Unit – V

INDIA'S TRADE POLICY

The Direction of India's Foreign Trade

Direction of foreign trade means the countries to which India exports its goods and the countries from which it imports. Thus direction consists of destination of exports and sources of our imports. Prior to our Independence when India was under British rule, much of our trade was done with Britain.

Therefore, UK used to hold the first position in India's foreign trade. However, after Independence, new trade relationships were established. Now USA has emerged as the most important trading partner followed by Germany, Japan and UK. India is also making efforts to increase the exports to other countries also the direction of India's exports and imports.

Share of major destinations of India's exports and sources of imports during 2009-10 (April-September) are given in figure 3.6 and 3.7 respectively:

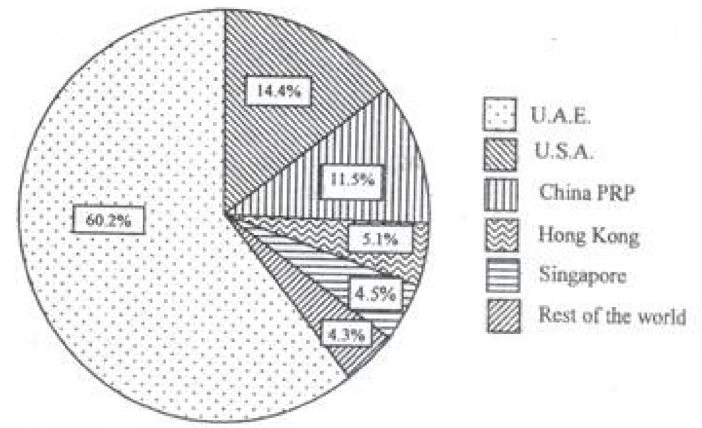
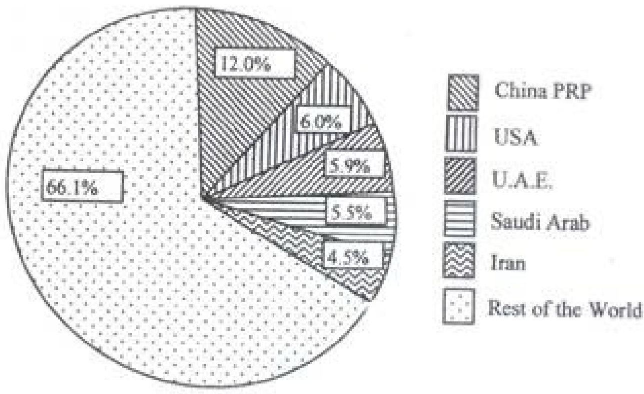


Figure 3.6: Major Destinations of India's Exports: 2009-10 (April-September)

During the period 2009-10 (April-September), the share of Asia and ASEAN region comprising South Asia, East Asia, Mid-Eastern and Gulf countries accounted for 55.0 per cent of India's total exports. The share of

Europe and America in India's exports stood at 21.4 per cent and 15.3 per cent respectively of which EU countries (27) comprises 20.0 per cent. During the period United Arab Emirates (14.4 per cent) has been the most important country of export destination followed by U.S.A. (11.5 per cent), China (5.1 per cent), Hong Kong (4.5 per cent), Singapore (4.3 per cent), Netherlands (3.7 per cent), U.K. (3.7 per cent), Germany (3.1 per cent), Saudi Arabia (2.7 per cent) and Belgium (2.1 per cent).



re 3.7: Major Sources of India's Imports: 2009-10 (April-September)

Asia and ASEAN accounted for 61.3 per cent of India's total imports during the period followed by Europe (19.1 per cent) and America (9.4 per cent). Among individual countries the share of China stood highest at (12.0 per cent) followed by U.S.A. (6.0 per cent), U.A.E. (6.0 per cent), Saudi Arabia (5.5 per cent), Iran (4.5 per cent), Switzerland (4.4 per cent), Germany (3.8 per cent), Kuwait (2.9 per cent), Nigeria (2.5 per cent), and Iraq (2.3 per cent).

Import of Sensitive Items during April 09-September 09:

The total import of sensitive items for the period April-September 2009-10 has been Rs 29,256.29 crore as compared to Rs 21,186.61 crore during the corresponding period of last year thereby showing an increase of 38.1%. The gross import of all commodities during same period of current year was Rs 7, 90,644 crore as compared to Rs 6, 05,075 crore during the same period of last year. Thus import of sensitive items constitutes 2.7% and 4.8% of the gross imports during last year and current year respectively.

Imports of automobiles, cotton and silk, products of SSI alcoholic beverages and food grains have shown a decline at broad group level during the period. Imports of all other items, viz., edible oil, pulses, fruits and vegetables (including nuts), rubber, spices, marble and granite, tea and coffee, and milk and milk products have shown increase during the period under reference.

In the edible oil segment, the import has increased from Rs 6,265.69 crore last year to 1,831.43 crore for the corresponding period of this year. The imports of both crude edible oil as well as refined oil have gone up by 97% and 55% respectively. The increase in edible oil import is mainly due to substantial increase in import of crude palm oil and its fractions.

Imports of sensitive items from Indonesia, Myanmar, Brazil, Malaysia, United States of America, Japan, Canada, Ukraine, Argentina, Australia, Benin, Guinea Bissau, etc., have gone-up while those from China PRP, Korea RP, Germany, Thailand, Cote D' Ivoire, Czech Republic, etc., have shown a decrease.

Composition of Indian Foreign Trade

In 1950 the Indian share in the world trade was 1.78% which came down to 0.6% in 1995. Currently it is 2.07% ($779 bn.) of the total world trade. The percentage of non traditional goods in total exports has increased the exports of chemical and engineering goods have shown a high growth rate. The manufactured goods constitute the bulk of export over 64% in recent years, followed by crude and petroleum products (including coal) with a 20% share and agriculture allied with just 13% share.

Composition of foreign Indian foreign trade means major commodity or sectors in which India is doing export and import. India is a very old participant in world trade. Indian foreign trade registered a number of structural changes during the planning period. The percentage of non-traditional goods in total export has increased i.e, export of chemical and engineering goods have shown a good rise. Some other items are gems and Jewellery. India is making export of few traditional goods like; tea, coffee, rice, pulses, spices, tobacco, jute, iron ore etc.

A. Exports (including re-exports)

Exports during October, 2015 were valued at US$ 21352.79 million (Rs. 138916.98 crore) which was 17.53 per cent lower in Dollar terms (12.53 per cent lower in Rupee terms) than the level of US$ 25891.39 million (Rs. 158822.95 crore) during October, 2014. Cumulative value of exports for the period April-October 2015-16 was US$ 154292.24 million (Rs. 992503.57 crore) as against US$ 187288.74 million (Rs. 1130539.38 crore) registering a negative growth of 17.62 per cent in Dollar terms and 12.21 per cent in Rupee terms over the same period last year

B. Imports:

Imports during October, 2015 were valued at US$ 31120.06 million (Rs. 202460.88 crore) which was 21.15 per cent lower in Dollar terms and 16.38 per cent lower in Rupee terms over the level of imports valued at US$ 39468.76 million (Rs. 242109.24 crore) in October, 2014. Cumulative value of imports for the period April-October 2015-16 was US$ 232054.30 million (Rs. 1492679.30 crore) as against US$ 273558.19 million (Rs. 1651512.80 crore) registering a negative growth of 15.17 per cent in Dollar terms and 9.62 per cent in Rupee terms over the same period last year.

Crude Oil and Non-Oil Imports:

Oil imports during October, 2015 were valued at US$ 6846.11 million which was 45.31 per cent lower than oil imports valued at US$ 12517.24 million in the corresponding period last year. Oil imports during April-October, 2015-16 were valued at US$ 54975.07 million which was 42.07 per cent lower than the oil imports of US$ 94896.22 million in the corresponding period last year.

Non-oil imports during October, 2015 were estimated at US$ 24273.95 million which was 9.93 per cent lower than non-oil imports of US$ 26951.52 million in October, 2014. Non-oil imports during April-October, 2015-16 were valued at US$ 177079.23 million which was 0.89 per cent lower than the level of such imports valued at US$ 178661.97 million in April-October, 2014-15

Trade Balance

The trade deficit for April-October, 2015-16 was estimated at US$ 77762.06 million which was lower than the deficit of US$ 86269.45 million during April-October, 2014-15.

Condition of India's foreign trade in services is given below (RBI_16th November, 2015)):

Exports (Receipts)

Exports during September, 2015 were valued at US$ 13321 Million (Rs. 88208.73 Crore).

B. Imports (Payments)

Imports during September, 2015 were valued at US$ 7457 Million (Rs. 49378.61 Crore).

C. Trade Balance

The trade balance in Services (i.e. net export of Services) for September, 2015 was estimated at US$ 5864 Million.

Composition of India's Foreign Trade:

Since independence, composition of export trade of India has undergone a change. Prior to independence, India used to export agricultural products and raw materials, like jute, cotton, tea, oil seeds, leather, food grains, cashew nuts, and mineral products. It also exported manufactured goods. But now in its export kitty are included mostly manufactured items like, machines, ready-made garments, gems and Jewellery, tea, jute manufactures, Cashew Kernels, electronic goods, especially hardware's and software's which occupy prime place in exports.

Compositional changes in India's export basket have been taking place over the years. The export of India's primary products in export fell over from 16% in 2000-01 to 12% in 2012-13. The share of manufacturing export fell drastically from 78.8% in 2000-01 to 66% in 2011-12 and further to 64% in 2012-13. The fall was mainly in the traditional export items like textiles, leather and jute. The share of petroleum crude and refined items increased from 4.3% in 2000-01 to 18.6% in 2012-13.

There has been a significant change in the import basket of India in the recent years. The share of gold and silver imports increased from 9.3% in 2000-01 to 12.6% in 2011-12 with a high import rate of 44.5%. Import of crude oil is the largest item of India's import basket.

Commerce and industry minister Ms. Nirmala Sita Raman released the India's trade policy of 2015-20, which aims the target of $ 900 bn export of goods & services by 2020 and India's share in world export to 3.5%. If everything according to the plan of government of India then this target could be achieved.

India's Balance of Payments since Independence

It's often needed to know the financial status of a nation and summarize its transactions with outer world. **A systematic record of all such economic transactions between the residents of a country and the rest of the world is known as balance of payments, shortly known as BOP.** It consists of all bills received on account of commodities exported, services rendered and capital received by residents. It will keep track of all payments given on account of goods imported, services received and capital transferred to non-residents of a country. BOP consists of a capital account component showing the volume of foreign investments and public loans and grants given by other countries, a current account recording exports and imports and cash account which is the balancing item to equalize the sum of both. Cash account consists of gold stock, foreign currencies and special drawing rights and it's also known as official reserve assets. A current account shows the flow of goods and services of a particular recorded year.

What's its significance?

Its importance lies in the fact that it can serve as an economic barometer or indicator to know the economic prospects of a nation in a short term. It can also be used to calculate extend of international solvency and to know the current exchange rate of a nation's currency in the present conditions. Since it represents international economic and financial position of a country, BOP can also be included while taking monetary and fiscal decisions of the government, particularly when external trade and issues are the primary factors. BOP also shows its dependency on other nations, particularly for developing countries like India. Though it acts as an economic barometer, it cannot be taken as an indicator of economic prosperity always and its deficit value never indicates that the nation is bankrupt. But it can imply fundamental economic problems of the country. It just deals with transactions of a particular period thus helping in knowing its economic dealings with other countries.

India's Balance of Payments since its independence

India launched its economic planning in the early 50's and its BOP position was more or less comfortable. But very soon in the financial year 1951-52, India saw a large trade deficit, which led to overall deficit in both the current and capital accounts leading to the depletion of cash account. Throughout the second half of 50s India had to provide fund from official reserves to meet the balance of payments requirements which further decreased foreign exchange reserves sharply. This declination didn't improve in the early 60's also. Since import of food grains and machinery increased considerably during this period, IMF borrowings through loans helped to meet current account deficit to some extend. Thus official reserves account declined sharply till the middle half of 60's. Seventies witnessed growth in exports, but it had to face imports too, in the form of machinery, capital goods etc. India even had deficits in terms of invisible transfers. Oil price hike was acted as a shock treatment as far as economic status of India is concerned. But, it was smoothened by some exports, private transfer receipts and some external aids.

During 1980's some issues relating to BOP came to centre stage. It was soon after the second price hike of petroleum products in 1979. Also, total imports doubled within this short period. Again the next shock came in the form of international recession in the period 1980-83 which depressed exports further. Again IMF borrowings and external assistance helped to control the balance of payments position. The second half of 80s witnessed the building up of pressures on the balance of payments. In the year 1990, Gulf crisis led to a sharp increase in oil prices which further saw a sharp increase in the import bill of POL. As capital accounts increased, problems on the current account went up. Later it saw a sharp decline in imports when Indian currency was devaluated and exports were increased. It happened in the early 90's. But during 1992-93, when certain restrictions on imports were lifted import growth picked up. Also, growth in exports was not that much significant which again lifted trade deficits. Again in 1993-94, fall of crude prices and increase of exports showed improvements in the balance of payments position. With the liberalization of foreign investment policy, the flow of foreign funds started increasing.

India's Balance of Payments – Viable or Vulnerable?

Independent India has experience BOP crisis twice – First in mid 60s and the second in early 90s, which was more severe. Since the crisis years from 1990-92, India has come a long way. Still steps needed to ensure that such crises won't appear again. Though a few exceptions are there, India is still far behind both in trade and current accounts. So, the primary objective should be to keep current account deficit level there itself from further falling down so that it can be compensated with capital inflows. So, stress should be given to increase the export level, while keeping imports under control. Also, if domestic production of petroleum is promoted, it can bring down import of petroleum and its products considerably. Significant and consistent increase in export rate can bring down a turn around in imports by removing vulnerability of India's BOP.

1991 CRISIS

Towards the end of 1980s, India was facing a Balance of Payments (BoP) crisis, due to unsustainable borrowing and high expenditure. The Current Account Deficit (3.5 percent) in 1990-91 massively weakened the ability to finance deficit.

Macroeconomic Indicators and Balance of Payments Situation in 1990-1991

The trade deficit increased from Rs. 12,400 crore in 1989-90 to Rs. 16,900 crore in 1990-91.

The current account deficit increased from Rs. 11,350 crore in 1989-90 to Rs. 17,350 crore in 1990-91.

The CAD/GDP ratio increased from 2.3 in 1989-90 to 3.1 percent in 1990-91. Besides this, the fiscal deficit to GDP ratio was more than 7 percent during the two years 1989-90 and 1990-91. The foreign exchange reserves, meant to cover import costs for two years (1989-1991),were just sufficient to cover close to two and half months of imports.

The average rate of inflation was 7.5 percent in 1989-90, which went up to 10 percent in the year 1990-91. In 1991-92, it crossed 13 percent. The GDP growth rate which was 6.5 percent in 1989-90, went down to 5.5 percent in 1990-91.

The Balance of Payments crisis also affected the performance of industrial sector. The average industrial growth rate was 8 percent in the second half of 1980s. In 1989-90, it was 8.6 percent and in 1990-91 it was 8.2 percent.

India's foreign exchange reserves stood at Rs. 5,277 crore on 31 December 1989, which declined to Rs. 2,152 crore by the end of December

1990. Between May and July 1991, these reserves ranged between Rs. 2,500 crore to 3,300 crore.

1991 Economic Crisis:

The main causes behind the Balance of Payments crisis of 1990-91 were as follows:

Break-up of the Soviet Bloc: Rupee trade (payment for trade was made in rupees) with the Soviet Bloc was an important element of India's total trade up to the 1980s. However, the introduction of Glasnost and Perestroika and the break-up of the Eastern European countries led to termination of several rupee payment agreements in 1990-91. As a consequence, the flow of new rupee trade credits declined abruptly in 1990-91. Further, there was also a decline in our exports to Eastern Europe—these exports constituted 22 .1 percent of total exports in 1980 and 19.3 percent in 1989; but they declined to 17.9 percent in 1990-91 and further to 10.9 percent in 1991-92.

Iraq-Kuwait War: The Gulf crisis began with the invasion of Kuwait by Iraq at the beginning of August 1990. Crude oil prices rose rapidly thereafter– from USD 15 per barrel in July 1990 to USD 35 per barrel in October 1990. Iraq and Kuwait were the major sources of India's oil imports and the war made it necessary to buy oil from the spot market. Short term purchases from the spot market had to be followed up by new long term contracts at higher prices. As a result, the oil import bill increased by about 60 percent in 1990-91 and remained 40 percent above the 1989-90 level the next year. As noted in Economic Survey (1991-92):

"*The immediate cause of the loss of reserves beginning in September 1990 was a sharp rise in the imports of oil and petroleum products (from an average of $ 287* *million in June-August 1990, petroleum products imports rose sharply to $ 671 million in 6 months). This accounted for rise in trade deficit from an average of $ 356 million per month in June-August 1990 to $ 677 million per month in the following 6 months*."

Slow Growth of Important Trading Partners: The deterioration of the current account was also induced by slow growth in economies of important trading partners. Export markets were weak in the period leading up to India's crisis, as the world growth declined steadily from 4.5 percent in 1988 to 2.25 percent in 1991. The decline was even greater for the U.S., India's single largest export destination. In the United States, growth fell from 3.9 percent in 1988 to 0.8 percent in 1990 and to -1 percent in 1991.

Political Uncertainty and Instability: The period from November 1989 to May 1991 was marked with political uncertainty and instability in India. In fact, within a span of one and half years there were three coalition governments and three Prime Ministers. This led to delay in tackling the ongoing balance of payment crisis, and also led to a loss of investor confidence.

Loss of Investors' Confidence: The widening current account deficits and reserve losses contributed to low investor confidence, which was further weakened by political uncertainty. This was aggravated by the downgrade of India's credit rating by credit rating agencies. By March 1991, the International Credit Rating agencies Standard & Poor's, and Moody's, had downgraded India's long term foreign debt rating to the bottom of investment grade. Due to the loss of investors' confidence, commercial bank financing became hard to obtain, and outflows began to take place on short-term external debt, as creditors became reluctant to roll over maturing loans.

Fiscal Indiscipline: The Economic Survey (1991-92) had categorically remarked that: "*Throughout the eighties, all the important indicators of fiscal imbalances were on the rise. These were the conventional budgetary deficit, the revenue deficit, the monetized deficit and gross fiscal deficit. Moreover, the concept of fiscal deficit is a more complete measure of macroeconomic imbalance as it reflects the indebtedness of the Government. This gross fiscal deficit of the Central Government has been more than 8 percent of GDP since 1985 – 86, as compared with 6 percent in the beginning of 1980s and 4 percent in the mid – 1970s.*"

Increase in Non-oil Imports: The trends in imports and exports show that imports rose much faster than exports during the eighties. Imports increased by 2.3 percent of GDP, while exports increased by only 0.3 percent of GDP. As a consequence, trade deficit increased from an average of 1.2 percent of GDP in the seventies, to 3.2 percent of GDP in eighties.

Oil and Non- Oil Imports (In Rs. Crores)

Period	Oil Imports	Non – Oil Imports	Total Imports
1981- 82 to 1985 - 86	26041.61 (32.00)	54491.03 (68.00)	80532.64 (100.00)
1986 – 87 to 1990 - 91	28299.75 (19.00)	120796.18 (81.00)	149095.93 (100.00)

Note: Figures in brackets are percent to total .

Source: Reserve Bank of India – *Handbook of Statistics on Indian Economy, 2005 – 06*

Rise in External Debt: In the second half of the 1980s, the current account deficit was showing a rising trend and was becoming unsustainable. An important issue was the way in which this deficit was being financed. The current account deficit was mainly financed with costly sources of external finance such as external commercial borrowings, NRI deposits, etc.

In the context of external debt the following observations are worth considering:

- The period of eighties was marked by a reduction in flows of concessional assistance to India, principally from the World Bank Group. In 1980, disbursements on concessional terms constituted more than 89 percent of assistance to India from multilateral sources; in 1990, this proportion declined to about 35 percent. Due to a decline in concessional assistance there was a rise in average interest cost of external borrowing. There was a change in the composition of debt as it shifted from official (like bilateral sources) to private sources like external commercial borrowings (ECBs) and NRI deposits. These private sources were costlier. The external debt was funneled into financing the government's deficit. India's external debt increased from Rs. 194.70 crore (USD 23.50 billion) in 1980-81 to Rs. 459.61 crore (USD 37.50 billion) in 1985 – 86. It went up to Rs. 1,003.76 crore (USD 58.63 billion) in 1989-90. In 1990-91, it was Rs. 1,229.50 crore (USD 63.40 billion)

Thus, the balance of payments situation came to the verge of collapse in 1991, mainly because the current account deficits were mainly financed by borrowing from abroad. The economic situation of India was critical; the government was close to default. With India's foreign exchange reserves at USD 1.2 billion in January 1991 and depleted by half by June, an amount barely enough to cover roughly three weeks of essential imports, India was only weeks way from defaulting on its external balance of payment obligations.

Government of India's immediate response was to secure an emergency loan of USD 2.2 billion from the International Monetary Fund by pledging 67 tons of India's gold reserves as collateral. The Reserve Bank of

India had to airlift 47 tons of gold to the Bank of England and 20 tons of gold to the Union Bank of Switzerland to raise USD 600 million.

These moves helped tide over the balance of payment crisis temporarily and kick-started P V Narasimha Rao's economic reform process.

Export Import (EXIM) Policy of India

Export Import Policy or Exim Policy or Foreign Trade Policy is a set of guidelines and instructions related to the import and export of goods.

Various Objectives of Exim Policy are

To facilitate sustained growth in exports from India and import in India.

To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods scheme required for augmenting production and providing services.

To enhance the technological strength and efficiency of Industry Agriculture industry and services, thereby improving their competitive strength while generating new employment opportunities, and to encourage the attainment of internationally accepted standards of quality.

To provide clients with high-quality goods and services at globally competitive rates. Canalization is an important feature of Exim Policy under which certain goods can be imported only by designated agencies. For an example, an item like gold, in bulk, can be imported only by specified banks like SBI and some foreign banks or designated agencies.

The new five year Foreign Trade Policy, 2015-2020 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in keeping with the "Make in India" vision of our Hon'blc Prime Minister. The focus of the government is to support both the manufacturing and services sectors, with a special emphasis on improving the 'ease of doing business'.

Merchandise Exports from India Scheme (MEIS):-To offset infrastructural inefficiencies and the associated costs of exporting products produced in India giving special emphasis on those which are of India's export interest and have the capability to generate employment and enhance India's competitiveness in the world market.With the aim in making India's products more competitive in the global markets, the scheme provides incentive in the form of duty credit scrip to the exporter to compensate for his loss on payment of duties.

Service Exports from India Scheme (SEIS) :-Service Provider of eligible services shall be entitled to Duty Credit Scrips at notified rates.

Export Promotion Capital Goods (*EPCG*) scheme allows import of capital goods including spares for pre production, production and post production at zero duty.

Other Specific steps taken for the developement of international trade are:-

- Trade Facilitation & Ease Of Doing Business
- DGFT as a facilitator of exports/imports
- Niryat Bandhu – Hand Holding Scheme for new export / import entrepreneurs
- Online Complaint Registration and Citizen's Charter
- Monitoring System
- Issue of e-IEC (Electronic-Importer Exporter Code)
- e-BRC

- MoU with State Governments for sharing of e-BRC data
- Exporter Importer Profile
- Reduction in mandatory documents required for Export and Import
- Online Inter-ministerial consultation
- Facility of online filing of applications
- Facility to upload documents by Chartered Accountant / Company Secretary / Cost Accountant
- Electronic Data Interchange (EDI)
- Message Exchange with Community partners (a) Message Exchange with Customs (b) Message Exchange with eBiz (c) Message Exchange with Banks (d) Message Exchange with EPCs
- Encouraging development of Third Party API
- Forthcoming e-Governance Initiatives
- Free passage of Export consignment
- No seizure of export related Stock
- 24 X 7 Customs clearance
- Single Window in Customs
- Self-Assessment of Customs Duty
- Authorised Economic Operator (AEO) Programme
- Prior filing facility for Shipping Bills
- Cutting down delay in filing of Export General Manifest (EGM) for duty drawback
- Facility of Common Bond / LUT against authorizations issued under different EP Schemes
- Exemption from Service Tax on Services received abroad
- Export of perishable agricultural Products
- Time Release Study (TRS)
- Towns of Export Excellence (TEE)