



India's Foreign Trade Policy Environment : Past, Present & Future

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From President's Desk

India's foreign trade has witnessed structural changes in terms of volume, composition and direction over the period of 65 years after independence. The trade increased from a meagre US\$2.5 billion in 1950 to around US\$10 billion in 1975-76, US\$43 billion in 1990-91, US\$95 billion in 2001-02 and US\$620 billion in 2010-11. Presently, India's foreign trade has reached US\$758 billion.

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.

These structural changes are the results of different objectives, strategies and measures underpinned in foreign trade policies framed at different points of time inline with the economic situation of the country. India's foreign trade policy which was highly restrictive during the first few five year plans of the economy to allow the country to become self sufficient eventually liberalized partially in 1980s and fully liberalized during 1991-92 as a result of changing macro economic situations.

Presently, the Government with its ambitious approach of putting India on the global map is highly focused on providing a stable and sustainable policy environment for foreign trade with a special emphasis on ease of doing business in the country. However, amid the recent critical situation of India's exports which have been decelerating for the last 12 months in a row needs further review of existing strategies and exploration of new ways to accelerate India's exports rapidly, going forward.

In this direction, the present study has well portrayed the past and present foreign trade policy environment and also provides the way forward to recover and strengthen India's exports, going forward.

I am quite hopeful the study will enable the readers to have a comprehensive view about India's foreign trade policies of the past and to enable different stakeholders to well recognize the present trade policy environment in the country.



Mr. Saurabh Sanyal
Secretary General

Acknowledgements

Foreign trade policy is a very important set of documents as it directs the movement of exports and imports of the country and to improve the overall foreign trade performance scenario.

We are pleased to share that PHD research Bureau of PHD Chamber has produced a study entitled '**India's Foreign Trade Policy Environment : Past, Present & Future**' which has well portrayed the role of foreign trade policy for promoting and managing India's foreign trade at different points of time.

We take this opportunity to express our gratitude to our office bearers Shri Mahesh Gupta, President, Shri Gopal Jiwarajika, Senior Vice President and Shri Anil Khaitan, Vice President for their continuous support.

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Foreign Trade

Foreign trade plays a vital role to the growth and development of an economy in terms of enhanced level of production, generation of employment and income, inflow of foreign exchange at the domestic level and strengthening bilateral and multilateral economic relations at the global level.

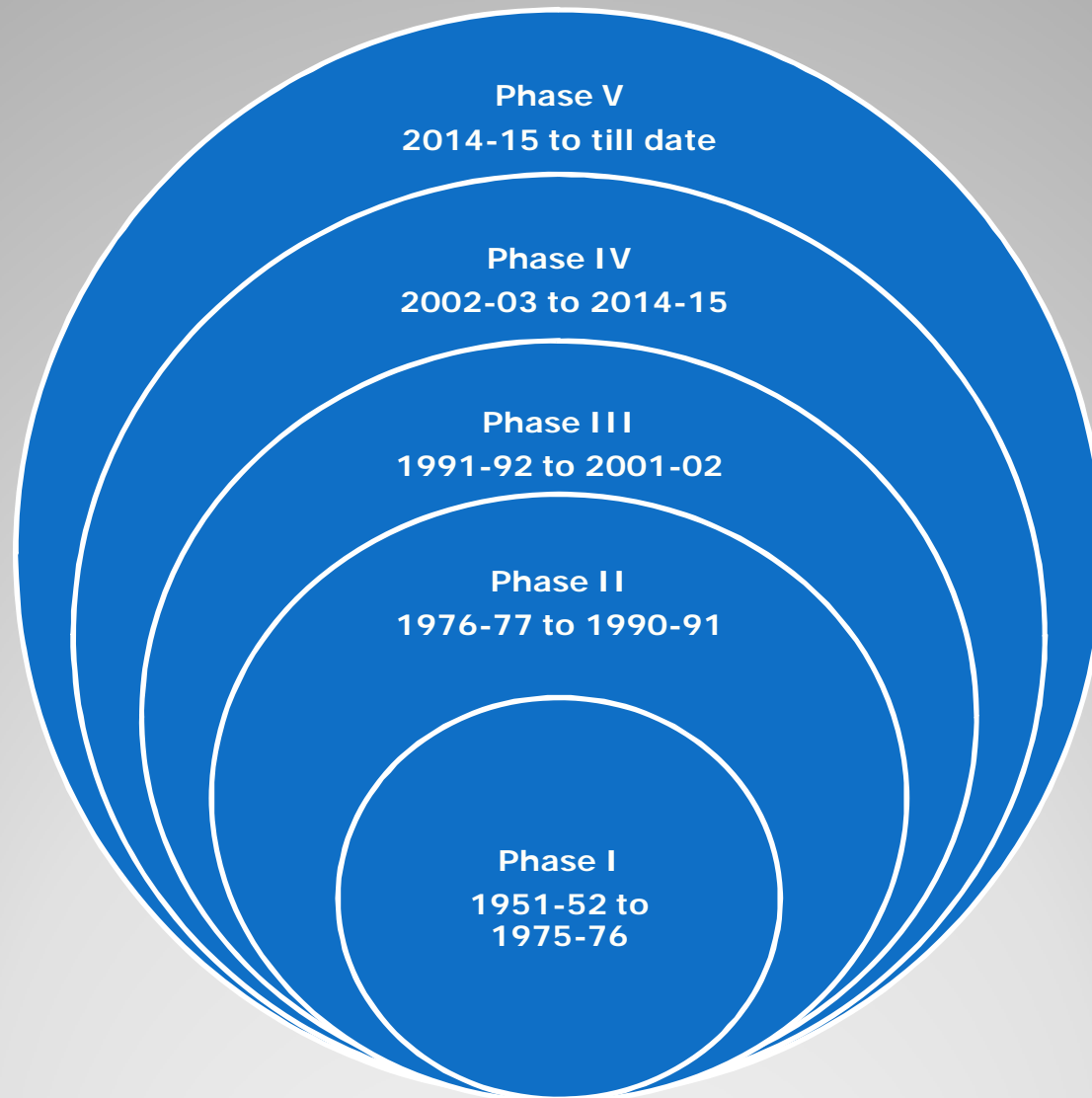
Foreign Trade Policy

Foreign Trade Policy is a set of rules and procedures for facilitating imports into, augmenting exports from India and creating favourable balance of payment position. Department of Commerce, Ministry of Commerce and Industry holds the mandate of formulating, implementing and monitoring the Foreign Trade Policy under the Foreign Trade Development and Regulation Act, 1992. Directorate General of Foreign Trade (DGFT), an attached office of Ministry of Commerce is entrusted with the responsibility of implementing the FTP and has assigned the role of 'facilitator' for promoting India's exports.

Foreign Trade Policy – A Snapshot

Over the last 65 years, India's foreign trade has witnessed structural changes in terms of volume, composition and its direction. These structural changes are the results of different objectives, strategies and measures underpinned in foreign trade policies framed at different points of time inline with the economic situation of the country.

For analyzing India's economic situation vis-à-vis foreign trade policies & foreign trade performance, the entire post independence period is divided into five different phases to reflect apparently shift in India's approach towards foreign trade.



India's Foreign Trade Policy vis-à-vis Foreign Trade : Different Phases

Phase- 1 : 1951-52 to 1975 -76
Economic Scenario vis-à-vis Trade Policy

1951-52 to 1955-56

- Focus on reconstruction & development of economy after partition
- Focus on agricultural development
- Lack of industrial base and export competitiveness
- Internal shortages of foodgrains due to natural calamities

Restrictive Trade Policy/ Inward Looking Strategy

- Imports increased manifold due to rising imports of capital goods & agricultural commodities
- Exports were insignificant
- Foreign exchange crisis emerged

1956-57 to 1960-61

- A massive programme of industrialization was initiated resulted in huge requirements of heavy machines, capital goods etc.
- Crop failure led to huge imports
- Maintenance was required for India being developing economy

Import substitution & Export promotion Strategy

- Imports of capital goods, agricultural commodities and maintenance goods rose sharply
- Exports were relatively less
- Foreign exchange crisis became acute

Phase- 1 : 1951-52 to 1975 -76 contd..
Economic Scenario vis-à-vis Trade Policy

1961-62 to 1965-66

- Rapid industrialization process necessitated larger imports of machinery , equipment, raw material and technical know-how
- Defence needs increased due to Indo China and Indo Pak war
- Extensive crop failure

Import substitution & Export Promotion Contd..

- Imports continued to rise
- Exports remained relatively less
- Persistent adverse Balance of Payment (BoP)

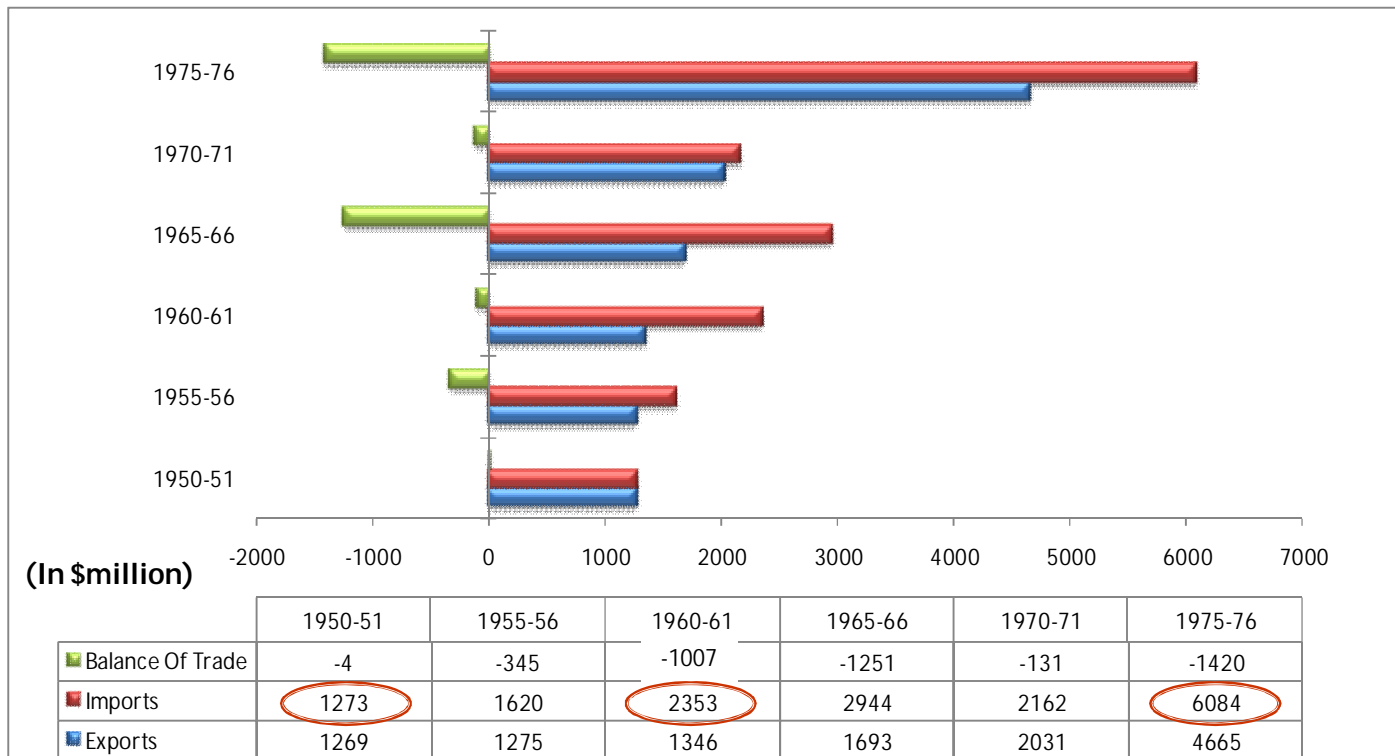
1966-67 to 1975-76

- Acute shortage of foreign exchange
- Extensive borrowings from foreign countries and international institutions like IMF to overcome BoP
- Green Revolution led to better crop
- Oil price hike

Devaluation to reduce imports, to boost exports & to correct BoT deficit

- Food grains imports declined & Exports rose due to devaluation
- During 1972-73 first time recorded BoT surplus since independence
- However, BoT surplus vanished in 1973-74 due to hike in petroleum prices& import bills.

India's Foreign Trade Trends : Phase I 1950-51 to 1975-76



Source : PHD Research Bureau, Compiled from Reserve Bank of India

Phase- II :1976-77 to 1990-91

1976-77 to 1984-85

- Substantial rise in exports of fish, coffee, tea , cotton, RMG in 1976-77
- However, export growth decelerated in 1977-78 due to sluggishness in industrial investments
- Petroleum prices further increased in 1979-80 which led to need of domestic production of oil & natural gas & demand for heavy investments including imported capital goods
- Fall in demand in India's foreign markets led to fall in exports
- Substantial unutilized export potential in several sectors



- BoP position worsened
- Recognised the role of exports for correcting BoP position
- Recognised the role of liberal import policy for enhancing production & export base of the economy



Export Promotion & Import Liberalization

1985-86 to 1990-91

- BoP continued to be under pressure due to repayment obligations on past borrowings from IMF
- Protectionist tendencies in international trade
- Deceleration in indigenous production
- Rise in international oil prices
- Drought which led to huge imports of essential commodities and also constrained exports of agricultural products from India
- Gulf war
- EXIM Bank was established during 1981-82
- 3 - Year Export Import Policy announced in 1988

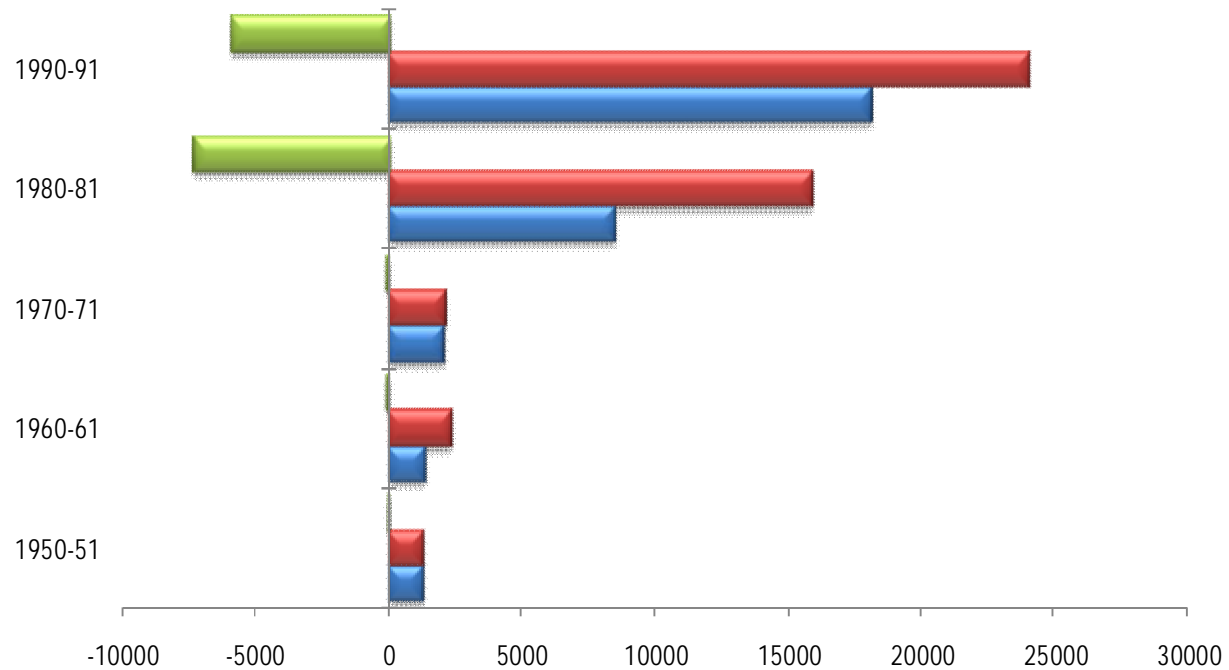


- The Government was failed to curb imports
- Sharp decline in foreign exchange reserves from US\$3.11 billion in September 1990 to US\$896 million in January 1991



Export Promotion & Import Liberalization

India's Foreign Trade Trends : Phase I & II 1950-51 to 1990-91



(In \$million)	1950-51	1960-61	1970-71	1980-81	1990-91
Balance Of Trade	-4	-1007	-131	-7383	-5927
Imports	1273	2353	2162	15869	24073
Exports	1269	1346	2031	8486	18145

Source : PHD Research Bureau, Compiled from DGCIIS, Ministry of Commerce and Industry

Phase III 1991-92 to 2001-02 Advent of Trade Liberalization & Globalization

Gulf War imposed
additional
burden of high
POL import bill

Persistent fiscal
Imbalances/
emerge of inflation

BOT worsens

Foreign exchange reserves
touched the lowest level,
the govt. was forced to pledge gold



Need for
Macro Economic
Stability and
Structural Reforms

Foreign Trade
Reforms in 1991

EXIM Policy 1992-97

Foreign Trade Policy Reforms of 1991 were mainly focused on Liberalization, Privatization and Globalization.

Under this purview , the Government of India for the first time introduced 5 year Export Import Policy (EXIM) on April 1, 1992 to dismantle various protectionist and regulatory policies and to accelerate India's transition towards a globally oriented economy.

Objectives

- To strengthen the base for export production
- To facilitate technological up gradation
- To reduce imports to conserve foreign exchange but relaxing import regulations on essential items.
- To simplify procedural complexities
- To integrate with world economy through multilateral and bilateral trade arrangements

EXIM POLICY 1992-97 – Salient features

Several items were shifted from Special Import License (SIL) to Open General List (OGL)

Exporters were permitted to maintain foreign currency account

Liberalised Exchange Rate Management System introduced (LERMS)

Introduction of several schemes : Export Promotion Capital Goods (EPCG) and Cash Compensatory Scheme (CCS)

Introduction of Electronic Hardware Technology Park (EHTP) & Export Oriented Unit (EOU)

Current Account Convertibility (CAC) allowed for the first time

Electronic Data Interchange (EDI) introduced

EXIM Policy 1997-2002

In continuation to the EXIM Policy 1992-97, second 5 year EXIM Policy 1997-2002 was introduced in order to further carry forward the process of liberalization by deregulating and simplifying procedures and removing quantitative restrictions in a phased manner. An ambitious target of attaining an export level of US\$90-100 billion by the year 2000 and achieving 1% share in world trade was set in the policy.

Objectives:

- To accelerate the country's transition to a globally-oriented vibrant economy to derive maximum benefits from expanding global market opportunities.
- To give a major thrust to acceleration of India's exports through restructuring and revamping of various export promotion schemes and through wide ranging measures for simplification and streamlining of procedures
- To stimulate sustained economic growth by providing access to essential raw materials, intermediaries, components, consumables and capital goods required for augmenting production and exports.

EXIM POLICY 1997-2002 – Salient features

Of the 542 items in the restricted list 150 items shifted to Special Import Licence (SIL) & 392 items shifted to Open General List (OGL)

Duty Entitlement Pass Book Scheme was initiated

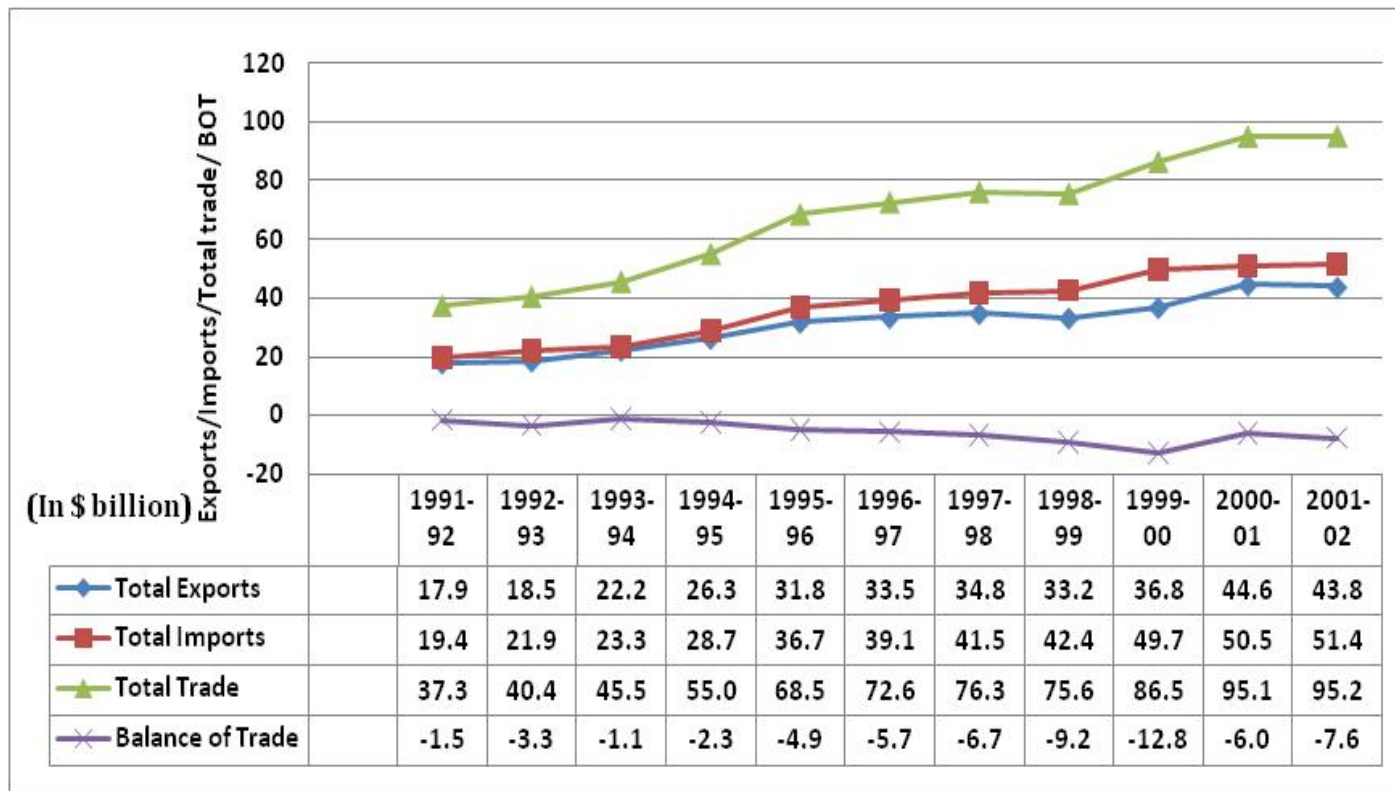
EPZs were replaced with SEZs

Market Access Initiative (MAI) scheme was introduced to access new markets, Focus Africa, Focus CIS

Scope of EPCG/Advance License / Duty Free Replenishment Certificate Schemes were extended

Major thrust to agricultural exports by removing export restrictions on designated items

India's Foreign Trade Trends : Phase III 1991-92 to 2001-02



Source : PHD Research Bureau, Compiled from DGCI, Ministry of Commerce and Industry

Foreign Trade Policy 2004-09

The Government of India announced a new Foreign Trade Policy for the period 2004-09, replacing the hitherto nomenclature of EXIM Policy by Foreign Trade Policy (FTP).

Objectives

- To double percentage share of India's trade in global merchandise trade within the next five years;
- To act as an effective instrument of economic growth by giving a thrust to employment generation

Strategies to achieve objectives

- Unshackling of controls and creating an atmosphere of trust and transparency to unleash the innate entrepreneurship of businessmen, industrialists and traders.
- Simplifying procedures and bringing down transaction costs.
- Neutralizing incidence of all levies and duties on inputs used in export products, based on the fundamental principle that duties and levies should not be exported.
- Facilitating development of India as a global hub for manufacturing, trading and services.
- Identifying and nurturing special focus areas which would generate additional employment opportunities.

Foreign Trade Policy 2004-09 – Salient features

FTP 2014 identified certain thrust areas including agriculture , handlooms, gems & jewellery and leather and footwear sectors and several sector specific policy initiatives were undertaken.

VISHESH KRISHI UPAJ YOJAN for agriculture sector was introduced, Handicraft SEZ for handlooms and handicraft was established

Duty free import of consumables for metals for upto 2% of fob value of exports for gems & jewellery sector & reduction in incidence of custom duties on t inputs and P&M for leather sector were announced

Duty Free Export Credit (DFEC) scheme for services was revamped into the SERVED FROM INDIA SCHEME to accelerate growth in export of services

Free Trade and Warehousing Zones (FTWZs) was introduced to create trade related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transactions in convertible currencies

SEZ Act 2005 was enacted and various fiscal incentives were announced to boost up exports

A new scheme to accelerate growth of exports called 'Target Plus' was introduced wherein exporters achieving a quantum growth in exports were entitled to duty free credit based on incremental exports substantially higher than the actual export target

Phase IV 2009 - 2014

- The period 2003-07 witnessed a significant growth of world output and trade world GDP was growing at 3.8% per annum and world trade was growing at an average annual rate of 16.6%.
- India's GDP and foreign trade was also impressive
- However, the global economy encountered with an unprecedented economic slow down because of financial crisis erupted in 2008
- Its repercussions were spread like contagion in all countries including India impacting production, employment, trade and overall growth of the economy
- India's exports were adversely hit due to slowdown in its major trading partners US and EU.



Export Diversification Strategy – Product diversification & Market diversification was focused upon



Short term objective was to arrest and reverse the trend of decline in exports

Foreign Trade Policy 2009- 14

At the backdrop of remarkable trade performance by India and the contagion effect of global crisis in 2008-09, Foreign Trade Policy 2009-14 was announced with the following objectives :

- The short term objective was to arrest and reverse the declining trend of exports and to provide additional support especially to those sectors which have been hit badly by recession in the developed world
- To achieve an average annual growth rate of exports of 25% over the next six years
- To double the merchandise exports from US \$250 billion in 2010-11 to US \$450 billion in 2013-14 and then to US \$750 billion in 2016-17
- To double India's share in global trade by the end of 2020

Foreign Trade Policy 2009-14 – Salient features

Scope of Focus Product Scheme (FPS), Focus Market Scheme (FMS) and Market Linked Focus Product Scheme (MLFPS) widened

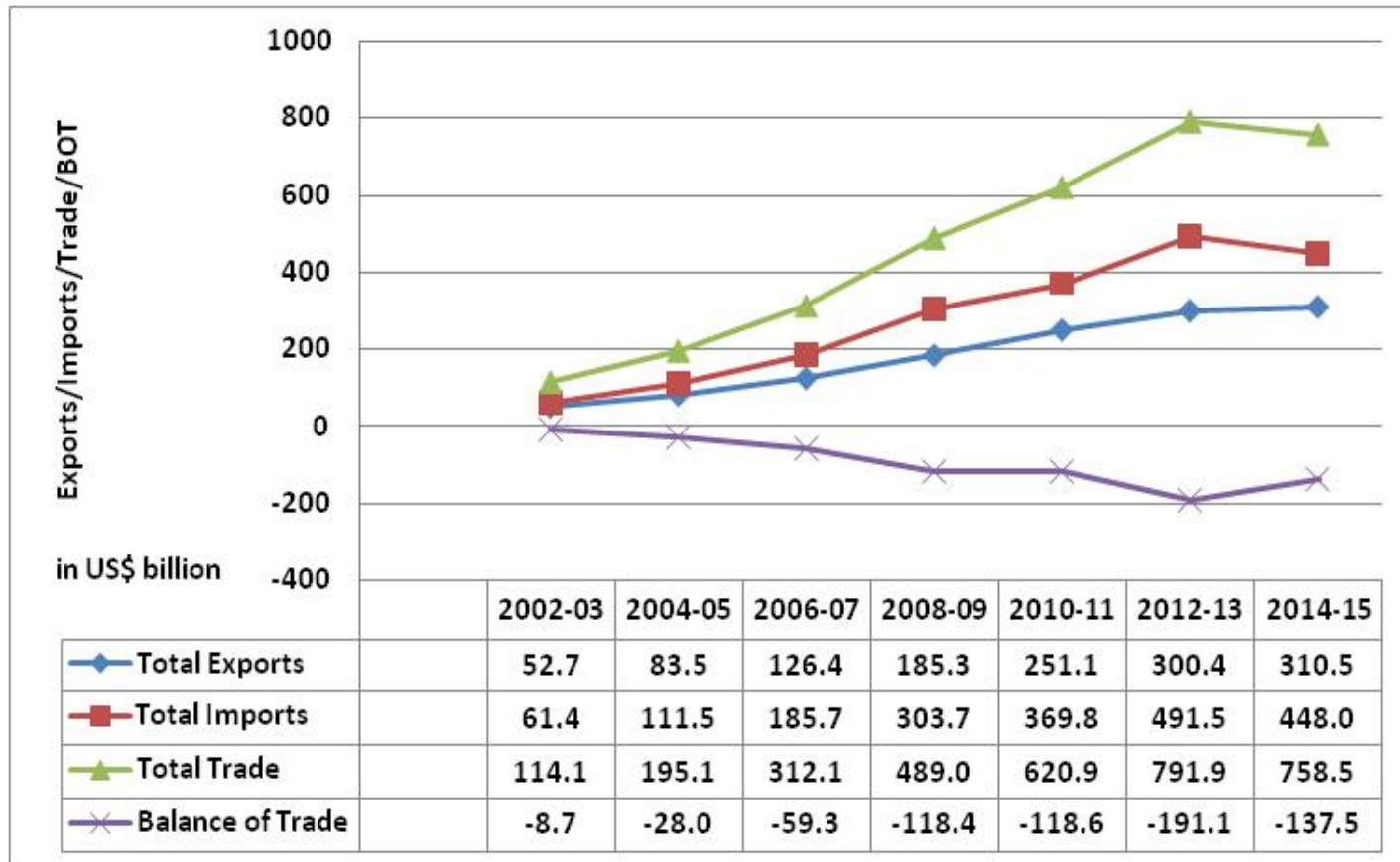
27 new markets added under the Focus Market Scheme (FMS); 256 new products added under the FPS

Incentive available under the FMS has been raised from 2.5% to 3%; Incentives available under FPS and MLFPS increased from 1.25% to 2%; and Special Focus Products at 5%.

Facilitation of trade through various Electronic Data Interchange (EDI) initiatives, namely online filing of returns and processing of various authorizations to reduce transaction cost and time.

More focus on FTAs/ PTAs/CEPA/CECA

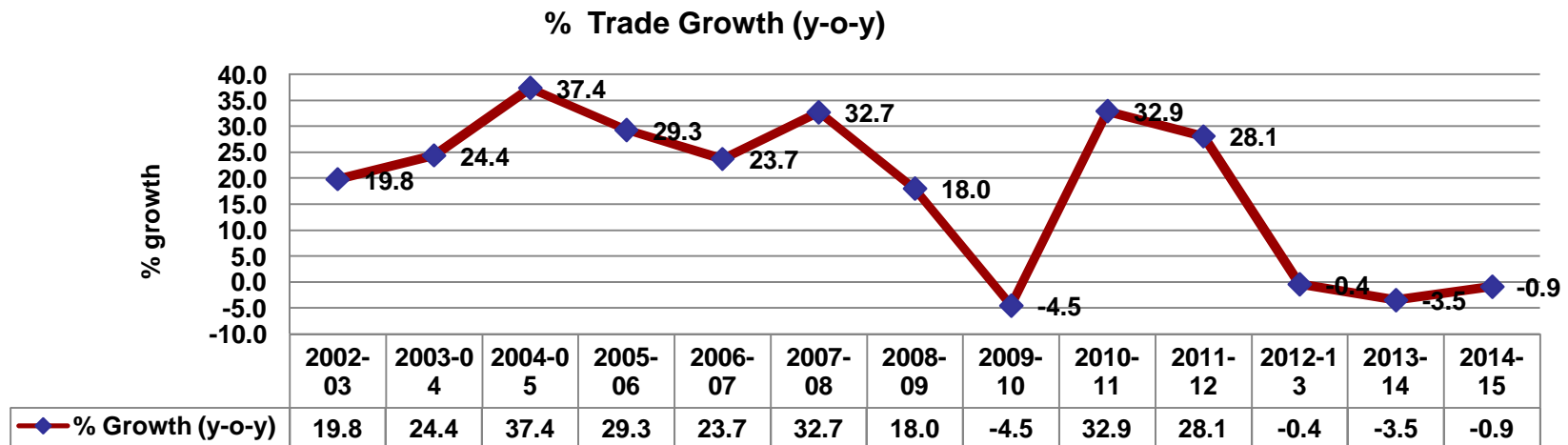
India's Foreign Trade – Phase IV 2002-03 – 2014-15



Source : PHD Research Bureau, Compiled from Ministry of Commerce and Industry

Foreign Trade 2004-09 – Key Challenge : Global Crisis

India's foreign trade was rising at an annual average growth rate of around 28% during 2002-03 to 2007-08. Global crisis resulted decline in trade growth from 18% in 2008-09 to (-)4.5% in 2009-10. This significant decline in India's exports was primarily due to overdependence on a few export destinations viz. USA and EU which together comprised of around 40% share in India's total exports. As an aftermath of the Government various desired remedial policy actions and strategies, not only the declining trend of India's trend was arrested but exports registered a very high growth of around 33% in FY2011, thereby raising the hopes of attaining the growth at pre-crisis level. But, in FY2012 because of Euro Zone crisis and domestic constraints, India's trade growth was again moderated to 28% and turned negative in following years.



Source : PHD Research Bureau, Compiled from Ministry of Commerce and Industry

India's Foreign Trade – Structural shift

India's foreign trade exhibited a structural shift during post reforms in terms of

- Volume of Trade
- Composition of Trade
- Direction of Trade

Volume of Trade

CAGR (in %)	1991-92 to 2001-02	2001-02 to 2007-08	2007-08 to 2014-15	1990-91 to 2014-15
Exports	8.46	20.65	8.39	21
Imports	9.39	25.43	7.5	12.2
Total Trade	8.95	23.39	7.8	12.3

Source : PHD Research Bureau, Compiled from Ministry of Commerce and Industry

Exports, imports and total trade growth witnessed a significant rise from 8%, 9.4% and 9% during the first decade of reforms i.e FY1991- FY2002 to around 21%, 25% and 25% during FY2002-FY2007 (until the outbreak of global crisis in 2008). During the post global crisis period exports, imports and total trade growth declined significantly to around 8.4%, 7.5% and 7.8%.

Trade Composition : Exports

Conventional labour intensive export commodities are replaced with non conventional capital intensive export commodities as follows :

Conventional Export Composition

Gems and Jewellery, Leather products, Textile products , Tea , Marine products

Non Conventional Export Composition

Petroleum products, Transport Equipments, Machinery and Instruments , Organic Chemicals, Drugs & Pharmaceuticals

Trade Composition : Imports

Conventional Import Composition

Petroleum products, Machinery, Pearls/Precious stones, Project Goods, Organic Chemicals

Non Conventional Import Composition

Petroleum , Electronic Goods, Gold, Pearls/Precious stones, Machinery

Change in India's Export Composition – 1991-2015

Rank	Apr-Mar 1991		Apr-Mar 2001		Apr-Mar 2015		
	Commodity	%Share	Commodity	%Share	Commodity	%Share	
1	Gems And Jewellery	16.1	Gems & Jewellery	16.75	Mineral fuels and mineral oils	18.6	
2	Readymade Garments	12.3	Rmg Cotton Incl Accessories	8.91	Gems & Jewellery	13.15	
3	Leather and Manufactures	8.0	Cotton Yarn,Fabrics,Madeups	7.85	Transport Equipments	4.7	
4	Basic Chemicals, Pharmaceuticals & Cosmetics	6.8	Drugs,Pharmaceuticals & Chemicalss	4.35	Machinery And Instruments	4.4	
5	Cotton Yarn, Fabrics, Madeups, etc.	6.4	Petroleum Products	4.29	Organic Chemicals	3.8	
6	Machinery and Instruments	3.8	Machinery And Instruments	3.59	Pharmaceutical Products	3.7	
7	Tea	3.3	Manufactures Of Metals	3.58	Cereals	3.1	
8	Iron Ore	3.2	Marine Products	3.16	Articles of Apparel and Clothng	2.95	
9	Marine Products	2.9	Manmade Yarn,Fabrics,Madeups	2.4	Electronic Goods	2.8	
10	Petroleum Products	2.9	Electronic Goods	2.39	Iron and Steel	2.8	
Total % share of top 10 export commodities		49.7	Total % share of top 10 export commodities		36.23	Total % share of top 10 export commodities	

Source : PHD Research Bureau, Compiled from Ministry of Commerce and Industry

Change in India's Import Composition – 1991-2015

	Apr-Mar 1991		Apr-Mar 2001		Apr-Mar 2015	
Rank	Commodity	%Share	Commodity	%Share	Commodity	%Share
1	Petroleum, Crude and Products	14.3	Petroleum, Crude & Products	31.32	Mineral Fuels, Mineral Oils	34.90
2	Machinery except Electrical and Electronic	5.0	Pearls, Precious and Semi-Precious Stones	9.62	Natural or cultured pearls	13.92
3	Pearls, Precious and Semi-Precious Stones	4.9	Gold	8.25	Electrical machinery and equipment	7.4
4	Project Goods	3.4	Electronic Goods	7.02	Nuclear reactors, boilers	7.08
5	Organic and Inorganic Chemicals	3.0	Machinery except Electrical and Electronic	5.42	organic chemicals	3.96
6	Iron and Steel	2.8	Organic Chemicals	2.74	iron and steel	2.75
7	Fertilisers	2.3	Vegetable Oils Fixed (Edible)	2.62	plastics and articles thereof	2.6
8	Electrical Machinery except Electronic	2.2	Coal, Coke & Briquettes Etc.	2.21	Animal or vegetable fats	
9	Transport Equipment	2.2	Inorganic Chemicals	2.15	Miscellaneous Goods	1.66
10	Metalliferous Ores, Metal Scrap, etc.	2.0	Profesional Inst, Etc, Except Elctnc	1.76	Ores, Slag and Ash	1.64
	Total % share of top 10 import commodities	37.2	Total % share of top 10 import commodities	73.11	Total % share of top 10 import commodities	78.34

Source : PHD Research Bureau, Compiled from Ministry of Commerce and Industry

Trade Direction

The share of emerging and developing economies in India's trade has increased while the share of developed economies witnessed a declining trend .

Change in Direction of India's Exports - 1997-2015

Rank	Apr-Mar 1997		Apr-Mar 2011		Apr-Mar 2015	
	Country	%Share	Country	%Share	Country	%Share
1	U S A	19.6	U A R A B E M T S	13.5	U S A	13.7
2	U K	6.1	U S A	10.1	U A R A B E M T S	10.6
3	J A P A N	6.0	C H I N A P R P	6.2	H O N G K O N G	4.8
4	G E R M A N Y	5.7	H O N G K O N G	4.1	C H I N A P R P	3.8
5	H O N G K O N G	5.6	S I N G A P O R E	3.9	S A U D I A R A B	3.5
6	U A R A B E M T S	4.4	N E T H E R L A N D	3.1	S I N G A P O R E	3.2
7	B E L G I U M	3.3	U K	2.9	U K	3.0
8	S I N G A P O R E	2.9	G E R M A N Y	2.7	G E R M A N Y	2.4
9	I T A L Y	2.8	B E L G I U M	2.3	S R I L A N K A D S R	2.1
10	B A N G L A D E S H P R	2.6	I N D O N E S I A	2.3	B A N G L A D E S H P R	2.2
Total % share of top 10 export partners		58.9	Total % share of top 10 export partners	51.0	Total % share of top 10 export partners	49.2

Source : PHD Research Bureau, Compiled from Ministry of Commerce and Industry

Change in Sources of India's Imports - 1997-2015

Rank	Apr-Mar 1997		Apr-Mar 2011		Apr-Mar 2015(P)	
	Country	%Share	Country	%Share	Country	%Share
1	U S A	9.2	CHINA P RP	11.8	CHINA P RP	13.486
2	GERMANY	7.3	U ARAB EMTS	8.9	SAUDI ARAB	6.3
3	BELGIUM	5.7	SWITZERLAND	6.7	U ARAB EMTS	5.80
4	JAPAN	5.6	SAUDI ARAB	5.5	SWITZERLAND	4.93
5	U K	5.5	U S A	5.4	U S A	4.86
6	SAUDI ARAB	4.7	GERMANY	3.2	INDONESIA	3.34
7	NIGERIA	3.9	IRAN	3.0	QATAR	3.3
8	U ARAB EMTS	3.4	AUSTRALIA	2.9	IRAQ	3.2
9	AUSTRALIA	3.4	NIGERIA	2.9	NIGERIA	3.1
10	SWITZERLAND	2.9	KOREA RP	2.8	KOREA RP	3.0
	OTHERS	48.6	OTHERS	46.9	OTHERS	48.7
Total % share of top 10 import partners		90.8	Total % share of top 10 import partners	88.2	Total % share of top 10 import partners	51.3

Source : PHD Research Bureau, Compiled from Ministry of Commerce and Industry

Phase V 2015-16 onwards...

Overall Economic Scenario

- The New Government came with new approaches and aspirations to put India on the global map.
- Government of India initiated several measures to re-energise the economy particularly through initiatives such as “Make in India”, “Digital India”, “Skills India” etc. which are expected to open up better export prospects
- The role of foreign trade is also well recognized to provide impetus to the government's ambitious targets and programs.



Focus on providing a stable and sustainable policy environment for foreign trade with a special emphasize on ease of doing business



Objective is to make India a significant participant in world trade by 2020

Foreign Trade Policy 2015- 20

FTP 2015-2020 includes various new initiatives, provisions and procedures to provide a stable and sustainable environment for foreign trade in both merchandise and services. The focus of the new policy is to support both the manufacturing sector and services sectors with a special emphasize on improving 'ease of doing business'.

Vision

The vision is to make India a significant participant in world trade by the year 2020 and to enable the country to assume a position of leadership in the international trade discourse.

Goals and Objectives

Government aims to increase India's exports of merchandise and services from USD 465.9 billion in 2013-14 to approximately USD 900 billion by 2019-20 and to raise India's share in world exports from 2% to 3.5%.

The FTP for 2015-2020 seeks to achieve the following objectives:

- (i) To provide a stable and sustainable policy environment for foreign trade in merchandise and services;
- (ii) To link rules, procedures and incentives for exports and imports with other initiatives such as Make in India Digital India and Skills India to create an Export Promotion Mission for India;
- (iii) To promote the diversification of India's export basket by helping various sectors of the Indian economy to gain global competitiveness with a view to promoting exports;
- (iv) To create an architecture for India's global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India's products and contributing to the government's flagship „Make in India initiative;
- (v) To provide a mechanism for regular appraisal in order to rationalize imports and reduce the trade imbalance.

Foreign Trade Policy 2015-20 – Salient features

Merchandise Exports from India Scheme (MEIS) is launched which has replaced 5 different schemes of earlier FTP (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri. Infrastructure Incentive Scrip, VKGUY) for rewarding merchandise exports which had varying conditions (sector specific or actual user only) attached to their use.

Served From India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS) which shall apply to 'Service Providers located in India' instead of 'Indian Service Providers'.

Manufacturers who are also Status Holders will be enabled to self-certify their manufactured goods as originating from India with a view to qualify for preferential treatment under several forms of trade agreements.

Specific Export Obligation under EPCG scheme, is reduced from 90% of the normal export obligation to 75%, to boost make in india

Online filing of documents/ applications and Paperless trade in 24x7 environment Mandatory documents required for export and import reduced to 3 each

India's trade position in Global Trade, 2014

Particulars	Value	Share %	Rank	Annual % change
India's merchandise Exports	US\$322 billion	1.7	19	2
India's merchandise Imports	US\$463 billion	2.4	12	-1
India's Commercial Services Exports	US\$154 billion	3.2	8	4
India's Commercial Services Imports	US\$124 billion	2.6	10	-1

Source, PHD Research Bureau, compiled from World Trade Organisation



India's decelerating exports A major cause of concern

Months	Exports (in US\$bn)	% Exports growth (y-o-y)
Dec-14	25.3	-3.77
Jan-15	23.8	-11.19
Feb-15	21.5	-15.02
Mar-15	24	-21.06
Apr-15	22.05	-13.96
May-15	22.34	-20.19
Jun-15	22.08	-15.82
Jul-15	23.13	-10.3
Aug-15	21.2	-20.66
Sep -15	21.8	-24.3
Oct -15	21.4	-17.5
Nov- 15	20	-24.4

Source : PHD Research Bureau, Compiled from Ministry of Commerce and Industry ,GOI

The Central Government under the New Foreign Trade Policy (2015-20) set an objective of increasing India's exports of merchandise and services from US\$466 billion in 2013-14 to approximately US\$900 billion by 2019-20 and to raise India's share in world exports from 2% to 3.5%. However, India's exports have witnessed a negative growth rate during the last 12 months in a row. On an average exports declined by around (-) 16.5% from December 2014 to November 2015

Major issues in India's Merchandise Trade & Way Forward...

Issue 1#

High Product and Market Concentration

Foreign Trade Policy (FTP) 2009-14 remained highly focused on product and market diversification in order to mitigate the effect of global crisis on India's trade. As a result, export market concentration has witnessed a decline in last few years. The share of developed regions (EU and America) which was approximately 50% in India's exports by the end of the first decade of economic reforms in FY2000 declined to 44% in FY2005 and to 37% in FY2015. India's exports are still concentrated in top 10 export commodities viz. mineral fuels, gems and jewellery, pharmaceutical products and vehicles among others.

Way Forward 1#

India has to shift to items for which there is world demand and in which we have basic competencies.
India has to be more focused to venture into new markets viz. Africa, Latin America and Middle East countries

Issue 2

Export Infrastructure

Export infrastructure, particularly ports related infrastructure is inadequate as the best of our ports do not have state-of-the technology as in Singapore, Rotterdam and Shanghai.

Port infrastructure issues include lack of port connectivity; congestions; poor cargo handling; high transaction costs etc. This leads to loss of market in competitiveness.

Way Forward 2#

Export infrastructure needs immediate attention, top most priority and drastic changes in terms of building and improvising India's airports, sea ports, railways, warehouses, advanced cargo handling equipments etc.

Issue 3#

Regional Trade Blocks and Inverted Duty Structure

FTAs/RTAs/CECAs of India led to inverted duty structure wherein import duty on finished goods from the trade block countries is lower than the duty on raw materials imported from other countries to produce the goods domestically.

But, this inverted duty structure is making Indian manufactured goods uncompetitive.

Way Forward 3#

Reality check of these regional trade blocks is to be done and right balance between different stakeholders is to be targeted including domestic consumers, producers, suppliers etc. in addition to foreign trade partners.

Issue 4#

Lack of awareness about Government policies

The government is providing several schemes and incentives for promoting exports from the country including Merchandise Exports from India Scheme (MEIS), Service Exports from India Scheme (SEIS), Duty credit scrips among others. However, the exporters especially the MSMEs exporters are not aware of these export benefits resulting in inefficacy of these schemes for enhancing India's exports.

Way Forward 4#

There is a need to spread awareness about its benefits widely amongst the small as well as large exporters. Software based an export application may be launched by the Government to update the exporters pertaining to export policy notifications undertaken at the central or the state government level.

Dedicated teams can be formed to reach at the door step of the exporters which will not only make the exporters aware about the central and state government export policy/schemes but also to guide them for taking finance, formulating marketing strategies, identifying new export markets/ export products among others.

Issue 5#

Inaccess to timely and adequate credit

There is a high interest rate on banking loans, unreasonable demands for collateral, restrictive and conditional working capital limits to guard against fear of high risks and high procedural transaction costs. A high rate of interest on banking loans at the rate of 11% in India compared to a 3-4% in other countries is discouraging for Indian exporters and dilutes the sentiments for exports and export competitiveness in International market.

Way Forward 5#

Rate of interest on loans should be reduced along with easing the conditions/procedures for obtaining finance from banks or financial institutions. This will enable the exporters to take high risk and to fetch big orders from the international buyers.

Issue 6#

Lack of promotional support

The government is providing several promotional schemes in terms of MEIS, SEIS, Market Development Assistance (MDA) to direct exports of specified goods to the specified markets and to promote their products overseas. However, exporters are still facing difficulty to effectively promote their products in the international market on account of lack of adequate finance and market intelligence.

Way Forward 6#

Building an information hub for providing comprehensive information relating to trade opportunities and business environment in the different countries can be a right move in this direction.

Issue 7#

Roadblocks for SEZs

Effective Special Economic Zone model is the success mantra of China's raising its exports enormously over a period of time. Although India started much earlier, its development of SEZs lags behind China in terms of both number and pace of establishment. This is because of regulatory controls, procedural bottlenecks, reimposition of MAT/DDT, such export-promoting zones have been only partially effective in India.

Way Forward 7#

To make SEZs model successful in India it is imperative to take concrete measures in terms of prescribing time limits for several administrative procedures viz. granting approvals, notifications, submission of documents; adopting single window clearance; reconsideration of imposition of MAT/DDT among others