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PROBLEMS AND PROSPECTS OF FOREIGN TRADE IN INDIA

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Abstract

India, along with a few other developing countries, has and continues to have objections raised and ventilated through WTO forums on issues like agriculture, especially, subsidies in the context of food security and 'trade facilitation'India's contention has been that institutional reforms of the WTO are best left to the members rather than the WTO Secretariat. India has further highlighted the increasing trade frictions and the dwindled size of the Appellate Tribunal, which among other things, is affecting dispute resolution.
Keywords : Agriculture, Tribunal, WTO, Subsidies and Dispute.

Introduction :

Foreign trade in India includes all imports and exports to and from India. At the level of Central Government it is administered by the Ministry of Commerce and Industry. Foreign trade accounted for 48.8% of India's GDP in 2015. There are records throughout history of India's trade with foreign countries. Even before independence, the Government of India maintained semi-autonomous diplomatic relations. It had colonies (such as the Aden Settlement), who sent and received full missions, and was a founder member of both the League of Nations and the United Nations. After India gained independence from the United Kingdom in 1947, it soon joined the Commonwealth of Nations and strongly supported independence movements in other colonies, like the Indonesian National Revolution. The partition and various territorial disputes, particularly that over Kashmir, would strain its relations with Pakistan for years to come. During the Cold War, India adopted a foreign policy of not aligning itself with any major power bloc. However, India developed close ties with the Soviet Union and received extensive military support from it.

India, along with a few other developing countries, has and continues to have objections raised and ventilated through WTO forums on issues like agriculture, especially, subsidies in the context of food security and 'trade facilitation'. India has objected to the WTO Secretariat's participation in the recent report brought out by the World Bank and IMF casting doubts on the efficacy of trade talks involving all nations. The report's suggestion of having plurilateral instead of multilateral trade talks have not found favour with countries such as India. India's contention has been that institutional reforms of the WTO are best left to the members rather than the WTO Secretariat. India has further highlighted the increasing trade frictions and the dwindled size of the Appellate Tribunal, which among other things, is affecting dispute resolution.

Concerns have been expressed by India on 'trade war' and a possible collapse of the entire rules-based system of the WTO. It is in this context that it is gratifying to note that the Indian commerce minister and his team have taken a lead and are engaged in drawing up an agenda by taking on board the views of the developed and developing world for discussions on the sidelines of the forthcoming World Economic Forum (WEF) Summit in Davos. The agenda is expected to chart out a course for the way forward for the WTO.

Leadership on the international front in institutions like the WTO will come only with some adjustments on the domestic front. There is an urgent need to create more jobs, increase the manufacturing base, increase exports, develop skills, attract investments, promote innovation, tackle the depreciating rupee, take steps to conform to international standards and look at more engagements both within the framework of Preferential Trade Agreements (PTAs) as well as multilateral negotiations under the ambit of WTO.

The sticking points of the agreements being negotiated—on agriculture, or Mode-4 of the General Agreement on Trade in Services (GATS) viz. free movement of 'natural persons', in this context Brexit might not be too bad a thing to have happened as it might actually open new and attractive avenues for skilled Indian youth in the UK, or on services, or the Trade-Related aspects of Intellectual Property Rights (TRIPS), or even on elimination or reduction of tariffs on specific goods—need to be looked at with an open mind. A 'non-negotiable' kind of approach should be avoided at all costs.

The FTAs with the EU and also the ongoing negotiations on Regional Comprehensive Economic Partnership (RCEP), which includes the 10 ASEAN states and the six Asia-Pacific states—which already have an FTA with ASEAN viz. Australia, China, India, Japan, South Korea and New Zealand—needs to be concluded at an early date. Prime Minister Narendra Modi after attending the RCEP Summit in Singapore in November, 2018 has called for early conclusion of the RCEP negotiations.

In a volatile global environment, India should get prepared for opening itself to even more competition. While it is true that agriculture and services require help, it is also important that these sectors and other sectors too are able to sustain themselves in an environment of open trade. Every effort should be made to make these viable on their own and as early as possible.

Policies, priorities, positives and problems :

The integration of the Indian economy with the global economy through trade and flow of foreign direct investment has accelerated during the last two decades and this has resulted in an increased GDP growth as well as a trebling of GDP per capita income. India with a GDP (PPP) of $2.597 trillion is the sixth largest economy in the world today.

India has also emerged as the fastest growing economy among the major economies of the world. India's ongoing foreign trade policy (FTP) for the period 2015-20 has set a target of increasing the country's share of world exports from 2 per cent to 3.5 per cent. In absolute terms, the target for export of goods and services from India is $900 billion by the year 2020. India's foreign direct investment (FDI) equity inflows reached $389.60 billion between April 2000 and June 2018.

Agriculture, which contributes to almost 17 per cent of the GDP and has close to more than 50 per cent of the country's working population engaged in it, continues to pose challenges. With reports of an agrarian crisis looming large, issues like loan waivers (although experts are very much divided on this), subsidies, minimum support price (MSP), among others, will continue to engage the mind-space of political establishments.

How India negotiates its foreign trade policy while not jettisoning its domestic priorities—like unemployment, agriculture, increased manufacturing and also exports—and also making a pitch for multilateralism as opposed to protectionism would be closely watched with great interest.

Review of Literature :

Review of related literature is an important research effort as it provides comprehensive understanding of what is already known about the topic. It helps to avoid duplication of what has already been done, and provides useful directions and helpful suggestions for research work.

Daumal, M. (2013) Regional inequalities are large in India and Brazil and represent a development challenge. This article aims to determine whether regional inequalities are linked to a country's trade openness. An annual indicator of regional inequalities is constructed for India for the period 1980–2004 and for Brazil from 1985–2004. Results from time series regressions show that Brazil's trade openness contributes to a reduction in regional inequalities. The opposite result is found for India. India's trade openness is an important factor aggravating income inequality among Indian states. In both countries, inflows of foreign direct investment are found to increase regional inequalities.

Davis, C. et. al. (2014) WTO rules and the pressures of globalization restrict states' capacity to manipulate trade policies, but the work argue that governments can link political goals with economic outcomes using less direct avenues of influence over firm behavior. Where governments intervene in markets, politicization of trade is likely to occur. In this paper, the work examines the important form of government control: state ownership of firms. Taking China and India as examples, this work makes use of bilateral trade data by firm ownership type, as well as measures of bilateral political relations based on diplomatic events and UN voting to estimate the effect of political relations on import and export flows. Our results support the hypothesis that imports controlled by state-owned enterprises (SOEs) exhibit stronger responsiveness to political relations than imports controlled by private enterprises. A more nuanced picture emerges for exports; while India's exports through SOEs are more responsive to political tensions than its flows through private entities, the opposite is true for China. This research holds broader implications for how one should think about the relationship between political and economic relations going forward, especially as a number of countries with partially state-controlled economies gain strength in the global economy

Taneja, N. et. al. (2015) With the exchange standardization procedure in the middle of India and Pakistan gathering energy from November 2011, new open doors for upgrading respective exchange have opened up between the two nations. This study gauges the exchange potential in the middle of India and Pakistan and looks at how this potential can be figured it out. Utilizing the Trade Possibility Approach for all things exchanged, trailed by selecting just those things in which the nations have an uncovered relative point of interest to send out, the exchange potential in the middle of India and Pakistan is assessed to lie between US$10.9 billion and US$19.8 billion. From the US$10.9 billion exchange potential, India's fare potential records for US$7.9 billion and import potential for US$3 billion. With countless fitting in with the negative or touchy records, the study appraises the exchange potential represented by these things. A part savvy examination demonstrates that two-sided exchange will get a support if the material segment is changed in both nations, with Pakistan changing its vehicles area as well. In the administration segment, exchange potential outcomes have been recognized in data innovation (IT), Business Process Outsourcing (BPO), wellbeing, and stimulation administrations. The study finds this exchange potential stays hidden generally because of hindrances in transport and travel offices, a prohibitive visa administration, the continuation of huge casual exchange streams, and the vicinity of "saw" nontariff obstructions to exchange in the middle of India and Pakistan. As the foreign direct investment (FDI) administration between the two nations is changed in 2012, the study distinguishes segments that hold potential for speculations and are liable to develop the exchange linkages in the middle of India and Pakistan.

Objectives of the Study :

- To study the India's foreign trade policy.
- To study the problems faced by the Indian Exporters.
- To offer valuable suggestions for the improvement of foreign trade in India.

Methodology:

The method used in this paper is descriptive-evaluative method. The study is mainly review based. It is purely supported by secondary source of data, i.e. books, journals, papers and articles and internet.

Exports and imports:

India exports approximately 7500 commodities to about 190 countries, and imports around 6000 commodities from 140 countries. India exported US$318.2 billion and imported $462.9 billion worth of commodities in 2014.

The Government of India's Economic Survey 2017-18 noted that five states — Maharashtra, Gujarat, Karnataka, Tamil Nadu and Telangana accounted for 70% of India's total exports. It was the first time that the survey included international export data for states. The survey found a high correlation between a state's Gross State Domestic Product (GSDP) per capita and its share of total exports. With a high GSDP per capita but low export share, Kerala was the only major outlier because the state's GSDP per capita was heavily influenced by remittances.

The survey also found that the largest firms in India contributed to a smaller percentage of exports when compared to countries like Brazil, Germany, Mexico, and the United States. The top 1% of India's companies accounted for 38% of total exports.

Trade statistics :

Table : 1
Recent India Foreign Trade(in billion $):

Year	Export	Import	Trade Deficit
1999	36.3	50.2	-13.9
2000	43.1	60.8	-17.7
2001	42.5	54.5	-12.0
2002	44.5	53.8	-9.3
2003	48.3	61.6	-13.3
2004	57.24	74.15	-16.91
2005	69.18	89.33	-20.15
2006	76.23	113.1	-36.87
2007	112.0	100.9	11.1
2008	176.4	305.5	-129.1
2009	168.2	274.3	-106.1
2010	201.1	327.0	-125.9
2011	299.4	461.4	-162.0
2012	298.4	500.4	-202.0
2013	313.2	467.5	-154.3
2014	318.2	462.9	-144.7
2015	310.3	447.9	-137.6
2016	262.3	381	-118.7
2017	275.8	384.3	-108.5

Source :Economic Survey, Govt. of India, 2018.

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Table : 2
The top 10 commodity exports in 2014 were as follows:

Rank	Commodity	HS Code	Value (US$ billion)	Share (%)
1	Refined Petroleum	27	61.2	19.2
2	Gems, precious metals, coins	71	41.2	13
3	Vehicles	87	14.5	4.6
4	Machines, engines, pumps	85	13.6	4.3
5	Organic chemicals	29	12.1	3.8
6	Pharmaceuticals	30	11.7	3.7
7	Cereals	10	10.1	3.2
8	Iron and steel	72	9.1	2.9
9	Clothing (not knit or crotchet)	58	9.1	2.9
10	Electronics	85	9.1	2.8

Source :Economic Survey, Govt. of India, 2018.

Table : 3
The top 10 commodity imports in 2014 were as follows:

Rank	Commodity	HS Code	Value (US$ billion)	Share (%)
1	Oil	27	177.5	38.3
2	Gems, precious metals, coins	71	60	13
3	Electronics	85	32	6.9
4	Machines, engines, pumps	85	31.2	6.7
5	Organic chemicals	29	18.3	4
6	Plastics	39	11.8	2.6
7	Iron and steel	72	11.4	2.5
8	Animal/vegetable fats and oils	15	10.7	2.3
9	Ores, slag and ash	26	7.4	1.6
10	Medical and technical equipment	90	7.1	1.5

Source :Economic Survey, Govt. of India, 2018.

Conclusion :

Recently, the World Trade Organization (WTO) cut the global trade growth forecast to 2.8% from 3.9% earlier, owing to slowdown in the emerging economies and worsening financial market volatility. Around the same time, the Government of India suggested that it aims to increase India's share in the global trade to 3.5% from the current level of 2% by 2020, through doubling its goods and services trade. In this regard, India has embarked on further trade liberalization by ratifying the WTO trade facilitation agreement, which could give an impetus to foreign trade. Thus, in the long run, India's trade will be critically linked for achieving better market access through WTO negotiations as well as integration into regional trade groupings.

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