

# Foreign Trade Policy of India: A case study of Impotents in Domestic & International

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## ABSTRACT

India is presently known as one of the most important players in the global economic landscape. Its trade policies, Government reforms and inherent economic strengths has attributed to its standing as one of the most sought-after destination for foreign investments in the world. Also, technological, and infrastructural development being carried out across the country augurs well for the trade and economic sector in the years to come.

The Government of India has been working on striking important deals with the Governments of Japan, Australia, and China to increase contribution towards the economic development of the country and growth in the global market. India's permanent representative to the United Nations in Geneva and New York. He served as a member and chair of nine dispute settlement panels of the GATT and WTO between 1982 and 2007. Between 1988 and 1991, he was the coordinator of the Multilateral Trade Negotiations Project of the UN Development Program and UN Conference on Trade and Development, which advised developing countries in the Uruguay Round. During a career spanning thirty-nine years, he held senior positions in the Indian Ministry of External Affairs, including as secretary for economic relations, as well as important diplomatic posts in Brazil, Japan, Sri Lanka, and the United Kingdom

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## 1. Introduction

The Department of Commerce has the mandate to make India a major player in global trade and assume a role of leadership in international trade organizations commensurate with India's growing importance. The Department devises commodity and country-specific strategy in the medium term and strategic plan/vision and India's Foreign Trade Policy in the long run. India's Foreign Trade Policy (FTP) provides the basic framework of policy and strategy for promoting exports and trade. It is periodically reviewed to adapt to the changing domestic and international scenario.

The Department is also responsible for multilateral and bilateral commercial relations, special economic zones (SEZs), state trading, export promotion and trade facilitation, and development and regulation of certain export oriented industries and commodities.

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. 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. India and the United States were among the original signatories to the GATT in 1947. That agreement's preamble encapsulates the rationale for trade policy, which continues to be as valid today as it was then. The first of its two paragraphs cites the goals of "raising standards of living, ensuring full employment, and steadily growing

volume of real income."<sup>37</sup> The second cites modalities for achieving them, including "reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce."

The current Foreign Trade Policy focuses on improving India's market share in existing markets and products as well as exploring new products and new markets. India's Foreign Trade Policy also envisages helping exporters leverage benefits of GST, closely monitoring export performances, improving ease of trading across borders, increasing realization from India's agriculture-based exports and promoting exports from MSMEs and labour intensive sectors. The DoC has also sought to make states active partners in exports. As a consequence, state governments are now actively developing export strategies based on the strengths of their respective sectors.

The present Commerce & Industry Minister Shri Piyush Goyal has also asserted that India needs to evolve from a dependence on subsidies, "I do not think that any programme or ambitious scheme can run only on subsidies and government help. We have to move out of this continuous effort and demand and make our industry truly competitive and self-reliant."

The government is looking to focus on promoting exports of high value-added products, where India has a strong domestic manufacturing base, including engineering goods, electronics, drugs and pharmaceuticals, textiles and agriculture. This is apart from the continued push to AYUSH and the Indian services sector.

Around 70% of India's exports constitute products that have just 30% share in global trade. The government is looking at some more promising product groups like defence equipment, medical devices, agro-processing, technical textiles and chemicals.

## 2. India's Recent Trade Policy

Announcing a new Foreign Trade Policy in April 2015, Prime Minister Narendra Modi's government said it wished to increase India's share of global trade from 2.1 percent to 3.5 percent and double exports (to \$900 billion) by The policy seeks to integrate the government's Make in India and Digital India initiatives. Modi elaborated on his thinking and set out a clear road map at a speech in Washington in June 2016:

We will continue to strengthen the "Make in India" initiative. It is not intended for only manufacturing for the domestic market or import substitution. It is as much about making world-class products and services for the whole globe. That is why, for us, improvements towards free trade are important. It is very important for us that developed countries open their markets, not only to goods from countries like India but also to services. I see this as a win-win proposition for the U.S. and for India. India is the future human resource powerhouse of the world with a young hard-working population. In my vision, a partnership between American capital and innovation, and Indian human resources and entrepreneurship can be very powerful I am convinced we can strengthen both our economies through such partnership This bold statement, especially in the wake of exports declining for seventeen consecutive months since December 2014, needs to be acted on. But to do so effectively, the government will need to continually assess how these priorities (for example, the partnership between American capital and innovation and Indian resources and entrepreneurship) are playing out within evolving global trends. Implementation of India's major schemes—the Smart City Project, Make in India, Skill India Program, and Digital India—will require foreign direct investment and a comprehensive rebooting and rejuvenation of India's manufacturing sector. The Modi government has made a good start. In 2015, India attracted more foreign direct investment (FDI) than China and the United States, tripling green field FDI, which reached an estimated \$63 billion.<sup>22</sup> Indeed, India became the leading country in the world for green field FDI, overtaking the United States (\$59.6 billion) and China (\$56.6 billion).

## 3. Vision, Mission and Objectives

1. The Foreign Trade Policy Statement explains the vision, goals and objectives underpinning the as updated through the mid-term review completed in December 2017. Keeping in the backdrop the global trade developments, it describes the market and product strategy, and the other measures required for export promotion and enhancement of the entire trade ecosystem.

2. The vision behind the policy continues to be focused on making India a significant participant in world trade and on enabling the country to assume a position of leadership in international trade.

3. The revised FTP focuses on the goal of exploring new markets and new products as well as on increasing India's share in the traditional markets and products, leveraging benefits of GST by exporters; close monitoring of export performances and taking immediate corrective measures based on state-of-the-art data analysis; increasing ease of trading across borders; increasing the realisations from Indian agriculture based exports and promoting exports from MSMEs and labour intensive sectors to increase employment opportunities for youth.

## 4. Strategy

1. Foreign trade today constitutes 45% India's economy, so much so that foreign trade policy deserves a special focus and dedicated attention as a key constituent of India's economic policies. Given the diverse elements that contribute towards a conducive foreign trade environment, the foreign trade policy can neither be formulated nor implemented by any one department in isolation. Going forward, a 'whole-of-government' approach will continue to be the focus through the various coordinating mechanisms that have been instituted..

2.. India's newer bilateral/regional trade engagements will be with regions and countries that are not only promising markets but also major suppliers of critical inputs and have complementarities with the Indian economy. The focus of India's future trade relationship with its traditional markets in the developed world would be on exporting products with a higher value addition, supplying high quality inputs for the manufacturing sector in these markets and continued optimization of applied customs duties on inputs for India's manufacturing sector.

3. India's trade relations with its immediate neighbours in South Asia are a special focus area for the government, with a larger goal of building a regional economic zone including value chains in different sectors such as textiles, engineering goods, chemicals, pharmaceuticals, auto components, plastic and leather products. In this context, physical and digital connectivity is a key objective. A better connected south Asia can seamlessly link to onward routes to South East Asia and Central Asia

## 5. The Goal

- India's Foreign Trade Policy aims to (1) increase the country's share of global trade from the current 2.1 percent to 3.5 percent and (2) double its exports to \$900 billion.
- However, India faces myriad obstacles: lack of full understanding of trade policy and its potential benefits, a poorly developed manufacturing sector, unsatisfactory results from regional trade agreements, and constrained relationships, including with its main trading partners.
- India's trade policy framework must be supported by economic reforms that result in an open, competitive, and technologically innovative Indian economy.
- The share of manufacturing in the gross domestic product needs to rise through efficient implementation of schemes such as the Make in India initiative.

## 6. Conclusions

From the study carried out, it can be inferred that Indian government was suffering from cold sweat in tempting the foreign venture capitalists to invest in the domestic territory before and at the time of Independence because there was a fear that the resources may be drained away by them to their developed economies. But anyhow, the Indian government attempted hard to reassure and comfort the general masses at large that on the one hand, the convergence of funds from the

foreign stockholders would help in reforming the health of the Indian insurance sector and on the other hand, it would help in its advancement as a developed nation. FDI may be stated as the process whereby residents of home country gain proprietary rights of assets for the purpose of monitoring the production, distribution and other similar activities of an undertaking in some other foreign country. FDI may be categorized into two forms/components i.e. „equity“ and „non-equity“ form of investments.

## Reference

1. Hajela, T.N: Money and Banking and International Trade, 2009, p p. 356-369.
2. Report on Currency and finance, 2007-08, Vol. II, Statistical statements p. 15.
3. See Indian Banks Association (IBA) how you save in a Bank and how banks lend for Nation's Future. (Bombay, June 1971). pp. 1-17
4. The Year 1997-78 has been chosen because many of the data series have that year as base now; it is immaterial whether we chose 1975-96 or 1997-98 in this respect.
5. Report on Currency and Finance, Vol. II, p. 36.