International Trade
The Current Scenario of India

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Abstract : *If you walk into a supermarket and are able to buy South American bananas, Brazilian coffee and a bottle of South African wine, you are experiencing the effects of international trade. International trade allows us to expand our markets for both goods and services. It is the reason why you can pick between a Japanese, German or American car. As a result of international trade, the market contains greater competition and therefore more competitive prices, which brings a cheaper product home to the consumer.*
In the era before the rise of the nation state, the term 'international' trade cannot be literally applied, but simply means trade over long distances; the sort of movement in goods which would represent international trade in the modern world. In the 21st century, the European Union, United States and China are the three largest trading markets in the world.
Key Words : *GDP, DGFT, RBI, WTO, EXIM, Foreign Trade, FTP, FMS, FPS*

1. Introduction

If we think about international trade, the economists view differs from the general public. There are three main differences.

1. Many non-economists think that it is more advantageous to trade with other members of one’s nation or local group than with outsiders. Economists says all forms of trade and business as equally advantageous.
2. Many non-economists think that exports are better than imports for the economy and GDP. Economists believe that all type of trade is good for the economy.
3. Many non-economists think that a country’s balance of trade is governed by the “competitiveness” of its wage rates, tariffs, and other factors. Economists believe that the balance of trade is governed by many factors, including the above, but also including differences in national saving and investment.

2. Definition

International trade is the exchange of capital, goods, and services across international borders or territories, which could involve the activities of the government and individual. This type of trade gives rise to a world economy, in which prices, or supply and demand, affect and are affected by global events. In most countries, such trade represents a significant share of gross domestic product (GDP).
While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries. It is the assumption of international trade that a sufficient level of geopolitical peace and stability are prevailing in order to allow for the peaceful exchange of trade and commerce to take place between nations.
Trading globally gives consumers and countries the opportunity to be exposed to new markets and products. Almost every kind of product can be found on the international market: food, clothes, spare parts, oil, jewellery, wine, stocks, currencies and water. Services are also traded:

tourism, banking, consulting and transportation. A product that is sold to the global market is an export, and a product that is bought from the global market is an import.

3. India's Foreign Trade Policy for International Business

The foreign trade policy in India is formulated and implemented mainly by the Ministry of Commerce and Industry, but also in consultation with other concerned ministries, such as Finance, Agriculture, and Textiles, and the Reserve Bank of India (RBI). The Directorate General of Foreign Trade (DGFT) under the Department of Commerce is responsible for the execution of the foreign trade policy.

The Directorate General of Anti-Dumping and Allied Duties was constituted in April 1998 to carry out investigations and to recommend levels of anti-dumping duty.

The responsibilities of the Ministry of Finance include setting import duties and other border and internal taxes, surveying the working of customs, assisting and advising on implementation of the WTO Customs Valuation Agreement, and undertaking investigations to impose safeguard measures.

The Ministry of Agriculture designs the National Agriculture Policy, which is aimed at ensuring an adequate supply of essential food at 'reasonable' prices, securing a reasonable standard of living for farmers and agricultural workers, developing agriculture and rural infrastructure, and helping the sector face the challenges arising out of globalization in a WTO-compatible manner.

The Ministry of Agriculture and the Ministry of Commerce formulate India's proposals for WTO negotiations on agriculture. The Ministry of Textiles is in charge of promoting exports of textiles, and of managing quotas maintained by importing countries. The RBI manages the exchange rate policy and also regulates interest rates, for instance, for pre- and post-shipment export credit.

The export-import (EXIM) policy was earlier formulated under Import and Export (Control) Act, 1947 which came into existence on 25 March 1947. Initially the Act was for three-year duration but was extended till 31 March 1977 for varying periods. Thereafter, it was extended for an indefinite period.

In 1992, the Import and Export (Control) Act, 1947 was replaced by the Foreign Trade (Development and Regulation) Act, whereby the Chief Controller of Exports and Imports was designated as Director General of Foreign Trade.

Till 1985, the EXIM policy for each financial year used to be announced by means of public notice in the Gazette of India. In order to ensure continuity in operations and provide stability to the external sector the EXIM policy was first announced for a three-year duration during 1985-88.

The objective of formulating long-term policy was to reduce unpredictability in the external trade regime with minimum changes of exceptional nature during the validity of the policy. However, the frequency of unabated changes has necessitated issuance of revised annual policies.

The five year EXIM Policy (2002-07) launched co-terminus with the tenth five year plan up to 31 March 2007, was terminated mid-length and replaced with the Foreign Trade Policy with effect from 1 April 2004 for a period of five years to remain in force up to 31 March 2009.
The foreign trade policy outlines a country's export promotion measures, policies, and procedures related to foreign trade.

3.1. India's foreign trade policy is built around the following two objectives:

3.1.1. To double India's share in global merchandise trade within the next five years.
3.1.2. To act as an effective instrument of economic growth by giving a thrust to employment generation

3.2. In order to achieve these objectives, the strategies adopted are:

3.2.1. Unshackling of controls and creating an atmosphere of trust and transparency to unleash the innate entrepreneurship of India's businessmen, industrialists, and traders.
3.2.2. Simplifying procedures and bringing down transaction costs
3.2.3. Neutralizing incidence of all levies and duties on inputs used in export products, based on the fundamental principle that duties and levies should not be exported
3.2.4. Facilitating development of India as a global hub for manufacturing, trading, and services
3.2.5. Identifying and nurturing special focus areas so as to generate additional employment opportunities
3.2.6. Facilitating technological and infrastructural up gradation of Indian economy, especially through import of capital goods and equipment leading to increase in value addition, productivity, and quality
3.2.7. Strengthening role of Indian embassies in export

4. The Foreign Trade Policy of India (2009-2014)

On August 27, 2009, the commerce and industry minister, Anand Sharma, presented the five-year Foreign Trade Policy (FTP) for 2009-2014. Aiming to reverse contraction in exports for 10 consecutive months, the new FTP has several measures to ensure a healthy growth of foreign trade. The measures comprise fiscal concessions as well as relaxations in procedure. The export target of $ 200 billion for 2010-11 means a growth of 15 per cent over the next two years. The FTP also envisages an overall medium- term objective of 25 per cent annual growth thereafter.
According to the minister, the three elements which were expected to help achieve the targets are: improvement in export-related infrastructure, reduction in transaction costs, and provision of full refund of all indirect taxes and levies.

4.1. Highlights of the Foreign Trade Policy of India (2009-2014)

4.1.1. Higher Support for Market and Product Diversification:

4.1.1.1. Incentive schemes have been expanded by way of addition of new products and markets.
4.1.1.2. Twenty-six new markets have been added under Focus Market Scheme. These include 16 new markets in Latin America and 10 in Asia- Oceania.
4.1.1.3. The incentive available under Focus Market Scheme (FMS) has been raised from 2.5 per cent to 3 per cent.

4.1.1.4. The incentive available under Focus Product Scheme (FPS) has been raised from 1.25 per cent to 2 per cent.

4.1.1.5. A large number of products from various sectors have been included for benefits under FPS. These include engineering products (agricultural machinery, parts of trailers, sewing machines, hand tools, garden tools, musical instruments, clocks and watches, railway locomotives etc.), plastic (value added products), jute and sisal products, technical textiles, green technology products (wind mills, wind turbines, electric operated vehicles etc.), project goods, vegetable textiles and certain electronic items.

4.1.1.6. Market Linked Focus Product Scheme (MLFPS) has been greatly expanded. Some major products include pharmaceuticals, synthetic textile fabrics, value added rubber products, value added plastic goods, textile made-up, knitted and crocheted fabrics, glass products, certain iron and steel products and certain articles of aluminium among others. Benefits to these products will be provided, if exports are made to 13 identified markets (Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Mexico, Ukraine, Vietnam, Cambodia, Australia and New Zealand).

4.1.1.7. MLFPS benefits also extended for export to additional new markets for certain products. These products include auto components, motor cars, bicycle and its parts, and apparels among others.

4.1.1.8. Higher allocation for Market Development Assistance (MDA) and Market Access Initiative (MAI) schemes is being provided.

4.1.2. Technological Up-gradation:

4.1.2.1. To aid technological upgradation of India's export sector, EPCG Scheme at zero duty has been introduced. This scheme will be available for engineering and electronic products, basic chemicals and pharmaceuticals, apparels and textiles, plastics, handicrafts, chemicals and allied products and leather and leather products [subject to exclusions of current beneficiaries under Technological Upgradation Fund Schemes (TUFS), administered by Ministry of Textiles and beneficiaries of Status Holder Incentive Scheme in that particular year]. The scheme shall be in operation till March-end, 2011.

4.1.2.2. 'Towns of Export Excellence' have been recognised: Jaipur, Srinagar and Anantnag for handicrafts; Kanpur, Dewas and Ambur for leather products; and Malihabad for horticultural products.

4.1.3. Export Promotion Capital Goods (EPCG) Scheme Relaxations:

4.1.3.1. To increase the life of existing plant and machinery, export obligation on import of spares, moulds, etc., under EPCG Scheme has been reduced to 50 per cent of the normal specific export obligation.

4.1.3.2. Taking into account the decline in exports, the facility of Refixation of Annual Average Export Obligation for a particular financial year in which there is decline in exports from the country has been extended for the 5 year policy period 2009-14.

4.1.4. Stability / Continuity of the Foreign Trade Policy:

4.1.4.1. To impart stability to the policy regime, Duty Entitlement Passbook (DEPB) Scheme is extended beyond December 2009 till December 2010.

4.1.4.2. Income Tax exemption to 100 per cent EOUs and to STPI units under Section 10B and 10A of Income Tax Act, has been extended for the financial year 2010-11 in the Budget 2009-10.

4.1.4.3. The adjustment assistance scheme initiated in December 2008 to provide enhanced ECGC cover at 95 per cent, to the adversely affected sectors, is continued till March 2010.

4.1.5. Gems and Jewellery Sector:

4.1.5.1. To neutralize duty incidence on gold jewellery exports, it has now been decided to allow Duty Drawback on such exports.

4.1.5.2. In an endeavour to make India a diamond international trading hub, it is planned to establish "Diamond Bourses".

4.1.5.3. A new facility to allow import on consignment basis of cut and polished diamonds for the purpose of grading/certification purposes has been introduced.

4.1.5.4. To promote export of gems and jewellery products, the value limits of personal carriage have been increased from US$ 2 million to US$ 5 million in case of participation in overseas exhibitions. The limit in case of personal carriage, as samples, for export promotion tours, has also been increased.

4.1.6. Agriculture Sector:

To reduce transaction and handling costs, a single window system to facilitate export of perishable agricultural produce has been introduced. The system will involve creation of multi-functional nodal agencies to be accredited by APEDA.

4.1.7. Leather Sector:

4.1.7.1. Leather sector shall be allowed re-export of unsold imported raw hides and skins and semi finished leather from public bonded ware houses, subject to payment of 50 per cent of the applicable export duty.

4.1.7.2. Enhancement of FPS rate to 2 percent, would also significantly benefit the leather sector.

4.1.8. Tea:

4.1.8.1. Minimum value addition under advance authorisation scheme for export of tea has been reduced from the existing 100 per cent to 50 per cent.

4.1.8.2. DTA sale limit of instant tea by EOU units has been increased from the existing 30 per cent to 50 per cent.

4.1.8.3. Export of tea has been covered under VKGUY Scheme benefits.

4.1.9. Pharmaceutical Sector:

4.1.9.1. Export obligation period for advance authorizations has been increased from the existing 6 months to 36 months, as is available for other products.

4.1.9.2. Pharma sector extensively covered under MLFPS for countries in Africa and Latin America, and some countries in Oceania and Far East.

4.1.10. Export Oriented Units (EOUs):

4.1.10.1. EOUs have been allowed to sell products manufactured by them in DTA upto a limit of 90 per cent instead of existing 75 per cent, without changing the criteria of 'similar goods', within the overall entitlement of 50 per cent for DTA sale.

4.1.10.2. EOUs will now be allowed to procure finished goods for consolidation along with their manufactured goods, subject to certain safeguards.

4.1.10.3. During this period of downturn, *Board of Approvals (BOA)* to consider extension of block period by one year for calculation of Net Foreign Exchange earnings of EOUs.

4.1.10.4. EOUs will now be allowed *Central Value Added Tax (CENVAT)* credit facility for the component of SAD and Education Cess on DTA sale.

4.1.11. Flexibility Provided to Exporters:

4.1.11.1. Payment of customs duty for Export Obligation (EO) shortfall under Advance Authorisation / DFIA / EPCG Authorisation has been allowed by way of debit of duty credit scripts. Earlier the payment was allowed in cash only.

4.1.11.2. Import of restricted items, as replenishment, shall now be allowed against transferred DFIAs, in line with the erstwhile DFRC scheme.

4.1.11.3. Time limit of 60 days for re-import of exported gems and jewellery items for participation in exhibitions has been extended to 90 days in case of USA.

4.1.11.4. Transit loss claims received from private approved insurance companies in India will now be allowed for the purpose of EO fulfillment under export promotion schemes. At present, the facility has been limited to public sector general insurance companies only.

4.1.12. Simplification of Procedures:

4.1.12.1. To facilitate duty free import of samples by exporters, number of samples/pieces has been increased from the existing 15 to 50. Customs clearance of such samples shall be based on declarations given by the importers with regard to the limit of value and quantity of samples.

4.1.12.2. Greater flexibility has been permitted to allow conversion of shipping bills from one export promotion scheme to other scheme. Customs shall now permit this conversion within three months, instead of the present limited period of only one month.

4.1.12.3. To reduce transaction costs, dispatch of imported goods directly from the port to the site has been allowed under Advance Authorisation Scheme for deemed supplies. At present, the dutyfree imported goods could be taken only to the manufacturing unit of the authorisation holder or its supporting manufacturer.

4.1.12.4. Disposal of manufacturing wastes/scrap will now be allowed after payment of applicable excise duty, even before fulfilment of export obligation under Advance Authorisation and EPCG Scheme.

4.1.12.5. Regional authorities have now been authorised to issue licences for import of sports weapons by 'renowned shooters', on the basis of NOC from the Ministry of Sports & Youth Affairs. Now there will be no need to approach *Directorate General of Foreign Trade (DGFT)* (Hqrs.) in such cases.

4.1.12.6. The procedure for issue of Free Sale Certificate has been simplified and the validity of the certificate has been increased from 1 year to 2 years. This will solve the problems faced by the medical devices industry.

4.1.12.7. Automobile industry, having their own R&D establishment, would be allowed free import of reference fuels (petrol and diesel), upto a maximum of 5 K1 per annum, which are not manufactured in India.

4.1.12.8. Acceding to the demand of trade and industry, the application and redemption forms under EPCG scheme have been simplified.

4.1.13. Reduction of Transaction Costs:

4.1.13.1. No fee shall now be charged for grant of incentives under the Schemes of *Foreign Trade Policy (FTP)*. Further, for all other authorisations/licence applications, maximum applicable fee is being reduced to Rs 100,000 from the existing Rs 1,50,000 (for manual applications) and Rs 50,000 from the existing Rs.75,000 (for EDI applications).

4.1.13.2. To further EDI initiatives, Export Promotion Councils/ Commodity Boards have been advised to issue RCMC through a web-based online system.

4.1.13.3. For EDI ports, with effect from December 2009, double verification of shipping bills by customs for any of the DGFT schemes shall be dispensed with.

4.1.13.4. An Inter-Ministerial Committee will be formed to redress/ resolve problems/issues of exporters.

4.2. Analysis:

The salient features of the trend in trade balance are discussed below.

4.2.1. *Increasing trade value:*

The total trade value has risen from Rs 1,214 crore in 1950-51 to around Rs seven lakh crore in 2003-04. The fastest rise in trade value has taken place from mid- 1990s to mid-2000s due to a rise in quantity of exportable goods as well as a rise in the value of commodities.

The rise in value of trade suggests the significance of international trade vis-a-vis the Indian economy. As India’s economy will be more diversified the value of trade will also increase. It is a matter of concern that, in spite of such a massive growth, India’s share has remained very low in the context of world trade.

4.2.2. *Larger growth of imports:*

The value of India’s imports has risen higher than the export value since 1951 due to rapid industrialisation, import of food-grains on a regular basis from 1958-59 to 1972-73 under PL 480 scheme in order to supplement domestic productions and maintain a minimum level of buffer stock.

Inflation in India has been controlled by increasing imports and supplying price sensitive commodities like cement, edible oils etc.

On the pretext of export promotion, imports have also been liberalised leading to imports of essential as well as non-essential goods.

Oil prices have been periodically increased by *The Organization of the Petroleum Exporting Countries (OPEC)* since 1973. This has added to our growing import bill.

4.2.3. *Inadequate export growth:*

The first 15 years of export stagnation in India occurred due to the predominance of agricultural commodities like tea, jute and cotton as export items. The demand for these items is always inelastic. Besides, our exportable items are not cost-effective.

After the rupee devaluation in 1966, the government entered into several agreements with socialist countries besides providing fiscal and cash incentives. Further, a number of export promotion councils and agencies were set up. All these factors led to a fairly rapid growth of exports in the 1970s. Despite this, our import bill has for all purposes always been higher than the export value because the majority of exportable commodities were primary goods; increasing domestic consumption left little surplus for export; export promotion measures like tax and other associated incentives were found to be inadequate; the developed countries like the USA resorted to greater tariff barriers against imports from developing countries; there has been a prolonged economic recession in most developed countries during the period; and the unit value of exportable goods rose much higher than the quantum index of exports.

Steps Required Of late, India has embarked on a path of diversifying exportable commodities to reduce its huge trade deficit. Hopefully the developed countries like the USA, UK, Germany and Japan will buy bulk commodities from India (their share is 37 per cent of the total exports). These well-off countries with high per capita income offer us excellent markets for pushing our products.

India needs to cultivate newer markets for some of the products like cotton and jute manufactures, particularly carpet backing, leather manufactures and non-traditional items such as marine products, pearls, precious stones etc. India has a great potential for augmenting exports in the field of software also. It is clear that export of value-added products and technologically advanced products holds the key to tilting the trade balance in favour of India.

5. Largest Countries by Total International Trade

Table 5.1: Table Showing International Trade (Country wise)

Rank	*Country*	*International Trade of Goods (Billions of USD)*	*Date of information*	*% GDP (nominal)*
-	***World***	37,706.0	2013 est.	50.5%
-	European Union	4,485.0	2013 est.	24.2%
1	China	4,201.0	2014 est.	40.5%
2	United States	3,944.0	2014 est.	22.6%
3	Germany	2,866.0	2014 est.	74.3%
4	Japan	1,522.4	2014 est.	33.0%
5	France	1,212.3	2014 est.	42.6%
6	United Kingdom	1,189.4	2014 est.	40.4%
7	South Korea	1,170.9	2014 est.	82.6%
8	Hong Kong	1,088.4	2014 est.	375.8%
9	Netherlands	1,041.6	2014 est.	120.2%
10	Italy	948.6	2014 est.	44.2%
11	Canada	947.2	2014 est.	51.1%
12	India	850.6	2014 est.	41.5%
13	Russia	844.2	2014 est.	41.3%
14	Singapore	824.6	2014 est.	262.8%
15	Mexico	813.5	2014 est.	61.2%
16	Switzerland	721.8	2014 est.	101.4%
17	United Arab Emirates	676.4	2014 est.	156.7%
18	Belgium	663.6	2014 est.	181.1%
19	Spain	655.2	2014 est.	48.2%
20	Taiwan	595.5	2014 est.	112.5%

*** Source : Export-Import Department Report (2015-16)*

6. Advantages and Disadvantages of International Trade

6.1. Advantages of International Trade:

6.1.1. Optimal Use of Natural Resources:

International trade helps each country to make optimum use of its natural resources. Each country can concentrate on production of those goods for which its resources are best suited. Wastage of resources is avoided.

6.1.2. Availability of All Types Of Goods:

It enables a country to obtain goods which it cannot produce or which it is not producing due to higher costs, by importing from other countries at lower costs.

6.1.3. Specialisation:

Foreign trade leads to specialisation and encourages production of different goods in different countries. Goods can be produced at a comparatively low cost due to advantages of division of labour.

6.1.4. Advantages of Large-Scale Production:

Due to international trade, goods are produced not only for home consumption but for export to other countries also. Nations of the world can dispose of goods which they have in surplus in the international markets. This leads to production at large scale and the advantages of large scale production can be obtained by all the countries of the world.

6.1.5. Stability in Prices:

International trade irons out wild fluctuations in prices. It equalizes the prices of goods throughout the world (ignoring cost of transportation, etc.)

6.1.6. Exchange of Technical Know-How And Establishment of New Industries:

Underdeveloped countries can establish and develop new industries with the machinery, equipment and technical know-how imported from developed countries. This helps in the development of these countries and the economy of the world at large.

6.1.7. Increase in Efficiency:

Due to international competition, the producers in a country attempt to produce better quality goods and at the minimum possible cost. This increases the efficiency and benefits to the consumers all over the world.

6.1.8. Development of The Means of Transport And Communication:

International trade requires the best means of transport and communication. For the advantages of international trade, development in the means of transport and communication is also made possible.

6.1.9. International Co-Operation and Understanding:

The people of different countries come in contact with each other. Commercial intercourse amongst nations of the world encourages exchange of ideas and culture. It creates co-operation, understanding, cordial relations amongst various nations.

6.1.10. Ability To Face Natural Calamities:

Natural calamities such as drought, floods, famine, earthquake etc., affect the production of a country adversely. Deficiency in the supply of goods at the time of such natural calamities can be met by imports from other countries.

6.1.11. Other Advantages:

International trade helps in many other ways such as benefits to consumers, international peace and better standard of living.

6.2. Disadvantages of International Trade:

Though foreign trade has many advantages, its dangers or disadvantages should not be ignored.

6.2.1. Impediment in The Development Of Home Industries:

International trade has an adverse effect on the development of home industries. It poses a threat to the survival of infant industries at home. Due to foreign competition and unrestricted imports, the upcoming industries in the country may collapse.

6.2.2. Economic Dependence:

The underdeveloped countries have to depend upon the developed ones for their economic development. Such reliance often leads to economic exploitation. For instance, most of the underdeveloped countries in Africa and Asia have been exploited by European countries.

6.2.3. Political Dependence:

International trade often encourages subjugation and slavery. It impairs economic independence which endangers political dependence. For example, the Britishers came to India as traders and ultimately ruled over India for a very long time.

6.2.4. Exploitation of Natural Resources:

Excessive exports may exhaust the natural resources of a country in a shorter span of time than it would have been otherwise. This will cause economic downfall of the country in the long run.

6.2.5. Import of Harmful Goods:

Import of spurious drugs, luxury articles, etc. adversely affects the economy and well-being of the people.

6.2.6. Storage of Goods:

Sometimes the essential commodities required in a country and in short supply are also exported to earn foreign exchange. This results in shortage of these goods at home and causes inflation. For example, India has been exporting sugar to earn foreign trade exchange; hence the exalting prices of sugar in the country.

6.2.7. Danger to International Peace:

International trade gives an opportunity to foreign agents to settle down in the country which ultimately endangers its internal peace.

6.2.8. World Wars:

International trade breeds rivalries amongst nations due to competition in the foreign markets. This may eventually lead to wars and disturb world peace.

6.2.9. Hardships in Times of War:

International trade promotes lopsided development of a country as only those goods which have comparative cost advantage are produced in a country. During wars or when good relations do not prevail between nations, many hardships may follow.

Conclusion

The International Trade is playing an important role in the development of the developing country like India. The International Trade get promoted after the implementation of the New Industrial Development Policy or after 1991 and it is gradually increasing year by year and playing a vital role in the development of the country. Today if the Indian knows the brand name like Nike, Adidas, it is just because of International Trade.

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