

A critical analysis of merchandise trade and framework of new foreign trade policy in India

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Abstract

Export and Import of Goods & Services are very major part of cross border trade and have always been so in the past. The country earns foreign exchange through export which further support to import. This study is to highlight the provisions and objectives of New Foreign Trade Policy in India. This paper also analyses the trends of India overall trade (Merchandise & Services) from the year 2011-12 to April-Dec 2022. The present study is based on only secondary data is collected from hand book of statistics of Indian economy, RBI Report, EXIM reports and world bank indicators. Descriptive statistics has been used to analyse the data and result is presented in tabular and diagrammatic form.

Keywords: merchandise trade (export's & import's), service trade, foreign trade policy

Introduction

Foreign Trade Policy is the combination of rules and regulation governing the Export and Import of Goods and Services in India. International trade is considered to be the backbone of growth of any economy. FDI and Foreign Investment is the two way for international trade and finance operation in India. Every Trade & Industry is expecting positively towards New Foreign Trade Policy 2021-26 in which the Government targeted Indian Economy \$ 5 Trillion by 2025 and appeal to the citizens be "Vocal for Local" and "Be Local and Go Global". Ministry of Commerce is now with the dynamic leadership of Hon Minister, Shri. Piyushji Goyal and when exporters look forward, the commitments announced in the Press Release as notified on the website of Ministry of Commerce & Industry. Ministry of Commerce have stated in the press release of "Electronic Governance and Trade Facilitation Reforms". This FTP is to transform the cross-border trade eco-system through efficient, transparent, risk based, coordinated, digital, seamless and technology driven procedures supported by IT infrastructure and data integrations. The policy also brings down the overall issuance and approval time for Export benefits, Export Promotion Schemes, Import/Export Licences for Restricted Items, Norms Fixation. It resulted in Improving India's ranking in Trading Across Borders indicator of the World. The digitalisation of the FTP enables a truly paperless regulatory environment, increased Trade promotion role through a single window approach and establishing transparent and predictable policy regimes.

Objectives of the study

1. To Highlight the major provisions of New Foreign Trade Policy 2021-26 in India with their objectives and expectation.
2. An analysis of Merchandise Trade (Export and Import of Goods and Services) from the year 2011-12 to April-Dec 2022 in India.

Research methodology

This study is analytical in nature. The secondary data has been used in the study which is collected from various journals, books, and hand book of statistics of Indian economy, RBI, EXIM reports and world bank indicators. The period of analysis for this study has been selected twelve years in India. The period of the study is from 2011-12 to April-Dec 2022. The methods of descriptive statistics is used to analyse the data and result is presented in diagrammatic and tabular form.

Analysis and interpretation

1. New foreign trade policy for the year 2021-26

The Foreign Trade Policy in India is basically a set of rules and regulations for promoting the import and export of goods and services from the country. The policy is framed by the DGFT (Directorate General of Foreign Trade) under the Ministry of Commerce & Industry. The Current Foreign Trade Policy was introduced on 1st April 2015 for the period of 5 years. The key expectations from Foreign Trade Policy 2021-26 are presented in below diagram-



Diagram 1: Expectation from the New Policy

- **WTO Compliant Tax Incentives:** The government has introduced the Remission of Duties and Taxes on Export Products (Ro DTEP) to end the need of the hour.
- **Infrastructure Upgrade:** The Government need to invest in upgrading infrastructure for efficient and extensive network like: warehouses, ports, SEZs,

quality testing labs, certification centres etc which will help exporters stay competitive in a cut-throat market. It also needs to adopt modern trade practices that can be implemented through the digitisation of export processes. This will save both time and cost.

- **Digitalisation:** Digitalisation makes the whole process of imports and exports paperless and online. This also brings a transparency in trade globally.
- **Easy access to credits:** The rise in prices of raw materials such as steel, and plastics along with a shortage of shipping containers and labour are making it difficult for the MSMEs to take full advantage of the global increase in demand. Due to inadequate collateral, they face a problem in lending money. The government must help MSMEs to export potential in existing tariff lines and provide policy support to raise the number of exporting MSMEs and increase MSME exports.
- **Tax Breaks:** The government must support in respect of easing and lowering the tax rates. Therefore, there is an urgent need to simplify the tax structure in import

and export of goods and services. Furthermore, a seamless disbursement of GST refunds, without administrative delays, carries paramount importance.

- **Awareness in Export:** There are many Exporters who lacks awareness in respect of trade opportunities. The government shall urgently expand the zone of consideration to engage with all stakeholders such that a consciously-framed and guided policy outlook emerges which guides both the Centre and private businesses for the nation’s economic progress. The New FTP address export constraints, review the regulatory and operational framework to reduce the transit costs and create a low-cost operating environment through developed logistics and utility infrastructure.

1.1 Purpose of New Foreign Trade Policy

The main aim for the policy would be to make India a leader in International Trade in the next 5 years. The Government has many other purposes behind the New FTP which is presented in below graph:



Diagram 2: Aims of New Foreign Trade Policy

1.2 Highlights the Major Provision of New FTP 2021-26

The Government has committed to working seriously towards its \$5 trillion dream, the Ministry of Commerce and Industry has few following plans for the new policy as briefed below.

Targeting for \$5 trillion economy

The Government of India has the vision of making the Indian Economy \$5 Trillion by 2025 and appealed to the citizen to be “Vocal for Local” and “Be Local and Go Global”. For achieving this dream, India needs to register a GDP growth rate of 8% or more in the next few years and triple its exports to \$1 trillion by 2025. The advisory group has suggested the reformation of labor laws, reducing the capital cost, selecting the right trading partner, sector-specific strategy to promote the export, etc.

Implementation of District Export Hubs

The "District Export hub initiative” will be a significant part of the new policy which aims to help small businesses and farmers in providing export opportunities through eCommerce and digital marketing platforms. The following objective shall be fulfilled under this initiative.

- The Government will identify the potential goods and services in each district,
- Will identify the Agricultural and Toy Clusters,

- Set up district export promotion committees (DEPCs), which will make action plans to promote district export.
- Mapping of GI (geographical indications) products.

Correcting Trade imbalance

There is persistent demand from the industry to correct the imbalances in India’s International trade processes; discussion has been done to reduce the constraints in the global market regarding the policy and procedure of FTP, lower the transaction cost, and enhancing the ease of doing business.



Diagram 3: The Plans of the Ministry of Commerce and Industry for the new policy

2. Analysis of merchandise trade in India

2.1 India Overall Merchandise Trade (Export and Import of Goods and Services)

India's overall (Merchandise and Services) exports in 2021-22 were US\$ 676.53 billion as against US\$ 497.90 billion in 2020-21, registering a positive growth of 35.88 per cent. For the period April-December 2022 exports were estimated at US\$ 568.57 billion as against US\$ 489.69 billion during April-December 2021, registering a positive growth of 16.11 per cent. Overall exports to GDP ratio have been seeing a declining trend over the past few years. However, it exhibited an increase in 2021-22 and stood at 21.30 per cent. Overall imports in 2021-22 were US\$ 760.06 billion,

exhibiting a positive growth of 48.46 per cent over the same period in the previous year. For the period April-December 2022 imports were estimated at US\$ 686.70 billion as against US\$ 546.95 billion during April-December 2021, registering a positive growth of 25.55 per cent. Overall trade deficit in 2021-22 was US\$ 83.53 billion, which was higher than the deficit of US\$ 14.06 billion in 2020-21. Overall Trade deficit for the period April-December 2022* is estimated at US\$ 118.12 billion as against the deficit of US\$ 57.26 billion during April-December 2021. The broad trends in overall Exports, Imports and Trade Balance since 2011-12 are indicated in the graph below:

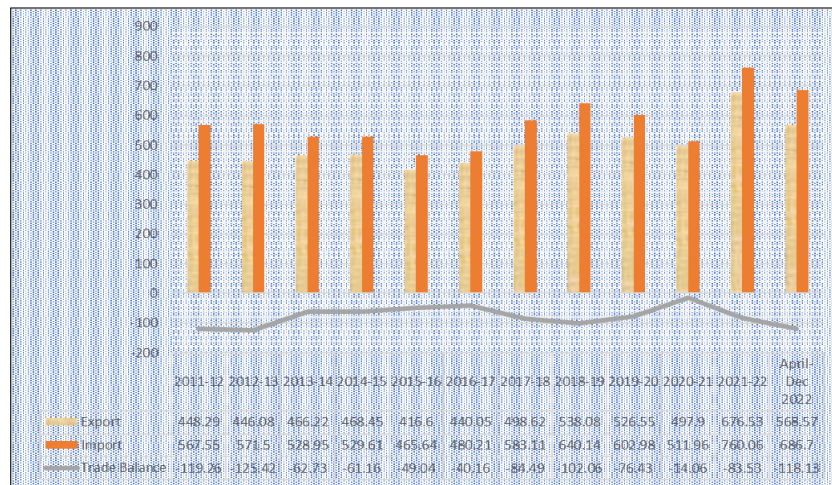


Table 1: India Overall Trade (Merchandise & Services) Since 2011-12 to April-Dec 2022.

2.2 Merchandise Trade of Goods from the year 2011-12 to April-Dec 2022

India's merchandise exports for the complete financial year i.e. 2021-22 were US\$ 422 billion as against US\$ 291.81 billion during 2020-21, registering a positive growth of 44.62 per cent. The monthly merchandise exports remained in the range of US\$ 30 billion to US\$ 45 billion during FY 2021-22 with the highest ever exports recorded in the month of March 2022 at US\$ 44.57 billion. India's merchandise exports surpassed the set target (US\$ 400 billion) by recording exports of US\$ 422 billion in FY 2021-22. A similar approach has again been followed to monitor and boost exports in 2022-23. During April-December 2022 (QE) exports registering a positive growth of 9.09 per cent than the period April-December 2021. Merchandise export

to GDP ratio an increasing trend of 13.92 per cent was recorded in FY 2021-22.

Imports during 2021-22 registered an increase of 55.43 per cent from US\$ 394.44 billion in 2020-21 to US\$ 613.05 billion in 2021-22. Import during April-December 2022(QE) stood at US\$ 551.70 billion, an increase of 24.96 percent compared to US\$ 441.50 billion during April-December 2021. Thus the trade deficit in 2021-22 was estimated at US\$ 191.05 billion as against the deficit of 102.63 billion in 2020-21. In April-December 2022(QE), trade deficit increased to US\$ 218.94 billion from US\$ 136.45 billion in April-December 2021. The overall trend of Merchandise trade (Export and Import of Goods and Services) in India are presented in the table below:



Table 2: India Merchandise Trade of Goods Since 2011-12 to April-Dec 2022.

2.3 Trends of Service Trade from 2011-12 to April Dec 2022.

In India, the services sector in India has been majorly contributed to export and FDI which positively effect over the development of economy and GDP growth. This sector has had a significant impact in pandemic or the economic disruptions. Services exports in 2021-22 stood at US\$ 254.53 billion as compared to US\$ 206.09 billion recorded in 2020-21, which is a positive growth of 23.50 per cent. Services exports contribution to India’s GDP has been exhibiting an increasing trend, from 7.70 per cent in 2018-19 to 8.01 per cent in 2021-22. India’s services exports stood at US\$ 235.81 billion in April-December 2022 as

compared to US\$ 184.65 billion in April-December 2021, which is a positive growth of 27.71 per cent. Services imports were US\$ 147.01 billion in 2021-22 as compared to US\$ 117.52 Billion in 2020-21, a positive growth of 25.09 per cent. The cumulative value of imports during April-December 2022 was US\$ 134.99 billion, registering a positive growth of 28.01 per cent vis-à-vis April-December 2021. A surplus of US\$ 107.52 billion and US\$ 100.82 billion was generated in services trade in 2021-22 and April-December 2022 respectively. The broad trends in Services Exports, Imports and Trade Balance in the last ten years are given in the table below:



Table 3: India Merchandise Trade of Services Since 2011-12 to April-Dec 2022.

Conclusion

India’s Foreign Trade had shown resilience and continue to offer bright prospects for growth of the economy. The New Foreign Trade Policy of Government is to approach and interacts with all stakeholders -line Ministries/ Departments, State Governments, Indian Mission abroad, Export Promotion Councils, Exporters and Industry Associations for achieving the target. A similar approach has again been followed to monitor and boost exports in new five years EXIM Policy. Imports and Exports both are the main determinant for the production and employment growth of an economy. Based on various literature reviews and analysis shows that Government has promoting and encouraging to the manufacturer and trader to make the India as Leader in International Market.

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