

A COMPREHENSIVE ANALYSIS OF INDIAN FOREIGN TRADE: EVALUATING PERFORMANCE AND POLICY

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ABSTRACT

This research paper aims to offer a comprehensive understanding of India's international trade by examining its performance, policy framework, and global market position. The analysis commences with an introductory section that provides relevant background information, followed by an exploration of foreign trade's impact on India's economy. Subsequently, key indicators, trends, and challenges related to Indian foreign trade are examined. Moreover, the study evaluates India's objectives in terms of foreign trade policy and associated strategies and implications. This paper assesses India's current foreign trade standing while highlighting potential improvement areas. By undertaking such research activities policymakers can gain valuable insights that will inform decision-making processes aimed at enhancing the country's competitiveness in global trade.

Keywords: *Indian Foreign Trade, Performance Evaluation, Foreign Trade Policy, Global Market, Economic Impact.*

Introduction

The exchange of products and services across national borders between organizations is known as international commerce or foreign trade. This economic activity is crucial for governments because it enables them to discover lucrative markets outside of their own boundaries. Foreign trade policies are a set of laws each nation uses to regulate its international commerce and offer direction for imports and exports. Economic reforms and the country's economy's globalization have influenced India's stance on foreign commerce. To create a climate that encourages exporting, the nation has strongly emphasized liberalization, openness, and transparency in its international trade policy. With the intention of promoting an environment that is export-friendly, these regulations seek to streamline processes linked to foreign commerce.

The Indian foreign trade policy, which was published in 2004, was one important policy that had a considerable influence on India's international commerce. By doubling India's export trade share over the course of the following five years, this program sought to promote the general growth of the nation's international commerce. The main goals of this program were to increase exports, create jobs, make Indian exports more competitive, and boost their acceptance on the international market. The policy specified different activities, methods, export incentives, and institutional support to accomplish these

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goals. Additionally, it emphasized how crucial procedural simplicity is in promoting Indian exports. In conclusion, cross-border selling and buying of products and services by businesses is foreign commerce. Countries have distinct regulations in place to regulate their international commerce, and India has taken a liberalizing and export-promotional stance. India's 2004 international trade policy was to promote overall growth and double its export market share in five years. (*Foreign Trade Policy (2004-2009) - Corporate Catalyst India (CCI), 2020*)

Foreign Trade

Foreign trade is an essential element in the progress of nations as it enhances their income and contributes to the growth of their gross domestic product. It fosters political, economic, and social advancements in multiple countries. By participating in foreign trade, nations can lower production costs by utilizing natural resources available in other countries. The main goal of foreign trade is to import specific goods or services at a more affordable price from other nations instead of producing them domestically. This principle encourages cross-border trading when cheaper products are available elsewhere. Moreover, foreign trade enables less developed countries to catch up with economic development by importing advanced technology. Furthermore, it promotes economic equality while facilitating overall economic growth and encouraging international agreements that eliminate tariffs.

Foreign trade policies in India are shaped by economic reforms and globalization, with an emphasis on boosting exports and streamlining procedures to encourage a favourable environment for exporting goods. The objective of the Indian foreign trade policy is to regulate imports effectively while simultaneously promoting and sustaining export growth. To achieve this, the Foreign Trade Act of 1992 provides the government with the authority to establish provisions regarding foreign trade that align with the act's goals. India's approach towards foreign commerce revolves around facilitating exports while monitoring imports through simplified procedures. Legislation such as the Foreign Trade Act, enacted in 1992 enables authorities to set forth rules pertaining specifically to international business transactions accommodating their objectives. (Pandey, 2017)

Contribution of Foreign Trade to Country Economic Growth

Let's now discuss the factors highlighting the importance of foreign trade in a country's development.

- **Economic Development**

Foreign trade contributes to a country's economic development by promoting domestic industry growth through the export of agricultural products and the importation of capital goods and technology. (Pettinger, 2021)

- **Foreign Exchange Earnings**

Foreign trade generates valuable foreign exchange earnings that can be used for poverty alleviation programs and other productive activities, while also helping maintain a favorable balance of payments position.

- **Market Expansion**

It is vital in expanding markets and encouraging producers as it facilitates selling products and services to nations with high demand at competitive prices, particularly when domestic purchasing power is limited.

- **Increase in Investment**

It encourages investment by catering to the growing demand for goods and services. This is particularly attractive for countries with limited investments but high demand, resulting in an overall increase in investment rates. (Bertrand et al., 2023)

- **Increase in National Income**

Foreign trade contributes to higher levels of national income. The increased demand for products leads to expanded production and subsequently boosts both Gross Domestic Product and the country's overall income.

- **Decrease in Unemployment**

As domestic resources are fully utilized to meet the heightened demand, unemployment rates decrease significantly while development rates rise. In summary, foreign trade brings about a surge in investment opportunities along with enhanced national income and reduced unemployment.

- **Price Stability**

One of the benefits is that it helps stabilize prices by importing goods that are in short supply and exporting surplus goods, which prevents price fluctuations.

- **Specialization**

It is another advantage is specialization, where countries focus on producing commodities in which they have a comparative advantage. This leads to profitable international trade.

Overall, foreign trade plays a vital role in promoting economic growth, employment opportunities, expanding markets, and maintaining stable prices. It is an essential element for any nation's development. (The Scientific World & the Scientific World, 2021)

Evaluation of Indian Foreign Trade

India's foreign trade has a rich history that spans many years, marked by periods of global expansion and openness. The idea of international business and the merging of economies began in the 19th century. Globalization gained momentum during the industrial revolution in countries like the UK, USA, and Germany around 1870 but was disrupted by World War I in 1919. At this time, colonial powers would import raw materials from their colonies and export finished products which resulted in a significant boost to trade

India's post-independence international policy focused on achieving self-sufficiency and reducing dependence on global trade. To achieve this, India implemented import-substituting industrialization along with intricate price control measures. This approach led to significant growth but also resulted in a substantial current account deficit. As a response, India embraced foreign participation by opening up its economy in 1991. (Ghosh & Ghosh, 2021)

India began economic liberalization and opened its economy to international commerce and investments when the License Raj was abolished. The goal of this liberalization effort was to increase economic development, draw FDI, and promote independence. The changes also attempted to safeguard Indian businesses and advance regional equality.

These economic changes caused a change in India's trading relationships. As a result of India's expanding participation in international commerce and investment, the European Union, China, the United States of America, and the United Arab Emirates have emerged as the nation's top trading partners. (*From Licence Raj to Market Forces: The Determinants of Industrial Structure in India after Reform on JSTOR*, n.d.)

Indias Foreign Trade Policy

The foreign trade policy in India has identified several sectors that are anticipated to have promising opportunities for export growth and potential employment creation. These sectors include agriculture, handlooms and handicrafts, gems and jewellery, as well as leather and footwear. Consequently, the authorities have introduced targeted policy measures aimed at stimulating development within these industries. Now let us delve into a concise overview of the specific initiatives implemented across each sector.

- **Agriculture Sector**

The Indian government has introduced several trade policies in the agricultural sector to promote exports and boost economic growth.

- One of these policies is the Special Agricultural Scheme, which allows for a 5% entitlement on importing inputs and other goods based on the value of exports.
- Additionally, duty-free import and installation of capital goods needed for agricultural processing have been permitted in Agricultural Export Zones.
- The development of AEZs can also be funded through the Assistance to States for Infrastructure Development of Exports scheme.

- Furthermore, there has been liberalization in importing seeds, bulbs, tubers, and planting materials as well as exporting plant portions, derivatives and extracts related to medicinal plants and herbal products. (Özbey et al., 2021)

- **Handloom and Handicraft Sectors**

In the handlooms and handicraft sector, there are several measures that have been implemented to facilitate growth and development.

- One of these steps allows the importation of trimmings and embellishments without any duty being imposed, as long as it does not exceed 5% of the export value. Additionally, this sector has been exempted from paying Countervailing Duty. The Handicrafts Export Promotion Council is also authorized to import samples, trimmings, and embellishments needed by small manufacturers.
- Furthermore, in order to further support the handicraft industry, Special Economic Zones will be established specifically for handicrafts. These SEZs aim to provide a conducive environment for production activities within this sector. (Nugraha et al., 2022)

- **Gems and Jewelry Sector**

In the gems and jewellery sector, there are a number of steps that have been implemented for smooth operations.

- Firstly, consumables required for metals other than gold and platinum can be imported up to 2% of the value of exports. This allows businesses in this sector to efficiently procure necessary materials from international markets.
- Secondly, if any jewellery is rejected, it can be re-imported without having to pay any duty fees. This provision ensures that businesses have flexibility in rectifying quality issues or making modifications to their products. Furthermore, commercial samples of jewellery with a value not exceeding. (Gjepc, 2021)

- **Leather and Footwear Sector**

In the leather and footwear sector, several measures have been implemented.

- Firstly, there has been an increase in the duty-free entitlement for importing trimmings, embellishments, and footwear components for the leather industry. The new rate is set at 3% of the value of exports.
- Additionally, a higher duty-free allowance has also been granted specifically for certain items imported by the leather sector which now stands at 5% of export value.
- Furthermore, machinery and equipment that are used in effluent treatment plants within the leather industry are now exempt from customs duties. This exemption aims to support environmentally responsible practices within this sector.
- Lastly, permission has been given to re-export unsuitable materials such as raw hides and skin as well as wet blue leathers that had previously been imported but deemed unfit or unusable. (Leonidovna et al., 2018)

India's Foreign Trade Performance

The foreign trade policy declared by the Indian government in 2004 aimed to achieve two key objectives.

- Firstly, it sought to double India's percentage share of global merchandise trade within a span of five years.
- Secondly, it intended to utilize the expansion of trade as an effective means for driving economic growth and generating employment opportunities.

Both agriculture and industry have demonstrated remarkable resilience and dynamism in contributing towards a robust increase in exports. Over the course of five years, from 2003-04 to 2008-09, Indian exports experienced substantial growth - escalating from USD \$63 billion to USD \$168 billion. The cumulative value of exports reached an impressive figure of USD \$300.2 billion in 2013. As per estimates released by the World Trade Organization, India's share in global merchandise trade surged from 0.83% in 2003 to reach approximately 1.45% by the year of 2008.

Table 1: India's Foreign Trade

Month	(Billion)											
	2011-12			2012-13			2013-14			2014-15		
	Export	Import	Trade Balance	Export	Import	Trade Balance	Export	Import	Trade Balance	Export	Import	Trade Balance
1	2	3	4	5	6	7	8	9	10	11	12	13
April	1041.34	1623.76	-582.42	1232.71	1977.72	-745.02	1334.68	2260.57	-925.9	1485.85	2161.45	-6766.0
May	1190.95	2032.12	-841.17	1352.11	298.09	-947.98	1370.29	2419.77	-1049.48	1642.43	2326.33	-683.9
June	1190.24	1832.25	-642	1396.51	2025.9	-629.39	1402.9	2061.63	-658.73	1572.88	2272.78	-699.9
July	1173.8	1825.82	-652.02	1281.92	2254.17	-972.24	1544.3	2290.98	-746.68	1665.28	2399.72	-734.43
August	1121.48	1810.46	-688.98	128535	2072.78	-787.44	1666	2348.42	-682.41			
September	1265.2	1893.72	-628.52	13.5979	2296.24	-936.45	1793.04	2200.39	-407.36			
October	1164.06	2028.2	-864.13	1274.32	2345.98	-1071.66	1692.04	2360.3	-668.27			
November	1183.41	1988.61	-805.2	1273.59	2215.9	-942.31	1508.18	2115.93	-607.76			
December	1336.19	2109.4	-773.21	1391.2	2352.62	-961.42	163440	2271.16	-636.76			
January	1302.94	2205.15	-902.21	1400.03	2430.93	-1030.91	166446	2257.77	-589.31			
February	1238.74	1972.51	-733.78	1434.08	2193.54	-759.46	1574.13	2083.84	-509.71			
March Annual	1451.23	2132.65	-681.42	1661.59	2227.75	-566.15	1774.03	2412.73	-638.7			
	14659.59	23454.63	-8754.04	16343.19	26691.62	-10348.43	18941.82	27141.82	-8200			

Table 1: India's Foreign Trade as per RBI.(Welcome to the department of commerce, Government of India, 2020)

In terms of employment, research indicates that increased exports over the past five years have resulted in the direct or indirect creation of close to 14 million jobs.

According to the WTO's International Trade Statistics, 2010, India ranked as the world's 20th biggest exporter of goods with a share of 1.4% and the 10th largest importer with a share of 2.1% in 2010.(Puri et al., 2022)

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Conclusion

In conclusion, this comprehensive analysis sheds light on India's foreign trade, emphasizing its significance in driving economic growth and development. The study underscores the impact of foreign trade on employment, foreign exchange earnings, market expansion, and price stability. The examination of India's foreign trade policy evolution reveals a shift towards an export-friendly approach, aiming to enhance global market share and attract foreign investments. Key sectors, including agriculture, handlooms, handicrafts, gems, jewellery, and leather, have been targeted for growth and development. The evaluation of India's foreign trade performance highlights significant export growth, positioning India as a notable player in global trade. Nonetheless, challenges such as trade deficits, infrastructure issues, and policy continuity must be addressed for further trade competitiveness. India's foreign trade remains a critical driver of economic prosperity, with ongoing efforts and strategic planning needed to maintain and improve its global position. Policymakers and stakeholders can leverage these insights for informed decisions, ensuring India's continued success as a key player in the global trade arena.

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