India's Trade Policy

- Foreign Trade
- Balance of Payments
- Trade policies
- Foreign Trade Policy (FTP)

Volume of Foreign Trade

Year	Exports (Including Re exports)	Imports	Trade Balance
1950-51	606	608	-2
1960-61	642	1122	-480
1970-71	1535	1634	-99
1980-81	6711	12549	-5838
1990-91	32553	43198	-10645
2000-01	203571	230873	-27302
2006-07	571779	840506	-268727
2008-09	840755	1374436	-533681
2009-10	845543	1363736	-518202
2010-11	1142649	1683467	-540818
2011-12	1024707	1651240	-626533

Year	Exports			Imports			Terms of Trade	
	Value	Volume	Unit Value	Value	Volume	Unit	Net Value	Income
2001-02	-1.6	0.8	1.0	1.7	5.8	2.8	-2.1	-1.3
2004-05	30.8	11.2	14.9	42.7	16.0	18.9	-3.5	7.3
2005-06	23.4	15.1	6.1	33.8	9.8	14.0	-6.0	8.2
2007-08	29.0	7.9	5.1	35.5	20.7	1.9	2.6	10.7
2009-10	-3.5	-1.1	1.0	-5.0	9.9	-10.0	12.3	11.1
2010-11	40.5	43.2	-5.1	28.2	10.1	11.2	-14.3	22.7

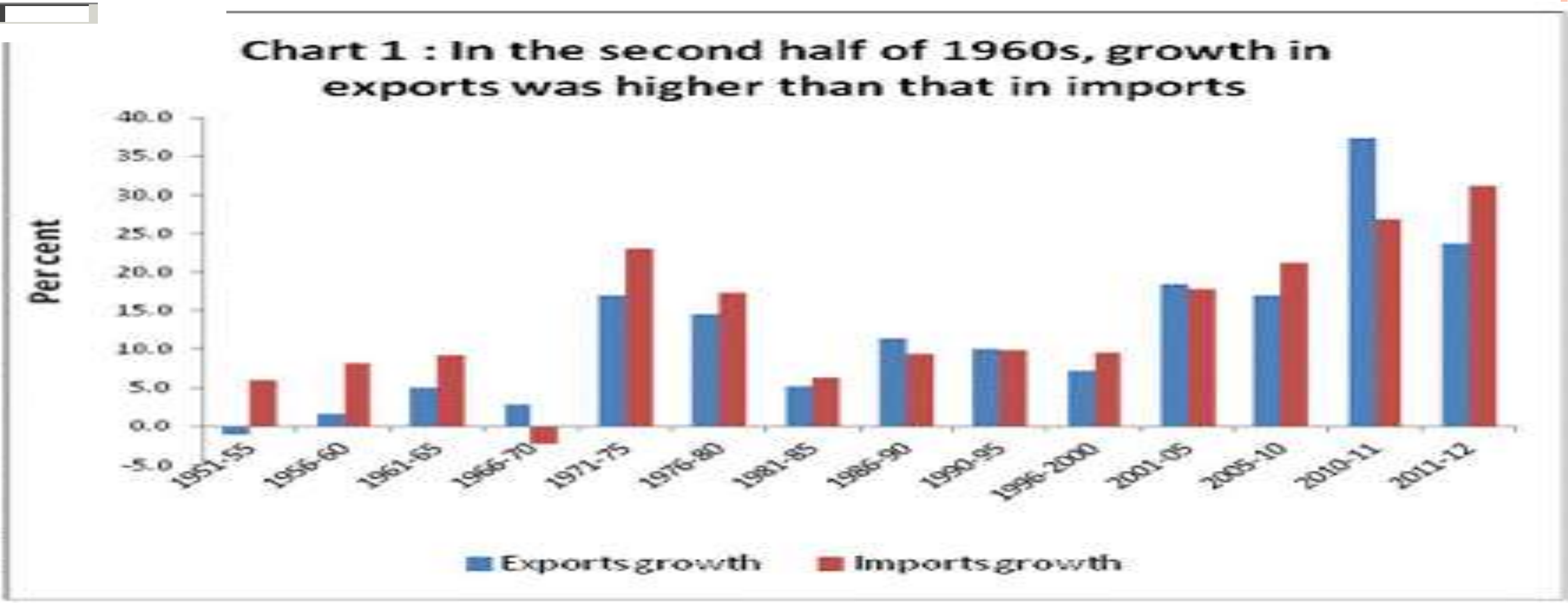
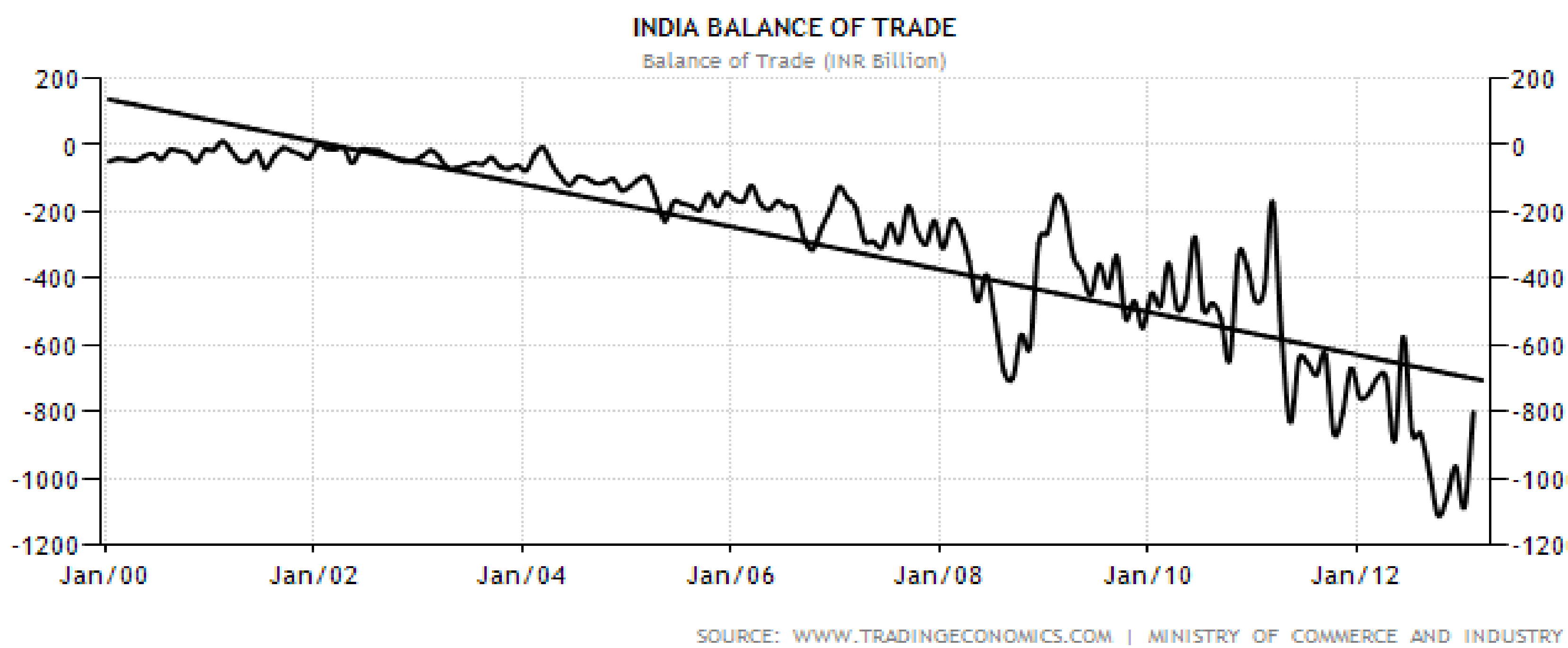
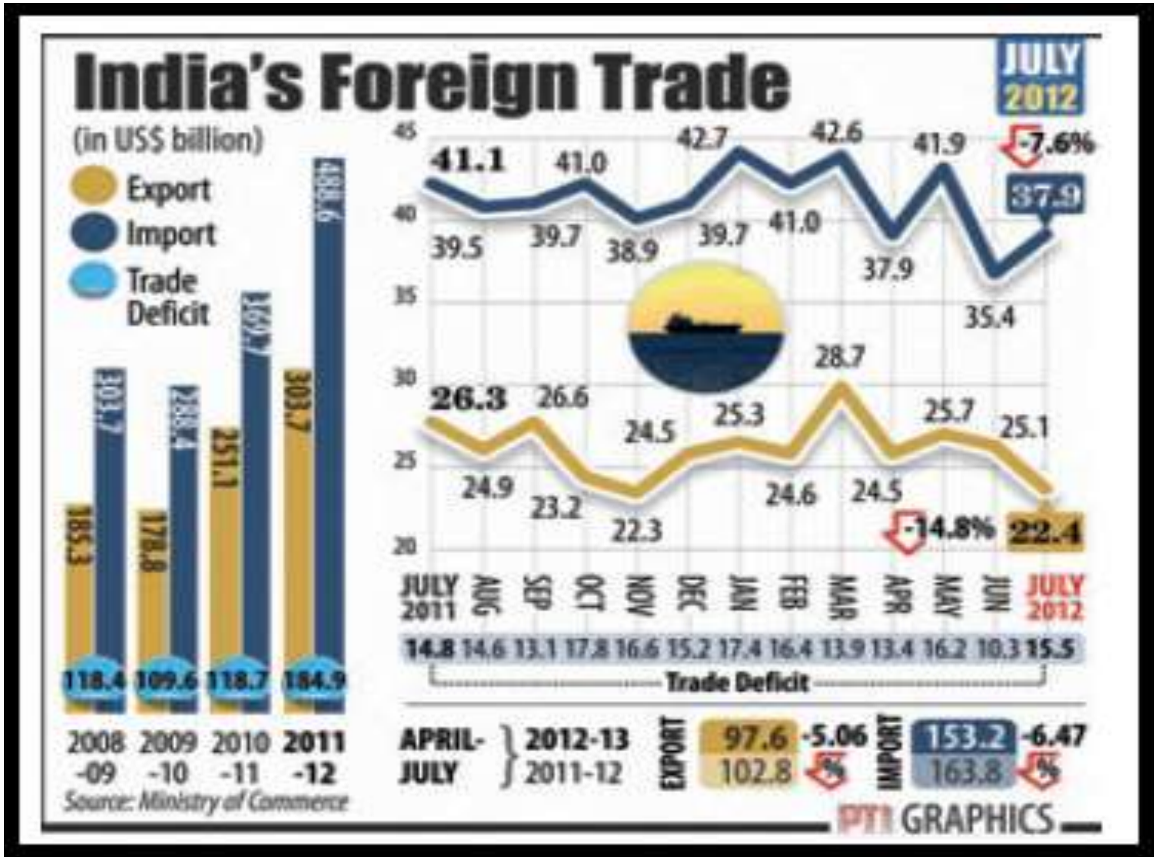


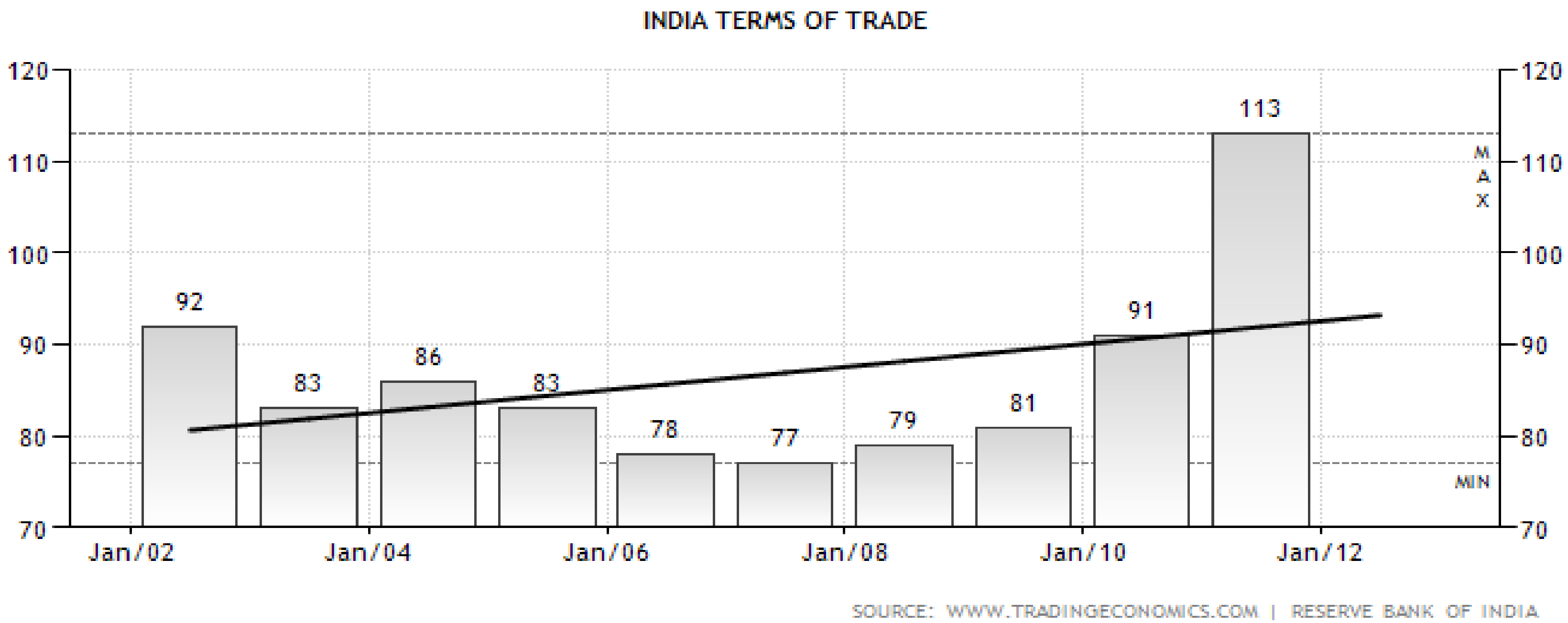
Chart 1 : In the second half of 1960s, growth in exports was higher than that in imports
Percent
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
-5.0
1951-55
1956-60
1961-65
1966-70
1971-75
1976-80
1981-85
1986-90
1990-95
1996-2000
2001-05
2005-10
2010-11
2011-12
Exports growth
Imports growth


INDIA BALANCE OF TRADE
Balance of Trade (INR Billion)
200
0
-200
-400
-600
-800
-1000
-1200
Jan/00
Jan/02
Jan/04
Jan/06
Jan/08
Jan/10
Jan/12
SOURCE: WWW.TRADINGECONOMICS.COM | MINISTRY OF COMMERCE AND INDUSTRY


India's Foreign Trade
(in US$ billion)
JULY 2012
Export
Import
Trade Deficit
185.3 303.7 178.8 288.4 251.1 369.7 303.7 488.6
118.4 109.6 118.7 184.9
2008 -09 2009 -10 2010 -11 2011 -12
Source: Ministry of Commerce
41.1 41.0 42.7 42.6 41.9 -7.6% 37.9
39.5 39.7 38.9 39.7 41.0 37.9 35.4
26.3 26.6 24.5 25.3 28.7 25.7 25.1
24.9 23.2 22.3 24.6 24.5 -14.8% 22.4
JULY 2011 AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN JULY 2012
14.8 14.6 13.1 17.8 16.6 15.2 17.4 16.4 13.9 13.4 16.2 10.3 15.5
Trade Deficit
APRIL-JULY 2012-13 2011-12
EXPORT 97.6 102.8 -5.06 %
IMPORT 153.2 163.8 -6.47 %
PTI GRAPHICS

Terms of Trade

Terms of Trade in India increased to 113 Index Points in 2011 from 91 Index Points in 2010. Terms of Trade in India is reported by the Reserve Bank of India. Historically, from 2000 until 2011, India Terms of Trade averaged 90 Index Points reaching an all time high of 113 Index Points in June of 2011 and a record low of 77 Index Points in June of 2007. In India, Terms of Trade (ToT) correspond to the ratio of Price of exportable goods to the Price of importable goods.



TRADE DEFICIT

CAUSES OF TRADE DEFICIT IN INDIA

Rising Imports	Large increase in Developmental Imports	Large size in imports of petroleum	Others (fertilisers and pearls, precious stones)
Modest growth of Exports	Disintegration of Soviet union	Low world Demand	Import restrictions in Foreign countries
Cost and Quality	High cost	Low quality	Growing Competition

Measures to correct deficit in Balance of Trade

Import Substitution and Restriction

- Licensing of Imports
- Tariff Restrictions
- Quantitative Restrictions

Export Promotion

- Setting up Export processing Zones
- Devaluation of currency in 1991
- Income tax concessions to exporters
- Setting up EXIM Bank

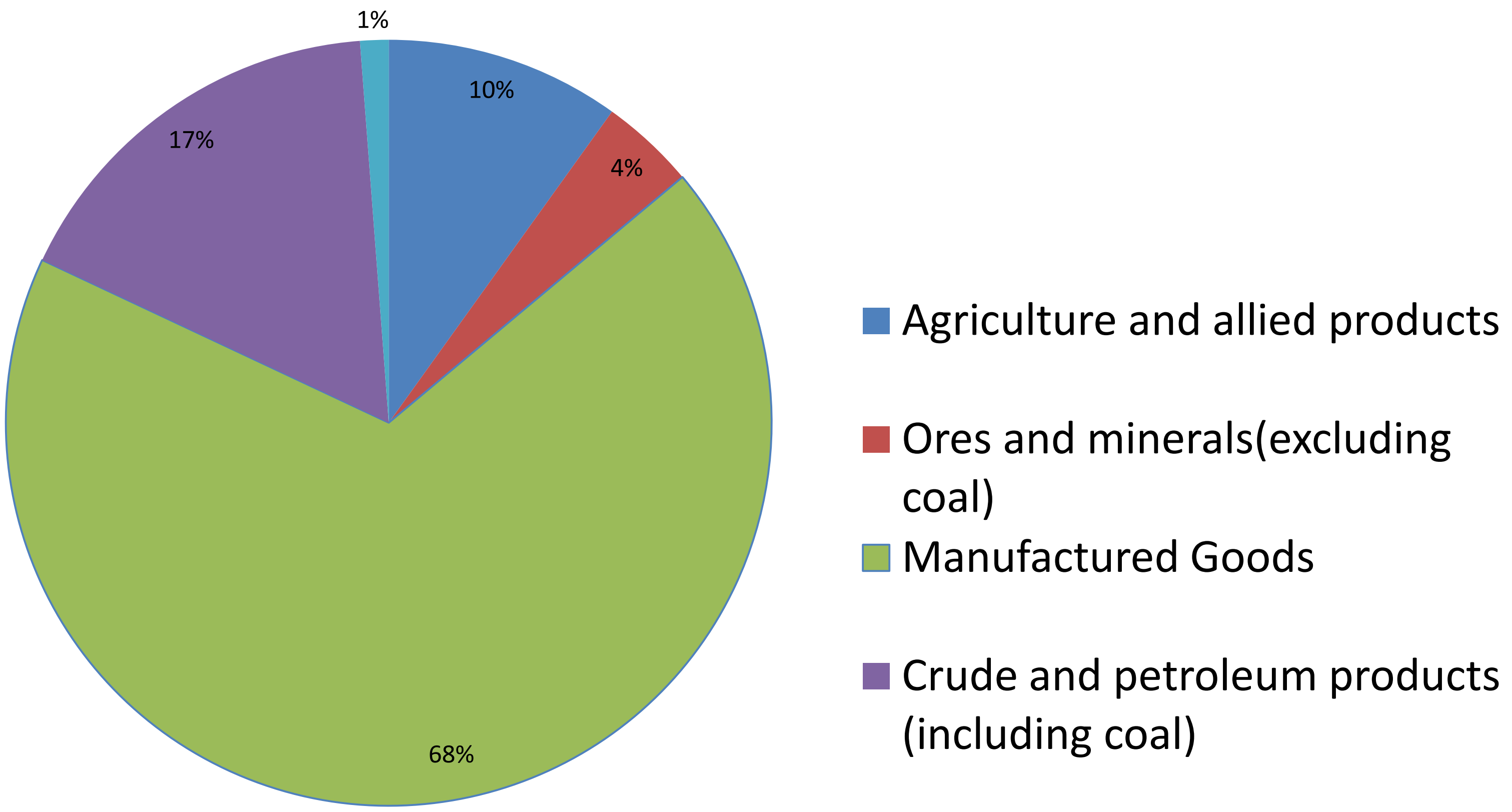
Composition of Trade

Composition of exports

S. No	Commodity Group	Year 2010-11 (in %age)
1	Agriculture and allied products	9.9
2	Ores and minerals (excluding coal)	4.0
3	Manufactured Goods	68.0
4	Crude and petroleum products(Including coal)	16.8
5	Other and unclassified items	1.2
	Total	100.0

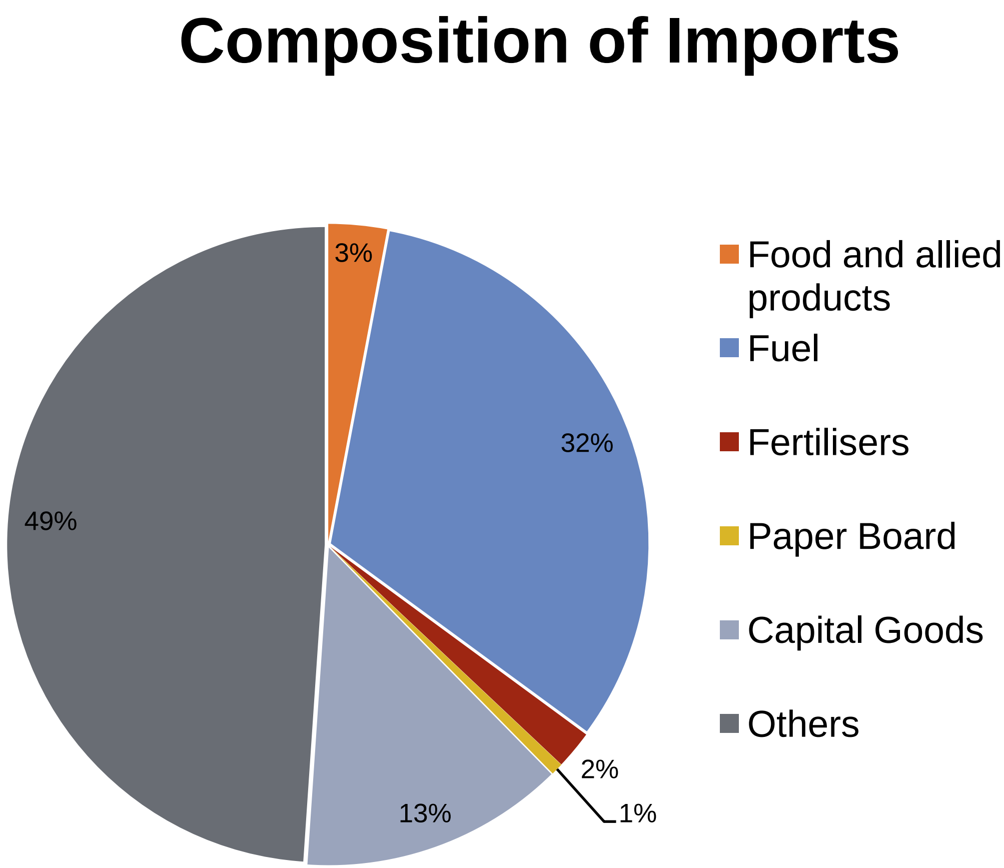
- Source : Economic Survey 2011-12

Composition of Exports



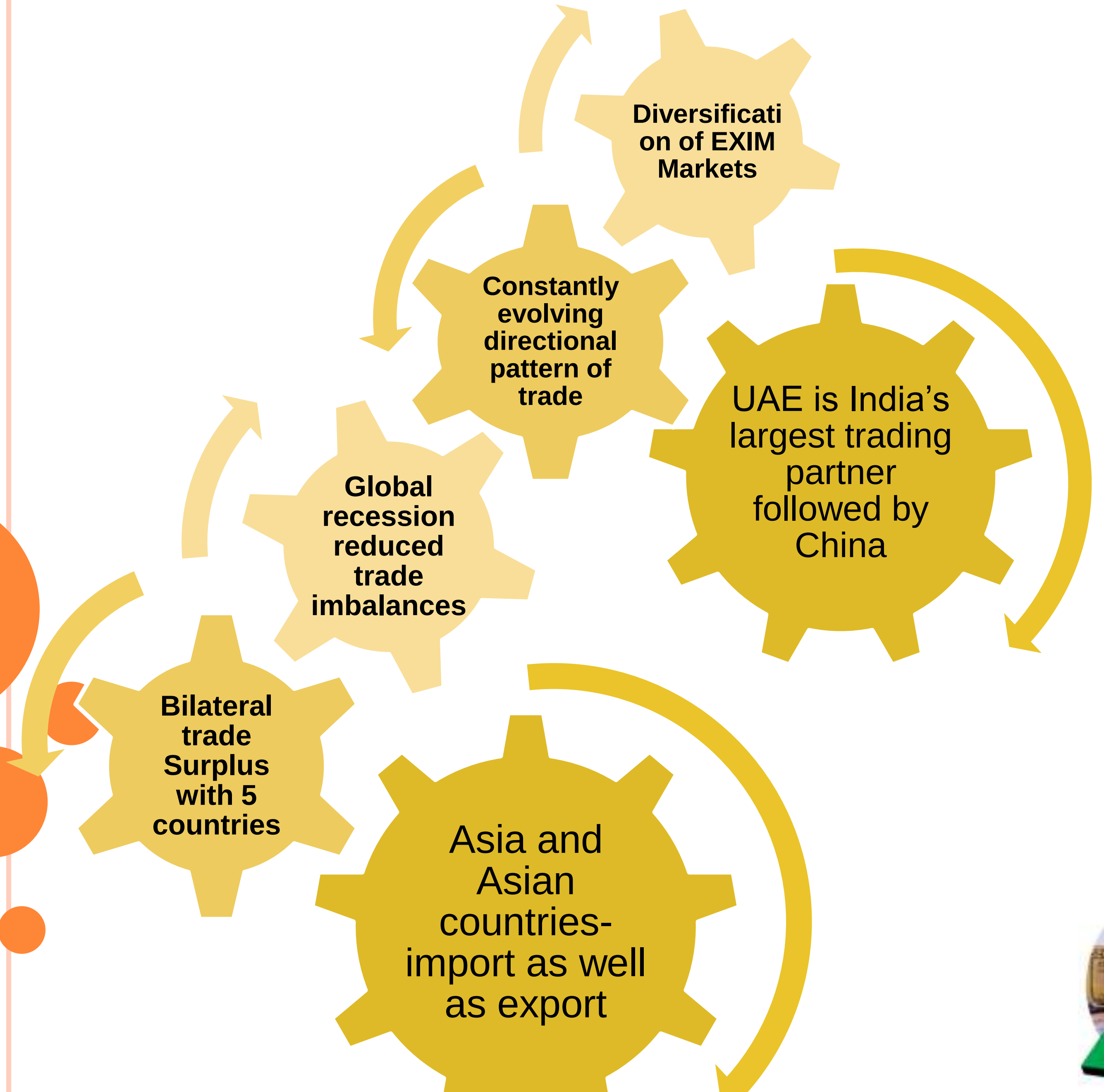
Composition of Imports

S. No	Commodity Group	Year 2010-11
1	Food and allied products	2.9
2	Fuel	31.3
3	Fertilisers	1.9
4	Paper Board, manufacture and newsprint	0.6
5	Capital Goods	13.1
6	Others	47.7
	Total	100.0



Direction of trade

ANALYSIS OF DIRECTION OF TRADE



India's imports and exports

US$

Balance of trade and balance of payment

Balance of Trade refers to difference in the export and import of goods.

Balance of Payment refers to systematic record of all economic transactions between the residents of a country and rest of the world in a year

S. No.	Balance of Trade	Balance of Payment
1	It records transactions relating to trade of goods only	It records transactions relating to both goods and services.
2	Balance of trade account does not record transactions of capital nature	BoP account records transactions of capital nature also.
3	It is a part of current account of the balance of payments.	It is more comprehensive and has three accounts of which BoT is a part.

Balance of Payment on

1) CURRENT ACCOUNT

- Money sent & received in Export/Import in goods and services goes here.
- Since the money we spend importing crude oil, is quite larger than the money we make while exporting stuff.
- So for India, Import >> Export
- So money going out >> Money coming in so we've DEFICIT in Current account.
- **In short Money inflow and outflow via import-export is classified in Current Account.**

2) CAPITAL ACCOUNT

- NRIs sending $$ from Dubai and America (Remittance from abroad)
- Loans taken from IMF, World Bank
- Tata buys British company; some Japanese company buys Indian company…that kind of money is also counted in here.
- ONGC buys some Oil reserve in Russia, Some French co. Buys thorium mine in India, the kind of money also counted here (rights over natural resources)
- **In short Investment and borrowing goes here In Capital account**

Current Account

Merchandise

Merchandise:

(a) Also known as Visible Trade.

(b) Includes export and import of goods only.

(c) Exports are valued at f.o.b prices i.e free on board.

(d)Imports are valued at c.i.f. prices i.e cost, insurance and freight prices.

Invisibles:

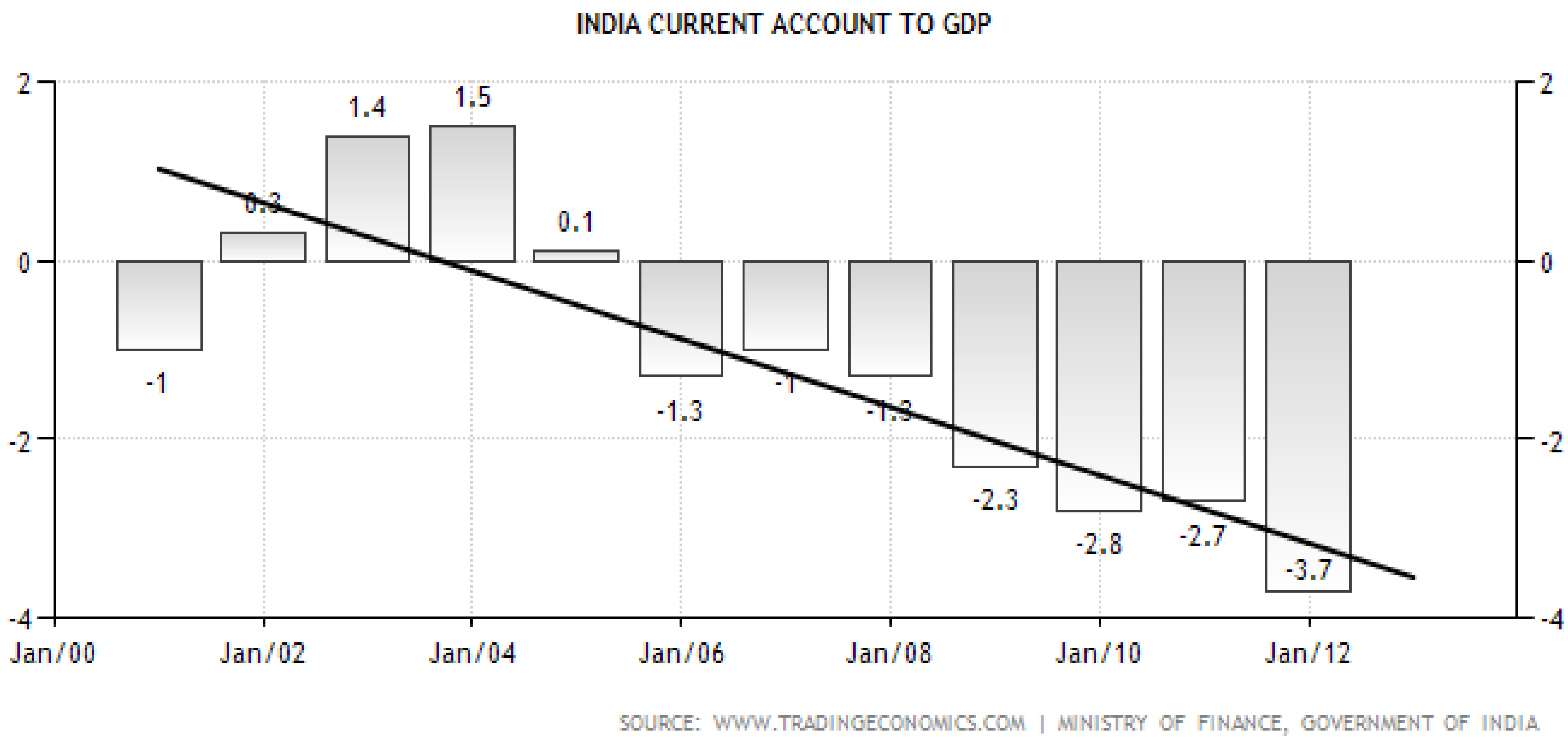
(a) Services:
Travel, transportation, GNIE, Insurance, Miscellaneous services(
construction, financial, communication, royalties, management and business)

(b)Income

(c) Transfers : Grants, gifts, remittances without quid pro quo.

Invisibles

Current Account to GDP in India is reported by the Ministry of Finance, Government of India. The Current account balance as a percent of GDP provides an indication on the level of international competitiveness of a country. Usually, countries recording a strong current account surplus have an economy heavily dependent on exports revenues, with high savings ratings but weak domestic demand. On the other hand, countries recording a current account deficit have strong imports, a low saving rates and high personal consumption rates as a percentage of disposable incomes. This page includes a chart with historical data for India Current Account to GDP.



Capital Account

1) Foreign Investment

- Foreign Direct Investment
- Portfolio Investment

2) Loans

- External Assistance
- External Commercial Borrowings

3) Banking Capital

- Non Resident Indian Deposits
- Debt Liabilities

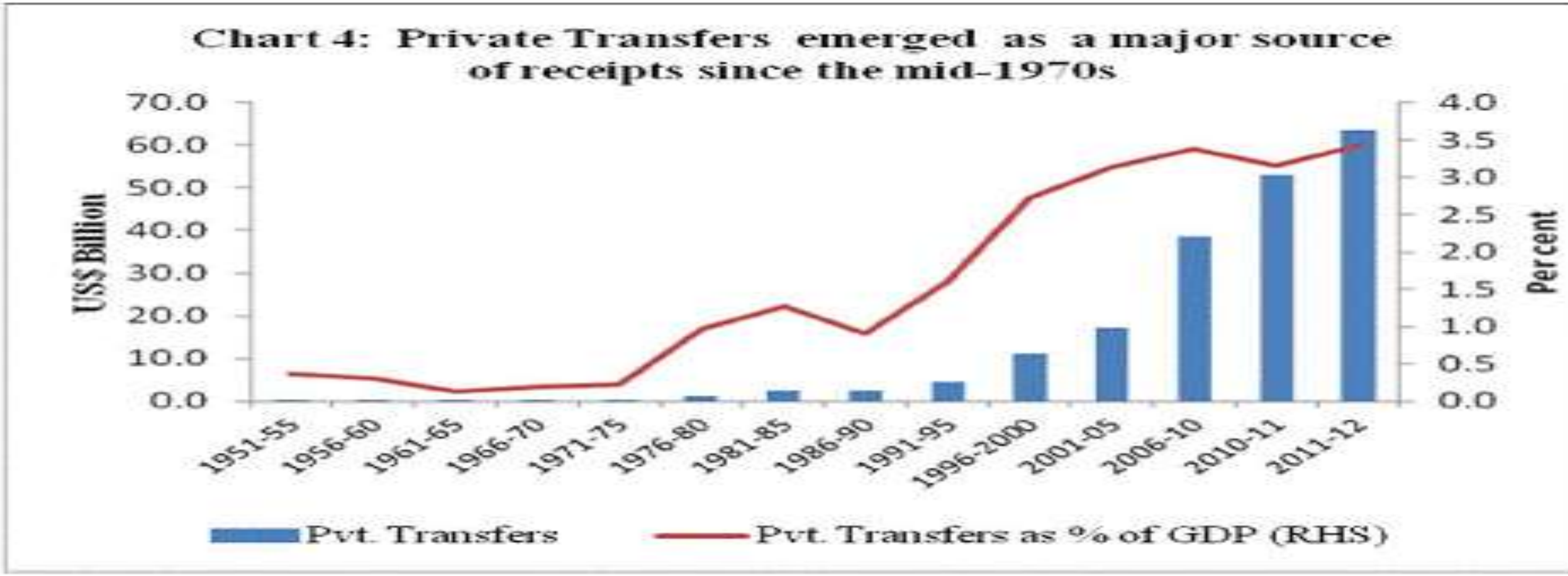


Chart 4: Private Transfers emerged as a major source of receipts since the mid-1970s
US$ Billion
Percent
1951-55
1956-60
1961-65
1966-70
1971-75
1976-80
1981-85
1986-90
1991-95
1996-2000
2001-05
2006-10
2010-11
2011-12
Pvt. Transfers
Pvt. Transfers as % of GDP (RHS)

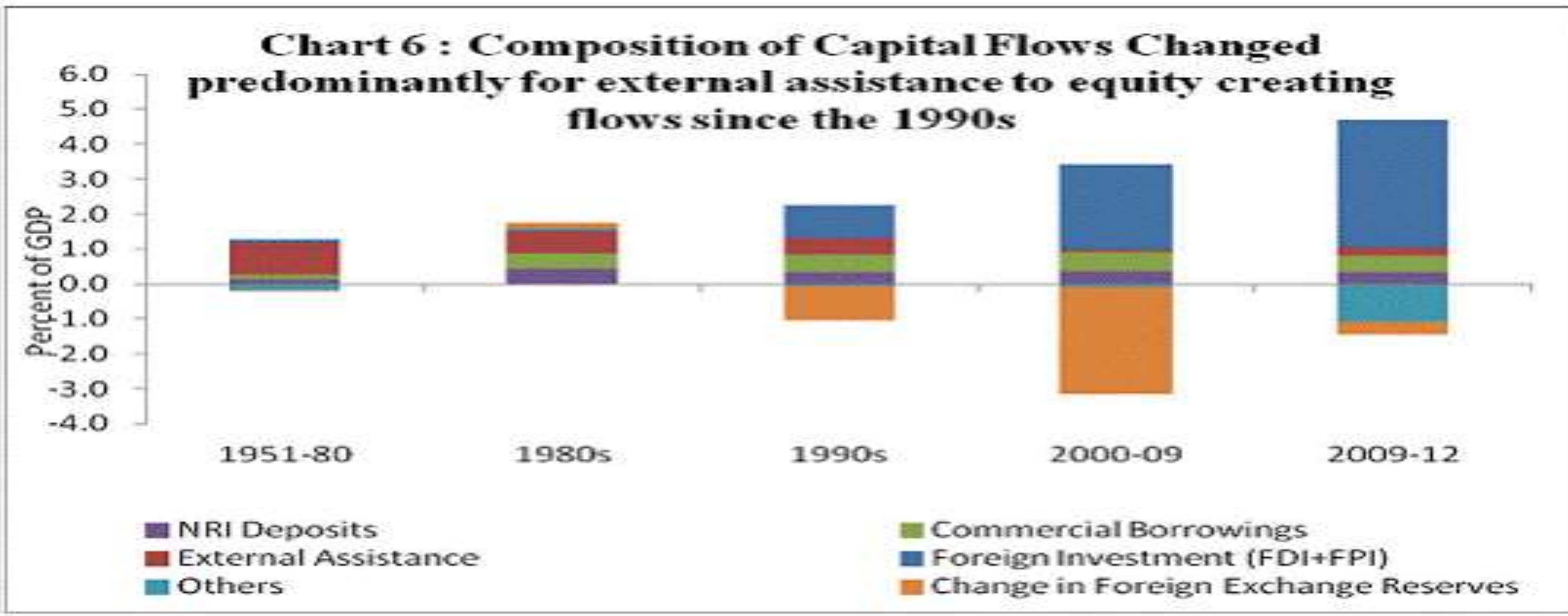
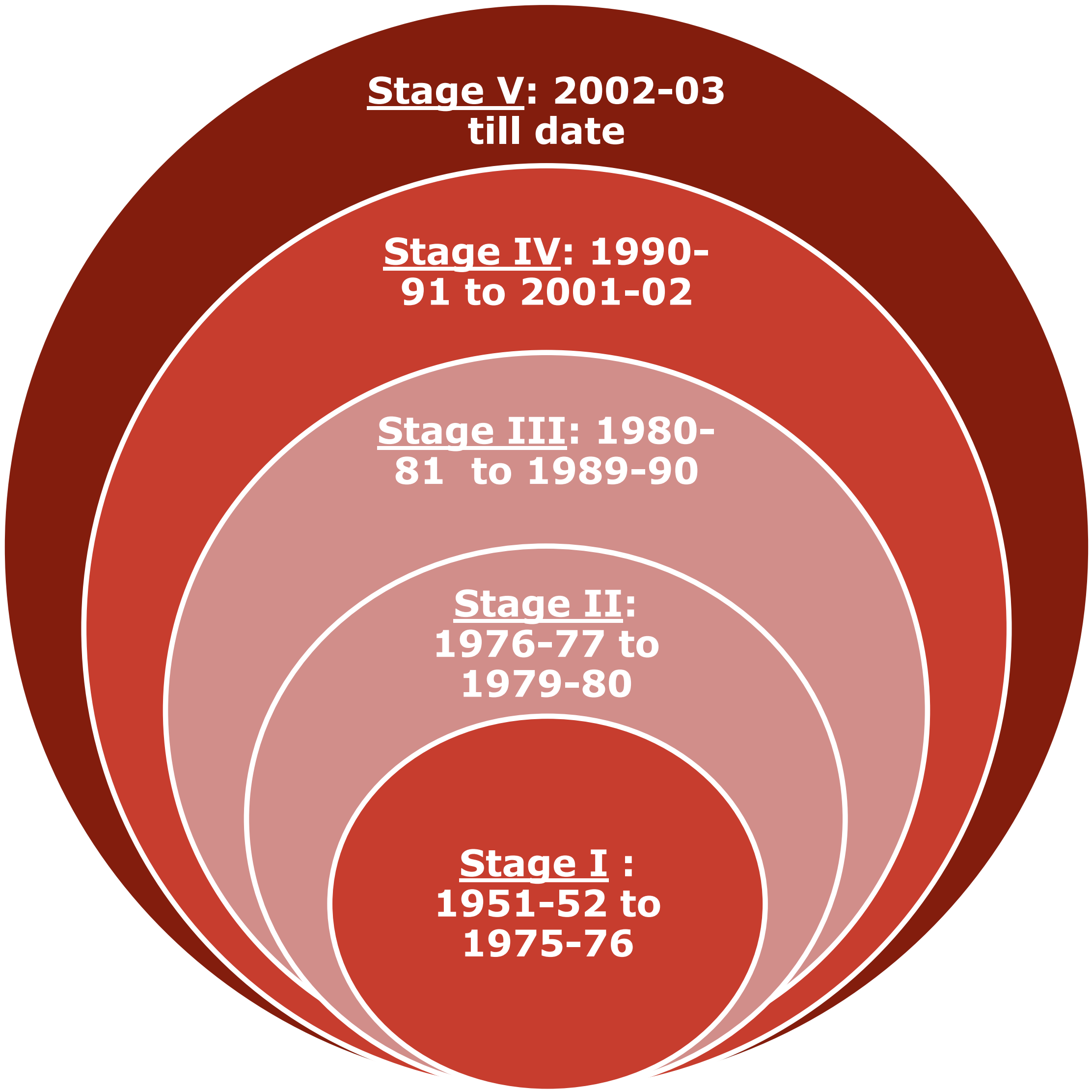


Chart 6 : Composition of Capital Flows Changed predominantly for external assistance to equity creating flows since the 1990s
Percent of GDP
1951-80
1980s
1990s
2000-09
2009-12
NRI Deposits
Commercial Borrowings
External Assistance
Foreign Investment (FDI+FPI)
Others
Change in Foreign Exchange Reserves

Trends In India's Balance of Payments



STAGE I : 1951-52 TO 1975-76

This period covers the first four five year plans.

1. **First Plan : Deficit in BoP on Current Account of Rs. 42 Cr.**
2. **Second Plan: Deficit in BoP rose to Rs. 1725 Cr.**
3. **Third Plan: Deficit in BoP increased Rs. 1951 Cr.**
4. **Three Annual plans wherein deficit rose to Rs. 2015 Cr.**
5. **Fourth Plan: BoP favourable to the extent of Rs. 100 Cr.**

First Plan: Huge deficit because of poor governance and backwardness

Second Plan:

Heavy imports of machines, raw materials, foodgrains etc

Third Plan: Large imports of military equipment on account of Indo China and Indo-Pak war.

Fourth Plan:

(a) Rise in exports and fall in imports.

(b) Considerable rise in receipts from invisibles items.

STAGE II : 1976-1977 TO 1979-80 (A DECADE OF COMFORT)

Golden period for India's foreign trade with current account surplus of 0.6 % of GDP.

Gain on balance of payment rose to 3082 crores.

It was because of :

(a) Green revolution

(b) High remittances from Indians working in Gulf countries.

(c) Tourists Attraction

(d) Rise in Domestic production of oil, electric motors, machine tools etc.

It reduced:

(a) Oil Imports

(b) Restricted Gold Smuggling

(c) ensured continuous and smooth flow of foreign aid



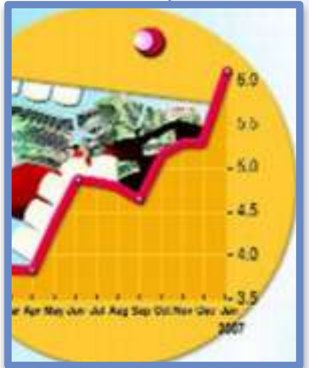

Stage III: 1980-81 to 1989-90

India's BoP was in disequilibrium and Indian economy was in a state of crisis.

Current Account Deficit became 1.3 % of GDP in the sixth plan.

Current Account Deficit became 2.4 % of GDP in seventh plan.

India became the third largest indebted country in the world after Mexico and Brazil.



This is was on account of :

(a) Oil shock of 1979-80 that the price of oil increased drastically.

(b) Remittances declined.

(c) Inflation grew.

(d) Fiscal Deficit grew.

(e) Political instability increased.

(f) Foreign aid reduced

STAGE IV 1991-92 TO 2001-02

1991 : EIGHTH PLAN

- Foreign Exchange Crisis
- Unfavourable BoP
- Devaluation, decontrol, li beralisation were introduced.
- Main reasons for the deficit were:

(a)Import of Capital Goods

(b)Increase in price of crude oil

2000: NINTH PLAN

- First four years of the plan recorded deficit of 69,434 crores.
- Last year recorded surplus of 6719 crore.
- Reasons for good performance:

(a)Dynamic export performance

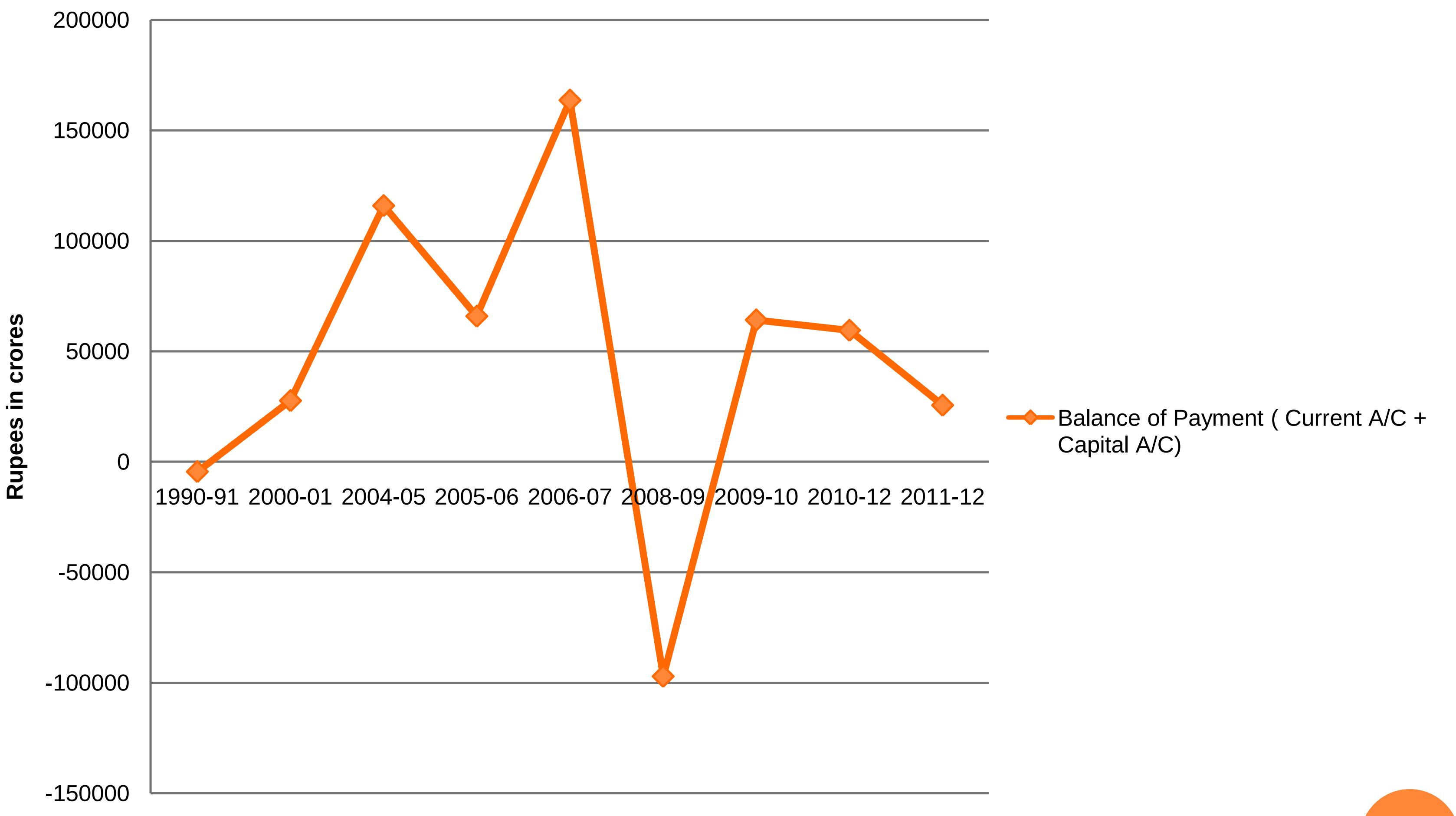
(b)Increase in software services

(c) Reduced non-oil import demands

Stage V : 2002-03 till date

Year	Balance of Payments on Current A/C	Balance of Payment on Capital A/C	Total Balance of Payments (Current + Capital A/C)
1990-91	-17,366	+12,895	-4,471
2000-01	-11,431	+39,093	+27,662
2004-05	-12,174	+1,28,081	+1,15,907
2005-06	-43,737	+1,09,633	+65,896
2006-07	-44,383	+2,08,017	+1,63,634
2008-09	-1,27,600	+30,500	-97,100
2009-10	-1,79,700	+2,43,900	+64,200
2010-11	-2,10,100	+2,69,600	+59,500
2011-12	-1,48,600	+1,74,200	+25,600

Trends :Balance of Payment (Current A/C + Capital A/C)



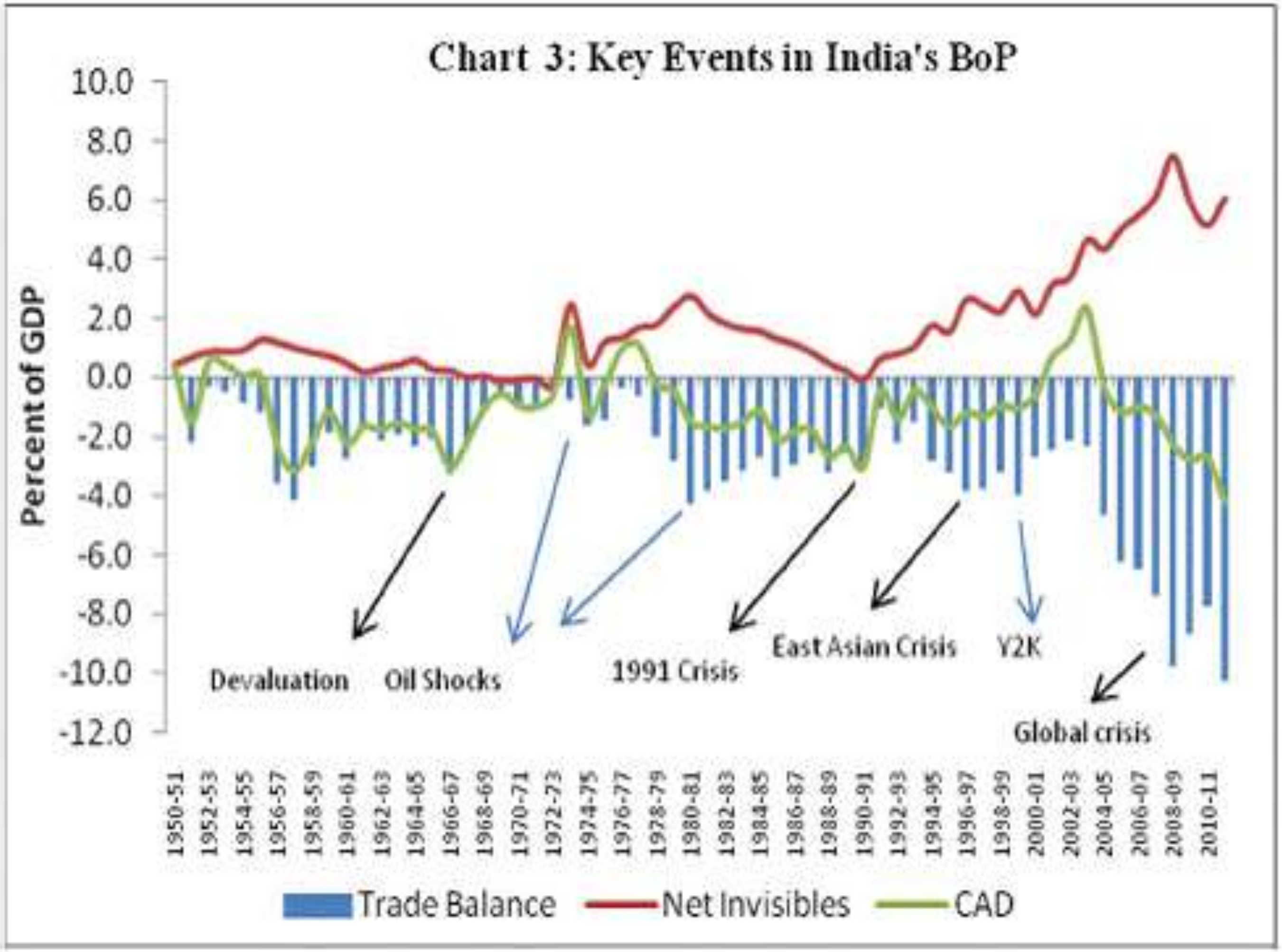


Chart 3: Key Events in India's BoP
Percent of GDP
Devaluation
Oil Shocks
1991 Crisis
East Asian Crisis
Y2K
Global crisis
Trade Balance
Net Invisibles
CAD

Policy measures to manage Unfavourable Balance of payment

1) Import Reduction And Substitution

2) Export Promotion

3) Tapping Invisibles

4) Increasing Efficiency

5) Encouragement of Tourist Traffic

6) Bilateral Agreements

7) Exchange Inflow of Foreign Capital

8) Effective Implementation of FEMA 2000

PRE 1991 TRADE POLICY

Inward Looking Development Strategy- Import Substitution Strategy

Second Year Plan- Highly Restrictive Policy.

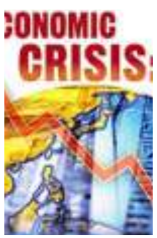
In 1960's and 70's, imports were partly liberalised with several conditions.

In eighties, Export promotion schemes were implemented- Export Promotion Council, The trade Fair Authority of India, cash compensatory schemes etc.

1991 Crisis

National Income growing at 0.8 %.

Inflation reached the height of 16.8 %.



BoP crisis to the extent of 10,000 crores.

India was paying 30,000 crores interest charges.

Fiscal deficit more than 7.5 %.

Deficit Financing was 3 %

The 1991 Trade policy

- Liberalisation of imports and exports
- Liberal Exchange Rate Management
- Rationalisation of tariff structure.
- Changes in the system of export incentives.

EXIM POLICY 1997-2002
Features

- **New duty entitlement passbook scheme was started.**
- **Special incentives to software exports were provided.**
- **Custom duties were reduced.**
- **A number of restricted items were made freely importable.**
- **Special incentives to agricultural products were given.**
- **Scope of Export Promotion Capital Goods (EPCG) scheme was widened.**
- **EOUs and EPZs were given more incentives.**

EXIM POLICY 2002-07

Special Economic Zones

OBU's (Offshore banking units) to be set up.

OBU's exempt from Cash reserve rate and Statutory Liquidity Ratio

Growth Oriented

Strategic package for status holders.

Implementing duty nuetralization instruments.

Nuetralizing High Fuel Cost.

Diversification of markets

Duty Neutralisation Instruments

Advance License: Duty Exemption Entitlement Certificate abolished.

EPCG licenses of 100 Cr or more to have 12 year export obligation period.

Employment oriented measures : EXIM 2002-07

Agriculture

- Removal of quantitative restrictions on agricultural products.
- Transport Subsidy

Cottage Sector and handicrafts

- KVIC could take funds under MAI
- Duty free Import up to 3% on f.o.b prices
- Export House Status at lower average export performance

Small Scale Industry

- Entitlement of Export House status at Rs.5 cr.
- Entitled to EPCG scheme

Merits of exim policy 2002-07

- Encouragement to Small, Cottage and Handicraft Industry.
- Growth oriented.
- Incentive for Agricultural Exports.
- Setting up of Agri- Export Zones.
- Overseas Banking Units.
- Encouragement for Hardware Industry.
- Boost to jewellery industry.
- Boost to industrial growth.

ACTIVITY: THE POLICY DILEMMA

Case I : MRTPL (Mangalore Refinery and Petrochemicals Ltd) is India's biggest buyer of Iran Crude Oil. But lately, all the insurance companies in the country have said refineries processing the oil will no longer be covered due to western sanctions. If cover is not available then all Indian refiners will have to halt imports from Iran or else they will have to take a huge risk. Being the CEO OF MRPL formulate a solution to the above problem in the light of the fact that India is Iran's second largest buyer, taking around a quarter of its oil exports worth $1 billion a month.

FOREIGN TRADE POLICY

FTP is the new name for the earlier EXIM policy.

31st august 2004

- To double our % share of global merchandise trade within the next 5 years

To act as an effective instrument of economic growth by giving a thrust to employment generation.

STRATEGY OF FTP (2004-2009)

Identifying and developing special focus areas

Simplifying procedures

Technological and infrastructural upgradation of all sectors

Facilitating development of India as a global hub for manufacturing, trading and services.

Revitalizing the board of trade by redefining its role, giving it due recognition and inducting experts on trade policy

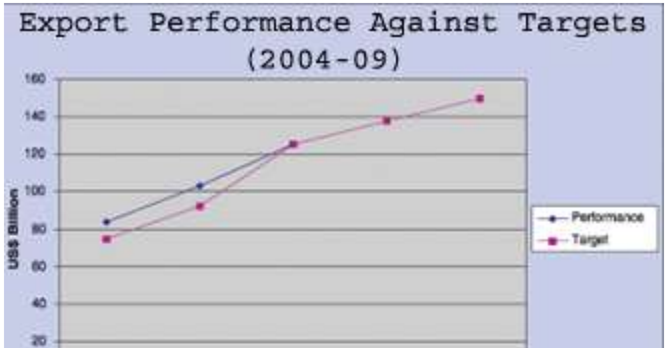
ACHIEVEMNTS OF THE FTP 2004-09

Exports
- $63billion in 2003-04
- $168billion in 2008-09

Share of Global merchandise trade
- 0.83% in 2003
- 1.45% in 2008

Share of global commercial service export
- 1.4% in 2003
- 2.8% in 2008

Total share in goods and service trade
- 0.92% in 2003
- 1.64% in 2008



FOREIGN TRADE POLICY (2009 - 2014)

2009 – most severe global recessions

WTO estimates project a grim forecast that global trade is likely to decline by 9% in volume terms and IMF estimates project a decline of over 11%.

World bank estimate suggests that 53million more people would fall into the poverty and over a billion people would go chronically hungry.

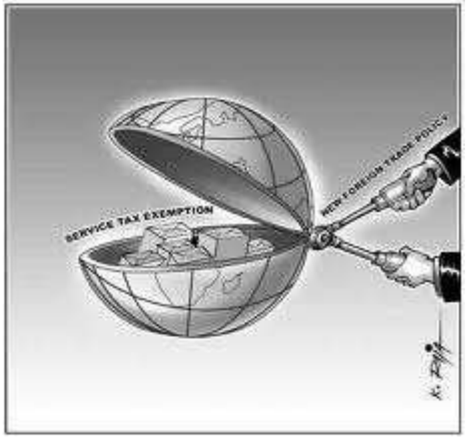
It was difficult to announce a FTP in this economic climate.

There was a need to set in motion ,strategies and policy measures which would catalyse the growth of exports.

SHORT TERM OBJECTIVES

Arrest and reverse the declining trend of exports

Additional support to those sectors which have been hit badly by recession



By 2014, the objective is to double India's exports of goods and services

LONG TERM OBJECTIVE

To double India's share in global trade by 2020.

POLICY MEASURES

Fiscal incentives, institutional changes, procedural rationalization, enhanced market access across the world and diversification of export markets.

Improvement in infrastructure related to exports, bringing down transaction costs

Activity Case 2

- The German government's recent efforts to attract highly qualified workers from non-European Union countries have come as a big boost for Indian professionals. As per the statistics, work permits have been issued for Indian Workforce both for professional as well as vocational (drivers, plumbers etc.) services. This has led to growing concern for increasing brain drain. Prepare a policy solving the above problem in the light of the fact that Germany is our largest trade partner with imports worth 7.1 billion dollars and exports of 3.2 billion dollars a year.