

Foreign Trade Policy of India – Explained in detail

Indian Foreign Trade Policy

What is Foreign Trade Policy (FTP)? What does FTP mean? How does FTP affect trade between two countries?

India has become a major trading partner for several nations around the globe. The country has also emerged as a key player in global trade negotiations. This has led to increased interest in understanding the Indian foreign trade policy.

As a developing economy, India has had a long history of protectionism. Its foreign trade policy has evolved over time. Understanding its current policies is important for businesses looking to enter or expand into India.

The last financial year ended on a good note for India's international trade. Indian exporters did not just demonstrate Covid flexibility but also posted a robust boost with record revenues of \$419.65 billion, which is being seen as a sign of exports bouncing back firmly.

The Free Trade Agreements (FTA) with Australia and UAE are also being acclaimed by policymakers as a gateway for extensive opportunities for Indian entrepreneurs.

Besides Free Trade Agreements FTAs, a new Foreign Trade Policy (FTP) is also long-awaited. Revisited and notified every five years since the 1991 economic reforms, the (FTP) Foreign Trade Policy has been the guiding beacon for all stakeholders.

“Indian exports decreased by a record 60% and imports by 59% in April 2020.”

Source: [\(\[cogoport.com\]\(http://cogoport.com\)\)](http://cogoport.com)

It has been delayed since April 2020 and further extended for more than six months up to September 30, 2022. The last Foreign Trade Policy (FTP) was notified in 2015, and since then it has been periodically extended.

The need for a new FTP (Foreign Trade Policy) can't be over-emphasised given recent geopolitical developments, the thrust on local manufacturing and a direction on two-way trade conventions.

What is FTP (Foreign Trade Policy) and its Significance?

Foreign trade policy is the set of rules developed by a government regarding how they want to interact with other countries to the development of international trade. The purpose of foreign trade policy is to ensure that any goods entering a country are legal; that people working in one country do not steal jobs from another country; and that businesses meet basic standards of public health and safety. When governments choose to engage in international trade export, they often use two types of policies: Preferential Trade Agreements (PTA), where tariffs are reduced for certain imports; and Subsidy Tariffs, where states subsidize exports through taxes or subsidies.

The Foreign Trade Policy (FTP) are a legal document, which is issued by the Government of India, enforceable under the Foreign Trade Development and Regulation Act 1992.

Revisited and notified every five since the 1991 economic reforms, the FTP has been the guiding flare for all stakeholders. The prime objective of a foreign trade policy is to facilitate trade by decreasing transaction and transit costs and time.

An Foreign Trade Policy (FTP) sets out the regulations for cross-border trade and reveals the government's position on a host of concomitant yet crucial policy variables.

Four main features of the Foreign Trade Policy of India

1) Negative Trade:

India had to import various items like heavy machinery, agricultural things, mineral oil and metals on a large scale for economic growth.

2) Diversity in Exports:

India used to export its traditional commodities only which included tea, jute, cotton textile, leather, etc but it has been observed in India's export commodities during the last few years since 2010. India now exports over 7,500 commodities. Since 1991, India has emerged as the main exporter of computer software and some of the advanced countries like the USA and Japan.

"According to the Ministry of Commerce and Industry, India's overall exports between April 2021 and December 2021 were estimated at US\$ 301.3 billion (a 49.6% YoY increase)."

Source: ibef.org

3) Worldwide Trade:

India has trade links with almost all the regions around the world. India exports its goods from around 190 countries and imports from 140 countries.

4) Trade through Selected Ports Only:

We have only 12 major ports along the coast of India which handle about 86% of overseas trade in India. A very small amount of foreign trade is managed by the remaining medium and small ports.

Why is a New Foreign Trade Policy Important for India?

Businesses have been adversely impacted by certain ad hoc, inconvenient, and contradictory changes to the 2015 Foreign Trade Policy (FTP). The 2015 Foreign Trade Policy (FTP) boosted exports by issuing duty-credit scrips directly in proportion to exports.

However, in the New foreign trade policy of India in 2020 the government has put limited the maximum export incentives for goods to Rs. 20 million, and last year, it was limited to Rs. 20 million for services. Moreover, the changes for service incentives are notified in September last year to be applied from April 2019.

The annual export incentives the Merchandise Exports from India Scheme (MEIS) and Services Exports from India Scheme (SEIS) of Rs. 51,012 crore were changed with the RoDTEP scheme incentive of Rs.12,454 crore. The endured Rs. 38,558 crore has been diverted into PLI to give advantages to a few sectors.

"In April 2022, the merchandise exports were at US\$ 38.19 billion, registering an increase of 24.22% as compared to the same period in the previous year."

Source: ibef.org

With a contribution of around 29% to the GDP and 40% to international trade, the Ministry of Micro, Small & Medium Enterprises (MSMEs) are the main player in achieving the

massive export targets. However, the surge in input and fuel costs is hitting the bottom lines of MSMEs.

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.

How does Foreign Trade Policy affect trade between two countries?

- It affects trade in goods by making it more expensive to import foreign products into their country.
- It affects trade by creating tariffs on imported goods.
- It can also have an impact through currency exchange rates.

Major Foreign trade trends under Modi's leadership

Trade has been one of India's biggest hit points for a long time, even during the pandemic.

At the time Prime Minister Modi took office, India had an export value of \$310.1 billion and an import value of \$447.6 billion.

Since then, exports have drifted around \$300 billion-mark almost every year. In FY22, the government had set up an ambitious target of achieving \$400 billion in exports during the financial and ended up crossing 8 days ahead of its schedule.

It took a decade for India to incrementally add another \$100 billion (the \$300 billion mark was touched in FY12) as against reaching \$200 billion from \$100 billion in only 5 years (FY06

to FY11). Among the factors that contributed to this growth included “the emergence of new trade corridors through FTAs/ECTA/CEPA” and the government’s Production-Linked Incentive, or PLI scheme, SBI said in a report.

Foreign Trade Policy in 2022

In April 2022, India and the EU agreed to come up with the EU-India Trade and Technology Council and planned to sign a free trade agreement by 2030.

As of April 2022, India signed 13 Free Trade Agreements (FTAs) with its trading partners which include major trade agreements like the India-UAE Comprehensive Partnership Agreement (CEPA) and the India-Australia Economic Cooperation and Trade Agreement (IndAus ECTA).

In April 2022, the merchandise exports were at US\$ 38.19 billion, registering an expansion of 24.22% as compared to the same period in 2021. With the upcoming trade policy 2021-26, the government plans to expand merchandise foreign trade of India imports and exports with emphasis on the higher share of MSMEs.

Foreign trade policy 2021-26 is expected to aim at MSMEs and new export growth. Last year in March, the central government declared plans to establish a new mechanism to increase import screening to protect domestic manufacturers. Details of the new screening process would be available in the foreign trade policy 2022-26, which can be expected to commence next month.

The available data would help domestic manufacturers analyze the market development of such goods.

The foreign trade policy 2022-26 is also expected to boost MSMEs and e-commerce exports and identify new sectors to boost domestic exports.

Impact on MSMEs

Micro, small and medium enterprises (MSMEs) in the sector, which comes as the second largest employer of around 12 crore workers after the agriculture sector, forms the biggest support of the Indian economy and contributes about 35% of the GDP and 40% of international trade, making them key players in achieving the ambitious export targets.

The flow in input and fuel costs is hitting the bottom lines of MSMEs. There's a growth in the cost of raw materials such as steel, and plastics along with a shortage of shipping containers and labour, making it more difficult. MSMEs are finding it difficult to take full benefits of the increase in demand and hope the new File Transfer Protocol (FTP) will ease their woes.

Under the Strengthening Services Exports from India Scheme (SEIS), an incentive of 3-7% of net foreign exchange earnings is provided to services exporters of notified services in India.

A modification in the minimum cap for the net foreign exchange earnings eligible to claim under the scheme and faster GST refunds to global product services are much needed with the new (FTP) File Transfer Protocol. An extension in the rollout of the FTP (File Transfer Protocol) would only make it difficult for MSMEs to leverage the new opportunities ahead of them.

The new FTP could advantage exporters if the incentives granted to retail and wholesale traders under the ambit of the MSME category are extended to them as well.

The new FTP must enable exporters to leverage technology in the field of foreign trade in India.

Recent developments In New Foreign Trade Policy

- In March 2022, India extended a US\$ 1 billion line of credit to Sri Lanka with the focus to help Sri Lanka acquire essential commodities.
- In January 2022, India extended a US\$ 500 million line of credit to Sri Lanka with the focus to help the country meet its fuel purchases.
- In January 2022, Mr Pravind Kumar Jugnauth, Prime Minister of Mauritius, and Prime Minister of India Mr Narendra Modi jointly unveil India-assisted projects in Mauritius including the US\$ 527 million lines of credit.
- In January 2022, India and the United Kingdom conducted their first round of Free trade agreement negotiations with both the countries through their shared ambitions to boost trade.
- In November 2021, India and the United States had their 12th Ministerial-level meeting of the India-United States Trade Policy Forum (TPF) both the countries expect a boost & growth in economic relations with the bilateral merchandise trade crossing the US\$ 100 billion mark between January- September last year.
- In October 2021, the Government of Dubai and the Government of Jammu and Kashmir signed a Memorandum of Understanding (MoU) for the development of the real estate, industrial parks, and super-speciality hospitals worth Rs. 28,400 crores (US\$ 3.80 billion).

FAQ's on foreign trade policy of India