Volume : 5 | Issue : 12 | December-2016 ISSN - 2250-1991 | IF : 5.215 | IC Value : 79.96

Original Research Paper Commerce

Structure of Foreign Trade in India

Ruchi

Extension Lecturer, Department of Commerce, Government College for Women, Rohtak

ABSTRACT

Foreign trade in India includes all imports and exports to and from India. At the level of Central government it is administered by the Ministry of commerce and industry. Prior to the 1991 economic liberalization, India was a closed economy due to the average tariffs exceeding 200 percent and the extensive quantitative restrictions on import. Foreign investment was strictly restricted to only allow Indian ownership of businesses. Since the liberalization, India's economy has improved mainly due to increased foreign trade.

KEYWORDS Foreign Trade, Liberalization, Foreign investment

Around 1500

In 1498 Portuguese explorer Vasco da Gama landed in Calicut (modern day Kozhikode in Kerala as the first European to ever sail to India. The tremendous profit made during this trip made the Portuguese eager for more trade with India and attracted other European navigators and tradesmen.

Pedro Álvares Cabral left for India in 1500 and established Portuguese trading posts at Calicut and Cochin (modern day Kochi), returning to Portugal in 1501 with pepper, ginger, cinnamon, cardamom, nutmeg, mace, and cloves. The profits made from this trip were huge.

1991 economic reform

Prior to the 1991 economic liberalization, India was a closed economy due to the average tariffs exceeding 200 percent and the extensive quantitative restrictions on import. Foreign investment was strictly restricted to only allow Indian ownership of businesses. Since the liberalization, India's economy has improved mainly due to increased foreign trade.

Exports and Imports

India exports approximately 7500 commodities to about 190 countries, and imports around 6000 commodities from 140 countries. India exported US$318.2 billion and imported $462.9 billion worth of commodities in 2014.

Summary table of recent India Foreign Trade:

Year	Export	Import	Trade Deficit
1999	36.3	50.2	-13.9
2000	43.1	60.8	-17.7
2001	42.5	54.5	-12.0
2002	44.5	53.8	-9.3
2003	48.3	61.6	-13.3
2004	57.24	74.15	-16.91
2005	69.18	89.33	-20.15
2006	76.23	113.1	-36.87
2007	112.0	187.9	-75.9
2008	176.4	305.5	-129.1
2009	168.2	274.3	-106.1
2010	201.1	327.0	-125.9
2011	299.4	461.4	-162.0
2012	298.4	500.4	-202.0
2013	313.2	467.5	-154.3
2014	318.2	462.9	-144.7
2015[10]	310.3	447.9	-137.6

The top 10 commodity exports in 2014 were as follows:

Rank	Commodity	HS Code	Value (US$ billion)	Share (%)
1	Refined Petroleum	27	61.2	19.2
2	Gems, precious metals, coins	71	41.2	13
3	Vehicles	87	14.5	4.6
4	Machines, engines, pumps	85	13.6	4.3
5	Organic chemicals	29	12.1	3.8
6	Pharmaceuticals	30	11.7	3.7
7	Cereals	10	10.1	3.2
8	Iron and steel	72	9.1	2.9
9	Clothing (not knit or crotchet)	58	9.1	2.9
10	Electronics	85	9.1	2.8

The top 10 commodity imports in 2014 were as follows:

Rank	Commodity	HS Code	Value (US$ billion)	Share (%)
1	Oil	27	177.5	38.3
2	Gems, precious metals, coins	71	60	13
3	Electronics	85	32	6.9
4	Machines, engines, pumps	85	31.2	6.7
5	Organic chemicals	29	18.3	4
6	Plastics	39	11.8	2.6
7	Iron and steel	72	11.4	2.5
8	Animal/vegetable fats and oils	15	10.7	2.3
9	Ores, slag and ash	26	7.4	1.6
10	Medical and technical equipment	90	7.1	1.5

Largest trading partners of India

India's largest trading partners in descending order of value of total trade are the United Arab Emirates, China, the United States, Saudi Arabia, Switzerland, Singapore, Germany, Hong Kong, Indonesia, Iraq and Japan.

Main Features of Trade Policies

The massive trade liberalisation measures adopted after 1991 mark a major departure from the relatively protectionist trade policies pursued in earlier years.

1. Freer Imports and Exports

Substantial simplification and liberalisation has been carried out in the reform period. The tariff line wise import policy was first announced on March 31, 1996 and at that time itself 6,161 tariff lines were made free.

Till March 2000, this total had gone up to 8,066. The Exim Policy 2000-01 removed quantitative restrictions on 714 items and the Exim Policy 2001- 02 removed quantitative restrictions on the balance 715 items. Thus, in line with India's commitment to the WTO, quantitative restrictions on all import items have been withdrawn.

2. Rationalisation of Tariff Structure:
Acting on the recommendations of the Chelliah Committee, the government has, over the years, reduced the maximum rate of duty. The 1993-94, Budget had reduced it from 110 per cent to 85 per cent. The successive Budgets have reduced it further in stages. The peak import duty on non-agricultural goods is now only 12.5 per cent.

3. Decanalisation
A large number of exports and imports used to be canalised through the public sector agencies in India. The supplementary trade policy announced on August 13, 1991 reviewed these canalised items and decanalised 16 export items and 20 import items. The 1992-97 policy decanalised imports of a number of items including newsprint, non-ferrous metals, natural rubber, intermediates and raw materials for fertilisers.

However, 8 items (petroleum products, fertilisers, edible oils, cereals, etc.) were to remain canalised. The Exim Policy, 2001-02 put 6 items under special list — rice, wheat, maize, petrol, diesel and urea. Imports of these items were to be allowed only through State trading agencies.

4. Devaluation and Convertibility of Rupee on Current Account
The government made a two- step downward adjustment of 18-19 per cent in the exchange rate of the rupee on July 1 and July 3, 1991. This was followed by the introduction of LERMS i.e., partial convertibility of rupee in 1992-93, full convertibility on the trade account in 1993-94 and full convertibility on the current account in August 1994.

Substantial capital account liberalisation measures have also been announced. The exchange rate of the rupee is now market-determined. Thus, exchange rate policy in India has evolved from the rupee being pegged to a market related system (since March 1993).

5. Trading Houses
The 1991 policy allowed export houses and trading houses to import a wide range of items. The government also permitted the setting up of trading houses with 51 per cent foreign equity for the purpose of promoting exports.

The 1994-95 policy introduced a new category of trading houses called Super Star Trading Houses. These houses are entitled to membership of apex consultative bodies concerned with trade policy and promotion, representation in important business delegations, special permission for overseas trading and special import licences at enhanced rate.

6. Special Economic Zones
A scheme for setting up Special Economic Zones (SEZs) in the country to promote exports was announced by the government in the Export and Import Policy of March 31, 2000. The SEZs are to provide an internationally competitive and hassle-free environment for exports and are expected to give a boost to the country's exports.

The Policy has provided provisions for setting up SEZs in the public sector, joint sector or by State governments. It was also announced that some of the existing Export Processing Zones (EPZs) would be converted into Special Economic Zones.

Some of the distinctive features of SEZ scheme are:

(i) A designated duty-free enclave to be treated as foreign territory for trade operations and duties and tariffs;

(ii) SEZ units could be for manufacturing services;

(iii) No routine examination of export and import cargo by customs;

(iv) Sale in domestic market on full duty and import policy in force;

(v) SEZ units to be positive net foreign exchange earners in three years; (vi) no fixed wastage norms;

(vii) Duty-free goods to be utilised within the approval period of 5 years;

(viii) Subcontracting of part of production and production process allowed for all sectors, including jewellery units;

(ix) 100 per cent foreign direct investment through automatic route in the manufacturing sector;

(x) 100 per cent income tax exemption for 5 years and 50 per cent for 2 years thereafter and 50 per cent of the ploughed back profit for the next 3 years;

(xi) External commercial borrowing through automatic route, etc.

7. EOU Scheme
The Export Oriented Units (EOUs) scheme introduced in early 1981 is complementary to the SEZ scheme. It offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, and availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. The EOUs have put up their own infrastructure.

8. Agriculture Export Zones:
The Exim Policy 2001 introduced the concept of Agri- Export Zones (AEZs) to give primacy to promotion of agricultural exports and effect a reorganisation of our export efforts on the basis of specific products and specific geographical areas.

The scheme is centered on the cluster approach of identifying the potential products, the geographical region in which these products are grown and adopting an end-to-end approach of integrating the entire process right from the stage of production till it reaches the market.

The AEZs would have the state-of-the-art services such as pre-post harvest treatment and operations, plant protection, processing, packaging, storage and related research and development. The exporters in these zones can avail of the various export promotion schemes under the Exim Policy including recognition as a status holder.

9. Market Access Initiative Scheme:
Market Access Initiative Scheme was launched in 2001- 02 for undertaking marketing promotion efforts abroad. The key features of the scheme are in- depth market studies for select products in chosen countries to generate data for promotion of exports from India, assist in promotion of India, Indian products and Indian brands in the international market by display through showrooms and warehouses set up in rental premises by identified exporters, display in identified leading departmental stores total exhibitions trade fairs, etc. The scheme shall also assist quality upgradation of products as per requirements of overseas markets, intensive publicity campaigns, etc.

10. Focus on Service Exports
The amended Export-Import Policy, 2002-07, announced on March 31, 2003, specifically emphasized service exports as an engine of growth. It, accordingly, announced a number of measures for the promotion of exports of services. For instance,

import of consumables, office and professional equipment, spares and furniture upto 10 per cent of the average foreign exchange export earning has been allowed.

The advance licence system has been extended to the tourism sector. Under this, firms will be allowed duty-free import of consumables and spares upto 5 per cent of their average foreign exchange earnings of the previous three years, subject to actual user condition.

11. Concessions and Exemptions
A large number of tax benefits and exemptions have been granted during the 1990s to liberalise imports and promote exports with the five year Exim Policy 1992-97 and Exim Policy 1997-2002 serving as the basis for such concessions.

Conclusion
These policies, in turn, have been reviewed and modified on an annual basis in the Exim policies announced every year. Successive annual Union Budgets have also extended a number of tax benefits and exemptions to the exporters.

These include reduction in the peak rate of customs duty to 15 per cent; significant reduction in duty rates for critical inputs for the Information Technology sector, which is an important export sector; grant of concessions for building infrastructure by way of 10-years tax holiday to the developers of SEZs;

Facilities and tax benefits to exporters of goods and merchandise; reduction in the customs duty on specified equipment for ports and airports to 10 per cent to encourage the development of world class infrastructure facilities, etc.

A number of tax benefits have also been announced for the three integral parts of the 'convergence revolution' the Information Technology sector, the Telecommunication sector, and the Entertainment industry.