

DEPTT. OF COMMERCE

SEMESTER- IV

SUBJECT- FOREIGN TRADE OF INDIA

DR. MADHU BHATIA

FOREIGN TRADE POLICY

Policies enacted by the government sector of a domestic economy to discourage imports from, and encourage exports to, the foreign sector. The three most common foreign trade policies are tariffs, import quotas, and export subsidies. Tariffs and import quotas are designed to discourage imports and export subsidies are designed to encourage exports. The general goal of these foreign trade policies is to create or increase a country's balance of trade surplus, that is, to increase net exports.

Foreign trade policies are government actions, especially tariffs, import quotas, and export subsidies, designed to increase net exports by promoting exports or restricting imports. By increasing net exports (and creating a more "favorable" balance of trade), the domestic production of a nation increases, which then increases domestic income and employment.

While foreign trade policies can be beneficial to the aggregate domestic economy they tend to be most beneficial, and thus most commonly promoted by, domestic firms facing competition from foreign imports. Domestic firms benefit with higher sales, greater profits, and more income to resource owners. However, by increasing domestic prices and restricting access to imports, foreign trade policies also tend to be harmful to domestic consumers.

FOREIGN TRADE POLICY 2015-2020:

The Foreign Trade Policy (FTP) 2015-20 was unveiled by Ms Nirmala Sitharaman, Minister of State for Commerce & Industry (Independent Charge), Government of India on April 1, 2015. Following are the highlights of the FTP:

- FTP 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in line with the 'Make in India' programme.
- The Policy aims to enable India to respond to the challenges of the external environment, keeping in step with a rapidly evolving international trading architecture and make trade a major contributor to the country's economic growth and development.
- FTP 2015-20 introduces two new schemes, namely 'Merchandise Exports from India Scheme (MEIS)' for export of specified goods to specified markets and 'Services Exports from India Scheme (SEIS)' for increasing exports of notified services.
- Duty credit scrips issued under MEIS and SEIS and the goods imported against these scrips are fully transferable.
- For grant of rewards under MEIS, the countries have been categorized into 3 Groups, whereas the rates of rewards under MEIS range from 2 per cent to 5 per cent. Under SEIS the selected

Services would be rewarded at the rates of 3 per cent and 5 per cent.

- Measures have been adopted to nudge procurement of capital goods from indigenous manufacturers under the EPCG scheme by reducing specific export obligation to 75 per cent of the normal export obligation.
- Measures have been taken to give a boost to exports of defense and hi-tech items.
- E-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customised fashion garments through courier or foreign post office would also be able to get benefit of MEIS (for values up to INR 25,000).
- Manufacturers, who are also status holders, will now be able to self-certify their manufactured goods in phases, as originating from India with a view to qualifying for preferential treatment under various forms of bilateral and regional trade agreements. This 'Approved Exporter System' will help manufacturer exporters considerably in getting fast access to international markets.
- A number of steps have been taken for encouraging manufacturing and exports under 100 per cent EOU/EHTP/STPI/BTP Schemes. The steps include a fast track clearance facility for these units, permitting them to share infrastructure facilities, permitting inter unit transfer of goods and services, permitting them to set up warehouses near the port of export and to use duty free equipment for training purposes.
- 108 MSME clusters have been identified for focused interventions to boost exports. Accordingly, 'Niryat Bandhu Scheme' has been galvanised and repositioned to achieve the objectives of 'Skill India'.
- Trade facilitation and enhancing the ease of doing business are the other major focus areas in this new FTP. One of the major objective of new FTP is to move towards paperless working in 24x7 environment.

TYPES OF INTERNATIONAL TRADE AGREEMENTS

Countries negotiated mutually beneficial agreements with each other to simplify trade between nations, eliminate tariff and non-tariff barriers, recognize each other's standards, etc. There are 2 types of international trade agreements:

1. Multilateral (or Regional) Agreements

They set rules of trade between several countries. Multilateral agreements shape international trade unions, such as WTO, EU, NAFTA, etc. For example, WTO is regulated by General Agreement on Trade and Tariffs. European Union is regulated by several treaties, such as Treaty of Rome, Treaty of Maastricht, etc.

2. Bilateral Agreements

They set rules of trade between two countries. For example, there are Canada-Peru, EU-South Africa, US-Australia and other free trade agreements.

The agreements may be limited to certain goods and services or certain types of market entry barriers. Different types of agreements define the level of the international integration from free trade to customs and economic unions.

Benefits of international trade agreements:

- Simplified access to enlarged customer base;
- Cutting your foreign market penetration costs due to the elimination, reduction or simplification of customs duties and processes and regulatory requirements;
- Optimization of your supply chain by dealing with suppliers from countries under the international agreement with your country;

- Optimization of your production operations by moving it abroad partially or completely;
- Simplified access to foreign investors and financial institutions to satisfy financing needs better;
- Simplified access to foreign labor force and simplified access of your employees to target markets.

GENERAL AGREEMENT ON TARIFFS AND TRADES (GATT):

The General Agreement on Tariffs and Trade, known as the GATT, is one-third of the Bretton Woods system that was created after World War II to ensure a stable trade and economic world environment. The International Monetary Fund (IMF) and World Bank are the other two bodies of the Bretton Woods system.

While often referred to as an international organization, the GATT had a “defacto” role as an international organization before the creation of the World Trade Organization (WTO). The WTO was established on January’ 1, 1995 by the Final Act of the Uruguay Round of negotiations.

The Basic Principles of the GATT:

1. Most-Favored-Nation (MFN) Treatment:

This is the fundamental principle of the GATT and it is not a coincidence that it appears in Article 1 of the GATT 1947. It states that each contracting party to the GATT is required to provide to all other contracting parties the same conditions of trade as the most favourable terms it extends to any one of them, i.e., each contracting party is required to treat all contracting parties in the same way that it treats its “most-favoured nation”.

2. Reciprocity:

GATT advocates the principles of “rights” and “obligations”. Each contracting party has a right, e.g. access to markets of other trading partners on a MFN basis but also an obligation to reciprocate with trade concessions on a MFN basis. In a way, this is closely associated with the MFN principle.

3. Transparency:

Fundamental to a transparent system of trade is the need to harmonize the system of import protection, so that barriers on trade can be reduced through the process of negotiations. The GATT therefore, limited the use of quotas, except in some specific sector such, as agriculture and advocated import regimes that are based on “tariff-only”.

In addition, the GATT and now the WTO, required many notifications from contracting parties on their agricultural and trade policies so that these can be examined by other parties to ensure that they are GATT/WTO compatible.

4. Tariff Binding and Reduction:

When GATT was established, tariffs were the main form of trade protection and negotiations in the early years focused primarily upon tariff binding and reduction. The text of the 1947, GATT lays out the obligations on the contracting parties in this regard.

Objectives:

The main objectives with which GATT was founded included:

- (a) Raising standard of living;
- (b) Ensuring full employment and a large and steadily growing volume of real income and effective demand;
- (c) Developing the full use of the resources of the world and
- (d) Expansion of production and international trade.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)

The **United Nations Conference on Trade and Development (UNCTAD)** was established in 1964 as a permanent intergovernmental body.

UNCTAD is the part of the United Nations Secretariat dealing with trade, investment, and development issues. The organization's goals are to: "maximize the trade, investment and development opportunities of developing countries and assist them in their efforts to integrate into the world economy on an equitable basis". UNCTAD was established by the United Nations General Assembly in 1964 and it reports to the UN General Assembly and United Nations Economic and Social Council.

Objectives:

The objective of UNCTAD is :

(a) to reduce and eventually eliminate the trade gap between the developed and developing Countries

(b) and to accelerate the rate of economic growth of the developing world.

Functions:

(i) To promote international trade between the developed and under-developed countries having diverse socio-economic organisations with special emphasis upon the accelerated development of the under-developed countries.

(ii) To formulate the principles and policies concerning international trade and related problems of economic development.

(iii) To make proposals for putting the said principles and policies into effect and to adopt measures that may be relevant to this end.

(iv) To generally review and facilitate the co-ordination of activities of other institutions within the fold of the United Nations related to international trade and economic development.

(v) To be available as a centre for harmonious trade-related policies of governments and the regional economic groupings in pursuance of Article 7 of the Charter of the United Nations

Principles:

(i) Sovereign right of each member country to dispose of freely its natural resources in the interest of its development, well-being of its population and furtherance of its trade with other countries.

(ii) International economic and trade relations shall be based on such principles as respect for sovereign equality of states, self-determination and non-interference in the internal affairs of the others.

(iii) No discrimination among member countries on account of differences in socio-economic system and independent pursuit of economic and other policies.

(iv) Extension of preferential concessions.

(v) Greater market access for the products of the less developed countries.

(vi) Reduction in tariff and non-tariff restrictions on trade.

(vii) Unconstrained flow of international aid.

WORLD TRADE ORGANISATION (WTO):

World Trade Organization (WTO) is the successor to General Agreement on Tariffs and Trade (GATT). According to the agreement reached in the Uruguay Round, GATT was converted into a formal international organization called World Trade Organization. WTO came into operation on 1st January 1995. Now, WTO serves as an international framework for world trade. It is being directed by a

Ministerial conference which will meet at least once every two years. Its normal business operations will be overseen by General council.

Objectives:

1. To ensure the reduction of tariffs and other barriers to trade.
2. To eliminate discriminatory treatment in international trade relations.
3. To facilitate higher standards of living, full employment, a growing volume of real income and effective demand, and an increase in production and trade in goods and services of the member nations.
4. To make positive effect, which ensures developing countries, especially the least developed secure a level of share in the growth of international trade that reflects the needs of their economic development.
5. To facilitate the optimal use of the world's resources for sustainable development.
6. To promote an integrated, more viable and durable trading system incorporating all the resolutions of the Uruguay Round's multilateral trade negotiations.

Functions:

World Trade Organization is a powerful body with enlarged functions. It is envisaged to play a crucial role in the world's economic affairs.

The essential functions of W.T.O are as follows:

1. Administering and **implementing the multilateral and plurilateral trade agreements**. Providing the framework for the implementation, administration and operation of plurilateral trade agreements.
2. **To provide symposium for dialogues** among members nations regarding multilateral trade relations in matters delineated in the agreements.
3. **Administering the understanding** on rules and procedures governing the settlement of disputes.
4. Seeking to **resolve trade disputes**.
5. **Overseeing national trade policies**.
6. Administering the **trade review-mechanism** in relation to international trade.
7. **Cooperating with international institutions** such as IMF and IBRD and its affiliated agencies involved in global policy making.

Principles:

1. **Non-discrimination**. It has two major components: the most favoured nation (MFN) rule, and the national treatment policy. Both are embedded in the main WTO rules on goods, services, and intellectual property, but their precise scope and nature differ across these areas. The MFN rule requires that a WTO member must apply the same conditions on all trade with other WTO members, i.e. a WTO member has to grant the most favourable conditions under which it allows trade in a certain

product type to all other WTO members. "Grant someone a special favour and you have to do the same for all other WTO members." National treatment means that imported goods should be treated no less favourably than domestically produced goods (at least after the foreign goods have entered the market) and was introduced to tackle non-tariff barriers to trade (e.g. technical standards, security standards et al. discriminating against imported goods).

2. **Reciprocity.** It reflects both a desire to limit the scope of free-riding that may arise because of the MFN rule, and a desire to obtain better access to foreign markets. A related point is that for a nation to negotiate, it is necessary that the gain from doing so be greater than the gain available from unilateral liberalization; reciprocal concessions intend to ensure that such gains will materialise.
3. **Binding and enforceable commitments.** The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions. These schedules establish "ceiling bindings": a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the WTO dispute settlement procedures.^{[35][55]}
4. **Transparency.** The WTO members are required to publish their trade regulations, to maintain institutions allowing for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO. These internal transparency requirements are supplemented and facilitated by periodic country-specific reports (trade policy reviews) through the Trade Policy Review

Mechanism (TPRM). The WTO system tries also to improve predictability and stability, discouraging the use of quotas and other measures used to set limits on quantities of imports.

5. **Safety values.** In specific circumstances, governments are able to restrict trade. The WTO's agreements permit members to take measures to protect not only the environment but also public health, animal health and plant health
