

Other sectors which require special attention, in light of India's strengths and their contribution to employment generation are: leather, textiles, gems and jewellery. The sectors based on natural resources, which include agriculture, plantation crops, marine products and iron ore exports should also be focussed. Revitalizing plantations, enabling a less controlled regime for agriculture and aiming at greater value addition and processing would help to increase the value of exports from these sectors. Export strategies for processed agricultural exports and organic product exports will shortly be ready. The North-Eastern States are a special focus area for organic product exports. A number of steps to address the challenges faced by the plantations sector are on the anvil.

Government aims to encourage and promote hi-tech products. Certain products have been identified for a special focus for the duration of the policy. The potential of the MSME sector, the problems it faces and its requirements have been kept in view while framing the FTP.

The Services Sector: The Services sector is an area of great potential. Efforts will be made to gain effective market access abroad through comprehensive economic partnership agreements with important markets. A Global Exhibition on Services will be held annually, which will provide a forum for showcasing India's strengths in the Services sector. Efforts are also underway to improve the availability of data on services.

Towards World Class Products: Government is committed to transforming India into a manufacturing and exporting hub. This is possible only if India's products are of world class standard. A roadmap has been developed on measures required to protect consumers, raise the quality of the merchandise produced and enhance India's capacity to export to even the most discerning markets.

Building the India Brand: A long term branding strategy has been conceptualised to enable India to hold its own in a highly competitive global environment. The strategy aims at ensuring "Brand India" becomes synonymous with high quality.

Institutional Mechanisms for Trade Promotion: The schemes for trade promotion under the Department of Commerce, the Market Access Initiative (MAI) Scheme and the Market Development Assistance Scheme will continue. The present allocation for the MAI scheme is inadequate. Efforts will be made to augment resources for the scheme. Efforts will be made to support the development of infrastructure for holding conventions in all major tier 1 and tier 2 States. Export Promotion Councils are being strengthened, both in terms of technical capabilities and management structures.

Project exports will be encouraged in a big way. The emerging markets with high infrastructure needs will be focussed through special lines of credit offered by the Ministry of External Affairs. The Buyer's Credit Scheme of the Department of Commerce through EXIM Bank of India will be provided. This will enable Indian businesses to develop long term business relationships, facilitate easier acceptance of India's exports and build visibility for Indian products.

Infrastructure: The Department of Commerce has, till now, worked with States to fill infrastructure gaps through the ASIDE (Assistance to States for Developing Export Infrastructure and Allied Activities) Scheme. Special Economic Zones need to be strengthened. Restoring tax benefits is of critical importance. The Department of Commerce will take action to make SEZs more competitive and better placed for manufacturing and services exports. The FTP includes specific measures to revitalise SEZs.

Trade Ecosystem: Several initiatives are underway or in the pipeline for the simplification of procedures and digitization of various processes involved in trade transactions. Steps are being taken by various Ministries and Departments to simplify administrative procedures and reduce transaction costs.

India is committed to implementing the WTO's Trade Facilitation Agreement (TFA). A National Committee on Trade Facilitation is being constituted for domestic coordination and implementation of the TFA.

Specific measures will be taken to facilitate the entry of new entrepreneurs and manufacturers in global trade through extensive training programmes. The Niryat Bandhu scheme will be revamped to achieve these objectives and also further dovetailed with the ongoing outreach programmes.

Capacity development efforts will focus on EPCs and commercial missions. A new institution, the Centre for Research in International Trade, is being established to strengthen India's research capabilities in the area of international trade. This will also enable developing countries to articulate their views and concerns from a well-informed position of strength.

Institutional Mechanisms for Communication, Monitoring and Review

Two institutional mechanisms are being put in place for regular communication with stakeholders. The Board of Trade which will have an advisory role and the Council for Trade Development and Promotion which will have representation from State and UT Governments.

The FTP will be reviewed and evaluated at regular intervals.

Check Your Progress C

1. Write three determinants of exports of services.

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2. Write three strengths and weaknesses of India's services exports.

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3. Write three objectives of India's foreign trade policy 2015-20.

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1.10 LET US SUM UP

The basic objective of the trade policy revolves round the instruments and techniques of export promotion and import management. An overview of the four major Acts (Foreign Trade (development and regulation) act, 1992; Foreign Exchange Management act, 1999; The Customs act, 1962; Export (quality control and inspection) act, 1963) governing the foreign trade would help you in better understanding of the Foreign Trade Policy of the country as also its operational requirements. International trade leads to greater availability of goods and services, better use of country's resources, division of labour and specialization, enhances competitiveness, reduction in costs of production, stability of prices, greater employment opportunities, high rate of economic development, contribution to government revenues, helps in balance of payments, harmonious relationship among various countries. Foreign trade and economic growth leads to the contribution of economic development. In trade policy, outward-orientation argues that openness is useful to accelerate the foreign trade. As against these arguments the advocates of inward orientation plead that inward-looking policies encourage indigenous talent.

Recently, India's exports have shown an increasing trend, the exports have increased significantly from the year 1991-92 onwards. The vision of foreign trade policy is to make India a significant participant in world trade by the year 2020, to enable the country to assume a position of leadership in the international trade discourse and to raise India's share in world exports from 2 percent to 3.5 percent.

1.11 TERMINAL QUESSTIONS

1. How does foreign trade serve as an engine of growth.
2. Describe the legal framework of foreign trade.
3. Distinguish between inward orientation and outward orientation as objectives of foreign trade policy. Also examine changes in India's foreign policy in this context.
4. Describe the major highlights of India's foreign trade policy 2015-2020.
5. Do you think that India's exports of services have been increasing? What are the determinants of exports of services? Describe the need and prospects to push exports of services.

1.12 KEY WORDS

1. **Foreign trade:** Flows of goods and services across national boundaries
2. **Balance of trade:** Net of the value of exports and imports of goods of a country during a year.
3. **Trade policy:** Refers to all the policies that have a direct or indirect influence on the pattern of trade of a country.
4. **Inward orientation:** All those policies that tend to restrict exports and imports in a effort to reach self reliance
5. **Outward orientation:** All those policies that promote flows of goods and services across national boundaries.

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