

Foreign Trade Policy, 2023: India's Export Push

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Foreign Trade Policy, 2023: India's Export Push

Introduction

India crossed the three trillion economy mark and currently ranks fifth in Gross Domestic Product (GDP). Post-independence India witnessed a steady growth in foreign trade. Regarding the scale of trade, India's overall export (merchandise and services included) crossed \$ \$444 billion in the year 2022, whereas imports were at \$712 billion (a trade deficit of \$268 billion)¹. Some major sectors India exports are information technology (IT) services, software development, pharmaceuticals, automobiles, engineering goods, textiles, and agricultural products. On the contrary, India imports crude oil, electronic goods, gold, machinery, chemicals, and fertilizers. That said, India lags in expanding its export share and adding new export sectors. Two major sectors which India needs to prioritize are manufacturing and IT services. On a global scale, China outperforms India in the manufacturing sector (its manufacturing percentage share of GDP was 28 in 2022²). At present, manufacturing contributes only 13% of the country's GDP³.

India has taken several measures to increase its share in world trade by including the country in the global value chains. These measures broadly cover the inflow of FDI by opening new sectors to FDI and improving the ease of doing business by removing regulatory barriers and providing incentives to domestic producers. The Indian government has also introduced an interest equalisation scheme to facilitate affordable credit access for exporters in the country. Though these measures significantly pushed India's exports, India's approach to its Foreign Trade Policy (FTP) is shifting from the incentive-based regime to a facilitator to India's broad vision of 'Atmanirbhar Bharat' (Self-

¹ <https://pib.gov.in/PressReleasePage.aspx?PRID=1916220#:~:text=worth%20of%20exports.-,Merchandise%20exports%20have%20registered%20highest%20ever%20annual%20exports%20of%20USD,exports%20of%20USD%20422.00%20billion.>

² <https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=CN>

³ <https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=IN>

Reliant India) and 'Local goes Global. Hence, India's latest foreign trade policy, 2023 (FTP23), emphasizes boosting exports by providing necessary infrastructure, facilities, and ease of regulations at the local level. The true outcomes of the policy will manifest in the future and require careful observation and analysis.

Table A: India's Foreign Trade (in Million USD)

Year	Export	Import	Trade Balance
2021-22	422004.4	613052.1	-191047.7
2020-21	291808.5	394435.9	-102627.4
2019-20	313361.0	474709.3	-161348.2
2018-19	330078.1	514078.4	-184000.3
2017-18	303526.2	465581.0	-162054.8
2016-17	275852.4	384357.0	-108504.6
2015-16	262291.1	381007.8	-118716.7
2014-15	310352.0	448033.4	-137681.4
2013-14	314415.7	450213.6	-135797.9
2012-13	300400.6	490736.6	-190336.1
2011-12	305963.9	489319.5	-183355.7
2010-11	251136.2	369769.1	-118632.9
2009-10	178751.4	288372.9	-109621.4
2008-09	185295.0	303696.3	-118401.3
2007-08	162904.2	251439.2	-88535.0
2006-07	126414.1	185735.2	-59321.2
2005-06	103090.5	149165.7	-46075.2
2004-05	83535.9	111517.4	-27981.5
2003-04	63842.6	78149.1	-14306.5

2002-03	52719.4	61412.1	-8692.7
2001-02	43826.7	51413.3	-7586.6
2000-01	44560.3	50536.5	-5976.2
1999-00	36822.4	49670.7	-12848.3
1998-99	33218.7	42388.7	-9170.0
1997-98	35006.4	41484.5	-6478.1
1996-97	33469.7	39132.4	-5662.7
1995-96	31794.9	36675.3	-4880.4
1994-95	26330.5	28654.4	-2323.8
1993-94	22238.3	23306.2	-1067.9
1992-93	18537.2	21881.6	-3344.4
1991-92	17865.4	19410.5	-1545.1
1990-91	18145.2	24072.5	-5927.3
1989-90	16612.5	21219.2	-4606.7
1988-89	13970.4	19497.2	-5526.8
1987-88	12088.5	17155.7	-5067.2
1986-87	9744.7	15726.7	-5982.0
1985-86	8904.5	16066.9	-7162.4
1984-85	9878.1	14412.3	-4534.2
1983-84	9449.4	15310.9	-5861.5
1982-83	9107.6	14786.6	-5679.0
1981-82	8703.9	15172.9	-6469.0
1980-81	8484.7	15866.5	-7381.8
1979-80	7926.4	11290.6	-3364.2
1978-79	6960.3	8278.7	-1318.4
1977-78	6298.6	7011.8	-713.2
1976-77	5728.4	5651.7	76.7
1975-76	4648.7	6063.7	-1415.0
1974-75	4192.1	5690.6	-1498.5
1973-74	3238.3	3792.6	-554.3
1972-73	2568.7	2433.1	135.6
1971-72	2151.9	2441.5	-289.6
1970-71	2031.3	2162.3	-131.0

Source: Directorate General of Commercial Intelligence and Statistics, GOI.

Past Scenario

Post-independence, India has opted for Import Substitution Industrialization (ISI) to protect domestic industries. During this long phase of ISI policies, exports are reduced to a minimum due to high tariffs, overvalued exchange rates, and other antiexport biases (Agrawal, 2015), which were implemented through high import tariffs and restrictions

on export goods. Post-liberalization has witnessed a surge in India's export as the reforms have enhanced India's competitiveness in labour- and skill-intensive industries; reduced the dependence of competitive industries on inefficient domestic suppliers and infrastructure; and enhanced domestic conditions (Ghemawat & Patibandla, 1998). Looking at Figure 1, in terms of scale, both export and import increased in the post-liberalization period.

However, import has always been more than export; hence, the negative trade balance.

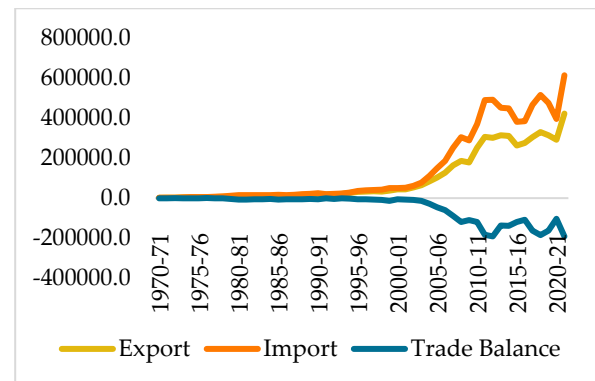


Figure 1: India's Foreign Trade over the Years from 1971-72 to 2021-22

(Data Source: Directorate General of Commercial Intelligence and Statistics, GOI.)

New Developments

India aims to increase its export by up to \$2 trillion by 2030 as envisioned by the foreign trade policy, 2023 (FTP23). The report highlights the country's commitment to pushing its export. For 2023 India projects are expected to reach total exports of \$760 billion. FTP23 proposes several changes in the existing export policy, such as greater trade facilitation through technology, automation, continuous process re-engineering, and export promotion through collaboration: Exporters, States, and Districts Focus on Emerging Areas – E-Commerce Exports, Developing Districts as Export Hubs. In this regard, India promises to ease business by reducing the hassle and lowering the transaction cost via several e-initiatives. The report claims that major bureaucratic concerns would be completed in a day, substantially cutting down the red tape. There is a significant decrease in the user charges for non-MSME across different license values. For example, for a non-MSME enterprise with a license value of more than 10 crores, the user charges have been reduced from 1 lac to 5K (INR).

FTP23 also highlights several export promotion initiatives, such as rationalizing the export performance threshold for the Recognition of Exporters as Status Holders. It

would enable more exporters to achieve higher status and reduce export transaction costs. To provide a level-playing field to the domestic manufacturers, it will provide GST and terminal excise duty benefits for the deemed exports. The deemed exports refer to those transactions in which payment is already received, but goods supplied do not leave the country. Several other initiatives and schemes include setting up export-oriented units, electronics and software technology parks, and export promotion of capital goods scheme under the new FTP23, which aims to push India's export to a new level. To boost India's export, shipments of goods from one foreign country to another would be allowed without touching Indian ports, involving an Indian intermediary (subject to RBI guidelines). Rupee payment is to be accepted under FTP Schemes. An effective step towards the internationalization of the Rupee. It aligns with the Economic Survey of India 2023 proposal, which reduces currency volatility through the internalization rupee.

International trade has gone significantly towards digitalizing the legal frameworks and supply chain for exports. The FTP23 also promotes digital channels of cross-border trade of goods and services and paperless due process. In this regard, it aims to encourage e-commerce exports by setting up e-commerce export hubs (EEHs) in designated areas with the help of public-private-partnership (PPP). It further proposes operationalising the *Dak Ghar Niryat Kendra* (Post-office Export Centre) throughout the country, enabling the MSMEs, traditional artisans and other *griha udhyogs* (Home-Industries) to reach the international market through the postal route. The CoO (certificates of origin) certificates are issued online without any physical interface, which will assist companies with higher investment in the country. FTP23 also envisages that authorization redemption applications are to be paperless, in addition to the application process for issuance being already paperless. It aims to make the entire lifecycle of the authorization process to be paperless.

FTP23 also proposes to create four new towns of export excellence, primarily focusing on apparel, handicraft, handloom, carpet etc., in addition to the existing 39

towns. The government would consider districts as export hubs by decentralizing export promotion to promote export. It would also concentrate on creating avenues for e-exports with the support of establishing e-commerce export hubs. FTP23 recommends some additional schemes for companies to claim benefits to boost manufacturing. Climate change and sustainable development are the cynosures for protecting the environment. In this regard, government pledges that battery electric vehicles (BEV) of all types will now be eligible for reduced export obligation requirements. Furthermore, the FTP23 also provisions obligations for exporters and importers to project a good image of the country and enduring good relationships with their foreign counterparts. The report highlights the rapid mechanism for handling complaints and disputes which will arise between domestic and foreign entities and corrective measures to settle the dispute. It proposes the appointment of a nodal officer to monitor the trade disputes and assign case officers to resolve the disputes in a time-bound manner.

Policy implications

To boost the economy and growth of a country in the globalized world, trade and export are of prime importance. In the post-COVID era, where countries are struggling to get their economy on the growth path, trade needs special focus. In this regard, India should encourage and facilitate credit to Small and Medium Scale Enterprises (SMSEs), which can uplift and integrate small-scale industries. To do so, Indian banks can provide cheaper credit to SMSEs to boost investment and, in turn, export. This could also lead to a reduction in the trade deficit. Hence, the current need of India is to increase its share in the global value chain by creating new export-oriented sectors, and the FTP23 is framed to fulfil this commitment. Attempts have been made to consider the comprehensiveness of the sector by highlighting the importance of various facets of trade and export. Diversifying and decentralising exports by creating district-level hubs will help local products reach international markets. This will also create opportunities for local producers to improve technological advancement and quality and align with

international standardisation. However, the time-bound development of these hubs with adequate budgetary support will determine the success of the policy of creating district-level hubs. However, though the new policy claims to go away from the incentive-based regime, it still promotes export incentives. It lags in supporting the infusion of technology to increase production quality and meet global standards. To achieve 'Atmanirbhar Bharat' (Self-Reliant India) and an export-based economy, India needs to develop a foreign trade policy that will promote the quality and standard of India's export. Furthermore, the long-term and sustainable export promotion policy must focus on the specialization and skill development of the labour force, adequate investment in research and development, and promotion of entrepreneurship at different levels. This will increase India's competitiveness in the challenging environment of international trade.

At the policy level, the government can further cut down the red tape so that industries can access the required resources and necessary permissions to set up the industries and facilitate business. In 2022, India secured the 63rd position among 190 countries worldwide in the ease of doing business rankings. Though providing ease of doing business is one of the significant policy attentions of FTP23, its consequences are on the standardisation and quality inspection. In addition, Indian industries can diversify their export destination by adding new trading partners, which would help grow the country's overall export.

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