Unit V

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INDIA'S TRADE POLICY

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.

The current Foreign Trade Policy (2015-20) focusses 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.

While the external environment has a major role to play in the success of export policies, it is also critical to address constraints within India including infrastructure bottlenecks, high transaction costs, complex procedures, constraints in manufacturing and inadequate diversification in India's services exports. India is a signatory to the Trade Facilitation Agreement (TFA) at the WTO, which will contribute to the simplification and lowering of transaction costs.

According to current WTO rules as well as those under negotiation India needs to eventually phase out subsidies and move towards fundamental systemic measures in the future. Under the Agreement on Subsidies, India has moved on from Annex VII countries of WTO on breaching the US$ 1,000 per capita income benchmark for 3 consecutive years in 2015.

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.

In 2018, then Commerce & Industry Minister Shri Suresh Prabhu envisaged a strategy to double India's exports by 2025. The approach included devising a commodity-specific strategy for key sectors like gems and jewellery, leather, textile & apparel, engineering sector, electronics, chemicals and petrochemicals, pharma, agri and allied products and marine products. Territory specific strategy will cover North American Free Trade Agreement (NAFTA), Europe, North East Asia, ASEAN, South Asia, Latin America, Africa and WANA, Australia, New Zealand, and CIS.

Trade Policy and Regulation of India

Trade Strategies

- The trade strategy of a nation has impact not only on the volume and composition of foreign trade, but also on the pattern of investment and direction of development, entrepreneurial and business behavior, consumption pattern etc.
- There are mainly two trade strategies; outward oriented and inward oriented.
- An outward oriented or outward strategy is one in which trade and industrial policies do not discriminate between production for the domestic market and exports, nor between purchase of domestic goods and foreign goods.

• An inward oriented or inward looking strategy is characterized by the bias of the trade and industrial policies in favor of domestic production and against foreign trade. • As import substitution is the key element of the inward oriented strategy, it is often described as the import substitution industrialization strategy.

Trade Strategy of India

• In the four decades since the commencement of planned development in 1951, India followed a strong inward-oriented policy.

• The inward-oriented strategy has had very adverse effects on India's export performance and economic development.

Period of Export Pessimism

• The export pessimism and the resultant indifference to export development in the earlier plans resulted in the neglect of several sectors with tremendous export potential like textiles, fisheries etc.

• Further, even after recognizing the export potential of many products, the failure of effectively harness the potential has been more conspicuous than achievements in several cases.

Era of Export Promotion And Import Restriction

Era of Export Promotion And Import Restriction

• The period of about three decades, 1961-91, extending from the beginning of the Third Five Year Plan to the eve of the Eighth Plan is characterized by import restriction and the adoption of a number of measures for export promotion.

• The early part of this period, particularly, also witnessed vigorous import substitution efforts.

• Although there was some liberalization of the imports since the mid 1980s, imports were, in general, highly restricted.

• Many of the import liberalization measures were for export promotion.

Economic Policy Liberalization In India

• Abridgement of the role of public sector and expansion of the scope of private sector.

• Removal of entry and growth restrictions

• Liberalization of foreig• Import liberalization

• Reform of trade policy n investment

Objectives Of Exim Policy

1.To facilitate sustained growth in exports to attain a share of at least 1% of global merchandise trade.

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

3.To enhance the technological strength and efficiency of Indian agriculture, industry and services.

4. To provide consumers with good quality goods and services at internationally competitive prices while at the same time creating a level playing field for the domestic producers.

Other Initiative

1.Agricultural exports

2.SEZ

3. Towns of export excellence

4. Special focus on cottage sector and handicrafts

5. Reduction in transaction time, costs

6. Assistance to states for infrastructural development for exports

7. Market access initiative

Regulation and Promotion Of Foreign Trade

1.The Export-Import policy reflects the foreign trade policy of India.

2.The policy is implemented mostly by means of regulatory framework provided by the Foreign Trade Act, 1992.

3.Control of foreign trade in India dates back to the early years of the Second World War.

The Foreign Trade (Development and Regulation) Act, 1992

Objective: the objective of the Act is to provide for the development and regulation of foreign trade by facilitating imports into, and augmenting exports from India and for matters connected therewith or incidental thereto.

Regulation and promotion of foreign trade

Foreign trade leads to division of labour and specialisation at the global level. There is no shortage of labour in India. That is one of the reasons Indian government promotes and stimulates policies and schemes to expand the Foreign Trade. Let’s see what measures does the government take to support Foreign Trade.

The government of India initiates different incentives and plans to help business firms enhance the competitiveness of their exports. The Government has likewise established a number of institutions to give infrastructural help and also marketing help to organizations doing International business.

Foreign Trade Promotion Measures and Scheme

1.Duty Drawback Scheme

Merchandise that is to be export is not conditional for payment of different excise, levy charges and customs duties. On showing verification of export of these products to the concerning authority such charge returns. Such refunds are 'Duty Drawbacks.'

2. Export Manufacturing under the Bond Scheme

Under this freeway, organizations can manufacture merchandise without giving excise duty and different charges. The organizations can benefit this facility after giving an endeavour (i.e. bond) that they are producing commodities for the export goal.

3. Exemption from Payment of Sales Taxes

Merchandise manufactured for the sole reason of exporting is not conditional upon payment of sales tax. Money received from exporting operations has been absolved from giving of Income-tax for a long time now. This exemption is only available to 100% Export oriented units and units set up in Export Processing Zones / special economic zones.

4. Advance Licence Scheme

In this government policy which permits the supplier duty-free supply of local and also in addition imported resources required for the manufacturing of export merchandise. The firms exporting irregularly can likewise acquire these licenses against particular export orders.

5. Export Processing Zones

They are industrial domains, which shape enclaves from the Domestic Tariff Areas. These are generally located close to seaports or air terminals. They intend to provide an internationally competitive duty-free environment for export production at low cost. There are different measures, for example, availability of export fund, export promotion, capital merchandise scheme is in use for foreign trade promotion.

The government has set up from time to time various institutions in order to facilitate the process of foreign trade. Following are few of them.

Department of Commerce

Department of Commerce in the Ministry of Commerce, Government of India is the most authoritative body responsible for the country's international trade and all jurisdiction linked with it. This might be in the shape of expanding business relations with other nations, state trading, export promotional measures and the development, and regulation of certain export-oriented industries and commodities.

The Department of Commerce formulates policies in the sphere of foreign trade. It also frames the import and export policy of the country in general.

Export Promotion Councils

Export Promotion Councils are non-profit institutions register under the Companies Act or the Societies Registration Act. The fundamental objective of the export promotion councils is to market and produce the nation's exports of particular products falling under their jurisdiction. Currently, there are 21 EPC's dealing with different commodities.

Commodity Boards

Commodity Boards are the boards which are the establishment of Government of India for the development of manufacturing of traditional merchandise and their exports. These boards are supplementary to the EPCs. There are seven commodity boards in India: Coffee Board, Rubber Board, Tobacco Board, Spice Board, Central Silk Board, Tea Board, and Coir Board.

Export Inspection Council

Export Inspection Council of India is an establishment by the Government of India under Section 3 of the Export Quality Control and Inspection Act 1963. The council aims at the sound development of export trade through quality control and pre-shipment inspection.

The council is a vital body for managing the operations with standard control and pre-shipment inspection of merchandise for export. Exempting a few exceptions, all the merchandise destined for exports must be passed by EIC.

Indian Trade Promotion Organisation

Indian Trade Promotion Organisation is an establishment under the Companies Act 1956 by the Ministry of Commerce, Government of India. Its head office is at New Delhi. ITPO was formed by the merger of the two government agencies, which are, Trade Development Authority and Trade Fair Authority of India. It's objective is to support export organizations engaged in international trade fairs and exhibitions, etc.

Also developing exports of new items, providing support and updated commercial business information. ITPO has 5 domestic offices in Mumbai, Bangalore, Kolkata, Kanpur and Chennai and 4 international offices in Germany, Japan, UAE and USA.

Indian Institute of Foreign Trade (IIFT)

Indian Institute of Foreign Trade is an establishment by the Government of India as an autonomous body in 1963. IIFT is registered under the Societies Registration Act with the prime objective of professionalising the country's foreign trade management.

It gives training in international business, conducts researches in areas of international business, and analysing and disseminating information relating to international trade and investments scenario.

State Trading Organisation

State Trading Organisation (STC) was established in May 1956. The main purpose of STC is to promote trade, primarily export trade among different trading partners of the globe. A huge number of local firms in India find it very difficult to compete in the global market.

In the meantime, the present trade routes are not suitable for the promotion of exports and bringing about diversification of trade with countries other than European countries.

Indian Institute of Packaging (IIP)

The Indian Institute of Packaging is an establishment as a national institute mutually run by the Ministry of Commerce, Government of India, and the Indian Packaging industry and allied interests in 1966. Its base and prime laboratory are located at Mumbai and three regional laboratories are situated at Kolkata, Delhi and Chennai. It is a training-cum-research institute pertaining to packaging and testing.

Functions of Exim Bank

The following are the functions of Export Import bank:

1. Finance for exports and Imports: Exim bank helps by providing finance for exports and imports of goods as well as services from India. One of the major export policies adopted by government of India is the export of value added items. For example, all along we have been exporting Hades and skins from India. Now, it is 'processed leather' in the form of leather goods. So, the exporter who was earning 1 or 2 dollars while exporting Hades and skins will now earn 25 to 30 dollars when he exports in the form of leather goods. Similarly, import of raw materials such as gold will be financed by Exim bank, since it will be exported as jewels which is again a value added export.

2. **Finance on deferred basis**: Exim bank provides finance on deferred basis for importing capital equipment and other machinery. The cost of capital equipment in foreign countries will be more and the Indian importer cannot afford to pay lump sum payment in foreign exchange. The Exim bank provides guarantee on behalf on the importer and enables the importer to make payment on installment basis to the foreign exporter. Or, the bank itself may pay in bulk to the foreign exporter and receive installment payments from the Indian importer.

3. **Lease Finance**: It provides lease finance for importing capital equipment. Under cross border leasing, the lessor may be in a foreign country, while the lessee will be in India. The Exim bank helps the Indian lessee in obtaining the capital equipment on lease by making the lease payment in terms of foreign exchange. It also helps for import leasing, wherein both the lessor and lessee will be Indians but the equipment imported on lease may be from U.S. A or U.K.

4. **Finance to export projects**: Export projects in Third World countries are financed. India has taken up various export projects in Third World countries, such as railway project in Tanzania. Similarly, projects on some of the oil wells in Kuwait and Iraq taken up by Oil and Natural Gas Commission (ONGC) are also financed by Exim bank. All the necessary equipment and the manpower required for such projects will be financed by the Exim bank.

Line of credit: The Exim bank provides line of credit to foreign importers so that exports from India can increase. Under line of credit, exim bank will provide finance to the Central bank of the borrowing country which in turn will provide to the commercial bank and ultimately the credit will reach the importer. This kind of credit is safe as there is guarantee of funds at every stage.

6. Refinance in foreign exchange: The Exim bank obtains bulk loan in foreign currencies in the foreign exchange market and provides refinance to the financial institutions, providing export finance. Different types of exporters may require different foreign currencies and these are obtained by the Exim bank at a competitive interest rate and are given to commercial banks for lending to exporters. It is due to this, the commercial banks are able to provide pre-shipment and post-shipment finance to different exporters.

7. Contribution to Equity fund: The Exim bank also contributes to the shares, debentures of Indian companies involved in exports. Export companies while raising capital, may issue shares which may be partly financed by Exim bank. The bank may extend this facility as a temporary finance as it will not retain the shares permanently. As a part of investment policy or by way of portfolio investment, it may invest in the shares and debentures of companies involved in exports.

8. Consultancy Services: The Exim bank also provides technical, administrative and other assistance to exporters. Export projects are analyzed by the Exim bank from the point of view of technical, managerial, marketing and financial feasibility. When it finds a project viable, on the above grounds, it will not hesitate to fund it.

Apart from the above assistance, it is also providing discounting facilities for export bills. There is also export finance for computer software exports. The exporters are provided with market development assistance so that they can undertake advertising and sales promotion activities in foreign countries. The bank signed a memorandum of understanding (MOU) with European Bank for Reconstruction and Development. The total assistance provided by the Exim bank has exceeded more than Rs. 3,000 crores. In the coming years, the bank is likely to play a major role in the export of automobiles and other non traditional items.

EPZ

An export processing zone, or EPZ, is an area set up to enhance commercial and industrial exports by encouraging economic growth through investment from foreign entities. Incentives such as tax exemptions and a barrier-free environment are the main attractions of an EPZ.

The main goals and benefits of an EPZ are growth from foreign exchange earnings through nontraditional exports, creation of jobs to assist in income generation and develop labor skillsets, the attraction of direct foreign investment, and fostering of transfer of technology.

Features of the Export Processing Zone

Although export processing zones are located in different geographic regions, they do share some commonalities:

1. Companies based in an EPZ tend to benefit from tax concessions that are generally long-term in nature.
2. Imports of materials and goods for export are duty-free.
3. While parts of countries that do not contain EPZs can remain underdeveloped in terms of technology and infrastructure, EPZs are fitted with advanced communication facilities and enhanced infrastructure. These zones also provide subsidies for utilities and rent to their occupants.
4. EPZ zones can accommodate both domestic and foreign firms; they even offer the opportunity for joint venture operations.

5. The zones are typically located in the vicinity of ports of air and sea, therefore making the import and export process more convenient.

6. Companies do not require as much government approval for practices as firms outside of the zone, with labor laws being more flexible.

Differentiating factors of EPZs are related to the management and quality of goods, services provided, and facilities. EPZs can be managed either publicly or privately.

Disadvantages of Export Processing Zones

There are significant benefits associated with the establishment of an EPZ, with countries such as China, Indonesia, and South Korea boasting great benefits. However, countries like the Philippines have faced poor performance from EPZs. In this example, the cost of establishment of the facilities has outweighed the gains in profits. Other disadvantages include:

1. Labor that is skewed mainly toward the female population leaving the problem of unemployment of the male population unresolved.

2. In some situations, employees work excessive hours in unsafe conditions such as extreme heat, around faulty machinery, and in buildings that are not routinely inspected and maintained.

3. Wages are typically low, often below that of the required country minimum wage.

4. Most employees have to accept the previously mentioned working conditions as trade unions, and labor movements are not allowed.

5. Due to the competitive nature of EPZs, workers often cannot expect any improvement in conditions as operating costs are purposely kept low to attract investors.

EOU

The Export Oriented Units (EOUs) scheme, introduced in early 1981, is complementary to the SEZ scheme. It adopts the same production regime but offers a wide option in locations with reference to factors like 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. As on 31st December 2005, 1924 units are in operation under the EOU scheme.

Objectives of the Export oriented unit: The main objectives of the EOU scheme is to increase exports, earn foreign exchange to the country, transfer of latest technologies stimulate direct foreign investment and to generate additional employment.

Major Sectors in EOUs:

- GRANITE
- TEXTILES / GARMENTS
- FOOD PROCESSING
- CHEMICALS
- COMPUTER SOFTWARE
- COFFEE
- PHARMACEUTICALS
- GEM & JEWELLERY
- ENGINEERING GOODS
- ELECTRICAL & ELECTRONICS
- AQUA & PEARL CULTURE

Export from EOU

Exports from EOUs during 2004-2005 were of the order of Rs.36806.17 crores as compared to the export of Rs.28827.58 crores achieved during 2003-2004, registering a growth of 27.68%.

EOU Activities

Initially, EOUs were mainly concentrated in Textiles and Yarn, Food Processing, Electronics, Chemicals, Plastics, Granites and Minerals/Ores. But now a day, EOU has extended it area of work which includes functions like 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, poultry, sericulture and granites.

Need for Special License

To set up an EOU for the following sectors, an EOU owner needs a special license.

- Arms and ammunition,
- Explosives and allied items of defense equipment,
- Defense aircraft and warships,
- Atomic substances,
- Narcotics and psychotropic substances and hazardous chemicals,

- Distillation and brewing of alcoholic drinks,
- Cigarettes/cigars and manufactured tobacco substitutes.

In the above cases, EOU owner are required to submit the application form to the Development Commissioner who will then put them up to the Board of Approvals (BOA).

Choosing the Location for EOU

EOUs can be set up anywhere in the country and may be engaged in the manufacture and production of software, floriculture, horticulture, agriculture, aquaculture, animal husbandry, pisciculture, poultry and sericulture or other similar activities.

However, it should be noted that in case of large cities where the population is more than one million, such as Bangalore and Cochin, the proposed location should be at least 25 km away from the Standard Urban Area limits of that city unless, it is to be located in an area designated as an "industrial area" before the 25th July, 1991. Non-polluting EOUs such as electronics, computer software and printing are exempt from such restriction while choosing the area. Apart from local zonal office and state government, setting up of an EOU is also strictly guided by the environmental rules and regulations.

The Contents in this E-Material has been taken from the text and reference book as given in the syllabus.