

# A Critical Review of the Foreign Trade Policy 2015-20 of India

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## Abstract

The world economy is moving towards the creation of platforms in international markets, which can be beneficial for the trade development of different nations. And trade in itself is the only method of development that the countries in present times can think of. Moreover, all the economies are increasingly drifting towards the integration of commerce and trade to gain maximum benefits from the business going on in different geographical regions. Economies are becoming more and more interdependent and their respective trade policy reforms are the principle tools to enter and flourish the global markets. India too heralded on its major trade policy reforms' revolution in the year 1991, which has helped it to become the active member of the global economy. Present paper attempts to highlight the utility of foreign trade policy reforms as adopted in the year 1991 and provides an account of the latest trade policy reforms undertaken by the government in the form of the Foreign Trade Policy 2015-2020 and the expectations for the import-export sector.

**Keywords:** India, Foreign Trade Policy Reforms, Foreign Trade Policy 2015-20, Import, Export, etc.

## Introduction

India heralded on the Foreign Trade Policy Reforms (FTPRs) as soon as it gained independence from the shackles of slavery it was clutched in, due to the rule of British for almost two hundred years. But the policies as adopted after independence were focused more on inward-orientation and not on outward-orientation, as more emphasis was put on the protection of Indian indigenous sector and policies, which promoted import substitution. These maxims and practices in Indian trade led many countries to refrain from entering into trade relations with India and deterred them to have trade relations with Indian economy. India was a latecomer to the realm of economic reforms, embarking on the process in earnest only in 1991, in the wake of an exceptionally severe balance of payments crisis. The need for a policy shift had become evident much earlier. But the policies as adopted in the year 1991 did away with all the unnecessary protectionist and restrictive trade norms, which impeded the growth of trade relations with other nations and opened up the doors of Indian economy for all the nations to develop trade ties with India. Since then India is progressively making all the necessary changes to gain an upper hand in the trade practiced at the international platforms.

In the same flow the Foreign Trade Policy 2015-20 has made some of the most prominent and important trade friendly measures, which have changed the very phase of trade practiced by India and has led to kindling of new hopes of growth in the trade sector of India and raised up its status in international markets.

## Aim of the Study

Present paper aims to provide a critical view of the Foreign Trade Policy (FTP) as adopted by the Indian government of India for the period covering 2021-26.

## Review of Literature

Some of the most prominent and relevant literature pertaining to the trade policy reforms and their impact on trade practiced at international level, by different nations, along with India, has been given as under:

It has been observed that many countries belonging to East-Asia have heralded on growth in early stages and have achieved growth of their economies. Along with that they were able to achieve the motive of poverty reduction through the policies, which were targeted to achieve planned development of their respective economies. India too followed this path and heralded on the path of planned development of its growth of economy through the development of international trade, by adopting the historical Foreign Trade Policy of 1991. The policy led to opening up of the economy by doing away with many unnecessary



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restrictive and protectionist measures, which marred the growth of international prospects for the economy of India. It paved the way for the larger role of private sector and opened up the doors of Indian Economy for foreign direct investment and portfolio investment from different nations (Ahluwalia, 2002).

In the year 1980 there were some of the changes in trade policies that were adopted by almost all the nations of the world, which not only restricted their trade practices at individual level but motivated others to do the same. In this practice of trade restriction, the countries increasingly targeted at raising the import-substitution measures and imposed high rates of tariff and non-tariff barriers for trade practiced with different countries. Mexico and Turkey were the nations, which went on to impose the staunchest measures to restrict foreign trade, and proved to be the hard headed import-substitutors. All these measures led to serious repercussions for international trade that was prevalent at that time and gave a severe jolt to the global economy and the growth prospects expected by that (Rodrik, 1992).

The trade liberalization has served the interest of almost all the economies of the world, and have in turn affected the growth of trade in global terms. Many nations entered the free trade agreement during 1990s, which led to a wave of liberalization being followed by different nations. The trade barriers were drastically reduced, and this led to the spread of widespread positive sentiment of growth of trade and the resultant growth in national incomes of the participating nations (Dornbusch, 2020).

There are several nations, which opened up their economies, and led to reduction in restrictive measures pursued by them, such as - high tariff rates to restrict the import from other nations. Not only that they used to raise the cost of imported products to restrict their sales and led to loss for the exporters of different nations. Moreover, they emphasized on the policy of import substitution, which also proved detrimental to the growth of their individual trade and the trade of the global economy as a whole (Mody & Pattillo, 2005).

Trade liberalization practiced through the adoption of foreign trade policies have proved to be one of the most powerful tools, to foster individual trades of respective nations and international trade of the world economy. It has proved to be in the interest of almost all the nations of the world, which have encouraged amount of trade done at the international platforms. But at the same time there is no denying the fact that some powerful nations have subdued the interest of developing and the underdeveloped nations of the world, in the garb of liberalized international trade, and has led to heavy losses for the nations which are not able to compete with these nations in terms of standards of production and quality of products offered by them (Winters, 2002).

There has been lack of consensus among different nations pertaining to the positive effects that World Trade Organization (WTO) has conferred on the trade practices and trade volume of different nations specially the underdeveloped nations. It has

been a point of contention among different nations that WTO has benefitted developed nations in disproportionate measures, and has marred the trade prospects of third world nations. The members of WTO when tested and measured on the index of economic freedom proved that it has been an unequal game for the nations which are still not well equipped to compete with developed nations (Nelson & McCracken, 2002).

Foreign trade policy of any given nation guarantees the well being of trade practices and trade volume undertaken by that nation, along with the prospects of economic growth it confers on the nation. The data collected for the duration between 1970 to 2018 from the reports of the Reserve Bank of India and the application of Johansen Co-integration Test led to the confirmation that the trade policies as adopted by Indian economy have been yielding positive impact on trade and overall growth of Indian economy (Roy, 2020).

There are vast numbers of methods, which rely upon using the physical time scale for the purpose of making an analysis pertaining to the fluctuations that occur in prices of financial markets. This time scale hampers the flow of physical time scale and makes it discontinuous. Apart from that the usage of physical time scale to study the directional changes that take place in the trade of any given nation, puts the whole process at risk, and the results so obtained are also unreliable. To study the directional changes taking place in the international markets and the individual economies involved in trade, it is imperative to study these parameters with the help of event-based time scale, combined with genetic algorithm. This new and better approach helps in getting a better look at the viability of the trade practices adopted by different nations and helps it to frame the policies, which hold a guarantee to lead the economy towards a better future in trade, for the country in concern (Douglas & Sutton, 2010).

The foreign trade policies as adopted by nations have led to many positive benefits for the trade and overall growth of economy of the respective countries. India too embarked on the policy of liberalization and globalization, which brought about historical changes in the norms of trade followed by it. Indian trade has entered into many bilateral and multilateral trade agreements and have manifested that trade of India has been on growth trajectory, but the exports at the same time have failed to register growth, as they were expected to, at the time of induction and inception of different trade liberalization measures for the enhancement of international trade practiced by India (Singh, 2000).

There has been a definite trend of trade liberalization that has altered the very phase of trade practiced by the different nations of the world. Trade openness has direct correlation with the amount of trade undertaken by the participant nations both in terms of exports and imports. It has been a thing of common knowledge, which has led many nations to get aspired and to indulge in trade and attain growth. Motivated by this fact many nations and adopted trade

liberalization measures, which heavily reduced the trade restriction and protectionist measures practiced by them (Burange et al., 2019).

All the nations of the world are interdependent in fulfillment of their needs. And trade at international level is a matter of necessity and not merely a question of choice. Because, all the nations of the world are not equally endowed in natural resources and they have to depend on other economies for the fulfillment of their different types of demands pertaining to consumption and production. As a consequence, all the nations of the world enter into foreign trade ties and relations to have healthy trade relations. The endogenous theory of trade validates the fact that relaxation in trade barriers leads to better growth and development possibilities, for all the nations entering into trade relations in long and the short run.

Following are some of the benefits that accrue to the participating nations in the international trade:

1. Relaxed trade norms lead to better absorption of technology developed in advanced nations by the developing nations.
2. It provides benefits of better research and development to developing countries.
3. Developing economies attain better economies of scale in production.
4. The fluctuations in market prices are reduced in domestic economies.
5. A higher rate of product specialization is attained by the producers.
6. New products and services are introduced in markets at a faster pace.

Indian economy plunged into the international trade, when it got independence but it did not enjoy much luck in international markets. Being a subject to colonial rule it followed the trade practices as practiced by United Kingdom and so it hardly had any trade relations with nations other than UK and its allies. Gradually, it started expanding its horizons and developed strong trade ties with many distant and neighbouring nations, and it was in 1991 that the Foreign Trade Policy Reforms adopted by Indian economy led to the revolutionary changes in the trade practices followed by India. Since the adoption of these reforms, the trade of India became heavily unregulated as many of the protectionist measures and heavy tariff rates were reduced drastically or abolished altogether.

The measures which were adopted by the Indian government under the aegis of the foreign trade policy reforms measures, led to several benefits for Indian trade in international markets and made India one of the leading performers in international trade. India adopted the policy of Liberalization, Privatization and Globalization and embarked on the never ending journey of growth and development of its trade and economy as a whole.

Given below are the four most important perspectives that resulted as an outcome of the policy of Globalization in India:

1. Free flow of goods across international boundaries.
2. Free flow of capital, facilitated by congenial investment environment.
3. Provision for exchange of technology among different nations.
4. Free flow of labour (both skilled and unskilled).

Certain other measures which were adopted by Indian government to bring momentum in its trade were the measures, to increase the Foreign Direct Investment and portfolio investment. To achieve this aim, the government of India devaluated the Indian National Rupee in 1991. After that the Rupee further recorded a downfall and facilitated trade along with the current account transaction and convertibility of Rupee. Moreover, the rates of tariffs were cut down, several items were decanalized or delisted from the reserved list, and imports were liberalized. Adoption of all these relaxed norms led to growth of trade and shifted the trade trajectory of India from Inward-Oriented Trade to the Outward-Oriented Trade Policy. Consequential to this, the trade of India received a major boost. It further got a big push, initially, when WTO came into existence. Though, the hopes of improvement as expected with the formation of WTO could never be realized, as it always favoured the developed nations of the world, and hardly took care of the interests of the developing or the underdeveloped nations of the world. The Trade Policy and the EXIM Policy as adopted by India led to large scale liberalization of trade and advanced Indian economy on the path of trade growth.

Along with these major changes government also took various measures related to taxes through EXIM Policies. The provisions of the 'Trade Policy' and the 'EXIM Policy' also led to liberalization of the trade sector as well.

#### **Meaning of Foreign Trade Policy**

Every nation adopts certain set of guidelines and rules for the conduction of trade in terms of exports and imports of goods and services with different nations. This very set of rule is called the foreign trade policy. In India these rules and guidelines pertaining to the conduction of trade are established by the Directorate General of Foreign Trade (DGFT). It is the sole body in governing the promotion and facilitation of trade in terms of exports and imports in India, and comes under the Ministry of Commerce and Industry. The policy pertaining to the foreign trade reforms, once adopted remains notified for next five years, and is updated in March of every year and the changes are put into effect on April 1.

The FTP is basically concerned with the facilitation of trade and in the reduction of cost of transaction involved and the time. In this manner it endeavors to make the exports from India more competitive.

Besides, it aims to achieve the following objectives:

1. Acceleration of economic activity in the nation and avail the opportunities available in global markets.

2. It aims to achieve the sustained economic growth by making provisions for raw material, intermediate goods and other items to boost trade development.
3. Tries to strengthen the pillars of economy such as agriculture, industry and the services.
4. Helps in the generation of employment opportunities.
5. Raises the standards of economy to make a mark in international circles.
6. Encourages the stakeholders to strive for international quality standards.
7. Upholds the interests of consumers by providing them the goods of better quality at reasonable rates/prices.

#### **Foreign Trade Policy 2015-20**

Since independence India has made significant changes in its mechanism of trade, and that has got reflected majorly in the trade practices and trade policies it has adopted, for the advancement of trade at international levels and facilitates the growth of Indian economy. The foreign trade policy (FTP) of 2015-20 was introduced and unveiled by the then Minister of State for Commerce & Industry (Independent Charge), Government of India on April 1, 2015.

#### **Highs and Lows of Foreign Trade Policy 2015-20**

There were many provisions of the foreign trade policy of 2015-20, which received commendations and were progressive, but some provisions were not considered favourable for the advancement of trade growth in India. Following sections throw light on the highs and lows of the foreign trade policy of 2015-20.

#### **Highs of the FTP 2015**

1. The consolidation export incentives into two incentives the Merchandise Exports from India Scheme (MEIS) and Services Exports from India Scheme (SEIS).
2. Introduction of Duty Credit Scrips, which could be passed on to another party if not required.
3. Reduction of export obligations from 90% to 75% for capital goods, which were drawn from the local manufacturers falling under the under the Export Promotion Capital Goods Scheme (EPCG).
4. It allowed the exporters/manufacturers to become status holders and satisfy the condition of the goods originating from India.
5. It helped the manufacturers qualify for the treatment given to exporters on the preferential basis on being certified by the DGFT.
6. It allowed for the interventions, which were done on purpose, of boosting the exports from India.
7. It was instrumental in introducing the paperless processing of the licenses and applications which were submitted to the DGFT.

Although the above mentioned criteria and provisions of the policy helped the exporters and the growth of trade done by them, there were certain provisions of the policy, which attracted criticism from different organizations.

Some of the sticking points, which attracted criticism from United States in the World Trade Organization (WTO), are given as under:

1. The Dispute Settlement Panel of WTO in the year 2019 opposed the provisions of Policy citing that the subsidy provided by India to the exporters were against the rules and provisions of WTO, which were mainly the tax incentives that were given under the MEIS and SEIS schemes. They argued that the per capita gross national product of India was over \$1,000 per annum, and so, India was not justified in forwarding these subsidies.
2. Indian trade policies have been often looked down upon as not capable of boosting trade, as they were expected to, and this led Indian government to not be a participant to the Regional Comprehensive Economic Partnership (RCEP). This move of India also attracted its share of criticism from the world economic community.

Some of the major improvements in the FTP 2015-20 are given as under:

#### **Scheme to Boost the Merchandise Exports**

All the earlier schemes that focused on the improvement of trade in Indian economy were merged to form the Merchandise Export from India Scheme (MEIS), which promised to offer bright prospects for the exports sector of India, and laid foundation for the speedy advancement of the exports. In addition it offered to give reward to the export houses, which were under the category of notified exporters and the rewards were payable as a percentage of the FOB that was realized in terms of free foreign trade.

#### **Help to the Service Providers of India**

The FTP for 2015-20 had many offerings for the traders of India, who dealt and functioned in the area of service exports. The service providers who were located in India were to be given help and preferential treatment under this endeavour. If the service providers belonged to the categories that were involved in providing the notified services, they were eligible for the rewards set by the policy. The rate of reward was based on the amount of foreign exchange earned by the service providers under consideration.

#### **Incentives to the Units Located in SEZs**

The trade policy of 2015-20 also provided to offer incentives and help to the SEZs and the units established therein. There were different aspects of policy, which helped to revive the units and help them to attain the rate of progress and the amount of profit they expected and endeavoured to earn. This lease of life for the units of SEZs came at the time, when most of them were reeling under the pressures of low performance and heavy losses in some cases, and were not able to cope with the changing scenario of trade practices at the national and the international level.

#### **Provisions Pertaining to the Scrips**

Scrips are very important in the conduction of trade at international level and offer healthy prospects for trade and both for the traders and the advancement of trade in the economy. The policy led

to certain provisions like the provision of free transferability of the scrips. Besides the scrips were made as a mode, which could be used for the payment of the custom duties that the traders were to pay by some other mode, previously. In addition, they could also be used for the payment of service tax given the condition of the procurement of services laid down by the DoR notifications.

#### **Provisions Pertaining to the Status Holders**

The leaders in business who have not only excelled in their respective fields of trade and have earned accolades were accommodated, and motivated well, in the policy of 2015-20. For the contribution, they have made to the trade development of Indian trade, at the international platforms; they were provided the opportunity to be recognized as the status holders. In addition, they were also provided with special facilities and privileges, which could be used to carry on their trade in time effective and cost effective manner.

#### **Other noteworthy provisions of the policy were:**

1. It provided preferential treatment to the status holders, and relaxed the norms, which governed the conferring of rights to become a status holder.
2. Exporters, who were the status holders, were given the opportunity to self-certify themselves.
3. The policy provided a strong boost to the concept of 'Make in India' and led to many provisions, which in turn led to the development in the trade sector of India.
4. It further provided for the higher level of rewards to be conferred on the traders who provided for high level of domestic content and value addition.
5. There were many provisions of the policy, which promised for greater support and facilitation of trade, along with ease of doing business and excelling in business in India.
6. One of the provisions related to the online filling of applications is a revolutionary move to forward trade and the practices attached with that.
7. Provisions like online inter-ministerial consultation, simplification of procedures pertaining to the digitization and e-governance have revolutionized the whole process of doing business at the international level.

#### **Conclusion**

The foreign trade policies have been instrumental in forwarding the tempo of international trade. India has been doing and has led to many changes that have facilitated in carrying forward the trade practiced with different countries of the world. The Foreign Trade Policy of 2015-20 has been one of the milestones in the history of the foreign trade policies initiated and undertaken by India and promises to become one of the policies that made the trade practices of India, one of the best for the advancement of trade and ease of doing business.

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