BLOCK 2 FOREIGN TRADE AND EXPORT PROMOTION

You have learnt about foreign trade and investment in Block 1. This second block covers aspects such as foreign trade and export promotion, India's foreign trade, world trade and India and export promotion measures in India. Export promotion measures assist in expanding market for local products in international arena, which ultimately increase revenue, jobs, foreign reserves, etc. The block comprises of three units, the details of which are mentioned below:

Unit 4 deals with the trends in India's foreign trade, composition and direction of foreign trade, major problems and challenges of India's foreign trade and thrust areas of foreign trade.

Unit 5 discusses recent trends in world trade, products and markets, India and World trade, issues in world trade and strategies for enhancing India's trade with the world.

Unit 6 explains the rationale and evolution of Export promotion policies in India, organizations involved in Export promotion and export promotion measures in India (including EPZs and EOUs, SEZ, Export houses etc.)

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UNIT 4 INDIA'S FOREIGN TRADE

Structure

4.0 Objectives

4.1 Introduction

4.2 Importance of Foreign Trade

4.3 Trends in India's Foreign Trade

4.3.1 Trade Balance

4.4 Composition of Foreign Trade Main Imports and Exports of India

4.4.1 Agri Trade

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4.0 OBJECTIVES

After going through this unit, you will be able to:

- Highlight significance of foreign trade in Indian economy;
- Analyze the broad trends in India's foreign trade;
- Explain the composition of India's exports and imports;
- Describe the direction of India's foreign trade;
- Discuss the major problems and challenges of India's foreign trade;
- Point out thrust areas of India's foreign trade.

4.1 INTRODUCTION

Foreign trade is concerned with trade between different countries of the world. Export refers to selling goods and services to other countries, while import means buying goods and services

from other countries. It is also known as international trade, external trade or inter – regional trade. No country in the world is endowed with adequate resources and facilities to produce all the goods and services that it needs. This being the major rationale to have international trade among countries for the exchange of goods and services they need. India buys from and sells the goods and services to countries across the world.

Foreign trade helps domestic industries to expand their business in domestic economy as well as exports to other country (Botre, 2018). Export of goods and services to other countries gives more foreign exchange and every country concentrates on the export of its goods than the import. It involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries making international trade more complex.

India’s foreign trade have played crucial role in the economic development of the country. Increasing international trade is an aspect of the continuance of globalization. India's trade and external sector has a significant impact on the GDP growth and expansion in per capita income.

India’s foreign trade has witnessed structural changes in terms of volume, composition and direction over the period of 75 years after independence. Pertaining to export composition, capital intensive commodities have replaced labour intensive commodities. Share of developing countries in India’s total trade has witnessed a rise vis-à-vis decline in share of developed countries.

Since 1991 India introduced economic reform and foreign trade constituted an important component of such measures. However, India’s trade regime and regulatory environment still remains relatively restrictive. The Department of Commerce of the Ministry of Commerce and Industry at the level of Central Government has responsibility to manage foreign trade operations.

It is important note that the low world share of India’s exports, does not reflect the importance of foreign trade for the Indian economy. All-out efforts are being made by the government to raise the share of India in the global exports. In this unit, we will analyze importance, the major changes in volume, trends, composition and direction of exports and imports and highlight the growing importance of services trade and foreign trade policy. Along with this, the message of

this unit is to have various facets and perspective on challenging issues and thrust areas in India's foreign trade in the global context.

4.2 IMPORTANCE OF FOREIGN TRADE IN INDIA

Trade is the lifeline of any nation which helps in economic growth and nation's development. Foreign trade has been considered as an engine of growth. It has got an important place in the economic development of India. Indian economy and foreign trade are closely interlinked and have a significant impact on growth and trend of GDP and in per capita income. It is a crucial part of development strategy and is an effective mechanism of financial growth, job opportunities and poverty reduction in the economy. Importance of foreign trade can be stated in the following way:

(i) optimum use of resources of the country;
(ii) economies of large scale production;
(iii) making available necessary inputs for industrialization;
(iv) dilution of monopoly power;
(v) providing outlet for surplus production;
(vi) earning much needed foreign exchange;
(vii) promotion of economic development, creation of job opportunities and help reduce poverty in the country;
(viii) generates revenue for the government;
(ix) helping the country to deal with the periods of natural calamities (droughts, floods, etc.) through import of food grains, other necessary consumer goods, medicines etc.

Indian economy is growing rapidly and getting recognition worldwide. Shankar (2022) has very succinctly remarked that during the year 2022, international trade is being buffeted by:

(i) a continuing global pandemic,
(ii) a European war,
(iii) widespread economic sanctions,
(iv) battered supply chains, and

(v) sudden national bans and caps on exports of essential commodities.

"Perhaps paradoxically, this may be the time to re-emphasises the critical importance of trade for sustained prosperity".

It is well to remember that trade is not an end in itself, but a means to economic growth and national development. Globalization is playing an important role in export-led growth, leading to increase in employment in the country. In India, the government initiated some changes in its strategy on trade, foreign investment, and tariffs. An appropriate and skillfully designed foreign trade policy is essential for India's rapid economic growth.

4.3 TRENDS IN INDIA'S FOREIGN TRADE IN THE POST-REFORM PERIOD: 1991-2022

Since independence India's foreign trade has undergone a substantial change in terms of trends in value, volume, composition as well as the direction of trade. Accordingly, there have been significant structural shifts not only in the product basket, but also in the geographical composition of India's foreign trade. The opening up of Indian economy led to an increase in the foreign trade, which aided in sustained GDP growth since the beginning of the 21st century. During these years Indian exports have increased by 17 times and imports by 19 times. As per the WTO data for 2020, India's total export was US $ 276 billion and India's share in global exports for merchandise was 1.6 percent and its rank was 21 India's total import valued at US $ 372 billion in global imports its share was 2.1 percent and ranked 14. As regards *services sector*, India's total export was US $ 203 billion and India's share in global services exports was 4.1 percent and ranked 7. Whereas, India's total services import valued at US $ 153 billion, having a share of 3.3 percent and ranked 10 in the same year. India's share in global merchandise exports has risen from 0.6 percent in early 1990s to 1.6 percent in 2020, and similarly the share of imports has risen from 0.6 percent to 2.1 percent during the same period. India also, ranked as the 21st largest exporter and 14th largest importer in the world in 2020. (WTO's World Trade Statistical Review 2021, Table A6 and A8 P-58 and P -60, https://www.wto.org/english/res_e/statis_e/wts2021_e/wts2021_e.pdf)

Trade-GDP ratio: India's trade to GDP ratio is a measure of an economy's openness and integration into the global economy. It has witnessed a phenomenal increase since the beginning

of 21st century. Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. India has liberalised astonishingly complex and restrictive trade regime in 1991 and made the exchange rate market-responsive. India's trade-to-GDP ratio, which had hovered between a measly 8 and 17 per cent between 1950 and 1991, rose smartly to 26 per cent by 2001 and peaked around 56 per cent in 2011. The total (goods and services) exports share of GDP touching nearly 25 per cent, helped significantly by the rise in software exports. Since 2011, India's trade share in GDP had declined to 43.68 per cent by 2021, mainly because of the stagnation of her merchandise exports. (Table 1)

Table 1: India's trade to GDP ratio

Year	Trade as % of GDP
2021	43.68%
2016	40.08%
2011	55.62%
2006	45.72%
2001	25.99%
1996	21.93%
1991	16.99%
1981	14.51%
1971	7.67%
1961	10.26%

Source: World Bank (2022) (https://www.macrotrends.net/countries/IND/india/trade-gdp-ratio)

***Volume of trade*:** In this section, the trends in value and volume of trade is analysed. The volume of trade constitutes total of both imports and exports. There has been an overall increasing trend in India's total volume of trade.

Table 2- Trends in India's foreign Trade (Values in US $ million)

Year to	Exports	Imports	Trade Balance
1950-51	1,269	1,273	-4
1970-71	2,031	2,162	-1,301
1980-81	8,486	15,869	-7,383
1990-91	18,143	24,075	-5,932
2000-01	44,560	50,536	-5,976
2008-09	168,704	287,759	-119,055
2010-11	251,136	369,769	-118,632
2016-17	276,547	382,740	-106,193
2017-18	303,526	465,581	–162,054
2018-19	330,069	514,034	-183,964
2019-20	313,138	473,995	-160,856
2020-21	291,808	394,435	-102,627
2021-22 (Provisional)	422,004	613,052	-190,047

Source: RBI's Handbook of Statistics on Indian Economy 2022 (Table 115)

Volume of exports: The total volume of India's exports trade was only US $ 1269 million in 1950-51 which after thirty years increased to US $ 8486 million in 1980-81. In the next ten years it stood at US $ 18,143 million in 1990-91. However, in the next decade there has been a spectacular increase of two and half times in 2000-01 when exports mounted to US $ 44,560 million. Exports further increased to US $ 251,136 million in 2010-11. During the course of next decade exports surged to US $ 291,808 million in 2020-21 (Table 2).

During two decades (1950-70), India's export has grown at a very slow rate, but it gathered improvement during 1971-91. This improvement in exports growth during 1970's was mainly due to the devaluation and fiscal incentives. India's exports have covered a long distance, during post reforms era, Indian exports have shown remarkable improvement with varying rates. Volume of trade rose up and composition of trade was also frequently changed. The exports have revealed significant strength and dynamism.

However, Amita Batra's recent book, on *India's Trade Policy in the 21st Century,* demonstrates India's failure to participate effectively in the rapid increase in global-value-chain-based trade after 2000. The marked rise in India's tariffs and other protective measures after 2015 also militated against buoyant expansion of the country's goods exports, both within and outside global value chains (GVCs).

The Indian economy has slowed due to factors related to the global COVID-19 pandemic, but recovered in 2021-22. India's exports surpassing the pre-pandemic level of US $331 billion in FY 2018-19 and reaching with provisional figures of US $422 billion in FY 2021-22 is certainly an achievement despite global macroeconomic headwinds. Since the beginning of calendar year 2021, merchandise exports were on a steep upward curve with both agriculture and manufacturing contributing to the surge. High technology sectors provided the boost to manufacturing exports, promising the much-needed diversification to the export basket. India has never had it this good for exports, it is the highest ever after 14 long years exceeding the target set by the government.

Services export too is at a historic high of $255 billion during 2021-22. India's trade performance in 2021-22 was aided in large measure by recovery in advanced economies. This milestone on the trade front is a sign of a rising India, which would certainly accelerate the growth. Moreover the increasing imports are a good sign given the high import intensity of India's exports. To achieve India's exports' potential, it is important to sustain the export momentum.

Volume of India's imports: Along with trends in exports, there has been continuous increase in imports as well. One can find an overall increasing trend in India's imports. As compared to the period of 1970s, there has been a sharp increase in the import during post-reforms period. The process of structural reforms has further increased India's imports. Increase in imports has been greater than exports causing trade deficit. Since overall growth of imports exceeded that of exports, the trade deficit witnessed a substantial rise.

4.3.1 Trade Balance/Trade Deficit

In the total foreign trade, the exports are increasing at a decreasing rate but the imports are increasing at an increasing rate. As a result, the balance of trade has become unfavorable to India. India's foreign trade has exhibited a sharp transformation since 1991. However, along with

these changes there has been a widening trade deficit on trade account. In 1950-51 trade deficit was US $ 4 million in 1980-81 it increased to US $ million 7383. In 1990-91 it was decreased to US $ 5932 million, but there has been a very sharp increase in deficit in the post reform period. During 2021-22 it increased to US $ 190,047 million. (See Table 2)

Trade balance has never been favourable for India since independence, barring few years. The gap between exports and imports make wider during 1991-92 to 2021-22. India's trade balance is structurally negative, given that the country imports nearly 80 percent of its energy needs, leading to trade deficit oscillating very frequently. Moreover, imports are growing at an even faster clip, as demand picked up and most industries got back to pre-Covid levels of production. As a result, the trade deficit in 2021-22 crossed $190 billion (Srinivasan, 2022). That is a bit of a concern, but as long as the trade deficit is matched by strong economic growth, it is not that worrisome.

The problem is not with India's rising imports or the widening balance, *per se*. The problem is with the nature of the surge in imports and the composition of the trade imbalance. Crude imports shot up substantially, driven by the spike in energy prices caused by the Russia-Ukraine war. Contributing to this high trade imbalance was the slowing of merchandise exports and the consistent rise in imports. Higher merchandise imports reflect the woes of an import-dependent economy. Rising imports have, thus, become inevitable due to the structural characteristics that the Indian economy has acquired over the past three decades, during its global economic integration. But while its imports have risen, India's exports have not responded adequately (Dhar and Rao, 2022).

The trade patterns suggest that the increasing merchandise trade deficits in India cannot be blamed on external or global factors. They are likely much more the result of domestic economic tendencies, and therefore should be of greater concern for policymakers (Chandrasekhar and Ghosh, 2022). India has maintained trade surplus in all the major services. However, the trade surplus has shown fluctuations in the past five years. In fact, China alone accounted for slightly less than one third ($73.31 billion) of India's total trade deficit ($191 billion) during 2021-22.

Check Your Progress A

1. Indicate trends in India's foreign trade share in GDP.

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2. What is the position of India's exports and imports in global trade?

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3. Write three importance of foreign trade in Indian economy.

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4. Write three point out the reasons for continuing trade deficit.

4.4 COMPOSITION OF FOREIGN TRADE

Composition of foreign trade refers to the items of imports and exports. It provides information on a country's imports and exports of commodities revealing a nation's structure and level of economic development. Over the last seven decades, India's foreign trade has undergone a complete transformation in terms of composition of commodities, particularly after the liberalization of 1991.

Composition of Imports: As of 2023, India imports petroleum oils, gold, diamonds, coal and similar solid fuels, petroleum gas and other gaseous hydrocarbons. At the time of independence, the composition of India's import basket included oils, pulses, machinery, chemicals, hardware, pharmaceuticals, dyes, yarns, paper, grains, non-ferrous metals, cars, and other items.

The total merchandise imports witnessed a growth of more than 26 folds during 1991-2019 (Gite and Sonkar, 2020). The imports are increasing at higher rate than the exports during the same

period. Import demand is strong with 19 out of 30 principal categories posting higher growth during 2019-22. Higher imports is emerging in accelerated infrastructure build-up as well as India's pivot to manufacturing exports. The composition of India's imports is categoriesed into three: raw materials, capital goods, and consumer products.

Table 3: Imports of Top 10 Commodities in 2020-21 (Values in US $ billion)

Commodity	2019-20	2020-21	April-December 2021	Share% in 2020-21
Petroleum, crude and products	130.55	82.68	118.26	20.96
Electronic goods	54.40	54.29	50.99	13.76
Gold	28.23	34.60	38.02	8.77
Machinery, electrical and non-electrical	37.69	30.08	28.68	7.63
Organic and inorganic chemicals	20.62	19.83	22.40	5.03
Pearls, precious and semi-precious stones	22.46	18.89	22.09	4.79
Transport equipment	25.28	18.65	12.25	4.73
Coal, coke and briquettes, etc.	22.46	16.27	21.63	4.13
Artificial resins, plastic materials, etc.	14.63	13.51	14.78	3.43
Iron and steel	15.37	12.04	12.48	3.05

Source: Annual Report 2021-22 (Ministry of Commerce and Industry, Department of Commerce, P-30)

Raw materials*:* Raw materials includes Petroleum oil, lubricants, edible oil, iron and steel, fertilisers, non-ferrous metals, precious stones, pearls, and other commodities. The percentage of total imports made up of all of these commodities registered significant increase since 1991. As of 2023, concerns about supply disruptions have risen due to Russia's invasion of Ukraine, bringing oil prices to multi-year highs. India's oil imports constitutes around 80 percent of its

energy needs. Due to rising international oil prices, higher mobility, and a corresponding increase in domestic and foreign oil consumption, petroleum imports climbed significantly from US $ 72.4 billion in FY21 to US $ 141.7 billion in FY22.

Capital goods*:* Capital goods constitute Non-electrical and electrical machinery, metals, locomotives, and other transport equipment, among other things, fall into this category. These items are necessary for the country's industrial development. Capital goods imports accounted for roughly 32 percent of overall imports in 1960-61. This gradually decreased, and in 2021-22, it was around 22 percent and it is a good sign.

Consumer products: It involves importing electrical items, food grains, medications, and paper, among other things. Until 1966, India had a severe food grain shortfall. As a result, India would import enormous amounts of food grains. Presently, India has become self-sufficient in food production.

India is heavily dependent on raw materials like active pharmaceutical ingredients (APIs), organic chemicals, iron and steel (imports of iron and steel can be attributed to India's commitment to building more physical infrastructure). As per UN COMTRADE database on international trade data, in 2021 India imported electrical and electronic equipment worth $26.39 billion.

It is important to note that India's import basket has undergone a shift away from raw materials to intermediate and capital goods over the last two decades. Nevertheless, the share of capital goods in India's total imports at 22.8 per cent is significantly lower than economies with higher export intensity (Jain, et al, 2022).

Composition of Exports

India's export composition can broadly be classified into two categories: traditional exports and non-traditional exports.

> ***Traditional Products***: These include coffee, tea, jute goods, iron ore, animal skin, cotton, minerals, fish and fish products, etc. These products accounted for nearly 80 percent of India's overall exports at the time of independence. However, in the

contemporary environment these items' contribution is gradually decreasing, while non-traditional items' contribution is increasing.

Non-traditional Products: This category is composed of engineering goods, sugar, chemicals, electrical goods, iron and steel, leather goods, gems, jewellery, sports goods, toys, project goods etc.

Exports have registered a significant structural changes particularly after 1990-91. India continues to export traditional items, but the percentage share of non-traditional goods in both exports and imports basket has been increasing continuously. Some notable items of exports like chemicals, engineering and electronic goods, drugs and pharmaceuticals have shown a high growth rate. Right from the beginning of 21st century, hand made goods including gems and jewellary have become one of the important items in India's export basket.

India's total merchandise exports registered more than 18 folds increased with variations during the period 1991-2019 (Gite and Sonkar, 2020). As a result of Russia-Ukraine conflict, there has been exports setback. Growth in only 15 out of 30 major product groups is of concern and unless global economic growth and the geopolitical situation improve drastically. India's merchandise exports have been falling, in both value and volume. Among non-oil exports, in a downswing, the largest decline is in the categories of textiles, agriculture products and gems and jewellery. Mobile handsets, drugs and pharma are also contracting. These high-skill export categories had been leading the exports buoyancy.

Table 4: Exports of Top 10 Commodities in 2020-21 (Values in US$ billion)

Commodity	2019-20	2020-21	Share% in 2020-21
Engineering goods	78.70	76.72	26.29
Gems and jewellery	35.90	26.02	8.92
Petroleum products	41.29	25.80	8.84
Drugs and pharmaceuticals	20.70	24.44	8.38
Organic and inorganic chemicals	22.08	22.09	7.57
RMG of all textiles	15.49	12.27	4.21
Electronic goods	11.70	11.09	3.80

Cotton yarn/fabs./made-ups, handloom products etc.	10.03	9.83	3.37
Rice	6.40	8.83	3.03
Plastic and linoleum	7.55	7.46	2.56

Source: Annual Report 2021-22 (Ministry of Commerce and Industry, Department of Commerce, P-30)

It is important to note that exports are not merely a source of earning foreign exchange but also boosting India's manufacturing sector, creating large-scale economic activity and generating fresh employment opportunities. Following three items in the non-traditional export category deserve special mention:

Defence exports amounts to Rs 13,000 crore during FY21-22, and the private sector accounting for 70 per cent of the exports (Pant and Bhan, 2022).

The gems and jewellery (G&J) sector contributed nearly 10 percent of the target of $400 billion exports in 2021-22 (Shah, 2022).

Toy is relatively a new focus item in India's foreign trade. There has been a remarkable transformation in India's $1 billion toy industry. India's toy imports, essentially from China, have fallen by 70 per cent during the last three years from $371 million in 2018-19 to $110 million in 2021-22, while exports have risen 61.4 per cent in the same period, from $202 million to $326 million. The industry has turned into a net foreign exchange earner since 2020, after being a net importer to the tune of $150-200 million or more in the three or four years that preceded it. Indian toys can become world beaters, with supportive policies and niche products (The Hindu Business Line Opinion August 08, 2022).

It is remarkable that India transformed itself from a predominantly primary goods exporting country into a non-primary goods (manufactured goods) exporting country. The structural changes in the composition of commodities in India's export particularly, after opening and integration of Indian economy to the world economy. Manufacturing holds an important part of India's exports growth.

Structural change in India's exports and its policy implication: Veeramani's (2012) study on "Anatomy of India's Merchandise Export Growth, 1993-94 to 2010-11", has highlighted an important fact which has larger policy implication for exports promotion. The study states that most striking aspect of the structural change in India's exports is that the share of capital-intensive products more than doubled. The capital-intensive groups such as transport equipment, machinery, and base metals registered higher growth than the traditional groups like textiles. The high growth of mineral products has been driven by petroleum products. The share of petroleum products in India's export basket increased dramatically from about 2 percent in 1993 to as high as 13.7 percent in 2019. This export surge has been driven mainly by India's private sector oil refineries.

There has been a consistent structural change in export leading to increase in the shares of human capital and technology-intensive products and a consistent decline in the shares of natural resource and unskilled labour-intensive products. The phenomenal growth of 'mineral products' has been driven by 'mineral fuels and oils' while 'organic chemicals' and 'pharmaceutical products' are responsible for the export growth of 'chemical products'. The export growth of 'machinery' has been driven primarily by 'electrical machinery and equipments' while the growth of 'transport equipments' has been brought about by 'vehicles other than railway or tramway rolling-stock' and 'ships, boats and floating structure'.

A total of 68 dynamic products have been identified, of which 50 belongs to the capital-intensive category and the remaining 18 belong to the traditional category. The combined share of these 68 products in India's total exports increased very fast. The capital-intensive category as a whole contributed to 56 percent of India's total exports. This indicates a high degree of concentration in export activity.

4.4.1 Agri Trade

Agricultural and Processed Food Products Export Development Authority (APEDA) has been given mandate for export promotion of all agri products. These products have been broadly divided under 27 categories, except tea, coffee, spices and marine products. The opening of non-basmati rice export, removal of the minimum export price (MEP) on basmati export, spike in guar gum exports and the cleaning up of the meat industries, all within 2008 to 2012, contributed

to growth of agri exports and it stood at $35.60 billion by 2019-20. It increased to $50.21 billion in 2021-22. India's recent spurt in agricultural exports is commendable but, there have been wild swings contributed by the policy of 'switch on' and 'switch off'.

According to the WTO, India's share in world agricultural exports stood at 1.7 percent in 2010 which increased to 2.1 percent in 2019. However, India's rank in worldwide agricultural exports slipped to 16 in 2019 from 17 in 2010. Agriculture export policy of December 2018 envisages increase in farm exports from $30 billion to $100 billion. However, the bulk of the increase can be attributed to a large spike in exports of very few products like rice, wheat and sugar. India is not known to be a regular exporter of wheat. But the export jumped to 7 million tonnes in 2021-22. This was caused primarily by the war in Ukraine and, therefore, may not be sustainable (Tripathy, 2022).

Tripathy (2022) (principal adviser to the chief minister, Government of Odisha) has highlighted the fact that "import bills for agri products are rising at a much faster pace. It has grown from $15.4 billion in 2013-14 to $32.4 billion in 2021-22. While the compound annual growth rate (CAGR) in import is 6 percent, it is only 2 percent for exports during the same period. The import of apples from Iran and Turkey has increased at a dramatic pace, while domestic production in Kashmir and Himachal Pradesh has stagnated. The import of exotic fruit, olive oil, almonds, etc, is rising very fast. Fresh fruit, pulses, spices and cashew - food items for which India has excellent agro-climatic conditions - now comprise a sizeable portion of the import basket".

The import bill of vegetable oil (palm oil, soyoil, sunflower oil) rose to $19 billion for 2021-22. Pulses, spices, cashew and others have a combined import bill of nearly $9 billion. India used to be a leading cashew producer. Emerging countries like Ivory Coast and Vietnam have taken over with much better yields. Ideally speaking, the large public expenditure in agriculture should have shifted production to high-value crops. However, that has not happened (Tripathy, 2022).

India's credibility as a supplier of agricultural products getting diluted because of export restrictions on agri products. India's policy stance has been vacillating between export bans, export restrictions, minimum export price and free trade. Such policy changes also hurt the image of India as a reliable supplier of agri commodities. This kind of ad-hocism is not helpful

for enduring objective of increasing farm exports. These restrictions go against the spirit of government's own agri export policy of 2018, in which farmers were assured of a "transparent and consistent" policy.

Shunmugam and Singh (2022) have stressed the fact that "global agricultural trade has always been fickle. Concerns over phytosanitary issues make export of unprocessed agricultural commodities more sensitive. Identifying target importing nations and developing policy-level interactions and relationships will be critical to sustaining India's exports".

Further, Singh and Singh (2022**a)** have observed that "the world economy is passing through a difficult phase with a series of economic disruptions resulting in rising food protectionism around the world. The major producers curb agricultural exports, adding to the supply shock and enhanced price volatility in the international market. An economy with 1.4 billion people to feed, India needs to carefully plan to manage its internal political economy".

4.4.2 Trade in Services

India's services trade has been a major driver of its exports over the past two decades. India's services sector covers a wide variety of activities such as trade, hotels and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

Matore and Sagar (2015) have pointed out that the trends towards globalization, reinforced by liberalization policies and the removal of regulatory obstacles, have fuelled steady growth of international investment and trade in services. Trade in services as percentage of India's GDP continues to increase. It was 4 percent in 1991 rising to 7.7 percent in 2000, further increased to 11.7 percent in 2010 and it stands at 11.9 percent in 2021.

Services exports have grown more rapidly than merchandise exports. Private transfer mainly representing remittances by Indians employed overseas and India continues to be the largest remittance recipient country in the world in 2021. A substantial part of the growth in remittances has also come from the software industry. This component rose from $2.1 billion in 1990–91 to $12.2 billion in 2001–02 (Panagariya, 2004). The information technology (and IT-enabled services) sector dominates India's service exports.

India's services exports have significantly grown. India's services exports recorded growth of 18.4 per cent to US$ 177.7 billion during 2021-22 (April-December). The trade in services has been growing faster than the merchandise trade, and the share of services in the total export trade has been increasing. The software services were mainly responsible for the surplus in services trade. There had been considerable growth in transport, travel, and other services, such as telecommunications, financial, construction, and legal. Over the years, the composition of services exports from India has undergone considerable change.

An analysis of services exports from India reveals that the largest services segment, software and IT-enabled services, has graduated to newer services. These services includes: packaged software implementation, systems integration, network infrastructure management, and IT consulting. Under the miscellaneous services segment, India's entertainment industry covers film, music, broadcast, television, and live entertainment and is basically an intellectual-property-driven sector with small to large players spread across India. Education process outsourcing includes imparting online education, training, and coaching, and other related services through the Internet and has emerged as a significant segment for services exports. The travel and tourism sector has also shown significant growth in recent years (See Table 5).

Jana et al (2020) have highlighted the fact that "the service sector in India has been highly structured and organized. The sector is featured with high technology-base with utmost sophistication in operation, the involvement of trained and skilled labor, less dependency on the natural environment, short payback period on investments, etc. The continuous efforts from the policymakers to remove many trade barriers to services make the sector much more attractive for foreign investors".

Despite being the seventh largest exporter of services with a global share of 3.3 per cent during 2010-21, India enjoys comparative advantage only in computer services (including software) covered under the category of telecommunication, computer and information services (Jain, et al, 2022).

Coming to the close this section, the suggestion made by Jain et al (2022) are worth mention, "While services exports accounted for 22 per cent of total exports globally during 2010-21, the share of India's services exports was much higher at 36 per cent. Further, world trade in services

has been more resilient than merchandise trade in the post-global financial crisis (GFC) period, which provides an upside potential for growth in low labour cost economies like India. While the pandemic and the resultant supply chain disruptions severely impacted world trade in commercial services in 2020, India's net exports of services were relatively resilient, primarily on the back of robust software exports earnings. India needs to tap the post-pandemic global opportunities arising from accelerated digital investment with a growing focus on contactless commerce, live commerce, and B2B consumerisation".

India's Imports of Services: Imports of commercial services are the most important category of services imports, followed by transportation and travel. The surge in services imports is mainly on account of payments for business, transport, travel and computer services, which together constitute more than 75 per cent of services imports. Business services with the largest share in services imports grew. Amid resumption in global activity coupled with international shortage in shipping vessels, transportation costs escalated, resulting in large increase in transport payments (See Table 5).

The table 5 Services exports and imports from 2011-2021.

Table: 5 Services Trade (Values in US$ billion)

Year	Exports	Imports	Net of Services
2011-12	142.32	78.23	64.10
2012-13	145.68	80.76	64.91
2013-14	151.81	78.75	73.07
2014-15	158.11	81.58	76.53
2015-16	154.31	84.63	69.68
2016-17	164.20	95.85	68.34
2017-18	195.09	117.53	77.56
2018-19	208.00	126.06	81.94
2019-20	213.19	128.27	84.92
2020-21(P)	206.09	117.52	88.57
April-December 2021*	177.68	103.30	74.39

Source: Annual Report 2021-22 (Ministry of Commerce and Industry, Department of Commerce, P-29), P stands for provisional and * quick estimate

The latest data available with United Nations Statistics Division shows US $ 205 billion of services exported in 2020, whereas a total of US $ 112.6 billion of services imported during the same year.

Check Your Progress B

1. Mention three important changes in composition of exports.

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2. Point out major changes in composition of India's imports.

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3. Write trends in services trade.

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4. Indicate the composition of services trade.

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5. What is Agri trade and its composition?

4.5 DIRECTION OF INDIA'S FOREIGN TRADE

The direction of trade means the countries with which India has trade relationship. Direction indicates the countries where India sends its exports and from countries with whom India imports its requirements. Through the introduction of economic reforms in 1991, there has also been an enlargement of the direction of India's foreign trade with the new countries and regional trading blocs. Before these reforms, India's exports were limited to OECD and OPEC countries but after the new economic policy the country turn towards the new Asian countries and consequently China became a major trading partner of India. In terms of direction, traditionally EU and USA was the major trading partners of India but since 2010 this scenario has been changed and India's trade is increasing mainly with East Asian countries.

As of 2023, India's main partners are the United States, China, the United Arab Emirates, Saudi Arabia, Iraq, Hong Kong, and Singapore. India has been negotiating free trade agreements (FTAs) with several partners – both bilateral and regional – over the past many years with a view to promote India's exports.

The direction recorded continuous growth with Asian countries and China between 2010-11 and 2021-22. Bilateral U.S.-India trade in goods and services jumped from $120.6 billion in 2020 to $159.1 billion in 2021, signaling resilience in the commercial relationship between the United States and India. The USA remained the top export destination, followed by United Arab Emirates (UAE) and China.

India's exports to the Gulf Cooperation Council (GCC) countries have increased by 58.26 per cent to about US $ 44 billion in 2021-22 against US $ 27.8 billion in 2020-21 (The Economic Times June 06, 2022). The share of these six countries (Saudi Arabia, Bahrain, Kuwait, Oman, Qatar and UAE) in India's total exports has risen to 10.4 per cent in 2021-22. Similarly, imports rose by 85.8 per cent to US $ 110.73 billion compared to US $ 59.6 billion in 2020-21. The share of GCC members in India's total imports rose to 18 per cent in 2021-22 (See Table 7 and 8).

Post-2014, a separate defence export strategy was prepared, broadly focusing on export promotion or facilitation and export regulation. It is noteworthy that approximately half and one-fourth of India's defence exports between 2017 and 2021, were to Myanmar and Sri Lanka, respectively. Other major regions to which Indian exports were headed were South-East Asia, West Asia and Africa, with Indian military hardware exports comprising advanced light helicopters, missiles, offshore patrol vessels, surveillance systems, personnel protective gear, and various types of radars (Pant and Bhan, 2022).

Apart from the US and China, the other eight countries and regions among India's top-10 trading partners during 2021-22 were UAE, Saudi Arabia, Iraq, Singapore, Hong Kong, Indonesia, South Korea, and Australia. The Netherlands and Brazil have jumped ahead from their previous positions on India's list of export destinations in the FY 2022-23.

Trade with China: Amid fresh demands for snapping of trade ties with China it continues India's second biggest trading partner after the United States. However, Sharma (2022b) has highlighted the fact that "while China and the US have both been India's top trading partners in recent years, there is a big difference between the trade with China and US. While with the US, India had a trade surplus of $32.85 billion during 2021-22, with China, it had a trade deficit of $73.31 billion, the highest for any country. In fact, India's trade deficit with China during 2021-2022 was double the previous year's level ($44.02 billion) and it was an all-time high". India's trade deficit with China is growing continuously since the beginning of 21st century.

India faces a dilemma in its trade with China. India has embarked atmanirbhar programme to become self-reliant. The recent emerging trend from China's imports to India has seen a marked shift towards intermediate goods instead of goods for final consumption. The trend in import from China is showing that 85 per cent of the goods imported are capital goods and intermediate goods, while 15 per cent are consumption goods.

Table: 7 Top 10 Export Destinations of India in 2020-21 (Values in US$ billion)

Country	2019-20	2020-21	April-December 2021	Share% in 2021-22 *
U S A	53.11	51.63	55.17	18.4
China	16.61	21.19	17.02	5.9

U A E	28.85	16.68	19.89	6.6
Hong Kong	10.97	10.16	8.43	2.8
Bangladesh	8.20	9.69	10.53	3.5
Singapore	8.92	8.68	8.23	2.8
U K	8.77	8.21	7.72	2.6
Germany	8.29	8.13	7.02	2.3
Nepal	7.16	6.84	6.66	2.34
Netherland	8.37	6.47	7.72	2.6

Source: Annual Report 2021-22 (Ministry of Commerce and Industry, Department of Commerce, P-31)

*Economic Survey 2021-22

Table: 8 Top 10 Import Sources of India in 2020-21 (Values in US$ billion)

Country	2019-20	2020-21	April1December 2021	Share% in 2021-22*
China	65.26	65.21	67.66	15.5
U S A	35.82	28.89	32.27	7.3
U A E	30.27	26.62	33.06	7.2
Switzerland	16.90	18.23	19.67	5.0
Saudi Arab	26.86	16.19	23.48	4.9
Hong Kong	16.94	15.17	13.79	4.7
Iraq	23.74	14.29	22.65	3.2
Germany	13.69	13.64	9.90	2.9
Singapore	14.75	13.30	13.29	2.9
Korea Rp	15.66	12.77	12.80	2.9

Source: Annual Report 2021-22 (Ministry of Commerce and Industry, Department of Commerce, P-31)

*Economic Survey 2021-22

Directional change toward developing countries may be attributed to India's involvement in regional trading agreements particularly with developing countries, liberalization of economies

in Asia and Africa and impact of WTO commitments on trade policies of member countries. With India focusing on its Look-East policy since 2009 and exploring new destinations, such as Latin America, Africa and Oceania, growth in exports has, more or less, been steady, even as demand from traditional markets of the US and the EU is on a decline. China continues to be the largest exporter to India followed by USA, UAE and Saudi Arabia. There is need to diversify the markets. India has seen a sharp spike in crude imported from Russia, is seen to be processing it and exporting too, many countries, especially in Europe.

India has diversified its export destinations in last 25 years, yet more than 40 per cent of India's exports is still accounted by only seven countries. A further push would help provide the institutional arrangements to, inter alia, and diversify both products and destinations (Economic Survey, 2022).

Check Your Progress C

1. What do you mean by direction of trade?

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2. Name five major countries where India ships its exports.

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3. Why is there change in composition of imports? Write two reasons.

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4. Which goods are of significance in India's import basket and name the suppliers of these goods?

4.6 MAJOR PROBLEMS AND CHALLENGES OF INDIA'S FOREIGN TRADE AND POLICY

The continuing adverse geopolitical environment has brought mounting challenges for the management of the external sector. The world has passed through the COVID 19 pandemic and there have been repeated waves of infection, supply-chain disruptions and, global inflation. The trade policy of India has undergone various changes from time to time and the major changes involved simplification of processes and techniques, elimination of quantitative restrictions and reduction in the tariff rates.

According to the WTO, India's most-favoured-nation import tariffs are the highest among major economies. The bigger challenge is the protectionism that is taking hold in India and rest of the world. It is said that since 2014 India has raised tariff on 3,200 items. Though the average tariff has dropped to 15 per cent in 2020, it is still considered to be amongst the highest in the world. Higher tariff while protecting the domestic industry will also make exports uncompetitive where the product has a good share of imported components. Take the case of mobile handset manufacturing. In the case of non-zero tariff lines, India's tariffs are higher than Thailand and Vietnam for 85 per cent of the items. As Panagariya has remarked India cannot be an export power house without being open on the import side (Madhavan, 2022).

In the contemporary environment, increasing trade barriers could be particularly damaging for India as global firms are looking to diversify out of China. To improve the position on trade, there is need to review how the currency is managed. Since currency adjustment is non-discriminatory, it is a far better tool for managing the external account than selective import controls (Business Standard Editorial Comment, 19 December, 2022).

As a net importer of oil and other commodities, India traditionally faces a balance of trade problem whenever oil and commodity prices go up. The decade of 20s of 21st century is not different. Despite India's exports are doing well, but as imports are growing faster, widening of the trade deficit is worrisome. An overall pessimistic global outlook on growth and related

worries are adding to the pressure. The RBI has also highlighted the increased vulnerability of the external sector (Pal and Dutta, 2022).

The gap between imports and exports has widened, but that is to be expected in a growing economy. India has a chronic problem of current account deficit (CAD), mainly owing to the external factors and the deficit is growing. In a period of worsening CAD, a steady exodus of foreign portfolio investments (FPIs) and a dwindling inflow of Private equity / venture capital (PE/VC) funds pose a challenge for maintaining India's overall external balance.

A wide range of companies from U.S. and other countries are active in the Indian market, across most sectors. However, the Indian government has promoted the concept of "self-reliance" (*Atmanirbharta*) also known as "make in India" as a means to develop and support India's businesses and employment. As part of its self-reliance movement, India has introduced market access barriers in the form of tariffs, localization requirements, indigenous standards requirements and labelling practices, price controls, and import restrictions. This approach of Indian government is not being appreciated by companies from abroad. They feel that this is making it more difficult for them to sell their goods and services in India. This is particularly true for Indian government procurement when there are Indian-made options available. They are of the view that foreign exporters are being pressured to start manufacturing their products locally to retain market access, particularly if similar goods are not already produced in India (International Trade Administration of US, 2022).

In this context, it is important to note that there is the absence of long-run causality from FDI to export. This exists because of much domestic market orientation of foreign investors and less emphasis on the export-oriented sectors in India (Jana et al, 2020).

The stimulus and supply-chain disruptions due to the pandemic started pushing the inflation up which has been further accentuated by the Russian invasion of Ukraine. Most economies are tightening their monetary policy and raising interest rates in a bid to tame the run-away prices. These developments are slowing the global trade and economic growth (Madhavan, 2022). According to WTO data, volume of merchandise exports rose by 9.8 per cent across the world in 2022 but in terms of value, it was much higher at 26 per cent. This reflects the impact of inflation adding to value of world trade once the commodity prices cool, export value too will reduce.

As regards services exports, India has the potential to grow it many times. What is needed is a clear vision to leverage India's IT capabilities in areas such as consultancy, accountancy, legal and healthcare. To effectively break away from the past, there is a need to get on a mission mode and remove all impediments without falling prey to various domestic interest groups (Madhavan, 2022).

The objective behind creating Special Economic Zone (SEZs) was to attract foreign direct investments, develop infrastructure, facilitate access to global markets for domestic companies, and encourage exports. After the initial momentum, the SEZ framework lost steam leaving a yawning gap between the initial promise and actual delivery (Barad and Singhania, 2022).

The latest trend in de-globalisation comes at a cost by preferring friendly economies for supply of inputs over the most efficient ones. Integrating logistics chains across economies involves another set of challenges. Economic engagement has been a significant cause of changes in geopolitical power equations. Reducing this inter-connection is no guarantee new polarities will not emerge. In the bargain, the economic outcome is suboptimal. Competitive advantage derives from a host of factors that cannot be overridden by political considerations (*The Economic Times Bureau*, 17 September, 2022).

The rupee will keep trending down as capital flows seek refuge in advanced economy debt. A policy push at this juncture could be a workaround for a controlled currency depreciation (*The Economic Times Bureau*, 04 September, 2022). In fact, India being the net-commodity importing country and having current account deficit, implying that India's forex reserves are structurally different from other countries as it is made up entirely of liabilities, namely the foreign capital inflows. This makes India's forex reserves more vulnerable to the threat of a sudden exodus of foreign capital (Pal and Dutta, 2022).

The main problem is that India has mostly missed out on embedding itself in global supply chains as underlined in Amita Batra's book on India's Trade Policy in the 21st Century. Also important is the fact of fragmented nature and small size of India's exporters along with their thinking which is not so global.

To face a huge decline in export business from the US, the world's largest economy, may be regarded as misfortune (Jacob, 2022). Many Indian products fail quality tests due to traces of

pesticides, pathogens, illegal dyes, etc. India needed to redesign its quality assurance framework to help firms reach higher standards and protect the country from substandard imports (Srivastava, 2022). Labour and environment standards are issues that the country has always insisted should be dealt with on their own merits at dedicated forums, such as the ILO, and not at platforms deliberating trade issues (*Business Line Opinion*, 27 September, 2022).

The production-linked incentive (PLI) scheme is a revealing illustration of the problems of having an incoherent approach to foreign trade. It is not very clear if the PLI scheme is meant as a temporary bridging mechanism, an export promotion system, an investment promotion scheme, or a geo-strategic plan to reduce dependence on China. What is certain is that such schemes, unless their aim and purpose is clearly defined, tend to expand in scope in response to rent-seeking. The expansion of the scheme will also have fiscal implications. These issues need to be clearly examined and understood going forward (*Business Standard Editorial Comment*, 28 September, 2022).

With advanced economies staring at recession, India's commodity-focused merchandise exports are vulnerable both to a squeeze in realisations and drying up of demand. Imports, on the other hand, are seeing a strong resurgence on the back of the economic revival post-Covid. There is a question mark whether inward remittances will remain if the US and UK slip into recession. Buoyant software exports have helped bridge the merchandise deficit so far, but this is again contingent on clients of IT companies in North America and EU retaining their budgets amid recession (*Business Line Opinion*, 07 October, 2022).

While India appears to be seeking self-reliance, it is eager to ensure an adequate supply of raw materials and goods required in strategic sectors. India's external financing situation is likely to remain stressed in years ahead, especially if the recent export slump continues. Normalisation of post covid-19 pandemic has spurred a renewed demand for imported inputs. India's imports have soared just at a time when its merchandise exports have started to fall. India's merchandise exports have been structurally weak, stagnating for the past decade. Foreign demand will slow further as advanced countries slip into recessions. In that case, India's CAD could widen even further.

Puri (2017) has also stressed that "India faces significant challenges in the area of trade policy—the global economic slowdown, increasing protectionism, the stalled mega-trade deals that could in time be revived, and perhaps more important, its own domestic preoccupations". While the global economic scenario is crucial, the domestic factors are no less important, when it comes to trade. India's overall trade policy faces certain challenges viz:

(i) inadequate export diversification in terms of products and geographical distribution;
(ii) insignificant involvement of a majority of states in exports;
(iii) rationalisation of the tariff regime and export promotion schemes; and
(iv) factor market reforms which are critically linked with export performance.

To sum up this section, these challenges not only affect the productivity and competitiveness of domestic firms but also restrict them from participating in global production networks. The challenges and policy options on the trade front for India are many. Some are due to the current emerging global situation and some are systemic and long term in nature (Prasad, 2012). Macro policies pose long term challenges. Micro issues are specific to sectors and are largely of short term nature. Some of the micro challenges are as under:

(i) Infrastructure related
(ii) Trade facilitation measures
(iii) Tax and customs duty related
(iv) Credit related
(v) Other issues: These include tapping the domestic market for software; lowering and streamlining the different port charges; promoting FDI in export sector; addressing the skill mismatch which has contributed to the Indian industry and exports becoming less competitive.

These impediments in the way of better export performance are being faced by India's exports which need to be addressed. A more comprehensive and consistent trade policy needs to be evolved. Contradictions between the PLI and export taxes be removed. Policymakers should acknowledge the importance of reliable streams of imports in order to grow exports in an age of global value chains. This might also lead to more attention to the building of the ecosystem of

smaller producers and frictionless trade that such deals need to be successful over time (Sharma, 2022a).

4.7 THRUST AREAS OF FOREIGN TRADE

Liberalisation and rule based economic relations will define India´s trade in years ahead (Editorial Comment Business Standard, November 24, 2022). Looking ahead, Acharya (2022) has suggested that the broad priorities for India's trade policy should be:

(i) Phase out the tariff increases that have occurred since 2017. As the Russian born, British-American economist, Abba Lerner, stated in his famous "symmetry theorem" of 1936, "a tax on imports amounts to a tax on exports".

(ii) In dealing with external payments pressures, exchange rate depreciation should be the prime instrument, not tariffs or quota restrictions on imports.

(iii) In dealing with inflation, monetary and fiscal measures are preferable to export bans and duties, which sometimes pave the way to balance of payments problems.

Expectations are rising about a set of trade facilitation measures to get around the adverse external environment. In this context, Majumdar (2022) has pointed out that "Indian industry will also have to adapt to the new trade ecosystem. Adapting to the changing nature of cross-border transactions, identifying the right market, managing real-time inventories, increasing online presence, and tapping into customer preferences will require Indian businesses to unlearn old methods and learn new techniques of doing trade".

India needs to build institutional capacity in the trade policy establishment. This will not only help present India's position more effectively in trade negotiations but also inform the broader domestic policy establishment to take a more practical position on foreign trade. To boost trade in a sustainable manner, it is now important to integrate with GVCs (Business Standard Editorial Comment, August 08, 2022).

Recent improvements in India's export performance have come about through a better mapping of Indian districts with foreign markets. Policymaking at the state level encourages entrepreneurship and migration. Indian states must align syllabi to enable its labour force to find

employment opportunities as machines take over unskilled jobs (*The Economic Times Bureau*, August 08, 2022).

Selecting the right districts to promote them as export hubs is paramount. India merely ranks 21st amongst its global peers. This relatively smaller size of Indian export is not commensurate with its GDP, which stands as the fifth largest in the world. Out of the 36 (28 States and 8 Union Territories), the top ten States account for 85.3 per cent of India's overall exports. The significant contribution comes from the top five States — Gujarat, Maharashtra, Tamil Nadu, Karnataka and Uttar Pradesh. Unsurprisingly, except for Uttar Pradesh, four out of the top five largest exporters are States located in the South and West of the country that benefits from coastal access. Most surprisingly, 82 districts do not engage in any exports at all. The majority of exports concentrate on non-manufactured goods (Kumar and Ikeda, 2022).

In order to expand market overseas for domestic products, it is imperative to not only ease supply-side bottlenecks but also undertake reforms that facilitate a process of structural transformation from producing "poor-country goods" to "rich-country goods" by enhancing the efficiency and competitiveness of domestic industry (Jain, et al, 2022). India should overcome the constraints of trade such as:

(i) remove bottlenecks operating in the economy,
(ii) electricity shortages,
(iii) inadequate transportation infrastructure,
(iv) proper diversification in composition of goods and services,
(v) while making diversification in the composition of the price and income elasticity for demand for export, should be kept in mind,
(vi) help in improving export competitiveness,
(vii) utilize trade as an effective engine for accelerating the pace of inclusive development in the country.

Sengupta (2022) has suggested that "policy needs to become significantly more export-oriented and less protectionist". The need of the hour is four-fold:

(i) Allow the rupee to depreciate,

(ii) Encourage foreign firms to produce in India by letting them access their supply chains,
(iii) Encourage domestic firms to step up to the competition, and
(iv) Create a level playing field for all players.

By adopting this strategy, India could potentially be able to reduce its large CAD. There exists a wide gap in India's exports potential and actual exports in many sectors, especially pharmaceuticals, gems and jewellery and chemicals. To maximize opportunities within this environment, India needs a positive trade policy agenda. This is the only viable way for India to enhance its economic relationship with major trading partners (Puri, 2017).

Containing imports will not help. A better way to narrow the trade deficit would be to focus on increasing exports, especially to fill the gap left by falling Chinese exports, by incentivising companies to manufacture for overseas market. The PLI scheme can be expanded and exporters need to be nudged to move up the value chain (*Editorial Comment the Hindu Business Line*, December 06, 2022).

Greater openness to imports at lower tariff and non-tariff restrictions and FDI can not only boost exports but also enhance the capacity to absorb foreign capital (Jain, et al, 2022). The Government must accept the nature of global trade and adapt accordingly. To push exports, Indian firms will need to get into global value chains, which is not possible at the scale required in a high-tariff economy (*Business Standard Editorial Comment*, 19 December, 2022).

The new-age FTAs signed look at trade more holistically which reflects the changing paradigm of international economic relations. Trade in services, e-commerce, labour, climate/environment, digital trade, public procurement, supply chains, gender, etc., all find a place. For India to achieve its policy objectives, the government and industry, particularly the manufacturing sector, must prepare for opportunities and greater engagement in an evolving multilateral trade arena. India's priorities should include taking policy measures to conform to global standards and supporting the World Trade Organization (WTO) to relaunch multilateral negotiations" (Puri, 2017).

In sum, the main objective of an enabling policy framework should be to achieve the much needed global competitiveness in India's manufacturing and services. To achieve a respectable share in world exports, there is need to have a change in trade strategies and policy along with specific measures. As such, the thrust areas for promoting exports should be on the following lines (Gupta, 2019):

(i) Demand based export basket diversification rather than a mere supply based strategy.

(ii) Rationalization of tariffs structure. Though different rates of tariffs are levied for various reasons, there is scope for reducing average applied tariffs by selectively reducing tariffs across many lines, while retaining higher tariffs for sensitive and important items. Consequently WTO bound tariffs could also be reduced which can help India to take a more pro-active role in WTO and bilateral negotiations.

(i) Streamlining export promotion schemes.

(ii) Developing world class export infrastructure and logistics especially port-related.

(iii) Having useful FTAs/CECA's with some major countries while actively expanding engagement with BRICS and ASEAN where India enjoys competitive advantage. FTAs are meant to be about give and take.

(iv) Greater States' participation in exports.

(v) Formulating a well-defined Agri Trade Policy.

(vi) Moving from assembling to building a robust manufacturing base with a well settled value chain.

Right now, India has no option but to find the resources to produce and import enough fuels to keep the wheels of the economy running as fast as possible.

Check Your Progress D

1. Write four challenges are there in India's foreign trade?

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2. Write five major challenges being faced by foreign trade.

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3. Identify five thrust areas for export promotion.

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4. Identify five thrust areas of India's exports.

4.8 LET US SUM UP

Foreign trade plays an important and crucial role in the development of Indian economy. India's total trade (export + imports) increased consistently during pre and post reform of 1991. The rate of increase in trade was slower in the pre reform period as compared to post reform which registered a higher rate. The growth rate of imports was higher than the growth rate of export.

The composition of India's foreign trade has undergone substantial changes. India's major exports now includes manufacturing goods such as engineering goods, petroleum products, chemicals and allied products, gems and jewelleries, textiles, electronic goods, etc. which constitute over 80 per cent of India's export basket. It is a remarkable achievement that India has transformed itself from a predominantly primary goods exporting country into a non-primary goods exporting country. Under imports too India's dependence on food grains has declined.

Major import items constitute capital goods and intermediates, which not only support the manufacturing sector but also supplies raw-materials for the export oriented units.

Since 1991, the government introduced some changes in its policy on trade, foreign Investment, tariffs and taxes. Exports have continued to be the major focus of India's foreign trade policy. By exploiting the provisions of GATS, now India is becoming the largest exporter of services.

The balance of trade is becoming unfavorable for India during the post reform period. It would be necessary to add new commodities and services at competitive price in the export basket. India's services trade surplus has increased due to the surge in IT exports. For this, India needs a comprehensive trade policy measure and integrated efforts.

Over the years, India's direction of trade has gone substantial change with countries of Asia including ASEAN and Africa. The share of OECD countries, except North America, in India's overall export earnings declined continuously post reform. Developing countries and OPEC both emerged as the potential markets for Indian exports with their increasing shares. The share of Africa and Asian developing countries showed an upward trend and these countries have emerged as good markets for Indian exports.

Though the volume and value of exports has increased manifold, India's share in the world exports is still not up-to the expectation. The impact of the Russia-Ukraine war and related sanctions on supply chains and disruption of trade routes can adversely affect India's exports.

4.9 KEY WORDS

- ***Ad-hocism****:* A policy or method characterized by actions or decisions for dealing with problems or resolving issues chosen to suit or fulfill immediate needs or goals.
- ***China+1***: It is a global business strategy and the term was coined way back in 2013. China-Plus-One, or just Plus One refers to a strategy in which companies avoid investing only in China and diversify their businesses to alternative destinations. India must

reorient its trade policy to take advantage of the increasingly popular China-plus-one strategy.

- **World Integrated Trade Solution (WITS)**: WITS is a software which is designed to integrate several trade-related databases, retrieves information on world trade and tariffs providing easy access. The World Bank — in collaboration with the United Nations Conference on Trade and Development (UNCTAD) and in consultation with organizations such as International Trade Center, United Nations Statistical Division (UNSD) and the World Trade Organization (WTO) — developed the World Integrated Trade Solution (WITS). Four major databases are currently accessible through WITS:

  (i) TRAINS (UNCTAD)

  (ii) COMTRADE (UN Statistics Division)

  (iii) Integrated Database (IDB-WTO)

  (iv) Consolidated Tariff Schedule (CTSWTO)

4.10 TERMINAL QUESTIONS

1. Point out the importance of foreign trade in Indian economy.
2. Describe the broad trends in India's foreign trade since 1991.
3. Explain changes in the composition of India's exports. Also indicate areas of weaknesses in export trade.
4. Discuss the structural changes in India's import basket in the post reform period. Is it possible to ban import items name them?
5. What important changes have taken place in pattern of direction of exports? Explain them.
6. Which countries are important for India's imports and why?
7. What is the composition of services export? Explain their importance.
8. "Services exports are rising faster than merchandise exports" give reasons for this.
9. Analyse the challenges being faced by India's foreign trade. What remedies will you suggest to overcome them?

10. Examine the thrust areas for India's foreign trade. How will you manage these for strengthening India's exports?

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UNIT 5 WORLD TRADE AND INDIA

5.0 Objectives
5.1 Introduction
5.2 Recent Trends in World Trade
5.3 Factors Contributing to Expansion of World Trade
5.4 India's Trade Policy and WTO
5.5 India and World Trade
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5.7 Policy Required for Resolving Issues in World Trade
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5.0 OBJECTIVES

After going through this unit, you will be able to:

- Explain the nature and concept of world trade;
- Describe growth and trends in world trade;
- Highlight the India's share in world trade;
- Give an overview of India's global trade: trends, composition, direction and balance of trade;
- Analyse issues in world trade;
- Suggest strategies for enhancing India's trade with the world;

5.1 INTRODUCTION

In a global economy where no nation is self-sufficient, but is associated with specific flows of goods, people, and information. Each nation is involved at different levels in trade to sell what it produces, acquire what it lacks, and produce more efficiently in some economic sectors than its trade partners. Global Trade operating under the principles of comparative advantage plays a significant role in driving rapid economic growth of nations. It is generally taken for granted that the rise of developed nations is because of their growing economic might. But it is also pertinent to take into account some other factors in the rise of developed countries.

When looking at the structure of global trade, it is important to underline that it is not nations that are trading, but mainly corporations with the end products consumed in majority by individuals. A nation is simply a regulatory and jurisdictional unit where data is collected since freight crossing boundaries are subject to customs oversight and tabulated as trade flows. Inter and Intra corporate trade takes place across national jurisdictions is accounted for as international trade (Rodrigue, 2020).

The global trade order is undergoing a transformation along with geopolitical events. The very concept of global trade is being rewritten, and new global alliances are emerging. In the contemporary global environment, a kind of consensus is working amongst economists and policymakers across the world to increase international economic cooperation. There is overwhelming evidence that trade has contributed to global prosperity, raised standards of living, and contributed to steadily growing real income. Globalization, however, produces both winners and losers. Trade produces prosperity but also inequality. It can have devastating effects on the manufacturing sector if it is subjected to subsidized or dumped products and exchange rate manipulation (Puri, 2017).

Seventy-five years after Independence, India is a proud member of the league of leading nations. What happens in India affects not just its 1.4 billion citizens, but also the region and the rest of the world. India used to be a protectionist state for a long time, but the country has become progressively more open to international trade. India's growth story, especially since the start of the 21st century has been remarkable. India is amongst the fastest growing major economies of the world today. The Indian economy is now more globalized and India's foreign trade has seen a multi-fold increase.

The world economy has been receiving shocks at regular intervals. The year 2022 had to face multiple disruptions from war in Ukraine, Afghan humanitarian crisis, developed world's recession, Taiwan situation and US-China trade war. However, trade continued to be at the vanguard of economic resilience, both globally and in India. Having this overview, in this unit, various aspects of world trade, and India's position in global trade, what India needs to do for expanding trade and further integrating with global value chain will be discussed. Besides these, an attempt is made to analyse the issues in global trade and the problems which India is confronted with and what efforts India is making to further strengthen its relations with developed and emerging nations particularly of Asia and Africa.

5.2 RECENT TRENDS IN WORLD TRADE

The growth of world trade has been nothing short of phenomenal since the Second World War. International trade, both in terms of value and tonnage, has been a growing trend in the global economy. The world economy is becoming integrated through trade at an unprecedented pace. The last three decades have witnessed huge changes in the structure of trade. Newfarmer et al, (2012) have stated that "change in global trade is principally driven by economic, technological, political, and natural factors. Trade as a share of GDP has risen in nearly all corners of the world and made trade one of the most dynamic sources of growth for many countries. Developing countries – particularly China and the other BRICs – have become major actors in the world market, both as exporters and importers".

Table 5.1 World merchandise exports

World merchandise exports by region and selected economy, 1948, 1953, 1963, 1973, 1983, 1993, 2003 and 2021
(Billion dollars and percentage)

	1948	1953	1963	1973	1983	1993	2003	2021
	Value							
World	**59**	**84**	**157**	**579**	**1838**	**3688**	**7382**	**21678**
	Share							
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
North America	**28.1**	**24.8**	**19.9**	**17.3**	**16.8**	**17.9**	**15.8**	**12.7**
United States of America	21.6	14.6	14.3	12.2	11.2	12.6	9.8	8.1
Canada	5.5	5.2	4.3	4.6	4.2	3.9	3.7	2.3
Mexico	0.9	0.7	0.6	0.4	1.4	1.4	2.2	2.3
South and Central America and the Caribbean	**11.3**	**9.7**	**6.4**	**4.3**	**4.5**	**3.0**	**3.1**	**3.3**
Brazil	2.0	1.8	0.9	1.1	1.2	1.0	1.0	1.3
Chile	0.6	0.5	0.3	0.2	0.2	0.2	0.3	0.4
Europe	**35.1**	**39.4**	**47.8**	**50.9**	**43.5**	**45.3**	**46.2**	**36.9**
Germany (1)	1.4	5.3	9.3	11.7	9.2	10.3	10.2	7.5
Netherlands	2.0	3.0	3.6	4.7	3.5	3.8	4.0	3.9
France	3.4	4.8	5.2	6.3	5.2	6.0	5.3	2.7
United Kingdom	11.3	9.0	7.8	5.1	5.0	4.9	4.2	2.2
Commonwealth of Independent States (CIS), including certain associate and former member States (2)	**-**	**-**	**-**	**-**	**-**	**1.7**	**2.3**	**3.0**
Africa	**7.3**	**6.5**	**5.7**	**4.8**	**4.5**	**2.5**	**2.4**	**2.6**
South Africa (3)	2.0	1.6	1.5	1.0	1.0	0.7	0.5	0.6
Middle East	**2.0**	**2.7**	**3.2**	**4.1**	**6.7**	**3.5**	**4.1**	**5.3**
Asia	**14.0**	**13.4**	**12.5**	**14.9**	**19.1**	**26.0**	**26.1**	**36.3**
China	0.9	1.2	1.3	1.0	1.2	2.5	5.9	15.5
Japan	0.4	1.5	3.5	6.4	8.0	9.8	6.4	3.5
India	2.2	1.3	1.0	0.5	0.5	0.6	0.8	1.8
Australia and New Zealand	3.7	3.2	2.4	2.1	1.4	1.4	1.2	1.8
Six East Asian traders	3.4	3.0	2.5	3.6	5.8	9.6	9.6	9.9
Memorandum item:								
EU (4)	-	-	24.5	37.0	31.3	37.3	38.6	30.6
USSR, Former	2.2	3.5	4.6	3.7	5.0	-	-	-
GATT/WTO Members (5)	63.4	69.6	75.0	84.1	77.0	89.0	98.3	98.3

Note : Between 1973 and 1983 and between 1993 and 2003 export shares were significantly influenced by oil price developments.
(1) Figures refer to the Fed. Rep. of Germany from 1948 through 1983.
(2) Figures are significantly affected by including the mutual trade flows of the Baltic States and the CIS between 1993 and 2003.
(3) Beginning with 1998, figures refer to South Africa only and no longer to the Southern African Customs Union.
(4) Figures refer to the EEC(6) in 1963, EC(9) in 1973, EC(10) in 1983, EU(12) in 1993, EU(25) in 2003, and the European Union, excluding the United Kingdom, in 2021.
(5) Membership as of the year stated.

Source: World Trade Statistical Review 2022

Look at the Table 5.1, which shows the world merchandise exports by region and selected economy from the time period 1948 to 2021. In the year 2021, the Europe has got the highest share of (36.9%), followed by Asia (36.3%), North America (12.7%), Middle East (5.3%) and South and Central America (3.3%). While, India's share in total exports is 1.8% in the year 2021. China's share has been15.5% for the year 2021. For the year 2003, the share of Europe in world merchandise exports were 46.2% followed by Asia 26.1% and North America 15.8%. The share of Asian region in the world merchandise exports has increased significantly. Therefore, India should make sincere effort for enhancing her share in the world merchandise exports.

Table 5.2: World merchandise imports

World merchandise imports by region and selected economy, 1948, 1953, 1963, 1973, 1983, 1993, 2003 and 2021
(Billion dollars and percentage)

	1948	1953	1963	1973	1983	1993	2003	2021
	Value							
World	**62**	**85**	**164**	**594**	**1883**	**3805**	**7599**	**22034**
	Share							
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
North America	**18.5**	**20.5**	**16.1**	**17.2**	**18.5**	**21.3**	**22.7**	**18.0**
United States of America	13.0	13.9	11.4	12.4	14.3	15.9	17.1	13.3
Mexico	1.0	0.9	0.8	0.6	0.7	1.8	2.3	2.4
Canada	4.4	5.5	3.9	4.2	3.4	3.7	3.2	2.3
South and Central America and the Caribbean	**10.4**	**8.3**	**6.0**	**4.4**	**3.9**	**3.3**	**2.5**	**3.4**
Brazil	1.8	1.6	0.9	1.2	0.9	0.7	0.7	1.1
Chile	0.4	0.4	0.4	0.2	0.2	0.3	0.3	0.4
Europe	**45.3**	**43.7**	**52.0**	**53.3**	**44.1**	**44.5**	**44.6**	**36.4**
Germany (1)	2.2	4.5	8.0	9.2	8.1	9.0	8.0	6.4
Netherlands	13.4	11.0	8.5	6.5	5.3	5.5	3.5	3.4
France	5.5	4.9	5.3	6.4	5.6	5.7	5.2	3.2
United Kingdom	3.4	3.3	4.4	4.8	3.3	3.3	5.2	3.1
Commonwealth of Independent States (CIS), including certain associate and former member States (2)	**-**	**-**	**-**	**-**	**-**	**1.5**	**1.4**	**2.1**
Africa	**8.1**	**7.0**	**5.2**	**3.9**	**4.6**	**2.6**	**2.2**	**2.9**
South Africa (3)	2.5	1.5	1.1	0.9	0.8	0.5	0.5	0.5
Middle East	**1.7**	**2.2**	**2.3**	**2.7**	**6.2**	**3.3**	**2.8**	**3.9**
Asia	**13.9**	**15.1**	**14.1**	**14.9**	**18.5**	**23.5**	**23.8**	**33.4**
China	0.6	1.6	0.9	0.9	1.1	2.7	5.4	12.2
Japan	1.1	2.8	4.1	6.5	6.7	6.4	5.0	3.5
India	2.3	1.4	1.5	0.5	0.7	0.6	1.0	2.6
Australia and New Zealand	2.9	2.3	2.2	1.6	1.4	1.5	1.4	1.4
Six East Asian traders	3.5	3.7	3.2	3.9	6.1	10.2	8.7	9.4
Memorandum item:								
EU (4)	-	-	25.5	37.1	31.4	36.2	36.1	29.4
USSR, Former	1.9	3.3	4.3	3.6	4.3	-	-	-
GATT/WTO Members (5)	58.6	66.9	75.3	85.5	79.7	89.3	98.4	98.3

Note : Between 1973 and 1983 and between 1993 and 2003 import shares were significantly influenced by oil price developments.

(1) Figures refer to the Fed. Rep. of Germany from 1948 through 1983.

(2) Figures are significantly affected by including the mutual trade flows of the Baltic States and the CIS between 1993 and 2003.

(3) Beginning with 1998, figures refer to South Africa only and no longer to the Southern African Customs Union.

(4) Figures refer to the EEC(6) in 1963, EC(9) in 1973, EC(10) in 1983, EU(12) in 1993, EU(25) in 2003, and the European Union, excluding the United Kingdom, in 2021.

(5) Membership as of the year stated.

Source: World Trade Statistical Review 2022

Look at the Table 5.2, which shows the world merchandise imports by region and selected economy during the year 1948 to 2021. In the year 2021, the highest import share was of Europe (36.4%), followed by Asia (33.4%), North America (18%), Middle East (3.9%) and South and Central America (3.4%). While, India's share in total imports is of 2.6% in the year 2021. China's share in the world merchandise imports has been 12.2%. For the year 2003, the share of Europe in world merchandise imports was highest at 44.6% followed by Asia 23.8% and North America 22.7%. india should make effort to export more for meeting her requirenment of imports.

Table 5.3: Top 20 leading exporters and importers in world merchandise trade, 2021

Rank	Exporters	Value	Share	Annual percentage change	Rank	Importers	Value	Share	Annual percentag echange
1	China	3364	15.1	30	1	United States of America	2935	13.0	22
2	United States of America	1754	7.9	23	2	China	2689	11.9	30
3	Germany	1632	7.3	18	3	Germany	1420	6.3	21
4	Netherlands	837	3.7	24	4	Japan	769	3.4	21
5	Japan	756	3.4	18	5	Netherlands	758	3.4	27
6	Hong Kong, China	670	3.0	22	6	France	714	3.2	23
	Domestic exports	20	0.1	-43					
	Re-exports	650	2.9	27					
7	Korea, Republic of	644	2.9	26	7	Hong Kong, China	712	3.2	25
						Retained imports (1)	160	0.7	20
8	Italy	610	2.7	22	8	United Kingdom	694	3.1	9
9	France	585	2.6	20	9	Korea, Republic of	615	2.7	32
10	Belgium	545	2.4	29	10	India	573	2.5	54
11	Canada	508	2.3	30	11	Italy	558	2.5	31
12	Mexico	495	2.2	19	12	Mexico	522	2.3	33
13	Russian Federation	494	2.2	48	13	Belgium	510	2.3	28
14	United Kingdom	468	2.1	17	14	Canada	504	2.2	20
15	Singapore	457	2.0	26	15	Spain	418	1.9	28
	Domestic exports	208	0.9	31					
	Re-exports	250	1.1	22					
16	Chinese Taipei	448	2.0	29	16	Singapore	406	1.8	23
						Retained imports (1)	157	0.7	25
17	United Arab Emirates	425	1.9	27	17	Chinese Taipei	382	1.7	33
18	India	395	1.8	43	18	United Arab Emirates	348	1.5	41
19	Spain	383	1.7	24	19	Poland	338	1.5	29
20	Switzerland	380	1.7	19	20	Viet Nam	332	1.5	26

Source: World Trade Statistical Review 2022

Look at Table 5.3, which shows top 20 leading exporters and importers in world merchandise trade in the year 2021. In exports, China was the leading exporter and got (15.1%) share in world exports, followed by United States of America (7.9), Germany (7.3), Netherlands (3.7), Japan (3.4), Hong Kong (3.0%), Republic of Korea (2.9%), Italy (2.7%), France (2.6 %) and Belgium (2.4%) for the year 2021. India is at 18th position with a 1.8% share in the total exports for the year 2021.

In imports, United States of America was the leading importer and has got (13%) share in world imports for the year 2021, followed by China (11.9%), Germany (6.3%), Japan (3.4%), Netherlands (3.4%), France (3.2%), Hong Kong (3.2%), United Kingdom (3.1%), Korea (2.7%) and India (2.5%). India is at 10th position with a 2.5% share in the total imports.

Table 5.4: Top 20 leading exporters and importers in the world trade in commercial services, 2021

Rank	Exporters	Value	Share	Annual percentage change	Rank	Importers	Value	Share	Annual percentage change
1	United States of America	772	12.9	10	1	United States of America	525	9.5	19
2	United Kingdom	415	6.9	9	2	China	438	7.9	16
3	China	391	6.5	40	3	Germany	379	6.8	23
4	Germany	371	6.2	22	4	Ireland	341	6.2	-2
5	Ireland	337	5.6	21	5	France	258	4.7	10
6	France	302	5.0	19	6	United Kingdom	239	4.3	15
7	Netherlands	245	4.1	10	7	Netherlands	236	4.3	11
8	India	240	4.0	18	8	Singapore	223	4.0	10
9	Singapore	230	3.8	10	9	Japan	205	3.7	5
10	Japan	164	2.7	4	10	India	195	3.5	28
11	Luxembourg	139	2.3	15	11	Switzerland	142	2.6	12
12	Belgium	134	2.2	13	12	Belgium	134	2.4	13
13	Switzerland	133	2.2	16	13	Korea, Republic of	126	2.3	20
14	Korea, Republic of	122	2.0	37	14	Italy	112	2.0	21
15	Spain	118	2.0	32	15	Luxembourg	110	2.0	15
16	Canada	103	1.7	11	16	Canada	104	1.9	7
17	United Arab Emirates	101	1.7	31	17	Denmark	82	1.5	14
18	Italy	100	1.7	19	18	Sweden	80	1.4	16
19	Denmark	93	1.6	23	19	United Arab Emirates	75	1.3	24
20	Poland	81	1.3	22	20	Russian Federation	75	1.3	17

Source: World Trade Statistical Review 2022

Look at Table 5.4, which shows the leading exporters and importers in world trade in commercial services in the year 2021. In exports, United States of America was the leading exporter and got (12.9%) share in world commercial services exports, followed by United Kingdom (6.9%), China (6.5%), Germany (6.2%), Ireland (5.6%), France (5%), Netherlands (4.1%), India (4%), Singapore (3.8%) and Japan (2.7%). India holds 8th position with a 4% share in the total exports.

In imports, the top positions were held by United States of America (9.5%) share in world commercial services imports, followed by China (7.9%), Germany (6.8%), Ireland (6.2%), France (4.7%), United Kingdom (4.3%), Netherlands (4.3%), Singapore (4%), Japan (3.7%) and India (3.5%). India holds 10th position with a 3.5% share in the total imports.

5.3 FACTORS CONTRIBUTING TO EXPANSION OF WORLD TRADE

The globalization of production is concomitant to the globalization of trade as one cannot function without the other. The scale, volume, and efficiency of international trade have all continued to increase since the 1970s (Rodrigue, 2020). Several factors underlie the expansion in global trade and increased interconnectedness. Some of them are as under (Riad et al, 2011):

(i) Trade liberalization since the early 1950s;

(ii) The growth in vertical specialization in production. The fragmentation of production processes along vertical trading chains that stretch across several countries;

(iii) The emergence of global supply chains;

(iv) Innovations in business organisation that have spawned new trends in trade;

(v) Technology-led declines in transportation and communication costs;

(vi) Intermediate goods cross borders multiple times before being transformed into final products;

(vii) Each country specializes in particular stages of a good's production sequence;

(viii) Regional production networks emerged whose reach eventually became global;

(ix) Services have become a leading sector in global trade. Trade in services has expanded as a proportion of overall trade; and,

(x) The development of commercial law, greater familiarity with foreign business practices, and developments in capital markets which reduce the cost of trade credits have all facilitated trade expansion

Riad et al (2011) have highlighted an important implication of the phenomenon of increased global trade in the following way: "Countries that are part of a global supply chain have a higher share of imported content in their exports because their exports rely on importing intermediate inputs from other supply chain partners. The extent of imported inputs in a country's exports is a useful indicator of whether it is '*downstream*' (i.e., engaging heavily in assembly and processing activities) or '*upstream*' in the supply chain (i.e., hub)".

The emergence of global supply chains has allowed emerging market economies (EMEs) to enhance the technology content of their exports, including as inputs embedded in high technology exports of advanced countries (Riad et al, 2011). This has resulted in increased interconnectedness and strengthened trade spillover channels. Not only has the number of key players increased, but there has been a shift in relative importance in global trade, from large advanced economies such as Japan and the United Kingdom to EMEs such China and India.

Krugman (1995) is of the view that the growth of trade is mainly result of political factors because of removal of the protectionist measures that had constricted world markets since 1913.

Trade liberalization increases exports as well as imports, the move to free trade in the developing world contributes to the growth of developing country exports to the high-wage nations. He has further highlighted four factors for increasing world trade. These are:

(i) the rise of intra-trade;
(ii) trade in similar goods between similar countries;
(iii) the ability of producers to slice up the value chain; and,
(iv) breaking a production process into many geographically separated steps.

These factors led to the emergence of super traders, countries with extremely high ratios of trade to GDP and the emergence of large exports of manufactured goods from low-wage to high-wage nations.

Newfarmer et al, (2012) have rightly summarized the factors that contributed to the growth of global trade in the words, "the development of '*trade in tasks*' – global value chains, segmentation of production through offshoring, and global out-sourcing – are fast-integrating distant economies into the global market, often through the intra-firm trade of multinational companies". These interdependencies imply numerous relationships where flows of capital, goods, raw materials, people, and services are established between regions of the world.

There is a high correlation between trade and financial inter-connectedness. The growing importance of global supply chains further increases the international transmission of shocks, including policy-induced ones. Apart from providing a reliable macroeconomic environment, policy makers should aim to lower costs of doing business and establishing trade relationships (Riad et al, 2011). However, this may be the time to re-emphasise the critical importance of rule-based world trade for sustained global prosperity.

Check your Progress I

1. Briefly describe the salient features of world trade.

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2. What is the pattern of global trade?

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3. Which are the major countries participating in world trade?

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4. Indicate the factors influencing the growth of the world trade.

5.4 INDIA'S TRADE POLICY AND WTO

About three decades ago, India's trade policy was liberalised in response to a major economic crisis. However, as has been emphasised by Batra (2022a), "India's trade policy has not just been more protectionist relative to other developing economies, but also not been driven by the objective of GVC integration". Both trade theory and experience suggest that for any single nation the best trade policy is to maintain an open and unrestrictive trade policy (Acharya, 2022). In the current global macroeconomic scenario, while it seems like a challenging task, concerted efforts would need to be made for India to be able to achieve its trade target and realign its foreign trade policy with the new global trading system.

Future of supply chains is being rewritten for many existing and emerging sectors worldwide, this will allow India to integrate into these supply chains through customised mutually beneficial FTAs with friendly nations (Kannan and Gopalakrishnan, 2023). In this context, it is important to remember that the primary underutilised source of growth lies in integration with the world economy and global value chains. Since 2015, India has made many new trading partners and got along much better with FTAs than the ones it already had.

The WTO is the legal and institutional foundation of multilateral trading system. The WTO is a core multilateral economic institution, responsible for setting and enforcing the rules of the international trading system. It has been a key site of struggle over global power relations. The WTO has been dominated by the US and other rich countries (Hopewell, 2014). India joined the WTO in 1995. India had taken on onerous obligations, evident from the fact that it had to change its domestic law completely to bring itself in line with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. The developed countries, however, wanted to push home their advantage (Kumar, 2021). Agriculture has been a central issue from the very beginning, as one of the least liberalized sectors of global trade. India's agricultural sector consisting primarily of peasant farmers, who are highly vulnerable to trade liberalization.

In this context, Romesh Chand (2002) has pointed out that "under the WTO regime global agricultural exports have declined in value terms, whereas, quantity of export has grown. Not only this, global trade turned out to be favourable to consumers of agricultural products and adverse to agricultural producers. Simultaneously, it is important to note that WTO has been favourable to net importing countries and unfavourable to net exporters of agricultural products". Given this scenario, a problem has been created for India how to protect the agriculture and farming community from lop sided policies being taken by developed countries under WTO provisions. The Indian government initiated multiple WTO-compliant agricultural export measures.

The WTO rules on trade remedies are implemented in India. India is one of the most active users of trade remedy measures. India does not apply any trade remedial measures other than anti-dumping duties, countervailing duties, and safeguard measures. India's imposition of trade remedial measures is not currently subject to any challenges at the WTO. Apart from the WTO, India is now a signatory to a number of plurilateral and bilateral preferential or free trade agreements (FTA) (Johri, 2022). As major WTO negotiations have stalled in recent years, many countries have turned to bilateral or plurilateral trade agreements.

There is a need to re-examine the domestic incentive structure for exporters in consonance with the WTO guidelines in order to boost exports. In compliance with WTO guidelines, the Government of India has introduced the Remission of Duties and Taxes on Exported Products (RoDTEP) scheme to replace the earlier MEIS scheme. Both the RoDTEP and the PLI schemes

launched by the government are WTO-compliant. RoDTEP scheme is based on the principle that taxes and levies on the exported products should be either exempted or remitted to the exporters and therefore is a step towards zero-rating of exports (TPCI, n d)

A quarter of a century after its creation, today an increasing number of policy makers and stakeholders question the need for and benefits of the rules-based multilateral trading system. In this sense, it is no exaggeration to claim that the WTO is in an existential crisis, with both the functioning of the WTO's disputes settlement system undermined, lack of progress in negotiations, and trade wars breaking out between leading members such as the US, China, and the EU. (Yalcin, et al, 2022)

Check Your Progress II

1. State the importance of markets and products in world trade.

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2. What are the products moving between different markets?

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3. How can India enhance its presence both in product and market?

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4. What is the status of agri trade in world trade?

5.5 INDIA AND WORLD TRADE

India is one of the world's largest economies. With a population of 1.40 billion, India stands as the second-largest country in terms of the population only after China. The growth prospects of the country are huge. Foreign trade has a prominent place in Indian economy. Even though India isn't yet a major export hub, contributing just 1.8 per cent of the $ 21.513 trillion in global exports in 2021. But, as per UNCTAD, India's merchandise exports in 2022, recorded a double-digit y-o-y growth of 13.7 per cent to reach an estimated $449.7 billion during the year.

India's exports: In the year 2021-22 India's export value surpassed $400 billion with roughly $110 billion in additional sales. India has expanded its commodity basket of trade from primary agri-products to manufactured goods and petro-related products; with Asia emerging as the largest trade partner in recent years (Careratings, 2013).

As regards direction of India's export trade, the largest destination for its exports is the United States, which accounts for over 18.05 per cent of Indian exports. The UAE stands as the 2nd largest destination for Indian exports, accounting for over 6.65 per cent of Indian exports. Other major export destinations are China (5.04 per cent), Bangladesh (3.83 per cent), Netherlands (2.97 per cent), Singapore (2.64 per cent), Hong Kong (2.60 per cent), UK (2.48 per cent), Germany (2.34 per cent), and Nepal (2.29 per cent).In addition to these countries, where India sends its exports are Malaysia, Australia, Canada, and Togo. The top ten countries imported 54.79 per cent of India's mineral fuels, mineral oils, and products of their distillation; bituminous substances; mineral waxes during 2021-22 (Gazala, 2022).

In terms of value, India's top export commodities in 2021-22 account for 62.13 per cent of India's total export income. India exports a variety of products. Indian services are also very highly regarded in the service sector. India is a major player in the global pharmaceutical and vaccine industries. It is the world's largest supplier of generic medications. The country makes around 60 per cent of the world's vaccines and provides 20 per cent of the world's pharmaceuticals, ranking 3rd in terms of volume and 14th in terms of value. India accounts for 5.92 per cent of the worldwide pharmaceutical and medicine market. The bulk of India's exports (73.31 per cent) were made up of drug intermediates and bulk medicines, followed by

formulations and biologics. In 2021-22, the country exported pharmaceutical items worth US$ 24.62 billion. The United States, the United Kingdom, South Africa, Russia, and Nigeria are the top five places where India sells its pharmaceutical goods. During the Covid-19 outbreak, India exhibited its capacity to be a constant and trustworthy pharma supplier to the world, even in times of crisis (Gazala, 2022).

India reached a growth in the export of Industrial equipment to 64.02 per cent in 2022. Most of the exports were to the USA (22.82 per cent), Germany (12.90 per cent), Thailand (4.32 per cent), China (4.20 per cent), United Kingdom (4.16 per cent), Singapore (3.90 per cent), UAE (3.55 per cent), Bangladesh (2.89 per cent), France (2.73 per cent), Nepal (2.56 per cent) in the year 2021-22.

India's imports: In terms of commodities imported, China stands as India's biggest source of imports, averaging approximately $94.5 billion in 2022, with a share of over 15.43 per cent in Indian imports during the same time frame, and a growth of 45.02 per cent from 2020-2022. China has been the major source of import for industrial equipment with 39.23 per cent of total imports in year 2021-22 (Gazala, 2022).

- India imported 77.44 per cent of crude oil in the year 2021-22 and major countries of Imports were Iraq (16.17 per cent), Saudi Arabia (14.17 per cent), UAE (10.43 per cent), USA (8.65 per cent), Qatar (5.59 per cent), Australia (6.76 per cent), Nigeria (5.14 per cent), Indonesia (3.53 per cent), Kuwait (5.09 per cent), and South Africa (1.91 per cent) (Gazala, 2022). Consequent upon Russia-Ukraine war, an important development in the field of import of crude oil has happened and India imported from Russia a major portion of its requirements during 2022-23.
- India is the world's largest importer of gems and precious stones. It imported 83.84 per cent of precious and semi-precious stones in 2021–2022. Major countries of import were Switzerland (25.56 per cent), UAE (19.50 per cent), USA, Hong Kong, Belgium, South Africa, Guinea, Peru, Bolivia, and Singapore.
- In 2021–22, India imported most of the electrical machinery from China (48.44 per cent), Hong Kong (14.15 per cent), Korea (5 per cent), Singapore (4.99 per cent),

Vietnam (4.89 per cent), the USA (2.94 per cent), Taiwan (2.76 per cent), Germany (2.46 per cent), Japan (2.11 per cent), and Malaysia (1.46 per cent) (Gazala, 2022).

Trade in services: Since the last two decades of the twentieth century, the role of invisibles (non-merchandise) transactions was on the rise. India had net surpluses in invisibles transactions in most years, and receipts from these transactions showed a steeply upward trend providing a significant support in meeting the rising deficits on merchandise trade. Invisibles transactions are subdivided into nonfactor (commercial) services, income (investment income and compensation of employees), and current transfers on private and official accounts. Nonfactor services are further subdivided into transport, travel, and other (miscellaneous) commercial services, including software services, which have come into prominence in recent years. India has had a net surplus in nonfactor services, current transfers, and miscellaneous commercial services.

India's share of world exports of commercial services exceeded that of world merchandise exports in most years. India's rising share in world exports of nonfactor services along with the increasing importance of these exports in India's current account suggests the possibility that India could become a leading exporter of nonfactor services (Srinivasan and Tendulkar, 2003). India has demonstrated a comparative advantage in the technology services sector and India can benefit from the changing trade landscape and by capturing a greater share of global technology services. The government's role as the creator, facilitator, enforcer and negotiator will be critical. The country will need investment in physical and digital infrastructure.

Structural changes in India's foreign trade: India's trade in absolute terms has risen as well its trade links have widened. As regards structural change in India's trade, there has been a sharp change in major items of imports and exports. Exports have registered shift in commodity compositions, with share of manufacturing goods coming down to give way to export of petroleum and crude products. In a way this does reflect India's strength in refining capability. In terms of export-destination, Asia has been and continues to be a major partner through the years. This has helped to diversify India's exports basket (Careratings, 2013).

Imports have registered shifts in country-sources as well as commodity basket. While petrol, oil, and lubricants (POL) share has increased, within non-POL category, there has been an increase in import of gold, coal and ores in recent times. From a geographically-dispersed country-source

profile, imports sources are now concentrated in the Asia region itself. Partly, this is due to the higher import of POL products and also the emergence of China as a major trading partner (Care ratings, 2013).

It is well to remember that the growth rate of India's trade is largely dependent on exogenous factors which relate to world trade growth, particularly those of the trading partners, international price changes and development in the competing countries, exchange rates as well as dollar rupee exchange rate. Government needs to establish an adequate regulatory framework for trade policy measures, enforce laws and policies and adjudicate disputes efficiently, and keep pace with innovations and disruptions they are causing. Human capital will be the key (Majumdar, 2022). The opportunity of India integrating itself into global value chains (GVCs) cannot be allowed to pass.

Krishnan (2023) has stressed the fact that "the political environment in the world around globalisation has changed. The advanced economies are less inclined than before, to expend political capital in favour of globalisation. India has been a beneficiary of globalization, but the leadership role provided by advanced economies. However, given the contemporary situation, the developed countries are not working for globalisation like they used to and India has a possibility to play a leadership role, through all levers of state power, including the presidency of G20". The Indian government has an enhanced role in shaping the agenda and outcomes of G20.

Check Your Progress III

1. Write five composition of India's Exports.

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2. What constitutes India's imports basket?

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3. Which countries are partners in India's foreign trade?

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4. Highlight the growing importance of services trade in India's exports.

5.6 ISSUES IN WORLD TRADE

Issues in the global trade have been building over decades. Despite the fact that international trade is more streamlined and interconnected than ever before, there are still a number of issues confront global trade. These issues are creating problems and making things more difficult for supply chains around the world to function at optimal levels. Given the contemporary scenario, the issues in world trade are multifold. The world trading system is in a state of flux characterized by new developments and uncertainties about global trade governance under the WTO. Let us discuss following issues relating to global trade:

(i) The Covid-19 pandemic was a global disruption across trade, finance, health and education systems, businesses and societies like few others in the past 100 years. This new type of challenge leading to health crisis has forced businesses to reconsider the logistics of people and freight across national boundaries in an effort to control the spread of contagion. This challenge has made firms aware of their dependence on a single source of supply, leading them to make radical changes to their supply chains. Overall, these changes impose major challenges to supply chains; whether they are directly engaged

in global trade or are, instead, a domestic supply chain affected by global actors (Zinn and Goldsby, 2020). Covid-19 pandemic would adversely impact growth in global trade.

(ii) There are four global supply chain issues that explain why the pandemic's impact on global trade is so devastating (Maryville University, n d):

a) *Geographic scope*: No previous natural disaster has impacted the entire global population the way COVID-19 has.

b) *Industrial scope*: Most disasters and other disruptions affect a handful of industries directly and others indirectly, but COVID-19's impact is felt firsthand by all industries and markets.

c) *Demand shame*: Demand for high-end items has dried up as consumers with high disposable incomes choose to cancel or delay planned purchases of luxury items.

d) *Duration*: Even natural disasters as devastating as the earthquakes and tsunamis take most nations only a few years to recover from. COVID-19's impact on global supply chains and economies is expected to be felt for a decade or longer.

(iii) One of the issues faced by global trade in an integrated global economy is the inadequacy of global rules in many crucial areas. (ICC, n d) The existing international economic architecture largely excluded developing countries from global economic decision-making and their interests severely marginalized. Globalization and trade liberalization produce both winners and losers. The negotiating function of the WTO appears to be malfunctioning and there is little end in sight for the ongoing negotiations (Baldwin et al, 2014). The dilemma now is that the WTO is moribund, and developed countries are unwilling to pursue issues except on their terms. The regime of discriminatory rules of some countries have consequences on trade with even non-member countries.

(iv) The global trading system must ensure '*free and fair*' trade among countries. The emphasis so far has been on '*free*' rather than '*fair*' trade. Trade has generated gains, but it has also had important distributional consequences.

Given the situation, not every country is experiencing the benefits of globalization in a fair manner. The production chains for goods and services are becoming increasingly complex and global. But the efficacy of trade means little if barriers to trade such as prohibitive tariffs, intellectual property theft, lack of a trade agreement, and unfair or illegal trade practices which block or restrict them from entering other nations and getting into the hands of those who need them. In this context, industrially advanced countries have an obligation. Instead of asking developing countries to dismantle barriers and join the main stream of international trade, they must not raise tariff and non-tariff barriers on trade from developing countries.

(v) Russia's invasion of Ukraine and the lingering problem of worldwide inflation has become an important issue in global trade. Highlighting the issue of inflation and global trade, Ngozi Okonjo-Iweala (WTO Director-General), said policymakers face '*unenviable choices*' as they try to find an optimal balance among tackling inflation, maintaining full employment, and advancing important goals such as transitioning to clean energy. She stressed that "while trade restrictions may be a tempting response to the supply vulnerabilities that have been exposed by the shocks of the past two years, a retrenchment of global supply chains would only deepen inflationary pressures, leading to slower economic growth and reduced living standards over time,".

(vi) Transformative technologies and shifting political trends make it difficult for the machinery of multilateral trading system to keep up. It is vitally important to recognize the interplay between trade issues and other regulatory programs, such as hazardous materials transportation, global hazard communication, import restrictions, and other requirements that are very much a part of the fabric of global commerce. Many such issues are impacting global trade and transportation, mostly in terms of demographics, politics, supply chain, energy, and environment (Rodrigue, 2020).

(vii) Powerful protectionist forces have begun to challenge the global community's commitment to open trade; many in advanced economies blame

trade for job losses as manufacturing and some services shift to lower-cost destinations (WBG, 2022). In developing countries access to global markets is often hindered by anti-competitive business practices, regulation that is unfavorable to business growth, investment, inadequate ports, roads and other infrastructure. Even a country with liberal and transparent trade policy suffers if its markets are not connected. Many countries are landlocked, remote or otherwise ill-served by international trade links.

(viii) While discussing challenges faced by world trade, O'Brien (2019) has brought attention to the following three issues:

(a) *Rising tariffs*: The trade war between U.S. and China have disrupted the free flow of trade between the world's two largest economies. This trade war and its consequences are felt around the world. The levels of trade that exist between the two nations have impact many other countries.

(b) *Intellectual property theft and counterfeiting*: When nations believe that other nations are stealing their trade secrets, the consequences can be severe. Despite the growing awareness around the issue and actions being taken to deal with it, intellectual property theft continues to be a major issue.

(c) *Governments confiscating shipments*: Although international trade companies have long been forced to worry about pirates from places like Somalia interfering with shipments on the oceans, governments are now actively intercepting vessels and their cargo on a much larger scale.

(ix) Issues in the area of agri trade, OECD (n d) has rightly remarked that market distortions remain significant in this key area of global trade. "Agriculture and agro-food products overall face higher trade barriers than industrial goods. Tariffs applied to agricultural products are on average three times higher than for industrial goods. Agro-food products are facing non-tariff measures. These include quotas (banned for other products) as well as

regulations which sometimes be more trade restrictive than necessary. Support to agricultural producers largely by developed countries remains high, with over two thirds provided via measures that distort production and trade strongly".

(x) Trade in services which has evolved dramatically, as a result of technological advances, changing business practices, and deeper global integration (OECD, n d). From the increasingly blurred line between goods and services and between modes of services supply, to new issues related to smart products, 3D printing and data flows. But multilateral rules are not keeping pace with changes in this sector. Similarly, following areas need proper regulations:

(a) TBT – Technical barriers to trade
(b) SPS – sanitary + phitosanitary
(c) Private Standards
(d) Custom rules
(e) Investments
(f) Competition
(g) Environment + climate change
(h) Fragmentation of rules and regulatory cohesion

(xi) Digitalisation is changing what and how of trade and is raising complex new issues for trade rules. Regulatory Issues in global trade are continuing. Digital commerce allows firms of all sizes, anywhere in the world, to gain access to new markets. But many developing countries lack the necessary technical, regulatory, financial, and educational infrastructure and are at risk of being left behind.

WTO does not have adequate rules to address the exchange rate issue. Multiple international bodies have highlighted that the global economy continues to face challenge of tightened

financial conditions. Almost all countries are facing an unprecedented level of uncertainty and change in global trade.

5.7 POLICY REQUIRED FOR RESOLVING ISSUES IN WORLD TRADE

All the countries should ponder over the prominent problems being faced by the global economy and make a sincere effort to rectify the problems to facilitate the growth of world trade. Nations with an open and free trade policy is need of the hour which will also facilitate recovery of global trade.

In this context, Zuvich and Srivastava (2022) have suggested that "the various new elements of international trade governance will need to be incorporated into value chain design. Considerations of logistics and tariff costs alone will not suffice. Geopolitical risk, trade diplomacy amongst nations, labour standards, and environmental standards will need to be considered along with costs of material, labour, overheads, intangibles, and tariffs in quantitative models underpinning supply chain design."

In the contemporary situations, because of the absence of global rules, it is crucial that governments to take into account this situation at the multilateral level to focus beyond responses to yesterday's issues (ICC, n d). The gaps in the rulebook calls for reform and modernisation of the WTO, across both its monitoring and transparency and its negotiating functions.

In order to create an effective 21st century multilateral trading system, there is a need to strengthen the global trading system to help developing countries address trade-related constraints to growth. The foundations of the rules-based global trade regime remain firm but have been shaken, so reforms are needed. All countries should explore the untapped benefits that further trade reform can bring to the global economy. Advanced and developing countries alike will need help to smooth the transition from manufacturing to services (WBG, 2022).

New commitments and updated rules for services trade are needed that reflect 21st century trade. There is a need to do more to reinforce the existing rules. The world of trade policy requires give and take (Puri, 2017). Comparative advantage is indeed relevant; but it is not the only force driving incentives to specialization and trade. Conducting international trade requires both financial and non-financial institutions to support transactions (Ostina et al, 2018).

In the contemporary scenario, the principal trade mechanism is mega-regional free trade agreements (FTAs). Increasingly, multilateralism is no longer at the heart of global trade, notwithstanding the 12th Ministerial Conference agreements of June 2022. FTAs continue to expand in number with the EU and East Asia leading the way. There's still lots of hope for the future of trade, despite various tensions. Thanks to increases in modern technology, international trade is still thriving. Export numbers continue to grow worldwide and new trade deals signed regularly.

Check Your Progress IV

1. Discuss the main issues before the world trade.

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2. How Covid-19 pandemic affected the world trade?

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3. Suggest measures to rectify issues of world trade?

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4. Which sector of world trade require adequate regulation?

5.8 STRATEGIES FOR ENHANCING INDIA'S TRADE WITH THE WORLD

There is need to adopt appropriate policy and strategy for facilitating Indian firms to compete effectively in global markets. In this regard, India needs to move towards the following (Batra, 2022b):

(i) Circumstances necessitate that India diversify beyond its traditional markets and trade partners to achieve its target export growth. More sustained growth will require productivity enhancement in the manufacturing sector. Participation in GVCs is a means towards achieving that objective in a relatively shorter period.

(ii) A comprehensive policy framework with emphasis on creating a conducive business environment and ensuring regulatory reform and serious improvement in infrastructure and logistics is required.

(iii) Trade route blockages on account of the Ukraine crisis, can contribute to making India an attractive location for export-oriented foreign direct investment (FDI) and MNCs in their GVC diversification strategy.

(iv) It is necessary that India evolve its negotiating position beyond its traditional stance on trade-related issues. Domestic policies have to be developed in alignment with the global context. This is particularly relevant in respect of labour and environment standards as these have become an integral component of all international trade agreements. Post-pandemic, there is almost universal acceptance of the need to make trade more inclusive and sustainable.

(v) India needs rethinking in the context of the services sector and to shift focus from identifying mode-4 liberalisation as its sole comparative advantage to those services that are an integral part of manufacturing sector exports and adopt an integrated approach for goods and services negotiations in its FTAs.

(vi) There is need for reduction in average applied most-favoured nation tariffs in manufacturing and for inputs in sectors of GVC.

(vii) The institutional changes already announced for setting up of a separate trade body with domain expertise exclusively focused on trade issues — should be

expedited so as to create sufficient knowledge base well ahead of the policy formulation.

As regards strategy of promotion of services trade, Panagariya (2004) is of the view that India has the potential to become a major exporter not just of information technology–related services but of health and education services and tourism as well.

For promoting exports, India will have to overcome significant trade policy challenges: domestic issues; the evolving global situation; and the need for a positive trade policy agenda (Puri, 2017). The foreign trade policy needs to foster the adoption of technologies that enhance the scope for complementarities between goods and services (Jain, et al, 2022).

Agriculture is indeed a politically charged issue in India, but the story is not altogether different in other parts of the world. A proper agri export policy is needed. Along with this, adjustment with global standards on technical barriers to trade and sanitary and phytosanitary measures are required. Diversifying export baskets and destinations and focusing on value addition and trade-facilitating measures would be pivotal in enhancing agricultural exports. Additionally, product differentiation and branding would be key to compete in the international market. India can leverage geographical indication (GI) for exporting agricultural products at a premium (Sharma, 2023). Building the right infrastructure and intensively managed agro-ecosystem to adapt and succeed in the new world order.

Going forward, the Government's foreign trade policy needs to focus on these sectors, and complement other key initiatives like the PLI scheme, to infuse a new vitality to India's export growth story (Raman and Singh, 2023). Union Budget for 2022-23 has looked at providing competitiveness to various sectors by reducing Customs duties on key inputs and also increasing the same on many products to encourage imports substitution. The rise in import tariff on polymers, toys and parts of toys, bicycles, automobiles in SKD/CKD aims to provide a boost to domestic manufacturing by discouraging imports (Sahai, 2023).

India should shift its focus from exporting what it can to items that are globally demanded. A demand-based export basket diversification approach could give a big push to exports. Since it is difficult to change the pace of growth of global trade, improving export performance necessitates

India improving competitiveness and making large Indian firms globally competitive (Gupta and Sachdeva,2023).

Check Your Progress V

1. What is the need for increasing India's exports?

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2. Suggest important policy measures for promoting India's exports.

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3. Give five strategies suggested by Professor Batra for boosting India's exports.

5.9 LET US SUM UP

Over the last two centuries trade has grown remarkably and completely transforming the global economy. A major propellant of this expansion in world trade were the eight "Rounds" of multilaterally negotiated tariff liberalisations, under the auspices of the General Agreement on Tariffs and Trade (GATT), the precursor to the WTO, between 1947 and 1994.

Tumultuous changes have taken place in the volume and pattern of global trade. WTO estimates that global goods trade expanded, in volume terms, by about 40 times (4,000 per cent!) between 1950 and 2020 and nearly 300 times in terms of value. Trade contributed to competitiveness, productivity and technical progress. The changes in global and regional trade patterns were

driven first by trade liberalization, then by vertical specialization and income convergence. Many traded services make merchandise trade easier or cheaper—for example, shipping services, or insurance and financial services. Trade in goods has been happening for millenia, while trade in services is a relatively recent phenomenon.

Trade agreements and technical barriers have added to geo-political tensions. The COVID-19 pandemic disrupted global supply chains, shipping and logistics, which persist even today. International organizations mirror the distribution of power in the international system and act as vehicles for the interests of the most economically and militarily powerful states.

Since economic reforms of 1991, there has been a very distinct structural changes in both commodity composition and direction of trade. India's exports have registered a paradigm shift. India's economic world view has undergone profound change with recognition of the imperative to export goods and services and connect with global value chains. India's value of exports, though, has gone up but this increase in exports is certainly less as compared to the increase in imports. Indian trade in absolute terms has risen. The position of exports in GDP ratio has improved. But at the same time imports as compared to exports has increased rapidly, causing rise in trade deficit.

India has embarked on a considerable exercise to conclude trade agreements with multiple countries. India is a major player in the global pharmaceutical and vaccine industries. Digitalization, and the related shift to services, promises to reshape trade and presents important opportunities for developing countries. Globalisation has served India well.

The concerns revolving around that not every country is playing by the agreed multilateral rules, that high levels of state support and protection remain in key sectors, and that new multilateral rule-making is not keeping pace with the business realities of today. Against this background, protectionism is on the rise.

5.10 KEY WORDS

- **Current account deficit (CAD):** CAD arises when a country is importing more goods and services than it is exporting.

- **Geographical indication (GI):** GI signifies that a product originated from a specific geographical location and possesses the reputation and qualities of the place like Darjeeling and Kangra tea.
- **G20:** The G20 was founded in 1999 after the Asian financial crisis as a forum for the finance ministers and central bank governors to discuss global economic and financial issues. It was upgraded to the level of heads of state/government in the wake of the global financial crisis of 2008. These G20 countries is a coalition of developed and developing countries. The Group of Twenty (G20) comprises 19 countries (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Türkiye, United Kingdom and United States) and the European Union. They add up to two-thirds of the world population, three-fourths of global trade, 80 per cent of global energy demand, and almost 85 per cent of global GDP. The G20 has soft power in shaping global thinking on the optimal behaviour of governments and groupings of governments. During the Indian G20 presidency, the Indian government has an enhanced role in shaping the agenda and outcomes of G20.

5.11 TERMINAL QUESTIONS

1. Why has world trade grown, and what are the consequences of that growth? Amplify.
2. Explain the recent trends
2. What does India need to do in this evolving global trade context? Explain.
3. Describe the growth of world trade. Which countries have benefited most from this growth and how?
4. Examine the strategies which India should follow for enhancing its exports.
5. Discuss major factors contributing to growth of world trade.
6. Analyse current challenges facing global trade. What measures will you suggest to overcome them? Give reasons.

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UNIT 6 EXPORT PROMOTION MEASURES IN INDIA

Structure

6.0 Objectives

6.1 Introduction

6.2 Rationale for Philosophy of Export Promotion

6.3 Evolution of Export Promotion Policies in India

6.3.1 Policy Regarding FTAs

6.4 Organizations Involved in Export Promotion

6.5 Export Promotion Measures

6.6 Specific Agencies Set Up for Export Promotion (EOUs and SEZs)

6.6.1 Export Oriented Units (EOUs)

6.6.2 Special Economic Zones (SEZs)

6.7 Challenges Before Export Promotion

6.8 Strategies for Export Promotion

6.9 Let Us Sum Up

6.10 Key Words

6.11 Terminal Questions

References

6.0 OBJECTIVES

After going through this unit, you will be able to:

- explain the rationale behind objectives of export promotion;
- describe the evolution of export promotion policies in India;
- discuss the institutional infrastructure for export promotion in India;
- examine different measures of export promotion;
- highlight the operations of specific agencies like EOUs and SEZs for export promotion;
- analyse the challenges before export promotion;
- suggest strategy for export promotion.

6.1 INTRODUCTION

Export plays a significant role in India's economic development. For India, exports remain an important engine of economic growth. There is optimism that exports can grow much faster, especially in services, given the emphasis on digitisation across the globe. The government, too, has been pushing the export growth agenda. To be a $5 trillion economy, India needs to have $1 trillion exports. To ensure the success of the 'Make in India' programme the scope of export promotion should duly be emphasised. A number of institutions have been set up along with various export promotion schemes to boost India's export capabilities. The export and import functions are looked after by the Department of Commerce (Ministry of Commerce and Industry) which under the Foreign Trade (Development and Regulation) Act 1992 (FTDR Act) formulates the export-import policies and programmes that give direction to the exports.

It is important to note that the contribution of exports can dramatically change, both positively and negatively. External shocks, such as global economic slowdown, fluctuating valuation of foreign currencies, and changes in policies by importing countries, amongst others, over which India has no control.

In this unit, you will learn the process of exports which is viewed as a complex affair and the rationale behind working of export promotion activities. Various organisations, specific agencies like EOUs and SEZs and measures taken for export promotion have also been analysed. In the end an overview of challenges and export strategy has been given for strengthening export promotion measures.

6.2 RATIONALE FOR PHILOSOPHY OF EXPORT PROMOTION

Export promotion means to promote products and services in foreign markets. The term export promotion encompasses a large set of policy interventions, ranging from exchange rate policies to any 'specific measures that generally amount to the government bearing a portion of the private cost of production of export'. In general, export promotion involve all the measures and programmes aimed at assisting current and potential exporters. These measures may be addressed to either national exporters or multinational enterprises producing locally (or both). Yet, in the recent decades the set of policies and measures available to governments to influence

exporting has been gradually restricted by the WTO. For instance, the use of selective export subsidies is now severely limited for most countries (Belloc and Maio, 2012).

The need to exploring export avenues and building up domestic supply capabilities for the purpose received greater stress particularly after 1991. As per WITS, India's exports of goods and services as a percentage of GDP is 18.43 percent in 2021. This means there is scope for enhancing export from India, but certain factors have to be in tandem for achieving sustainable export-led growth.

Export business requires special knowledge and business acumen. Exporters need guidance and assistance at different stages of the export effort. Export promotion is now seen as an important policy for economic growth. Various measures are being adopted by the government to promote export competitiveness. Rationale of export promotion measures and institutions are manifold. They are as under:

(i) Motivate organizations to export as increased exports will add to employment in the country,
(ii) Export will be a source for earning foreign exchange,
(iii) Sell surplus production particularly agricultural commodities,
(iv) Offer the opportunity for local firms to attain economies of scale,
(v) Boosting exports contribute to promote innovation and transfer of technology,
(vi) Financing of imports,
(vii) Acquiring knowledge of management from export destinations,
(viii) Correct unfavorable balance of trade,
(ix) Achieve the objective of self-reliance,

The support from exports is essential for attaining higher sustainable economic growth and make India important in a relatively short period. It can also lead to a more robust development of knowledge and talent hubs (Dewan, 2022). India should focus on pushing exports rather than containing imports. To push exports, Indian firms will need to get into global value chains, which is difficult because of high tariff in India.

The elimination of all procedural hurdles in the way of exports was also regarded as an important adjunct of an effective export promotion effort. It is important to remember that export

promotion policies cannot coexist with a protectionist regime. In India, export promotion has incentive programs designed to draw more companies into exporting. Promotion of exports should be through strategic policy interventions, extending appropriate export incentives schemes that are compliant with international trade policies. It should be further supported by a robust and efficient logistics infrastructure which is imperative to achieve the desired level of exports growth and attain competitiveness in the global market.

6.3 EVOLUTION OF EXPORT PROMOTION POLICIES IN INDIA

Export promotion policies have been widely used by most countries around the world for a long time. In India for the first time a 5-year Export Import Policy (EXIM) was introduced on 1st April, 1992. Whilst the trade policies during 1950s and 1960s were designed to lay emphasis on self-reliance and self sufficiency of the country. The policies during (and post) 1970s were driven by the objectives of export led growth and increased efficiency and competitiveness. In the year 1962, Mudaliar Committee on EXIM Policy reviewed the previous export import policies of the Government. Initially, the EXIM Policy was introduced for the period of three years with main objective to boost the export business in India. The trade policy, however during this period was of a restrictive sort. In this context, the year 1991 is considered as a 'watershed'. After 1991, the country evidenced massive trade liberalization measures and departed from the prevalent protectionist trade policies.

For the sake of understanding, it would be convenient to divide India's trade policies into the following three phases:

(i) Import Restriction and Import Substitution: during 1950's to 1970s
(ii) Export Promotion & Import Liberalization: during 1970s to 1980s
(iii) Outward Orientation: From 1990 onwards.

Phases I and II can be considered as the Pre Reform Period, and Phase III as the Post Reform Period. Following can be considered as the areas of major focus of the foreign trade policies in the pre reform era:

(i) Import Substitution
(ii) Simplification of Import Licensing

(iii) Export Promotion
(iv) Focus on Exports as Catalysts for Growth
(v) Financial assistance to exporters
(vi) Simplification of procedural formalities
(vii) Minimization of the role of quantitative restrictions and reducing the tariff rates substantially
(viii) Import Liberalization
(ix) Setting up of Export Processing Zones to push up exports

The salient features of trade policies in the third phase of reform (Post 1990s) are the following:

(i) Freer Imports and exports
(ii) Rationalization of tariff structure
(iii) Decanalisation
(iv) Devaluation and convertibility of Rupee on current account
(v) Trading houses
(vi) EOU Scheme
(vii) Special Economic Zones (SEZs)
(viii) Agriculture Export Zones (Agri- Export Zones)
(ix) Market access initiative scheme
(x) Focus on service exports
(xi) Concessions and exemptions

With the process of liberalization, the new trade policy brought about paradigm shifts in trade openness of the country. The openness however changed the orientation from being 'inward' to 'outward'. The new trade policy managed to give a tremendous boost to the exports of the country, the policy was export friendly in nature. The FTP (2015-20) aims to make India a significant participant in the world trade by striving to increase the export of goods and services from $465.9 billion in 2013-14 to $ 900 billion by 2019-2020.

The new slogan of "self-reliance" or "*aatmanirbharta*" was also interpreted as a desire to reduce possible external dependencies built up by trade. The tendency to describe trade restrictions in favour of "*aatmanirbharta*" reflects a new, across-the-board, "self-reliance" policy.

6.3.1 Policy Regarding FTAs

One way to grow India's exports faster and cover more area is free trade agreements (FTAs). Signing of FTAs will be of help in reducing complexities of trade and business. In the contemporary scenario FTAs have become very common to promote trade. They reduce tariffs and give market access and also bring down non-tariff barriers such as administrative fees, labelling requirements, anti-dumping duties and countervailing measures. It is important to note that India has signed FTAs with the UAE and Australia and is negotiating with the UK, GCC and Canada. Though FTAs may not necessarily help the trade balance immediately, they help in streamlining policies. For increasing merchandise and services exports, India must adopt proactive policies to capitalise on our exports potential, explore new markets and avoid protectionism and inverted duty structures which may give relief to domestic industries but will affect India's overall competitiveness (Sahoo and Mujtaba, 2022).

India is not new to free trade agreements (FTAs) and as of 2022 India has been focusing on complementary economies and not competing ones. This change in the FTA strategy will help India get better trade deals as India is not competing with these countries and they are major markets for exports. The inclusion of the services sector in such FTAs will give India an edge. Services sectors such as transportation, legal services accounting services etc. can be opened up.

India's experience is that a individual FTAs have a limited effect on export competitiveness. a strategic 'noodle bowl' of FTAs could enable a country to create trade flows and climb higher on the value chain. The focus of FTAs should be on creating these network effects, and not on item or country-wise tariffs or a specified comparative advantage (Jain, 2022).

India's FTA with Australia is unique in the sense that it would be the first FTA where the partner country has agreed to eliminate import duties on all products exported from India. In contrast, India will cut duties on about 70 percent of product lines. This agreement will significantly accelerate bilateral trade between the two countries, and one can see it doubling to $50 billion and beyond in the next few years (Mehta, 2022).

Importance of Gulf for India: India shares good relations with most of the countries in the Gulf. The most important reasons for India's relations with Gulf countries have been shaped by energy needs, trade, and remittances from NRIs working there. The GCC has emerged as a major

trading partner for India and huge potential is there for increasing investments also between the two regions. The trade relation is bound to grow in the coming years. The essence of regional economic agreements is that member countries agree to lower trade barriers between themselves and not raise them (Roy, 2022).

An FTA ensures increased trade cooperation and lower duties. Additionally, the inclusion of new-age areas like digital trade in FTAs is a welcome step since digital technology continues to disrupt and transform GVCs by lowering entry barriers, increasing transparency, and facilitating collaborative networks. India's ongoing and future FTA negotiations must focus on securing greater market access for domestic goods and services. At the same time, it should also focus on better trade terms for high quality imports from partner countries and transfer of technology. The capital goods content in imports of major exported economies is much higher than that of India (Jain, et al, 2022).

Check Your Progress A

1. Why is export required?

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2. How is an export engine of growth? Give three reasons.

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3. What is the rationale for export promotion in India? Highlight five reasons.

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4. What is trade policy?

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5. How do FTPs promote exports of India?

6.4 ORGANIZATIONS INVOLVED IN EXPORT PROMOTION

The long-term vision is to make India a major player in the world trade. This requires organizations commensurate with India's efforts to promote exports. In view of the widely diversifying nature of the export markets in different parts of the world and an equally diverse and varied nature of products and services traded in international market, Government of India have established specialised institutions at production/industry level for assisting exporters from different sectors which have been given below.

***Board of Trade (BoT)*:** This is an advisory body which was reconstituted on 23rd March 2016. The objective of BoT is to have continuous discussion and consultation with trade and industry and advice the Government on policy measures related to Foreign Trade Policy in order to achieve the objective of boosting India's trade.

Institutions engaged in export efforts fall in six distinct tiers:

I. The first and foremost organisation is the Department of Commerce of the Ministry of Commerce and Industry itself as it performs all the activities related to foreign trade of India. For conducting various activities relating to foreign trade the Department is functionally organized into 8 divisions. This is evident from the following:

(a) The Department formulates, implements and monitors the Foreign Trade Policy (FTP) which provides the basic framework and strategy to be followed.

(b) Entrusted with responsibilities relating to multilateral and bilateral commercial relations, Special Economic Zones, state trading, export promotion and trade facilitation, and development and regulation of certain export-oriented industries and commodities.

(c) Department of Commerce (DoC) is now actively engaging with State Governments for promoting exports. DoC has advised State Governments to constitute State Export Promotion Committees for overseeing the formulation and implementation of State Export Promotion Strategies in consultation with Export Promotion Councils and FIEO.

The Ministry has attached offices as well such as:

(i) **Directorate General of Foreign Trade (DGFT):** Right from its inception till 1991, this organization has been essentially involved in the regulation and promotion of foreign trade. But now DGFT has also been assigned the role of a "facilitator". Regional offices of DGFT provide facilitation to exporters in regard to developments in International Trade i.e. WTO Agreements, Rules of Origin and anti-dumping issues etc. in their import and export decisions in the international dynamic environment.

(j) **Directorate General of Trade Remedies (DGTR)**: (earlier known as Directorate General of Anti-Dumping & Allied Duties). The DGTR is a professionally integrated organization with multi-spectrum skill sets. The DGTR is a quasi-judicial body that independently undertakes investigations. It is the single national authority for administering all trade remedial measures including anti-dumping, countervailing duties and safeguard measures. It also provides trade defence support to domestic industry and exporters in dealing with instances of trade remedy investigations instituted against them by other countries.

There are a few subordinate offices such as:

(i) **Directorate General of Commercial Intelligence and Statistics (DGCI & S):** DGCI & S is the premier organization for collection, compilation and dissemination of India's trade statistics. It provides trade statistics and various types of commercial information required by the policy makers, researchers, importers, exporters, traders as well as overseas buyers.

(ii) **Offices of Development Commissioners of Special Economic Zones (SEZs)** is administered as per the SEZ Act, 2005 and SEZ Rules, 2006.

II. **There are Deliberate and Consultative Organisations** to ensure that export problems are comprehensively dealt with after mutual discussions between the Government and the Industry.

III. There are commodity specific organisations which deal with problems relating to individual commodities and/or groups of commodities. **Commodity Boards** have been set up as a separate organization to promote the export of commodities. The functions and objectives of Commodity Boards are:

(i) Advising the government on policy matters.
(ii) Undertaking promotional activities.
(iii) Promoting the consumption of commodities in their jurisdiction by opening branch offices in foreign countries.
(iv) Resolving all problems relating to commodities in their jurisdiction.
(v) Undertaking research activities to develop production and marketing activities within the country.
(vi) Imparting training to workers engaged in the production of the commodity concerned.

The Government of India has established six commodity Boards:

(i) Coffee Board was established under the Coffee Act of 1942. Head Office in Bengaluru.

(ii) Tea Board was established under the Tea Act of 1955. Head Office is located in Kolkata.

(iii) Rubber Board established under the Rubber Act of 1947. Headquarters is located at Kottayam in Kerala.

(iv) Central Silk Board was established in 1949 under the Central Silk Board Act. It functions under the administrative control of the Ministry of Textiles, having head quarter at Bengaluru.

(v) Tobacco Board was established under the Tobacco Act of 1975. Headquarter is at Guntur in Andhra Pradesh.

(vi) Spices Board was established under the Spices Act of 1986. Head office at Kochi in Kerala.

The Marine Products Export Development Authority (MPEDA) instituted with a mandate of developing a conducive ecosystem for marine products in the country and promotion of its export from India. Its headquarters is at Kochi**.**

Agricultural and Processed Food Products Export Development Authority (APEDA) was established in 1985. The primary objective of APEDA is to undertake the development and promotion of export of 14 agricultural and processed food products. APEDA has its headquarters at New Delhi.

Export Promotion Councils (EPCs) was established in 1965 are government-initiated authorities that promote and support export firms in developing their overseas trade for different products, offers services of export promotion such as price, quality, packing, marketing, transport etc. They conduct market surveys, publish reports on foreign trade, administer various export promotion schemes, and develop trade contacts, quality control, joint participation in trade fairs and exhibitions. At present, there are following fourteen EPCs which are also recognized as registering authorities for exporters.

(i) Basic Chemicals, Cosmetics & Dyes Export Promotion Council (CHEMEXCIL) established in 1963.

(ii) Chemicals & Allied products Export Promotion Council (CAPEXIL): CAPEXIL was set up in 1958.

(iii) Council for Leather Exports (CLE): This was set up in July 1984. It serves as a bridge between member-exporters and buyers all over the world.

(iv) Engineering Export Promotion Council of India (EEPC): This has been serving its ever-growing strength of over 12000 members.

(v) Plastic Export Promotion Council (PEPC) was established in 1955 with the aim of promoting the exports of plastics and linoleum products from India.

(vi) Sports Goods Export Promotion Council (SGEPC): This was established in the year 1958 with an objective to promote exports of sports goods and toys.

(vii) Shellac and Forest Products Export Promotion Council (SHEFEXIL) was founded in June 1957. The Council is presently entrusted with the export promotion activities of the following products: Shellac and lac based products, vegetable saps and extracts of herbs, guar gum, plant and plant portion (Herbs), fixed vegetable, oil cake and others, other vegetable materials, multi products belonging to the north eastern region.

(viii) Pharmaceuticals Export Promotion Council of India (PHARMEXCIL) was established in 2004.

(ix) Services Export Promotion Council (SEPC) is an apex trade body set up in 2006 to facilitate services exporters of India.

(x) Project EPC: Project EPC acts as an apex coordinating agency for the Indian project exporters to secure, facilitate and execute projects in line with the guidelines prescribed by the Reserve Bank of India for undertaking overseas projects.

(xi) Export Promotion Council for EOUs and SEZ Units has been set up in January 2003 to service the export promotional needs of 100 percent Export Oriented Units (EOUs), Special Economic Zone (SEZ) Units and SEZ Developers in the country.

(xii) Indian Oilseeds & Produce Export Promotion Council (IOPEPC) is concerned with the Development and export promotion of Oilseeds, Oil and Oilcakes. It was formed on 23rd June 1956.

(xiii) Cashew Export Promotion Council of India (CEPCI): To encourage the export of cashew kernels, cashew nut shell liquid and allied products from India was established in 17th August 1955.

(xiv) Gem and Jewellery Export Promotion Council (GJEPC) is among India's leading foreign exchange earning sectors. It has approximately 6700 members as on November 2021.

IV. Consists of service institutions which facilitate and assist the exporters to expand their operations and reach out more effectively to the world markets. Export marketing effort at the individual corporate level also needs to be reinforced through a number of technical and specialised service inputs. These cover important and crucial areas like packaging, quality control, risk coverage, promotion, finance and academic institutes.

(i) Indian Institute of Packaging (IIP): Established in 1966 and headquartered at Mumbai. The Institute is engaged in various activities including mandatory UN Certification of packaging for transport of hazardous/dangerous goods, training, education, consultancy, projects and research and development in the area of packaging.

(ii) Export Inspection Council (EIC): The council was established in 1963 to ensure quality control and pre shipment inspection and for matters connected thereof. The EIC has adopted Quality Management System and is ISO 9001:2015 certified to ensure realization of its objectives located at New Delhi.

(iii) Export Credit and Guarantee Corporation Ltd (ECGC): This is a premier export credit agency and was set up in 1957 in Mumbai, to provide export credit insurance services.

(iv) National Export Insurance Account Trust (NEIA): Established in 2006 to promote project exports from India that are of strategic and national

importance. Successful project exports enable sustained visible impact on India's capacity in executing projects abroad.

(v) EXIM Bank is a specialized financial institution wholly owned by the Government of India with presence in Indian and foreign cities around the world and was set up in 198. The purpose of the bank is financing, facilitating and promoting India's international trade. EXIM Bank offer a range of financing programmes to enhance the export-competitiveness of Indian companies. It provides support to export-oriented units by catering to long-term loan requirements that help exporters finance new projects, expand, modernize or purchase new equipment or carry out R&D; and cater to their working capital and overseas investment requirements.

(vi) India Trade Promotion Organization (ITPO): ITPO was formed in the year 1976. This is a premier trade promotion agency of India providing a broad spectrum of services to trade, industry and acting as a catalyst for growth of India's trade. ITPO is engaged in providing services pertaining to promotion/ facilitation of trade by organizing/ participating in trade fairs in India and abroad thereby increasing India's exports.

(vii) Government e-Marketplace: A special purpose vehicle (GeM-SPV) created as the National Public Procurement Portal for providing procurement of goods and services required by Central and State Government organizations.

(viii) Indian Council of Arbitration (ICA) is the leader in dispute resolution services in India was established in 1965, based in New Delhi. The main objective of ICA is to promote amicable, quick and inexpensive settlement of commercial disputes by means of arbitration, conciliation, regardless of location.

(ix) Federation of Indian Export Organisations (FIEO): This was set up in 1965 as an Apex Body of the export promotion organisations. It has been designated as registering authority for status holder exporting firms and other exporters dealing in multi-products.

(x) Indian Diamond Institute (IDI) was established in 1978 with a focus to provide a vocational education in the field of Diamond, Gems and Jewellery.

(xi) The Footwear Design and Development Institute (FDDI) was set-up in the year 1986 with an objective to provide skilled manpower and technical services to the leather and footwear industry.

(xii) The Price Stabilisation Fund Trust was registered on 11th September 2003 as a Public Trust to implement the Price Stabilization Fund scheme to alleviate the hardships faced by the growers of coffee, tea, rubber and tobacco due to continued low prices of these commodities.

(xiii) The India Brand Equity Foundation (IBEF) is a Trust whose primary objective is to promote and create international awareness of Brand India in overseas markets and to facilitate dissemination of knowledge about Indian products and services. Towards this objective, IBEF works closely with stakeholders across government and industry.

(xiv) Indian Institute of Foreign Trade (IIFT) was set up on 2nd May 1963 as an autonomous Institution with a focus on foreign trade related research and training. In recognition of its all-round achievements, the Institute was given the status of "Deemed to be University" in May 2002 by University Grants Commission (UGC).

(xv) National Institute of Fashion Technology (NIFT) was tset up in 1986. NIFT is the pioneering institute of fashion education in the country providing professional human resource to the textile and apparel industry. Over the years NIFT has also been working as a knowledge service provider to the Union and State governments in the area of design development and positioning of handlooms and handicrafts.

V. Includes government trading organisations specifically set up to handle export/import of specified commodities and to supplement the efforts of the private enterprise in the field of export promotion and import management.

Public Sector Undertakings (PSUs)

(i) State Trading Corporation of India Limited (STC): STC was set up on 18th May 1956. STC has stopped undertaking business activity due to administrative reasons.

(ii) MMTC Limited: MMTC was incorporated in 1963 primarily to regulate the international trade of minerals and metals. Over the years, MMTC diversified its business portfolio keeping in view national requirements / new business opportunities and new product lines like agro commodities, fertilizers, precious metals, coal were added to the product profile of MMTC.

Besides acting as a canalizing agency for iron ore, manganese ore, chrome ore/concentrate, MMTC functions as one of the nominated agencies for import of gold & silver and urea, besides trading in other commodities.

MMTC Transnational Pte. Ltd. (MTPL) Singapore is a wholly owned subsidiary company of MMTC and was incorporated in October 1994. Since inception, the company has been engaged in commodity trading and has established itself as a credible and reputable trading company in Singapore.

(iii) PEC Limited: PEC was incorporated as a subsidiary company of State Trading Corporation in 1971. Its main functions include export of engineering equipment and projects, import of bullion and trading in industrial raw material and agro commodities.

VI. The sixth tier constitutes agencies for export promotion at the State level. Trade Promotion Council of India was established on July 3, 2015, to ensure a continuous dialogue with State Governments and UTs. The dialogues are on the measures to provide an international trade enabling environment in the States, as well as to develop a framework for making the States active partners in increasing India's exports.

Some of the State Governments have set up specialized Export Trade Corporations which undertake export promotion. They are established in Andhra Pradesh, Bihar, Karnataka, Uttar Pradesh, Madhya Pradesh, Himachal Pradesh. There are also Advisory Councils like Board of Trade, Export-Import Advisory Council, etc.

Trade Representatives Abroad **-**There are trade representatives abroad who conduct market surveys, furnish information on exports-imports, settle trade disputes and pass on information about the rules and regulations for imports.

6.5 EXPORT PROMOTION MEASURES

Export promotion measures (EPMs) are a set of measures and practices aimed at directly or indirectly supporting export. Export promotion programs are government-funded or subsidized public policy, attempts to increase the total value of export sales of business firms. Export promotion is pervasive in developed as well as in developing countries. It covers a vast array of policy interventions ranging from public goods provision to exchange rate policies, from financial assistance to marketing and advertising services. The export promotion system in India has been the result of a long process of evolution initiated mainly during 1960s when a number of export promotion measures have been introduced. These measures try to compensate for the disadvantages that the Indian exporters face and to make them competitive in the global market. Following are promotion schemes/incentives introduced in India (Ghosh, 2021):

1. Merchandise Exports from India Scheme (MEIS) Scheme: This is designed to provide rewards to exporters to offset infrastructural inefficiencies and associated costs like payment of basic customs duty, additional duty, and payment of central excise duty. MEIS was introduced in the Foreign Trade Policy (FTP) for the period 2015-2020.
2. Rebate of Duties & Taxes on Export Products (RoDTEP) Scheme: RoDTEP is a new scheme to replace the existing MEIS scheme for exports of goods from India. The scheme aims to reimburse the taxes and duties incurred by exporters such as local taxes, coal cess, mandi tax, electricity duties and fuel used for transportation, which are not exempted or refunded under any other existing scheme.
3. Service Export from India Scheme (SEIS): This reward scheme is to promote the export of services from India. SEIS Scheme was introduced on 1st April 2015 for 5 Years under the Foreign Trade Policy of India 2015-2020.
4. Advance Authorisation Scheme AAS Scheme: Advance License scheme was introduced to allow duty-free import of raw materials required for the production of export goods.
5. Duty-free Import Authorisation DFIA Scheme: The purpose of this scheme is the same as the Advance License scheme i.e. to allow duty-free import of raw materials. However, unlike the AA, DFIA Scheme is a post-export scheme. It means that duty-free import is allowed only after the export is made.

6. Duty Drawback Scheme DBK Scheme- It is a refund of the duties given by the Government. In the DBK scheme, duties of customs & central excise that are chargeable on imported and indigenous materials used in the manufacture of exported goods are refunded back.
7. Scheme for Rebate on State and Central Taxes and Levies RoSCTL Scheme: The old RoSL scheme was replaced by the new RoSCTL Scheme from 07.03.2019. RoSCTL scheme is only applicable to the Apparels & made-up Industry. It gives a refund of State and Central Taxes and Levies such as VAT on transportation fuel, Captive Power, Mandi Tax, Electricity Duty. Etc.
8. Export Promotion Capital Goods Scheme EPCG Scheme: The objective of the EPCG Scheme is to facilitate the import of capital goods/machinery for producing quality goods and services and enhance India's manufacturing competitiveness.
9. EOU/EHTP/STP/BTP Schemes: The major benefits of the EOU Scheme are – No Import duties while procuring raw materials or capital goods, faster custom clearance facilities. It can be set up anywhere in the country, unlike an SEZ unit.
10. GST Refund for Exporters / LUT Bond facility / 0.1% GST benefit for Merchant Exporters Exporters are given a host of preferential facilities under the GST Act. They can make an export supply either "on payment of GST" or "without paying any GST" under the LUT bond facility.
11. Transport and Marketing Assistance Scheme TMA Scheme: This scheme is introduced only for the agricultural export products and it came into effect from 01.03.2019.
12. Deemed Export Benefits: The Objective of these benefits is to provide a level-playing field to the domestic manufacturers in certain specified situations
13. Star Export House / Status Holder Certificate: This is not a financial incentive scheme, but a kind of recognition/certification given by the Government of India to eligible exporters. Status holders are regarded as business leaders who have successfully contributed to India's foreign trade.

14. Market Access Initiative MAI Scheme: The objective of this scheme is to play a catalytic role in promoting exports from India by exploring new markets and supporting all the export promotion activities in the new markets.
15. Market Development Assistance MDA Scheme: This is an old scheme that was merged into the new Market Access Initiative (MAI Scheme), 2018.
16. Towns of Export Excellence TEE Scheme: Towns exporting goods worth more than Rs. 750 Cr. and having high export potential are notified as Towns of export excellence (TEE).Financial assistance is provided to recognized associations in those towns as per the guidelines covered under the Market Access Initiative (MAI Scheme).
17. Interest Equalization scheme IES Scheme: IES which is also known as an interest subvention scheme was introduced in April 2015. It provides pre and post-shipment export credit to exporters in rupees.
18. NIRVIK Scheme- It is primarily an insurance cover guarantee scheme that provides a cover up to 90 percent of principal and interest as against the current credit guarantee of only up to 60% loss. The cover will include both the pre and post-shipment export credit.

All the above measures can broadly be specified into four categories:

(i) Incentives and assistance for promoting production for exports.

(ii) Fiscal incentives

(iii) Financial incentives

(iv) Direct assistance in export marketing operations.

Government is encouraging and promoting Indian exports and initiate suitable interventions from time to time. Incentive structures were put in place to ensure higher relative profitability of exports compared to the rest of the sectors. As much as 70 percent of India's exports target 30 percent of world trade comprising items with a declining global share. The need is to promote India's domestic manufacturing industry to drive exports and growth (Kant, 2021).

The production linked incentive (PLI) scheme which first came up in 2020 will play a significant role in enhancing manufacturing and boosting exports in 15 product sectors. It aims at making India a major production centre for these products. While incentivising domestic production through various initiatives under *Atmanirbhar* Bharat to enhance export potential, it is important that global quality benchmarks are put in place for new capacities to be created in identified sectors under the PLI scheme (Jain, et al, 2022).

The government is implementing its Districts as Export Hubs scheme and it is expected that the number of firms doing commercial export transactions will go up from an estimated 100,000 to 500,000 by 2025. The government has issued Quality Control Orders (QCOs) and Technical Regulations (TRs) for electronics, safety glasses, toys, microwaves, tyres, LCDs, CFLs, etc. Quality consciousness will help Indian products match global standards and succeed overseas.

The government is working to diversify exports through a push in 12 service sectors under its Champion Services Sector initiative. Important new thrust sectors are tourism and hospitality, medical value travel, audio-visual, legal, communication, construction and related engineering, environmental, financial and education services.

The proactive policy schemes by the government have helped the export sector. Schemes like the gold card scheme and interest equalisation scheme by RBI and the market access initiative by the export promotion councils are also useful (Sahoo and Mujtaba, 2022).

All along, a piecemeal approach has been followed to introduce any new measure or modify the existing ones. The efficacy of various export promotion measures has to be judged in the light of their contribution. The contribution should be export expansion and diversification process, solution of various export marketing problems and facilitation of export marketing operations. These activities should be with reference to the fast changing international marketing situation in the target markets as well as marketing capabilities of competing sources of supply (Pandey, 2016).

6.6 SPECIFIC AGENCIES SETUP FOR EXPORT PROMOTION (EOUS AND EZS)

Foreign trade policies 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. India needs such agencies for facilitating trade, processes for exports and imports and logistics that reduce trade and transaction costs. It also ensures reliability and timely delivery, which is important to becoming part of GVCs (Sahoo and Mujtaba, 2022). In this context, the government has initiated agencies like EOUs, EPZs and SEZs for export promotion.

6.6.1 Export-Oriented Units (EOUs)

Units that are undertaking to export their entire production of goods are known as export oriented units (EOUs). The EOUs scheme was introduced in 1981 to boost exports, increase earnings of foreign exchange and generate employment in the country. It adopts the same production regime but offers a wide option in locations. These options are: source of raw materials, ports of export, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. It was meant to be a complementary scheme to the FTZs/EPZs introduced in the sixties. It adopts the same production regime as SEZs (erstwhile EPZs) but offers a wide option in locations. As on 30th September 2021, 1650 units are in operation under the EOU Scheme.

EOUs project must have a minimum investment of Rs.1 crore in plant and machinery. This condition does not apply for software technology parks, electronics hardware technology parks and biotechnology parks. Further, EOUs involved in handicrafts, agriculture, animal husbandry, information technology, services, brass hardware and handmade jewellery does not have any minimum investment criteria. EOUs are required to export 100 percent of their products unless they sell a portion of it to domestic tariff area (DTA). EOUs are licensed to manufacture goods and export within a bonded period of five years.

Initially, EOUs were mainly concentrated in textiles and yarn, food processing, electronics, chemicals, plastics, granites and minerals/ores. But as of 2022, EOUs have extended their areas

of work. These include manufacturing, servicing, development of software, trading, repair, remaking, reconditioning, re-engineering including making of gold/silver/platinum jewellery and articles thereof, agriculture including agro-processing, aquaculture, animal husbandry, bio-technology, floriculture, horticulture, pisiculture, viticulture, poultry, sericulture and granites.

Features of EOUs: Following are special features of EOUs:

(i) Have the facilities to procure raw material or capital goods duty-free, either through import or through domestic sources;
(ii) Eligible for reimbursement of GST;
(iii) Allowed to avail fast track clearance facilities;
(iv) Exempted from industrial licensing for the manufacture of items reserved for SSI sector;
(v) The location of an EOU should be at least 25 kilometres from standard urban area limits unless it is set up in an industrial area or deals in a non-polluting product or service. EOUs gave exporters the freedom of setting up an export business in places of their choice, unlike FTZs and EPZs, which have specific locational restrictions. EOUs have a wide range of industrial sectors to choose from while setting up their export-oriented units;
(vi) Special licence is required for setting up an EOU for sectors like weapons and defence equipment, atomic, narcotics, psychotropic substances, and certain alcoholic and tobacco-related products;
(vii) A supplier must charge GST on goods supplied to the EOU. For its part, the EOU can either apply for an input tax credit on the GST paid while providing supplies to the DTA or claim a refund of the GST. It must be noted that GST is applicable even in case of sales from one EOU to another, as such a transaction is considered a regular sale for the purpose of the GST law.
(viii) Notably, primary customs duty is exempted for an EOU in case of imports.

The positive effect of the EOU scheme was prominent in the first two decades of its existence until the floating of the SEZ scheme. During 2020-21 exports of EOUs amount to Rs. 1,10,625 Crore.

6.6.2 Special Economic Zones (SEZs)

EPZs are special enclaves, separated from the domestic tariff area (DTA) by fiscal barriers and are intended to provide an internationally competitive duty free environment for export production at low cost. India was one of the first in Asia to recognize the effectiveness of the Export Processing Zones (EPZs) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. Seven more zones were set up thereafter. EPZs were setup to promote export by providing various incentives, like infrastructural services and tax holidays.

The EXIM Policy, 2000 launched a new scheme of Special Economic Zones (SEZs). Under this scheme, all the 8 pre-existing EPZs were converted into SEZs, located at Kandla and Surat (Gujarat), Santa Cruz (Maharashtra), Cochin (Kerala), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), Falta (West Bengal) and Noida (Uttar Pradesh). Though EPZs have been a feature of Indian policy since 1960, they have been much less successful than in ASEAN & China.

Special Economic Zones (SEZs) should be viewed as a vehicle for introducing policy and institutional reform. According to Ministry of Commerce & Industry (Press release of January 12, 2023), while correcting the shortcomings of the EPZ model, some new features were incorporated in the SEZs Policy announced in April 2000. This policy supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. The salient features of the SEZ scheme are:-

(i) A designated duty free enclave to be treated as foreign territory only for trade operations and duties and tariffs.
(ii) No licence required for import.
(iii) Manufacturing or service activities allowed.
(iv) SEZ units to be positive net foreign exchange earner within three years.
(v) Duty free import/domestic procurement of goods for development.
(vi) 100 percent income tax exemption on export income for SEZ units under Section 10AA of the income tax Act for first 5 years, 50 percent for next 5

years thereafter and 50 percent of the ploughed back export profit for next 5 years.

(vii) Exemption from Central Sales Tax, exemption from Service Tax and single window clearance mechanism for establishment of units.

(viii) Domestic sales subject to full customs duty and import policy in force.

(ix) Full freedom for subcontracting.

(x) No routine examination by customs authorities of export/import cargo.

In addition to these above features, the important aspects of SEZs are:

(i) Land Requirement for SEZs and details of Land under SEZs,

(ii) Procedure for setting up of Special Economic Zone,

(iii) Fiscal benefits and duty concession offered to SEZ developers and units,

(iv) Recent Initiatives for ensuring Ease of Doing Business in SEZs.

Indian SEZs, unlike Chinese SEZs, are not having geographical advantage. The Indian SEZs cannot be compared with Chinese SEZs, in respect of their size, the type of industries or even the economy of the country. This is because merely demarcating a piece of acreage and calling it a SEZ is not going to solve the problem. What would spur investment in these zones is action matching the words and infrastructure matching expectations of the investors (Pazhayathodi, 2003).

Performance of SEZs: After notification of SEZ Rules in February 2006, Department of Commerce has granted 425 formal approvals for setting up SEZs, out of which 358 have been notified. The performance of SEZs can be analysed under the following heads (Annual Report 2021-22):

(i) Employment generation out of the total employment provided to 25,60,286 persons in SEZs as a whole, 24,25,582 is incremental employment generated after February 2006. This is apart from millions of man days of employment generated by the developers for infrastructure activities.

(ii) Physical exports from the SEZs have been reported to Rs. 7,59,524 crore in 2020-21. There has been overall growth of export of 3,225% over past sixteen years

(2005-06 to 2020-21). The exports from SEZs have been significantly higher than the overall export growth of the country.

(iii) The total investment in SEZs till 30th September 2021 is Rs. 6,28,565.89 crore, including Rs. 5,92,845.46 crore in the newly notified SEZs set up after SEZ Act, 2005. 100% FDI is allowed in SEZs through automatic route.

In addition to earning of foreign exchange and development of infrastructure, SEZs have achieved significant local area impact in terms of direct as well as indirect employment, emergence of new activities, changes in consumption pattern and social life.

Strengthening of SEZs: Concrete measures have to be taken to put the policies into practice. India should learn from its own earlier EPZ experience which has been characterized by poor infrastructure, lack of objective clarity, centralized management structure and absence of linkages with the domestic economy. It is suggested that greater delegation of power to local authorities is necessary for the success of SEZs. SEZs can survive only based on their uniqueness and attractiveness.

The revamped SEZs is in the process of formulation to be called Development of Enterprise and Service Hubs (DESH). The DESH aims to re-visit the SEZ Policy and thereby boost exports. This is indeed futuristic and are expected to give a leg-up to the export sector. It is aimed at addressing the skewed profile of India's existing SEZs, offer stable, predictable and transparent fiscal regime, attract large scale foreign investments, generate employment and leverage foreign trade as a catalyst for India's industrial transformation. Development hubs will be allowed to sell outside the demarcated area or in the domestic market, with duties only to be paid on the imported inputs and raw materials instead of the final products. The DESH must identify the sectors of opportunities for global trade which are engineering, electronic and electrical automobiles, pharmaceuticals and plastics (Singh and Singh, 2022).

Singh and Singh (2022) have cautioned that the proposed DESH should not become another policy document but a means to make India among the five top exporters of the world. The DESH should work on twin-objectives of substituting imports and stimulating exports. The DESH must be in sync with the existing scheme MOOWR/ EOUs/DTA to reduce policy induced distortions.

Check Your Progress A

1. Name five trade promoting organisations.

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2. Explain the following briefly:

   (a) Board of Trade

   (b) Export House

   (c) FTAs

   (d) Department of Commerce

   (e) DGFT

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3. Classify broadly measures of export promotion into four categories.

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4. What is commodity boards?

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5. Write three financial measures are available to exporters?

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6. Write few sentences about each of the following:

(a) EOUs

(b) SEZs

6.7 CHALLENGES BEFORE EXPORT PROMOTION

India hopes to triple its exports to $1 trillion by 2025. Multiple factors are preventing Indian exporters from reaching their full potential and making them less competitive in the global market. The important fact is that India's exports policy is somewhat fragmented and do not take into account certain ground realities. Many of the difficulties exporters face have been around for

years. Unless these are properly addressed, it would be difficult for India to reach its full export potential. These challenges are as under:

(i) ***Inadequate infrastructure***: Infrastructure extends to multiple sectors, but for international trade, it is transport infrastructure that is the most important. India's inadequate transport infrastructure poses many problems to exporters, some of which are:

a. Congested ports and roads
b. Lack of connectivity
c. Outdated rail equipment
d. Supply chain disruption
e. Poor R&D infrastructure to promote complex and unique exports.

Given this situation, the unit cost of a container of exports is significantly higher for India compared to China, South Korea and others. It reduces the price competitiveness of India's exports. India's rank in the logistics performance index is 44 while China's rank is 26 and South Korea's 25.

(ii) ***Complicated procedures***: Domain of exports is complex because it deals with foreign buyers where different trade laws and practices, are in vogue and need numerous documents. Given this fact about foreign country, the procedures followed in India are time-consuming and cumbersome than in many other countries. Fulfilling the documentation process is a task in India.

(iii) ***Limited access to finance***: This is especially true for micro, small, and medium enterprises (MSMEs), even though they account for close to half of India's total exports. According to the trade promotion council of India, the factors standing in the way of exporters availing of trade finance are:

a) High cost of finance
b) High collateral
c) Complex procedures
d) Paucity of information

(iv) ***Trade barriers***: India has a strong services sector that contributes significantly to India's total exports but faces Non-tariff Barriers (NTBs) in other countries. These are the tariff and non-tariff trade barriers adversely impacting Indian exporters:

a) High import duties
b) Tariff inconsistency
c) Non-tariff barriers

(v) ***Policy level barriers****:* Such barriers include the following:

(a) lack of harmonized standards,
(b) lack of updated regulations on standards, and
(c) the presence of multiple regulatory agencies.

Such policy-level barriers are the reasons for India's low export share with her neighbouring countries.

Reasons for India's sub-par export performance is its high cost of exportable commodities. The challenge of soaring inflation is a cause for concern. The trade landscape itself is changing due to three defining drivers shaping trade of the future — technology, geopolitics and global exigencies, and climate change. The role of technology is intriguing because it is redefining what we trade, how we trade, and who trades what (Majumdar, 2022).

There is an attempt to tarnish India's reputation as the pharmacy of the world, and it is the government's duty to safeguard India's image (Sharma and Bhaskar, 2022). Export promotion also faces the challenges of:

(i) intra- and inter-regional disparities in export infrastructure;
(ii) poor trade support and growth orientation among states;

A major challenge for developing countries' exporters is that of complying with increasingly demanding developed countries' health and safety norms and requirements. It is difficult to obtain the certifications required for the access to the global value chains, especially in the agro-industry (Belloc and Maio, 2012).

6.8 STRATEGIES FOR EXPORT PROMOTION

The strengths and weaknesses of India's export policies identified both at the governmental (macro) and industry (micro) levels to come up to the required global standards. Export strategy needs to be reformulated as an integral component of the national macro-economic strategy. Special focus has to be built in this exercise on micro-level planning of exports based on a smaller selective number of niche products (and services) and niche markets than has been attempted so far. To take advantage of changing world demand for higher value added products and at the same time meeting the critical test of "dynamic international competitive advantage is required" (Wadhva, 1998).

It needs to be mentioned that creation of appropriate institutions and a liberalised export promotion environment alone cannot automatically guarantee greater exports. It is also important to draw up optimal programme by way of product and market promotion strategies in the following way:

(i) Accelerating Infrastructure Development,
(ii) Product Development,
(iii) Market Development,
(iv) Revamping Trade Information System,
(v) Human Resource Development in foreign trade sector.

For promoting exports, there is need for having an appropriate strategy. Prasad (2017) has described following strategy:

(i) *Demand Based Export Basket Diversification*: Till now India's focus has been on exporting what India can (or supply based). Now India has to shift to items for which there is world demand and India also has basic competence. A demand-based export basket diversification approach which can give a big push to exports is needed.

(ii) *Tariff and FT Policy Issues and GST Implications*: Two fundamental reforms needed in India's trade sector are:

(a) Rationalizing tariffs,
(b) Streamlining export promotion schemes also in the light of GST.

While with the present global situation, a lot of tariff rationalization can be done.

Though different rates of tariffs are levied not just with the motive of revenue generation, but for various reasons including protecting the domestic sectors, providing differential treatment to sectors, avoiding inverted duties, etc. There is scope for India to reduce its applied tariffs substantially and simultaneously withdraw most of the export promotion schemes. Sectorally, there is scope to lower duties in many items, while retaining higher duties for some sensitive items. This will also impact India's FTAs/RTAs/PTAs which have been negotiated. There is scope for better negotiations of new ones.

(iii) *Streamlining Export Promotion Scheme*: The duty drawback schedule needs to be reworked. Export promotion schemes also have to be suitably reformulated. An exercise needs to be done to list out the major items where still relatively high import duties are levied and where EPCG scheme is being availed. For such items zero duties or near zero duties can be levied and simultaneously the EPCG scheme can be withdrawn.

(iv) *Export competitiveness*: The countries where India is competitive are the BRICS partners except China, major Latin American countries, some ASEAN and African countries. India's foreign trade policy needs to take into account the difference in India's competitiveness in different markets as revealed by the BRER. Export competitiveness can also be seen by looking at price competitiveness.

(v) *Export Infrastructure and Logistics*: India has made great progress in building airport related infrastructure, but is lagging behind in sea-port related infrastructure. Therefore, export infrastructure, particularly ports-related infrastructure, which affects trade, needs immediate attention.

(vi) *Reforms related to Digital Infrastructure*: Digital Infrastructure is as important as physical infrastructure for growth of industrial and trade sectors. To scale up the linkages, besides physical connectivity, virtual connectivity inside India's vast market as well as to external markets, needs to be improved.

E-commerce and E-payments will be greatly facilitated by a well-developed broadband infrastructure.

(vii) *Trade Facilitation*: Greater trade facilitation should be provided by removing the delays and high costs due to procedural and documentation factors. Despite greater trade facilitation measures in recent years, the time to export and cost of exports are higher in India. Streamlining is needed to reduce the number to the barest minimum. Multiple compliance requirements both statutory and administrative need to be reduced along with judicial reforms with time limit for disposal of litigations.

(viii) *FDI linked and Value Added Exports*: India needs to pursue this vehicle for export enhancement. It can help in better market access, sometimes secure markets and also help in technology and skill up gradation. India needs to enhance exports of value added items. There is a need for India to move up the value chain.

(ix) *Approach towards WTO and Mega FTAs*: Given the situation, successful WTO negotiations seems to be the first best option for India. The tariff reforms could help us in taking a more pro-active role in the WTO. The second best option could possibly be to have useful FTAs with some major countries while actively expanding our engagements with BRICS and ASEAN. We enjoy competitive advantage with many of these countries and a part of India's exports are directed towards these markets.

(x) *National Priority Sector for Exports and greater States' participation in Exports*: States need to play an active role in the export effort as they are also the beneficiaries of the resultant development. India's export policy has to be more decentralized and state-specific. NITI Aayog recognizes this fact and released an Export Preparedness Index (EPI) to enhance a sense of competition between States and encourage them to adopt export promotion policies.

(xi) *A Global Market Intelligence Cell (GMIC) in DEA*: There is a need for a GMIC. This cell in DEA should compile global information on domestic regulations and barriers in goods and services. These barriers come in the way of greater trade between India and the partner countries and greater inflow of investments to India.

(xii) Active involvement of Indian Missions abroad, EPCs and FIEO in Export Promotion.

(xiii) Creation of an ombudsman for resolving export related problems and disputes.

(xiv) A clear-cut Agri Trade Policy.

In an era where international trade has become a highly complex and specialised operations, export promotions calls for a high degree of skills and flexibility in approach to meet emerging situations. Further, to improve the position on trade, Indian policymakers need to review how the currency is managed. A strong currency in real terms will not help the export sector.

In any well designed schemes, misuse is bound to happen. What is important is the ability of the systems to rectify the cracks before it becomes the gap. The system set out for stopping misuse should be changing with time. Otherwise the reaction to the misuse would be predictable and it would not have any deterrence to stop misuse.

Finally, policies for long-run export growth must also be considered. In this context, it is important to exploit the complementarity between EPPs and the set of policies aimed at improving local firms' productivity and technological content of domestic produced goods. Cooperation between the government and the private sector is crucial in order to identify distortions.

Check Your Progress B

1. Identify four challenges before export promotion into different categories?

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2. Write three challenges which you consider most important?

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3. What are the components of infrastructure challenge?

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4. What do you mean by strategy for export promotion?

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5. What is export promotion index?

6.9 LET US SUM UP

Exports play a major role in the economic development of a country. More the exports more will be the inward foreign remittance, more jobs and employment, lower current account deficit, and hence greater overall economic growth. Therefore, India needs to increase its export performance and grow worldwide.

The accent on export promotion in India gained momentum once it was recognised that the foreign trade particularly exports, is an important element in the economic progress. A number of export promotion institutions and a fairly elaborate system of export incentives were therefore set in place to further the cause of exports.

The wide ranging reforms in trade policy undertaken in 1991 can be regarded as the turning point in India's foreign trade sector. Export promotion become an article of faith with the Government and has formed the cornerstone of an integrated export strategy.

The key element of the India’s export promotion policy include: creation of specialised commodity based Export Promotion Councils/Commodity Boards. Special type of Organisations/Institutions were also created to look after specific aspects relating to export and export promotion which consist of the Export Credit and Guarantee Corporation (ECGC), Export

Inspection Council (EIC), Directorate-General of Commercial Intelligence & Statistics (DGCI&S), India Trade Promotion Organisation (ITPO), Indian Institute of Foreign Trade (IIFT) etc. The efforts of the different export related organisations is being supplemented by the different Chambers of Commerce and Trade Associations. The Indian missions abroad have also been required to play a more active role in promoting commercial diplomacy. 'The various State Governments in India have on their part, set up Export Promotion Industrial Parks and "Niryat Bandhus" for speeding up export promotion work.

'The stifling system of administrative controls on imports and most of the' export items were removed and the customs tariffs substantially reduced so as to enable the Indian industry to import much needed capital goods and equipment to build up export capacities.

For a sound export strategy it is necessary to bridge the existing technology-gap in respect of many of export products and improve the financial capabilities and marketing clout of several export promotional organisations. The country has also to improve substantially of its infrastructure facilities in terms of transportation of cargo, telecommunication networking and port handling facilities.

Free trade agreements (FTAs) are the latest trend in de-globalisation comes at a cost by preferring friendly economies for supply of inputs over the most efficient ones. There remains huge potential for exports of select products to select countries in line with India's export capability and import demand.

6.10 KEY WORDS

- *Domestic Tariff Area* (DTA) means an area within India that is outside the Special Economic Zones (SEZ). So any area which is not under the jurisdiction of a custom bonded area is called a Domestic Tariff Area. The DTA enables companies to set up manufacturing units that cater to the needs of the domestic market. SEZ is for export oriented units and not for domestic market at all.
- *Man days of employment*: A unit of measurement based on a standard number of man-hours in a day of work. A man-year, or person-year, is a unit of measurement for the amount of work done by an individual throughout the entire year, expressed in the

number of hours. The man-year takes the number of hours worked by an individual during the week and multiplies it by 52.

6.11 TERMINAL QUESTIONS

1. What is the rationale for according importance to export promotion policy in India? Give reasons.
2. Discuss the important aspects of evolution of foreign trade policy in India. What aspects the policies emphasised for export promotion from time to time?
3. Examine the role and functions of important export promotion organisations.
4. Explain the following organisations and their effectiveness in promoting exports:
   (a) Export promotion councils
   (b) EXIM Bank
   (c) Indian Institute of Packaging
5. What kinds of export promotion measures have been adopted in India? Highlight the schemes of MEIS, RoDTEP, SEIS.
6. What kind of important challenges being faced by exporters in India? Give a critical analysis of these challenges.
7. For promoting exports suggest a suitable strategy. Should these strategies be part of foreign trade policy? Amplify your answer.
8. Write notes on:
   (a) Export oriented Units (EOUs)
   (b) Special Economic Zones (SEZs)

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