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Changing Contours of India's Foreign Trade Policy

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ABSTRACT

This paper discusses India's foreign trade policy trends, focusing on the last 15 years or so; the impact of these changes on trade performance – exports and imports, as well as foreign investment flows in terms of foreign direct investment (FDI) and foreign portfolio investment (FPI). Beginning with an overview of India's foreign trade policy, the paper analyzes data sets on exports, imports, FDI, FPI and their composition and direction. The paper further analyzes the various government initiatives to spur economic development, indicating India's commitments towards liberalization. The paper argues that it is important for India to stay on course of unilateral trade liberalization in pursuit of its economic interests, which has been at the core of India's foreign trade policy.

Introduction

Foreign Trade Policy of a country contains decisions taken by the government in the sphere of foreign trade, which not only includes export and import but also measures, policies and procedures related thereto. Foreign trade plays an important part in India's economy, particularly in view of the changing global landscape. The state of the external environment characterized by growing trends towards protectionism combined with new features of the global trading architecture, such as mega regional agreements and changing dynamics of global value chains are going to have profound influence on India's trade. It is in this context that the paper attempts to assess the trends in India's Foreign Trade Policy since 2000.

In doing so, the first section of the paper provides a brief historical overview of India's Foreign Trade Policy (FTP). The second part attempts at understanding the salient features of FTP underlined in the successive FTP documents since the millennium in order to examine policy changes over the years. This is followed by an evaluation of major trends in India's exports and imports and Foreign Investment Flows, both in terms of Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). The next section analyzes some recent policy measures undertaken by the government at further liberalization, such as the Special Economic Zones (SEZs), Coastal Economic Zones

(CEZs) and development of Industrial Corridors. The last section summarizes the developments based on the analysis in the previous sections.

Foreign Trade Policy of India

The evolution of India's Foreign Trade Policy (FTP) can be understood within the context of external dynamics and domestic priorities.[i] India's international trade policy following her independence in 1947 focused on economic nationalism. During 1947-1990, India's economic development strategies were guided by an inward-looking development strategy based on the idea of self-reliance and infant-industry policy i.e. stimulating home-grown industrialization and import-substitution and minimal reliance on international trade. The Import Substitution Industrialization (ISI) minimized imports by supporting indigenous production and according priority to domestic use in the production. Such trade policy pursuit had the limiting effect on the nature of integration with the world economy.

In the last decade of the 20th century, India suffered a major macroeconomic and balance of payment crisis which led her to rethink her trade policy. The current account deficit stood at a record 3.2 percent of GDP in 1990 with inflation exceeding 10 percent and foreign exchange reserves as low as barely sufficient to finance imports for 2 ½ months.[ii] In order to overcome the crisis India relinquished its inward-looking strategy and embarked on liberalization process. One of the basic objectives of the reform process was to incrementally integrate the Indian economy with the world. The process ushered in progressive liberalization of controls and elimination of discretionary licensing for imports and exports.

The gradual liberalization of the Indian economy characterized by such policy reforms created a favourable environment for India's exports to flourish and evolve into an engine of social and economic growth. In terms of trade openness index, India registered an increase during the period 1991-2000. The trade/GDP ratio increased from 17 per cent in 1991 to 27 per cent in 2000.[iii] There has been marked improvement in India's total merchandise trade to GDP ratio from 21.8 per cent in 2000-01 to 44.1 per cent in 2013-14.[iv]

Prior to the reforms, the practice of foreign trade policy in India began in 1985 with a three year period. It was in the beginning of the 1990s that a five year trade policy was adopted in order to provide stability and thereby minimize the uncertainties for exporters and importers. The Foreign Trade (Development & Regulation) Act, 1992 provided the basis for the development and regulation of foreign trade by facilitating imports into India and augmenting exports from India. [v] Noteworthy, Foreign Trade Policy was known as the EXIM Policy till 2004. It was in the year 2004 that modifications were made in third five year trade policy (2002-07) and it was incorporated into the new five year Foreign Trade Policy for the period 2004-09 by the new government.[vi] Thereafter, two five year trade policies have been adopted from the period 2009-14 and 2015-2020 respectively.

Foreign Trade Policy: Trends, Objectives and Policy Perspectives

A comparative analysis of India's Foreign Trade Policy (FTP) from the millennium shows that the major objective across these policies has remained the same, which is to augment India's economy, sustain its economic growth and enhanced integration with the world economy by increasing India's percentage share of global merchandise trade and employment generation. In pursuit of this objective, successive governments have taken

various measures to boost exports over the years (Table: 1). With each FTP, Indian economy has become more integrated with the world.

The Export and Import Policy or the Exim Policy, as it was referred till 2004, for the period 1992-97 marked a significant milestone in the history of Indian economy. Besides being the first five-year policy, it was for the first time that conscious effort was made to do away with various protectionist and regulatory policies that were in place. It also set the pace for India to move towards a globally oriented economy.[vii] The Exim Policy of 1992 substantially eliminated licensing and discretionary controls on trade and provided impetus to exports. During this period steps were also taken to promote Foreign Direct investment (FDI) which included raising the limit of foreign equity holdings from 40 per cent to 51 per cent in priority sectors and establishment of Foreign Investment Promotion Board (FIPB).[viii]

The FTP (1997-2002) aimed at making India a globally oriented economy by expanding its reach in the global markets and improving technological strength. Various policies such as Export Promotion Capital Goods Schemes (EPCG), Advanced License Scheme and 100 per cent foreign equity participation in Export Oriented Units (EOUs) facilitated in achieving such objectives.

For export promotion, the FTP (2004-09) introduced many schemes like the 'Target Plus' under which exporters achieving a quantum growth in exports were entitled to duty free credit based on incremental exports substantially higher than the general actual export target fixed. A new scheme, called the Free Trade and Warehousing Zone (FTWZs) was introduced to create trade-related infrastructure to facilitate import and export of goods and services with freedom to make trade transactions in convertible currencies. For the development and establishment of these zones 100 per cent FDI was allowed as well as other benefits as applicable for units in SEZs. Modifications were also made to accelerate growth in export of services. In this respect, Duty Free Export Credit (DFEC) Scheme was revamped into 'Served from India Scheme (SFIS).[ix]

In view to augment export growth, the FTP for the period 2009-2014 launched new initiatives like the Focus Market Scheme (FMS) and Focus Product Scheme (FPS). FTP (2009-2014) introduced the FMS with a vision to support exporters in competing with foreign export market against high freight cost and other externalities. This FTP saw addition of new markets, covering Africa, Latin America and large part of Oceania under FMS as well as Market Linked Focus Product Scheme (MLFPS). Incentives available under FMS were increased from 2.5 per cent to 3 per cent and for FPS and MLFPS from 1.25 per cent to 2 per cent. The FTP also provided for EPCG Scheme at zero duty for specified sectors.[x]

The present FTP for the period 2015-2020, announced on April 1, 2015, focuses on supporting both manufacturing and services exports and improving the 'Ease of Doing Business'. In doing so, it aims to increase India's exports to US$ 900 billion by 2019-20. To give a thrust to foreign investments and make it more digital friendly, it also initiated 'Make in India' and 'Digital India' programmes.

To improve ease of doing business the government has reduced the number of mandatory documents required for exports and imports to three each, comparable with international benchmarks; provided for customs single window initiative; and 24x7 customs clearance. In order to enhance exports, the present FTP introduced two new

schemes, namely, the **Merchandise Export from India Scheme (MEIS)** and **Service Export from India Scheme (SEIS)**.

The six different schemes of the earlier FTPs (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agriculture Infrastructure Incentive Scrip, Vishesh Krishi and Gram Udyog Yojana and Incremental Export Incentive Scheme) have been merged into a single scheme, namely the **Merchandise Export from India Scheme (MEIS).** This scheme allows export of specified goods to specified markets. In doing so, countries have been grouped into three categories. Category A involves traditional markets, Category B involves emerging & focus markets and Category C refers to other markets for grant of incentives. The government has expanded the coverage of the MEIS on October 29, 2015 by adding 110 new items. The incentive rate/country coverage of 2228 items has been enhanced.

The Served from India Scheme (SFIS) has been replaced with the **Service Export from India Scheme (SEIS)** for increasing exports of notified services. It provides for incentives to all service providers of notified services who are providing services from India, regardless of the constitution or profile of the service provider. FTP 2015-20 extends the benefits of the MEIS and SEIS to special economic zones (SEZs) as well to give a new impetus to the development and growth of SEZs. The FTP also supports 'Make in India' initiatives through measures encouraging procurement of capital goods from indigenous manufacturers under EPCG Scheme reducing Export Obligation by 75 per cent. This intends to promote domestic capital goods manufacturing industry and enable them to develop their productive capacities for both local and global consumption.[xi]

Table: 1	India's Foreign Trade Policy in Comparative Perspective		
Foreign Trade Policy	**Objectives**	**Major Policies**	**New / Modified Provisions**
1997-2002	# To accelerate the economy from low level of economic activities to high-level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities. #Sustained growth by providing access to essential raw materials, intermediates, components, consumables and capital good required for augmenting production. #To improve technological strength and create employment	# **Export Promotion Capital Goods (EPCG) Scheme**: Minimize duty of imported capital goods from 15% to 10%. Under the zero duty EPCG Scheme, threshold limit has been reduced from Rs. 20 crores to Rs. 2 crore for agriculture & allied sectors. # **Advanced Licence Scheme**: The period for export obligation has been extended from 12 to 18 months. Extension for another 6 months on payment of 1% of the value of unfulfilled exports. # **Duty Entitlement Pass Book (DEPB) Scheme:** An exporter may apply for credit, as specified percentage of FOB value of exports, made in freely convertible currency.; credit can be used for import of raw materials, intermediates, components, parts, packaging materials etc for export purpose. **#FDI:** 100% foreign equity participation in case of 100% Export Oriented Units (EOUs), and units set up in Export Processing Zones (EPZs)	
2002-2007	**It was integrated in FTP 2004-2009**		
2004-2009	# To double percentage share of global trade within 5 years and expand employment.		**Special Economic Zones** covering EPZ, Free Zones (FZ), Industrial Estates (IE), Free Trade Zones (FTZ), Free Ports, Urban Enterprise Zones and others. **Free Trade & Warehousing Zones** (FTWZ) **#Served from India Scheme (SFIS)** whose main objective is to accelerate growth in export of

			services so as to create a powerful and unique 'Served From India' brand, instantly recognised world over. 100% FDI investment permitted through Automatic Route similar to SEZ units
2009-2014	#To arrest the declining trends in exports #To achieve an annual growth rate of 25 % upto 2014. #To double India's exports and imports by 2014. #To double India's share in global trade by 2020.	#The facility of duty free imports of capital goods under EPCG scheme has been introduced for certain engineering products, electronic products, basic chemicals and pharmaceuticals, apparel and textiles, plastics, handicrafts, chemicals and allied products and leather and leather products. The existing three percent EPCG Scheme (that which facilitates capital goods imports at an import duty of three percent) has been considerably simplified to ease its usage by exporters	#27 new countries (Latin America, Africa, Oceania and parts of Asia) have been included within the **Focus Market Scheme (FMS),** whose objective is to offset high freight cost and other externalities to select international markets with a view to enhance India's export competitiveness in these countries. #A number of products including automobiles and other engineering products have been included for incentives under **Focus Product Scheme (FPS)** which aims to encourage export of products characterised by high export/employment intensity by offsetting infrastructure inefficiencies and other associated costs involved in marketing of these products.
2015-	#To arrest the declining trends in exports #To increase exports of goods and services #To generate of employment & increasing	#Increasing exports to US $ 900 billion by 2019-20. #Augment manufacturing and services exports by improving 'Ease of Doing Business'.	**Merchandise Exports from India Scheme (MEIS)**

2020	value-addition in the country, in line with the “Make in India” initiative. #To respond to the challenges of external environment, particularly the evolving international trade architecture. #To make trade a major contributor of India’s economic growth and development. #To increase India’s share in world exports from 2% to 3.5%. #Trade facilitation is a priority of the Government for cutting down the transaction cost and time, thereby rendering Indian exports more competitive.	#Under the Export Promotion Capital Goods (EPCG) scheme, in case capital goods are procured from indigenous manufacturers, specific export obligation has been reduced to 75 per cent. This is designed to help the indigenous capital goods manufacturing industry.	**Service Exports from India Scheme (SEIS)** **Incentives (MEIS & SEIS) to be available for SEZs**

Source: Compiled by the author from various documents.

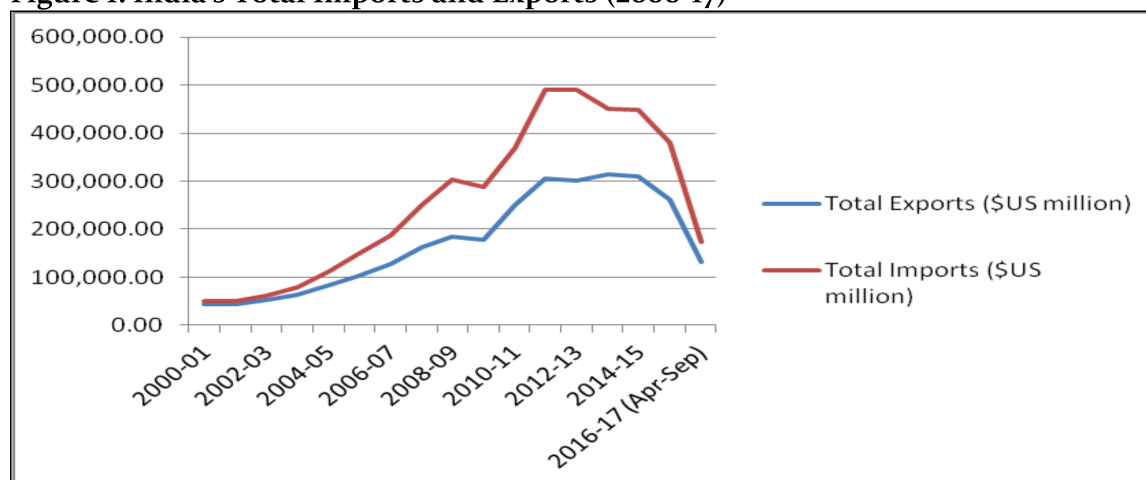
<u>Major Trends in India's Foreign Trade (2000-16)</u>

With the world based on complex interdependence, India's prosperity is intrinsically linked to the developments in the global economy. This is the reason that India has seen greater engagement with the world economy through its enhanced integration into global value chains over the last two decades. The data analysis of exports, imports and foreign investment inflows in terms of both FDI and FII are reflective of this trend. Additionally, and as will be analyzed in later section, the foreign content of its exports, which is one of the indicators of integration, have more than doubled from less than 10 per cent in 1995 to 24 per cent in 2011.

Trends in Exports and Imports

India's exports have seen an upward trend since the new millennium. Exports have increased from US$ 44,560.29 million in 2000-01 to US$ 3 14,405.3 million in 2013-14. Thereafter, exports have slowly declined to reach US$ 262,290.13 million in 2015-16. Similarly, India's imports also increased from US$ 50,536.45 million in 2000-01 to US$ 490,736.65 million in 2012-13, and saw a downward trend with imports declining to US$ 381,006.63 million in 2015-16. (Figure 1)

Figure 1: India's Total Imports and Exports (2000-17)

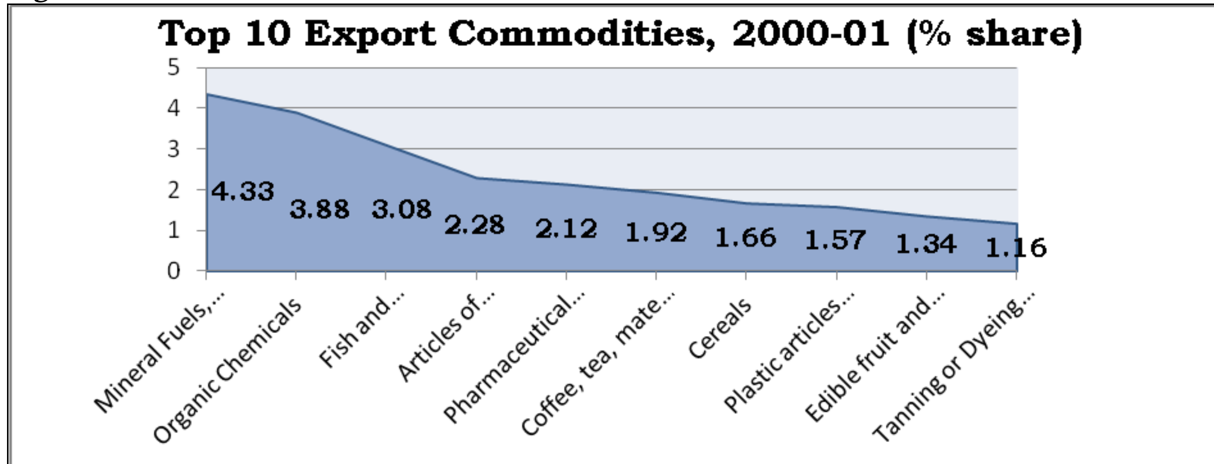


Source: EXIM Bank, Ministry of Commerce & Industry.

Composition and Direction of Exports

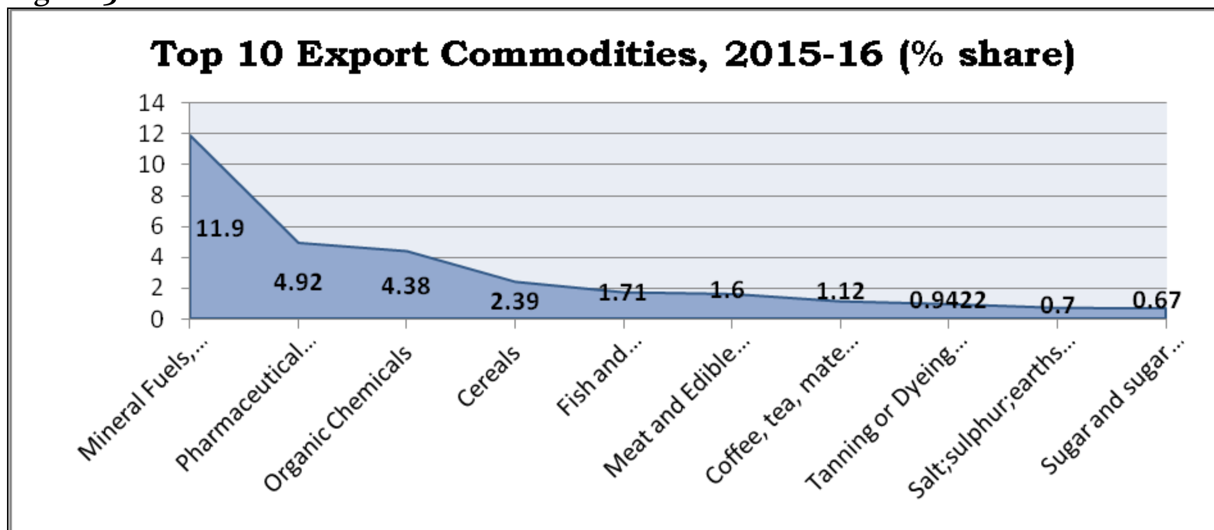
An analysis of composition of commodities of exports shows that mineral fuels, oils and waxes continues to have the largest share in India's export basket in the last 15 years. The percentage share of mineral fuels since 2000-01 has gradually increased from 4.33 per cent to 11.9 per cent in 2015-16. The trends also show that share of pharmaceuticals and cereals have increased over the last 15 years. In 2000-01, the share of pharmaceuticals stood at 2.12 per cent and in 2015-16 its share was 4.92 per cent. Similarly, the percentage share of cereals in 2000-01 was 1.66 per cent, which rose to 2.39 per cent in 2015-16. (Fig. 2 & 3)

Figure 2



Source: EXIM Bank, Ministry of Commerce & Industry.

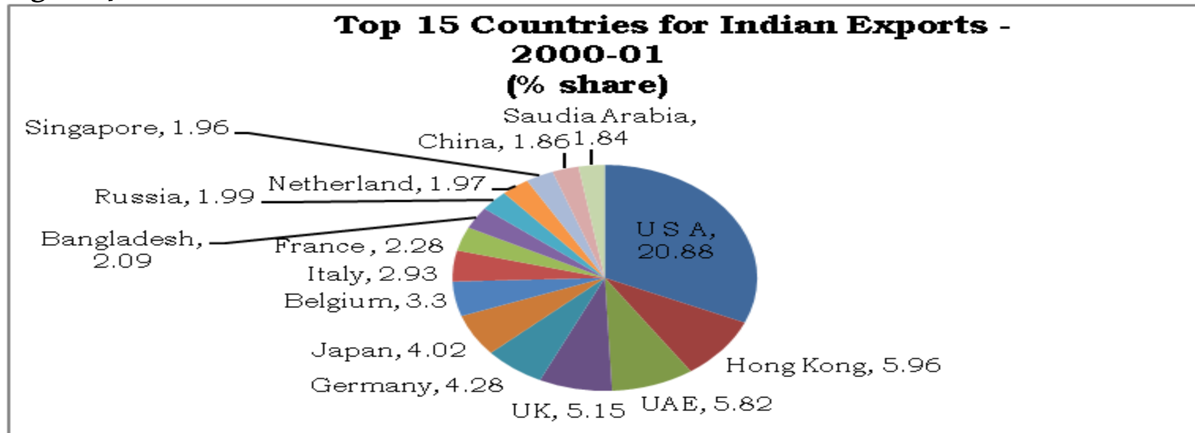
Figure 3



Source: EXIM Bank, Ministry of Commerce & Industry.

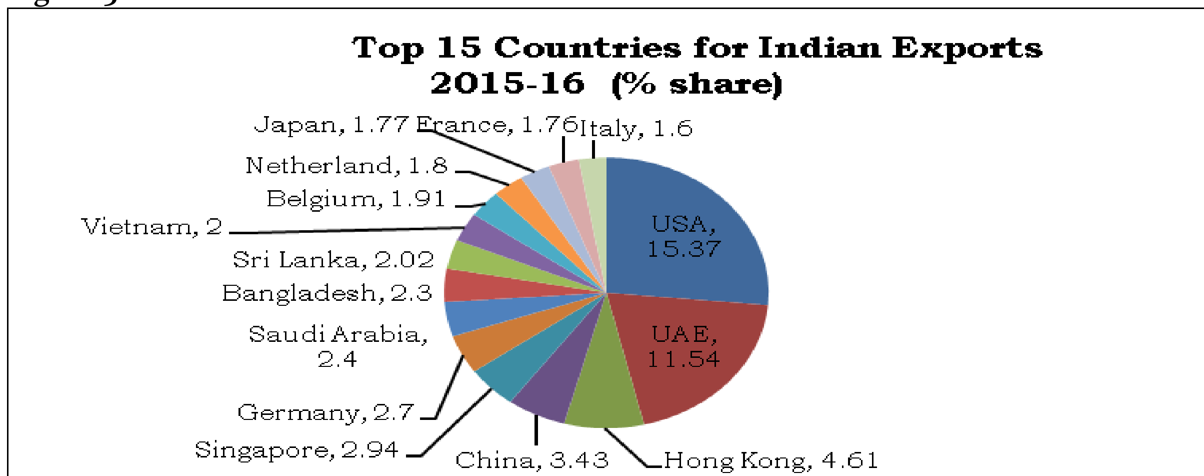
The directional pattern of India's trade has changed since 2000 from West to East. In 2000-01, there were six western countries (US, UK, Germany, Belgium, Italy and France) and two Asian countries (Japan and Bangladesh) among the top ten export countries (Figure 4). In 2015-16, the trend has reversed with five Asian countries (China, Singapore, Bangladesh, Sri Lanka and Vietnam) and two western counties (US and Germany) among the top ten export destination of India. (Figure 5)

Figure 4



Source: EXIM Bank, Ministry of Commerce & Industry.

Figure 5

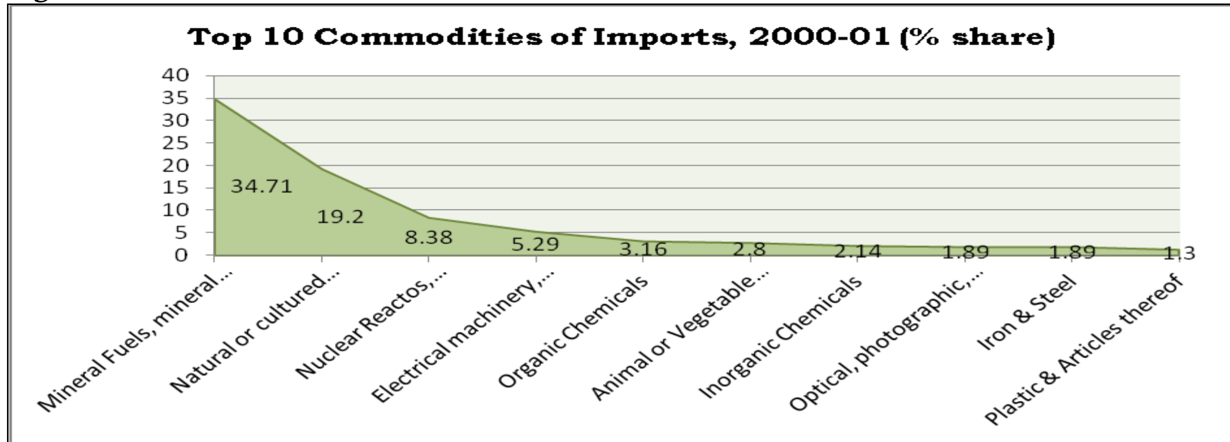


Source: EXIM Bank, Ministry of Commerce & Industry.

Composition and Direction of Imports

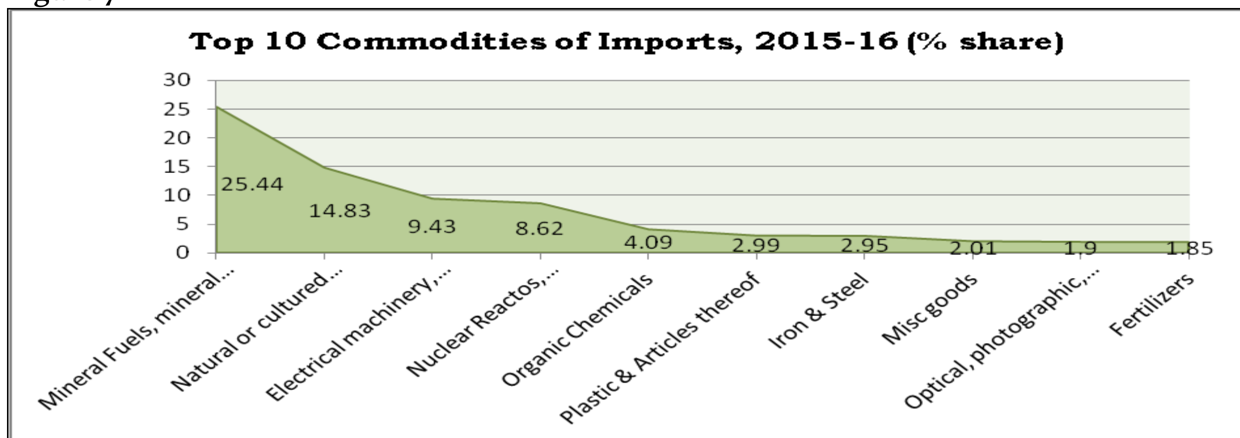
In terms of import basket, the import commodities have seen slight variations over the last 15 years. Commodities like mineral fuels, oils and waxes, nuclear reactors and boilers and natural or cultured pearls, precious and semi-precious stones continue to constitute the major items for 2000-01 and 2015-16 respectively. During the period between 2000-01 and 2015-16, imports of some commodities like electrical machineries and plastic have increased, while commodities like fertilizers has found way in the top 10 commodities. (Fig. 6 & 7)

Figure 6



Source: EXIM Bank, Ministry of Commerce & Industry.

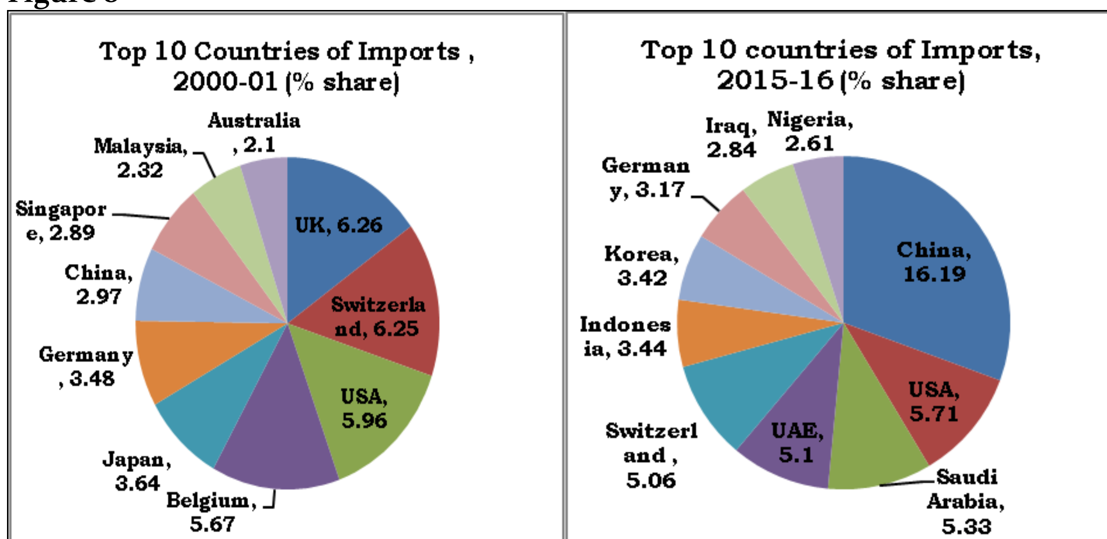
Figure 7



Source: EXIM Bank, Ministry of Commerce & Industry.

Like exports, changes in trends are noticeable in direction of imports. There is a visible shift towards China, which constitutes the major country of imports to India (16.19 per cent) followed by the US and UAE. (Fig. 8)

Figure 8

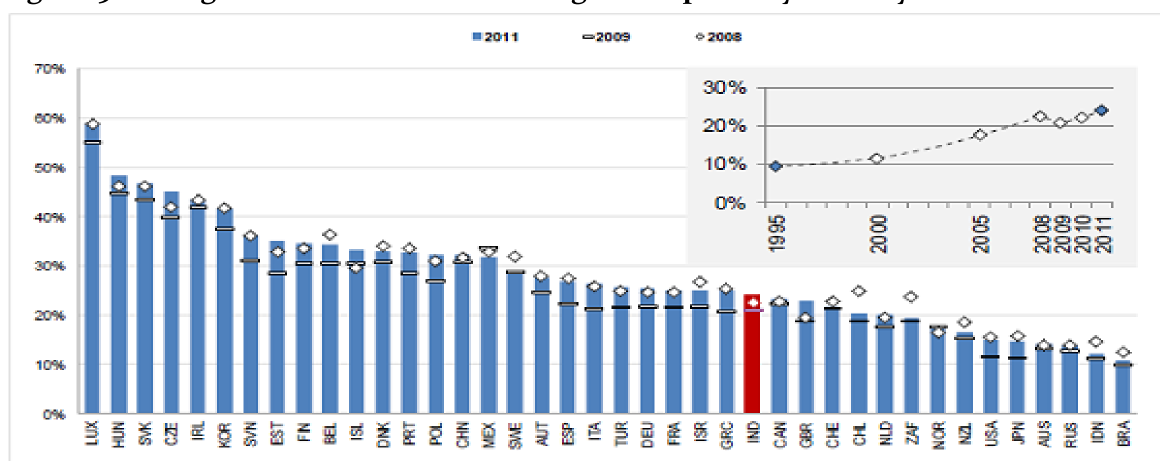


Source: EXIM Bank, Ministry of Commerce & Industry.

Foreign and Domestic Value Added in Exports

According to OECD data available, the foreign content of India's exports has increased significantly in the last two decades. It has increased from under 10 per cent in 1995 to 24.0 per cent in 2011 which is the the second highest rate, after China, amongst BRIICS (Brazil, Russia, India, Indonesia, China and South Africa) economies. The domestic value added in gross exports in 2011 was 76 per cent. The greatest source of domestic value added in 2011, accounting for 12.6 per cent of the total value added of exports included wholesale, retail and hotel industry, followed by business services (11.7%), transport & telecoms (10.5%), and coke and petroleum (4.8%). The largest foreign contributions were in coke and petroleum (56.6%) and other manufacturing industries (42.4%) in 2011, together contributing 9.1 per cent of India's total exports. [xii]

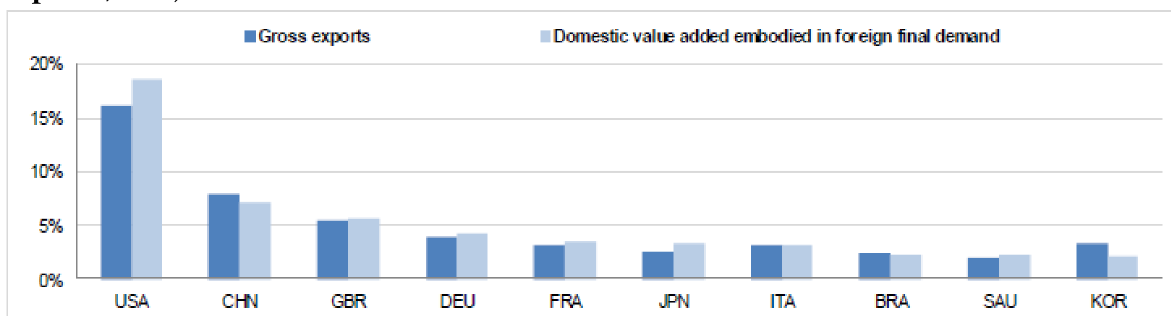
Figure 9: Foreign Value added content of gross exports by country



Source: OECD-WTO, 2015.

In terms of the total economy, 18.6 per cent of India's domestic value added was driven by foreign demand in 2011. However, significant differences exist across industries. The areas with the highest demand were other manufacturing (63.0%) and mining (39.9%) and the lowest shares were in non-metallic minerals (8.3%) and agriculture (8.8%). In terms of domestic valued added embodied in foreign demand of exports, United States holds priority over China, particularly reflecting valued added embodied in Chinese exports.[xiii]

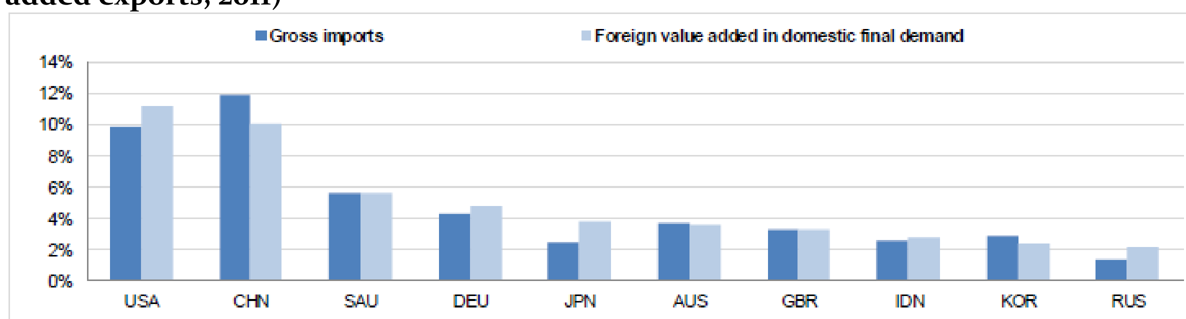
Fig. 10: India's exports to main partner countries (of total gross and value added exports, 2011)



Source: OECD-WTO, 2015.

In terms of domestic value added of imports, China holds priority over US since the domestic value added content of US exports are higher.[xiv]

Fig. 11: India's imports from main partner countries (of total gross and value added exports, 2011)



Source: OECD-WTO, 2015.

Foreign Investment Inflows Trends

In this section, an analysis of foreign investment inflows in terms of both Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) for the period 2000-01 to 2015-16 has been done to understand the changes in trends. Table 2 indicates the total foreign investment inflows, which is the sum of net FDI and net FPI inflows. As can be noted, in the first half of the twenty-first century i.e. upto 2007-08, foreign investment inflows picked up, and thereafter saw a decline in 2008-09. This was because during 2008-09 net FPI inflows were negative, signifying FPI outflows on a net basis from India. Noteworthy, the global financial crisis erupted during 2008-09 and foreign investors withdrew their investments from different stock markets.

Table 2: Foreign Investment Inflows (FIIs) US$ mn

Year	Net FDI	Net FPI	Total FII
2000-01	3272	2590	5862
2001-02	4734	1952	6686
2002-03	3217	944	4161
2003-04	2388	11356	13744
2004-05	3713	9287	13000
2005-06	3034	12494	15528
2006-07	7693	7060	14753
2007-08	15893	27433	43326
2008-09	**22372**	**-14030**	**8342**
2009-10	17966	32396	50362
2010-11	11834	30293	42127
2011-12	22061	17170	39231
2012-13	19819	26891	46711
2013-14	21564	4822	26386
2014-15	31251	42205	73456
2015-16 (P)	36021	-4130	31891

Source: Handbook of Statistics on Indian Economy, 2015-16, RBI.

a) Foreign Direct Investment (FDI)

Significant changes have been made in the FDI policy regime in recent times to ensure that India remains an increasingly attractive investment destination. To attract higher levels of FDI, the government has put in place a liberal FDI policy under which FDI up to 100%, is permitted through automatic route in most sectors/ activities.[1] Table 3 outlines some of the recent initiatives by the government to liberalize FDI. Data analysis (Table 4) reveals that FDI has increased over the years, indicating that such policies have been effective.

Table 3: Recent FDI Initiatives
49% FDI under automatic route permitted in Insurance and Pension sectors
Foreign investment up to 49% in defence sector permitted under automatic route. The foreign investment in access of 49% has been allowed on case to case basis with Government approval in cases resulting in access to modern technology in the country or for other reasons to be recorded
FDI limit of 100% (49% under automatic route, beyond 49% government route) for defence sector made applicable to Manufacturing of Small Arms and Ammunitions covered under Arms Act 1959
FDI up to 100% under automatic route permitted in Teleports, Direct to Home, Cable Networks, Mobile TV, Headend-in- the Sky Broadcasting Service
FDI up to 100% under automatic route permitted in Up-linking of Non-'News & Current Affairs' TV Channels, Down-linking of TV Channels
In case of single brand retail trading of 'state-of-art' and 'cutting-edge technology' products, sourcing norms can be relaxed up to three years and sourcing regime can be relaxed for another 5 years subject to Government approval
Foreign equity cap of activities of Non-Scheduled Air Transport Service, Ground Handling Services increased from 74% to 100% under the automatic route
100% FDI under automatic route permitted in Brownfield Airport projects
FDI limit for Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline and regional Air Transport Service raised to 100%, with FDI upto 49% permitted under automatic route and FDI beyond 49% through Government approval
Foreign airlines would continue to be allowed to invest in capital of Indian companies operating scheduled and non-scheduled air transport services up to the limit of 49% of their paid up capital
In order to provide clarity to the e-commerce sector, the Government has issued guidelines for foreign investment in the sector. 100% FDI under automatic route permitted in the marketplace model of e-commerce
100% FDI under Government route for retail trading, including through e-commerce, has been permitted in respect of food products manufactured and/or produced in India
100% FDI allowed in Asset Reconstruction Companies under the automatic route
74% FDI under automatic route permitted in brown-field pharmaceuticals. FDI beyond 74% will be allowed through government approval route
FDI limit for Private Security Agencies raised to 74% (49% under automatic route, beyond 49% and upto 74% under government route)
For establishment of branch office, liaison office or project office or any other place of business in India if the principal business of the applicant is Defence, Telecom, Private Security or Information and Broadcasting, approval of Reserve Bank of India would not be required in cases where FIPB approval or license/permission by the concerned Ministry/Regulator has already been granted
Requirement of 'controlled conditions' for FDI in Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture and Apiculture has been waived off

Source: http://www.makeinindia.com/policy/foreign-direct-investment

[1]The sectors that are getting 100 per cent FDI include food products (manufactured/produced in India), civil aviation, railways, construction, telecom, retail, and broadcasting

Total FDI into India, since April, 2000 including equity inflows, reinvested earnings and other capital is US$ 453,183 million (April 2000- September 2016). As can be noted from Table 4, the period 2006-09 saw the largest inflow of FDI and the year 2006-7 recorded a 155% growth over previous year. Thereafter, FDI inflows saw slight fluctuations till about 2012-13 and again saw an upward trend from the period 2013-14 onwards. During the period from April 2016-September 2016, FDI equity inflows of US $ 21,624 million have been received. This represents an increase of 30% over the FDI equity inflows of US $ 16,631 million received during the corresponding period last year.[xv]

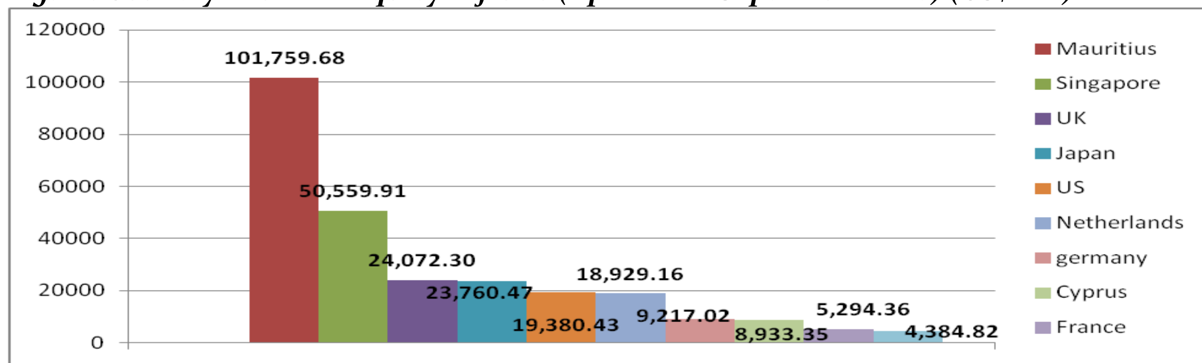
Table 4: Total FDI Inflows in India (2000-16) **US$ million**

Financial Year	Equity Flows (FIPB Route/RBIs Automatic Route/Acquisition Route)	Equity Flows (Capital of unincorporated Bodies)	Re-invested earnings	Other capital	Total FDI	% growth over previous year
2000-01	2,339	61	1,350	279	4,029	-
2001-02	3,904	191	1,645	390	6,130	(+) 52 %
2002-03	2,574	190	1,833	438	5,035	(-) 18 %
2003-04	2,197	32	1,460	633	4,322	(-) 14 %
2004-05	3,250	528	1,904	369	6,051	(+) 40 %
2005-06	5,540	435	2,760	226	8,961	(+) 48 %
2006-07	15,585	896	5,828	517	22,826	(+) 155 %
2007-08	24,573	2,291	7,676	300	34,843	(+) 53 %
2008-09	31,364	702	9,030	777	41,873	(+) 20 %
2009-10	25,606	1,504	8,668	1,931	37,745	(-) 10 %
2010-11	21,376	874	11,939	658	34,847	(-) 08 %
2011-12	34,833	1,022	8,206	2,495	46,556	(+) 34 %
2012-13	21,825	1,059	9,880	1,534	34,298	(-) 26 %
2013-14 (P)	24,299	975	8,978	1,794	36,046	(+) 5 %
2014-15 (P)	30,933	978	9,988	3,249	45,148	(+) 25 %
2015-16 (P)	40,001	1,042	10,049	4,365	55,457	(+) 23 %
2016-17 (Apr-Sept)	21,624	516	5,531	1,345	29,016	-
Cumulative total	**311,823**	**13,332**	**106,728**	**21,300**	**453,183**	-

Source: Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry.

As far as direction of investment is concerned, the highest FDI Equity Inflows has been from Mauritius followed by Singapore, UK and Japan for the period 2000-2016.[xvi]

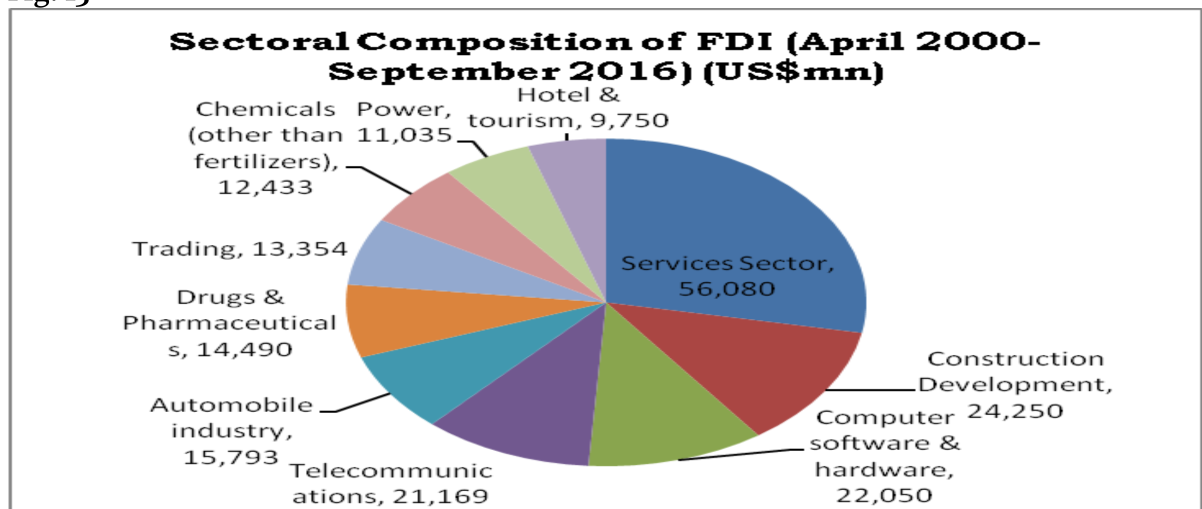
Fig. 12: Country-wise FDI Equity Inflows (April 2000-September 2016) (US$ mn)



Source: Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry.

As far as sectoral composition of FDI is concerned, the sectors attracting the highest FDI equity inflows is services sector (financial, banking, insurance, business, outsourcing, R&D, Courier, Tech. Testing and Analysis) for the period 2000-2016. This is followed by construction development (townships, housing, built-up infrastructure); computer hardware and software; telecommunications (radio paging, cellular mobile, basic telephone services); automobile industry; drugs and pharmaceuticals; trading; chemicals (other than fertilizers); power and; hotel and tourism.[xvii]

Fig. 13



Source: Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry.

b) Outward Direct Investments (ODI)

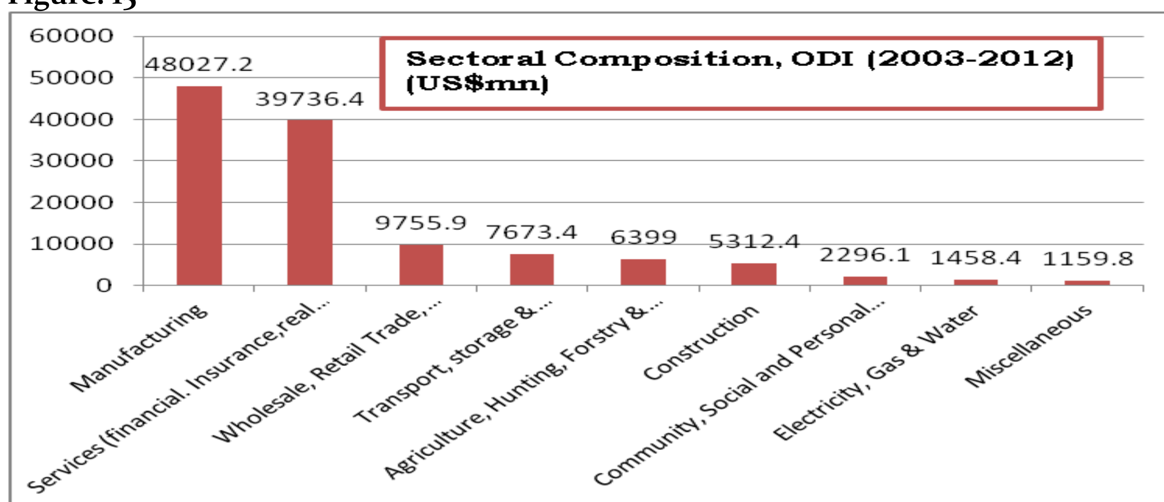
Outward Direct Investments (ODI) from India has also witnessed a considerable change not only in terms of magnitude but also in terms of geographical spread and sectoral composition. ODI has increased from US$ 759 million in 2000-01 to US$ 19,365 million in 2008-09 respectively. However, it gradually declined thereafter and stood at US$ 4031 million in 2014-15. In terms of direction, a shift from largely traditional countries like Russia, the US and the UK in the early 2000s to resource rich countries like Australia, Sudan and UAE during mid-2000s is visible. However, by 2011-12, India's ODI came to be largely directed into countries providing tax benefits like Mauritius, Singapore, British Virgin Islands and the Netherlands.[xviii]

Figure. 14

Source: RBI.

In terms of sectoral composition, Indian overseas investment has been primarily dominated by manufacturing sector, followed by services, wholesale, retail trade, transport, storage, agriculture, and construction. However, the share of manufacturing over the years has declined from 59.8 per cent in 2003-04 to 40.4 per cent by 2009-10 and further to 31.5 per cent in 2011-12.[xix]

Figure. 15

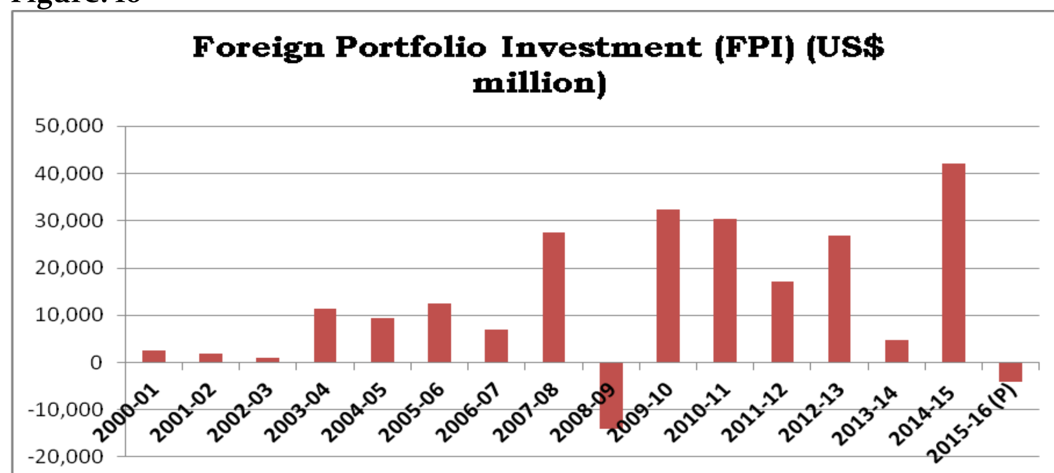


Source: Exim Bank Research.

c) Foreign Portfolio Investment (FPI)

Foreign Portfolio Investment (FPI) has also seen an upward trend from US$ 2590 million in 2000-01 to US$ 42,205 million in 2014-15 respectively. FPI was in negative in the year 2008-09, most likely because of the impact of global economic crisis, standing at US$ (-) 14030 million.[xx]

Figure: 16



Source: Handbook of Statistics on Indian Economy, 2015-16, RBI.

Recent Government Initiatives to Enhance Trade Liberalization

The Government of India (GoI) has undertaken various policy initiatives to facilitate trade and investment. In addition, various initiatives announced by the government like changes in FDI policy regime allowing a large number of sectors on automatic route for FDI, improving Ease of Doing Business, and infrastructural development as well as the passage of Goods and Service Tax (GST) Bill and Land Acquisition Bill[xxi] has helped in meeting India's Foreign Trade Policy objectives. To attract investments, adequate attention has been given to infrastructural development, which includes road, rail and port connectivity. Aimed at establishing world class infrastructure in the country, infrastructure sector has been enjoying strong focus from the Government. In October 2016, the GoI announced a target of Rs 25 trillion (US$ 376.53 billion) investment in infrastructure over a period of three years, which will include Rs 8 trillion (US$ 120.49 billion) for developing 27 industrial clusters and an additional Rs 5 trillion (US$ 75.30 billion) for road, railway and port connectivity projects.[xxii] Total budget allocation for infrastructure development stands at Rs. 3, 96,135 crores in 2017-18, with transportation sector as a whole, including rail, roads, shipping, standing at Rs. 2, 41, 387 crores in 2017-18.[xxiii] The following section elaborates on the major policy initiatives to augment economic activity.

Special Economic Zones: A Boost to Indian Exports and FDI

With a view to attract larger foreign investments in India and promote exports along with employment generation, the Special Economic Zones (SEZs) Policy was announced in April 2000. SEZs in India function under the provisions of the Foreign Trade Policy. The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which came into effect on February 10, 2006. The main objectives of the SEZ Act are:[xxiv]

(a) generation of additional economic activity

(b) promotion of exports of goods and services

(c) promotion of investment from domestic and foreign sources;

(d) creation of employment opportunities;

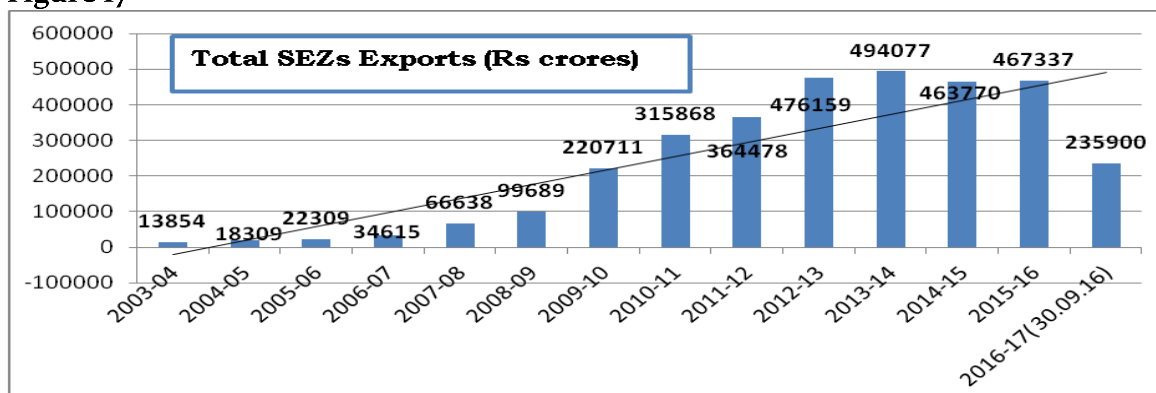
(e) development of infrastructure facilities;

The success of SEZs in meeting these objectives is analyzed in this section in order to assess their efficacy in India. A trend analysis of data suggests that SEZs have made a significant contribution to the growth of exports, investments and employment generation in India.

SEZs and Exports

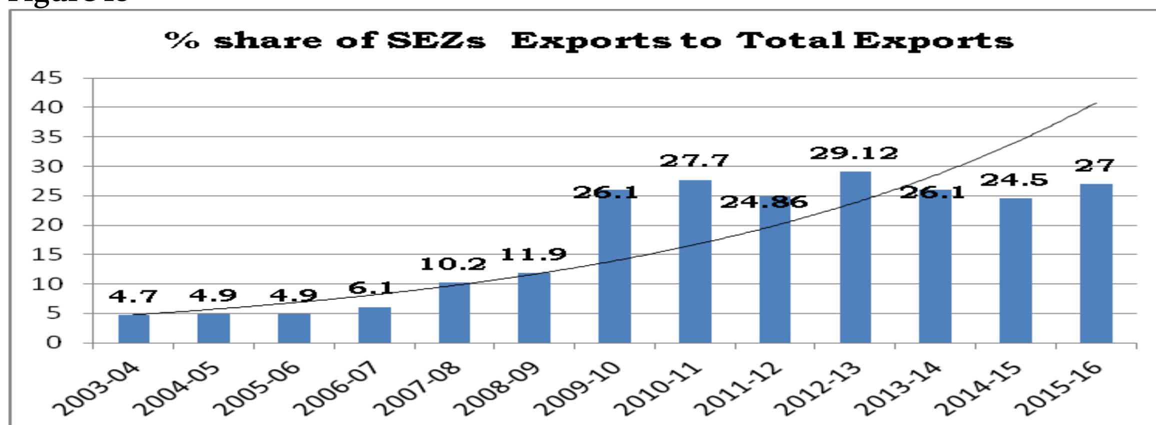
It is observed that total SEZs exports have increased over the years from Rs. 13854 crores in 2003-04 to Rs. 494077 crores in 2013-14. In fact, exports from SEZs saw exponential increase by 121 percent in 2009-10 (Fig. 17). As can be noted, the contribution of exports from SEZs to the overall exports from India has increased from 4.7 per cent in 2003-04 to 29.12 per cent in 2012-13 (Fig. 18). The data suggests that SEZs have contributed in significant manner to the overall growth of exports in India.

Figure 17



Source: MOCI & Singala et. al (2011).

Figure 18



Source: MOCI & Singala et. al (2011).

SEZs and Investment

SEZs are allowed 100 per cent FDI in India through automatic route from domestic, foreign and NRI investors in all sectors. There has been a constant increase in the overall investment since the inception of SEZ Act 2005. Table 5 indicates that the total investment from SEZs is Rs. 4, 08,939.32 crore till December 2016, an increase from Rs. 4035.51 crore in February 2006. The data suggests that SEZs have been effective in boosting investment inflows in India. [xxv] (Table 5)

Table 5: SEZs and Investment

Investment sectors	Investment (As on February, 2006)	Incremental Investment	Total Investment (As on 31.12.2016)
Central Govt. SEZs	Rs. 2,279.20 cr	Rs. 13,892.13 cr	Rs. 16,171.33 cr
State/Pvt. SEZs set up before 2006	1,756.31 cr	Rs. 9,988.34 cr	Rs. 11,744.65 cr
SEZs notified under the Act	-	Rs. 3,81,023.34 cr	Rs. 3,81,023.34 cr
Total	Rs. 4,035.51 cr	Rs. 4,04,903.81 cr	Rs. 4,08,939.32 cr

Source: Government of India, Ministry of Commerce and Industry, "Factsheet on Special Economic Zones. http://sezindia.gov.in/writereaddata/pdf/factsheet.pdf (accessed on March 15, 2017)

SEZs and Employment Generation

As far as employment generation is concerned, out of the total employment of 17, 11,657 persons in SEZs, an incremental employment of 15, 76,953 persons was generated after February 2006 when the SEZ Act came into force.[xxvi] Table 6 indicates that SEZs have added to employment generation in India.

Table 6: SEZs and Employment

Employment	Employment (As on February, 2006)	Incremental Employment	Total Employment(As on 31.12.2016)
Central Govt. SEZs	1,22,236 persons	1,19,407 persons	2,41,643 persons
State/Pvt. SEZs set up before 2006	12,468 persons	76,094 persons	88,562 persons
SEZs notified under the Act		13,81,452 persons	13,81,452 persons
Total	1,34,704 persons	15,76,953 persons	17,11,657 persons

Source: Government of India, Ministry of Commerce and Industry, "Factsheet on Special Economic Zones. http://sezindia.gov.in/writereaddata/pdf/factsheet.pdf (accessed on March 15, 2017)

Industrial Corridors

The Government of India has identified five industrial corridor projects spread across India for inclusive development, to provide an impetus to industrialization and planned urbanization. Manufacturing has been made the key driver in each of these corridors to raise the share of manufacturing in India's Gross Domestic Product (GDP) from the current levels of 15 per cent to 25 per cent by 2025.[xxvii] The budget allocation for industrial corridor for 2017-18 under the Union Budget, 2017-18 is Rs. 1044 crores.[xxviii]

Table 7 provides an overview of the five industrial corridors along with current status of the projects. For the development of Delhi-Mumbai Industrial Corridor (DMIC),

the Delhi-Mumbai Industrial Corridor Development Corporation Ltd. (DMICDC) was established as a special purpose company by the Government of India. As the implementing agency for the DMIC project, it holds 49 per cent equity, while 26 per cent equity shares is held by the Japan Bank for International Corporation (JBIC) and the remaining held by the financial institutions like Housing & Urban Development Corporation Ltd. (HUDCO), India Infrastructure Finance Corporation Ltd. (IIFCL) and Life Insurance Corporation of India (LIC) (Fig. 19). The Japanese Government announced financial support for DMIC project to an extent of US$ 4.5 billion in the first phase for the projects.[xxix] The construction work of Trunk Infrastructure at four identified locations under DMIC is under progress. These include (i) Ahmedabad-Dholera Special Investment Region in Gujarat (ii) Shendra-Bidkin Industrial area in Maharashtra (iii) Integrated Industrial Township Project in Greater Noida, Uttar Pradesh and (iv) Integrated Industrial Township Project in Vikram Udyogpuri, Madhya Pradesh.[xxx]

Other projects approved by DMIC Trust and which are under different stages includes Exhibition cum Convention Centre (ECC) in Dwarka; Airport Projects; Model Solar Project at Neemrana, Rajasthan; DMICDC Logistics Data Services Project; Mass Rapid Transport System (MRTS) Projects; Global City Project; Integrated Multi Modal Logistics Hub in Haryana; and Multi Modal Logistics Hub and Multi Modal Transport Hub, Dadri in Uttar Pradesh.[xxxi]

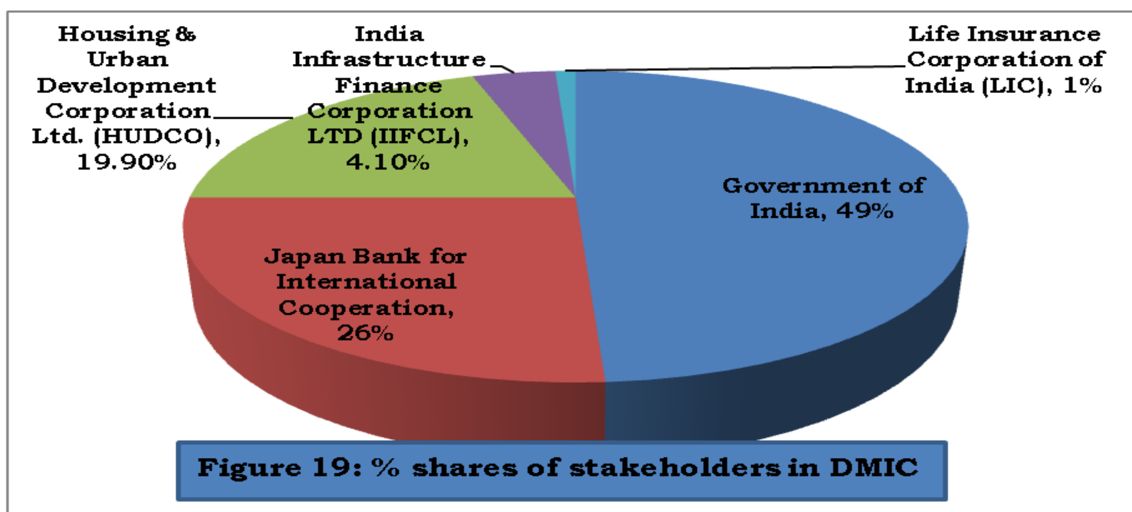


Figure 19: % shares of stakeholders in DMIC

Source: http://www.dmicdc.com/about-dmicdc.aspx?mpgid=2&pgidtrail=8

For Bengaluru-Mumbai Industrial Corridor (BMIC), earlier known as Bengaluru-Mumbai Economic Corridor (BMEC), DMICDC is the nodal agencies and covers the states of Maharashtra and Karnataka. Dharwad in Karnataka has been identified as the first industrial node under the BMIC. The Government of Maharashtra has given in-principle approval for development of Sangli or Solapur as a node under the BMIC. [xxxii] The Asian Development Bank (ADB) has been identified as the nodal agency for Vizag-Chennai Corridor (VCIC). Initially, four nodes – Vishakhapatnam, Kakinada, Gannavaram-Kankipadu and Srikalahasti-Yerpdu were identified by the ADB. However, two nodes namely Kakinada and Gannavaram-Kankipadu have been replaced by Machilipatnam and Donakonda.[xxxiii] In September 2016, ADB approved $631 million in loans and grants to develop the first key 800-kilometer section of a planned 2,500-kilometer-long East Coast Economic Corridor (Vizag-Chennai Industrial Corridor).[xxxiv] Chennai-Bengaluru Industrial Corridor (CBIC) is being developed with the assistance of the Japan International Cooperation Agency (JICA). The integrated master plan has been completed by JICA, along with the help of PricewaterhouseCoopers Corporation Ltd. and Nippon Koei Corporation Ltd.[xxxv] An amount of $174 billion is estimated to be the cost for infrastructure development in the CBIC over next 20 years.[xxxvi]

Table 7: Status of Industrial Corridors

Sl No.	Name of the Corridors	Present status	Name of the Identified Industrial Nodes/Cities
1	Delhi-Mumbai Industrial Corridor (DMIC)	Out of 24 investment nodes, 8 industrial nodes have been identified in six DMIC states under phase I. The master plans for all the nodes except (v) & (vii) have been completed and accepted by the state governments.	i. Ahmedabad-Dholera Investment Region, Gujarat; ii. Shendra-Bidkin Industrial Park, Aurangabad, Maharashtra; iii. Manesar-Bawal Investment Region, Haryana; iv. Khushkhera-Bhiwadi-Neemrana Investment Region, Rajasthan; v. Jodhpur-Pali-Marwar Industrial Park, Rajasthan; vi. Pithampur-Dhar-Mhow Investment Region, Madhya Pradesh; vii. Dadri-Noida-Ghaziabad Investment Region, Uttar Pradesh; viii. Dighi Port Industrial Area, Rajasthan
2	Chennai-Bengaluru Industrial Corridor (CBIC)	Comprehensive Regional Perspective Planning and Master planning completed by Japan International Cooperation Agency (JICA), the nodal agency Three nodes have been identified for master planning	i. Krishnapatnam (Andhra Pradesh) ii. Tumkur (Karnataka) iii. Ponneri (Tamil Nadu)
3	Bengaluru-Mumbai Industrial Corridor (BMIC)	Perspective Plan completed by DMICDC, the nodal agency. One mode in Karnataka has been identified; another one in	i. Dharwad (Karnataka) ii. Sangli/Solapur (Maharashtra)

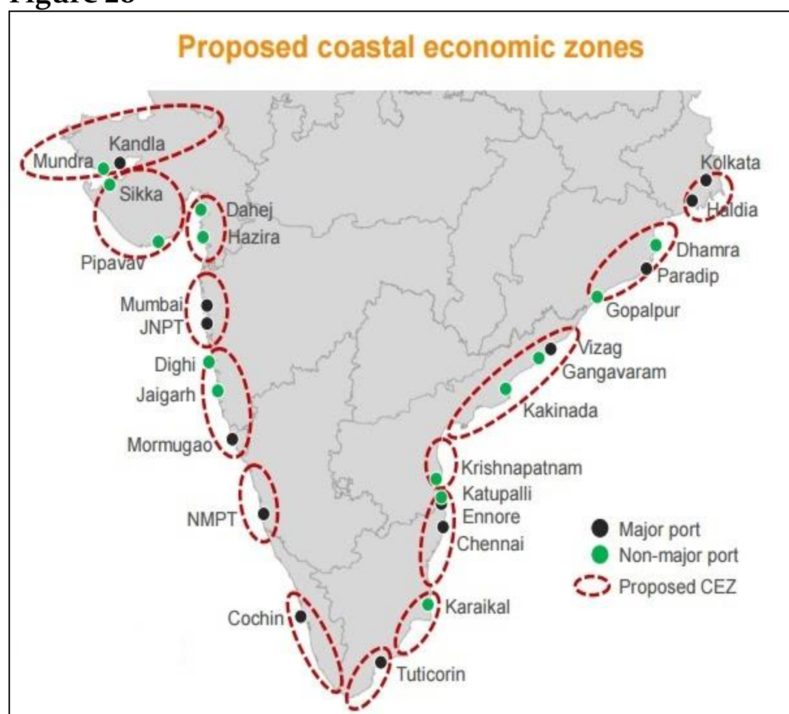
		Maharashtra received in principle approval	
4	Amritsar-Kolkata Industrial Corridor (AKIC)	Seven tentative nodes have been identified as the sites for Integrated Manufacturing Clusters (IMCs)	i. Rajpura-Patiala (Punjab) ii. Gohna (Haryana) iii. Prag-Khurpia farms (Uttarakhand) iv. Bhaupur (Uttar Pradesh) v. Gamhariya (Bihar) vi. Bahri (Jharkhand) vii. Raghunathpur (West Bengal)
5	Vizag-Chennai Industrial Corridor (VCIC)	Conceptual Development Plan Report completed by Asian Development Bank (ADB), the nodal agency Out of the 4 nodes (i) & (iv) are prioritized in the 1st phase	i. Vishakhapatnam ii. Machilipatnam iii. Donakonda iv. Srikalahasti-Yerpedu } Andhra Pradesh

Source: Compiled by the author from Ministry of Commerce & Industry; http://pib.nic.in/newsite/PrintRelease.aspx?relid=153692 and http://www.makeinindia.com/live-projects-industrial-corridor

Coastal Economic Zones (CEZs)
Recognizing that ports play an import part in facilitating export-oriented manufacturing, India has adopted a port-led industrialization policy. This port-led development has been envisaged under the 'Sagarmala' Project. The government plans to deliver this through the Coastal Economic Zones (CEZs). There are 14 CEZs that have been identified along the coastline of India with each coastal state having one or more CEZs.[37] Out of these 14, four CEZs – one each in Gujarat, Maharashtra, Andhra Pradesh and Tamil Nadu – have been selected under the first phase. The process of selecting consultants for preparing the Draft Master Plan for two CEZs – Kandla in Gujarat and Vizag in Andhra Pradesh – has been initiated. Additionally, an Inter-Ministerial Committee has been set up headed by the Chief Executive Officer (CEO) of Niti Aayog. The committee would determine the course of action for the identified CEZs.[38]

Further, these industrial clusters will be aligned with the five industrial corridors (DMIC, CBIC, BMIC, AKIC and VCIC). It is estimated that the CEZs is going to add $ 110 billion to Indian merchandise exports and generate 40 lakhs direct jobs and 60 lakhs indirect jobs. It is also estimated that the Sagarmala Project could mobilize investment worth 40 lakh crore in Indian infrastructure sector over the next ten years.[39]

Figure 20



Source: National Perspective Plan, 2016.

Concluding Observations
Foreign trade in India has been one of the most important determinants of economic development in India. The important trends observed are as follows:

- The analysis reveals that liberalized policies adopted in each successive foreign trade policy have helped India in achieving high economic growth and gain competitiveness.
- It is also evident that India's foreign trade policy is closely aligned with the various initiatives undertaken over the years. The FTP also take into cognizance the dynamic nature of international trade and the need for periodic realignment and an integrated approach to the requirements of India's foreign trade.

- It is observed that after pursuing a policy of economic nationalism based on self-reliance, India initiated the process of liberalization because of externalities. Trade Policy liberalization provided stimulus to export by eliminating/ minimizing the degree of regulation and licensing control. It is also seen that Foreign Trade Policy announced in 1992-97 set in motion the transition of Indian economy to engage with the global economy, and thereafter each FTPs have sought to consolidate the gains of the previous policy and further carried forward the process of liberalization.
- The paper has discussed India's foreign trade policy and its impact on trade performance. It has demonstrated that liberalized policies have had a major impact on both volume and composition of trade as well as foreign investments. Overall, India's trade performance in terms of exports, imports and foreign investments, both in terms of FDI and FPI, has witnessed considerable improvement since 2000. Various initiatives undertaken by the government, namely policy on SEZs, have complemented exports, investments and employment generation.
- With the environment for global trade policy witnessing a paradigm shift, particularly in the wake of protectionist's tendencies, it becomes pertinent for India to continue its engagement with the world economy because of its need for open markets to sustain strong economic growth. Noteworthy, the economic outlook of India continues to be robust despite slow global economic growth. According to the World Bank India is expected to grow at 7.6 per cent rate in 2017-18 [40] while the International Monetary Fund (IMF) estimates a 7.2 per cent growth for the same period[41]. In order to overcome protectionist's pressures and sustain high growth, a desirable trade policy would be to stay the course on autonomous liberalization.
- Overall, it is seen that India's Foreign Trade Policy has been committed to the process of liberalization, marked by gradual opening of its economy and integration with the world economy. At the same time, and in achieving these goals, the FTP has been aligned with the interests of the country.

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Disclaimer: The views expressed are that of the Researcher and not of the Council.

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Annexure 1

Goods and Services Tax Bill 2017

In order to facilitate trade, the Goods and Services Tax Bill 2017 has been approved by the government on March 20, 2017, and passed by the Lok Sabha on March 29, 2017. The final GST law is expected to be implemented from July 1, 2017. Recognized as one the biggest reforms in India's indirect tax structure, the bill aims at reduction in multiplicity of taxes by introducing a uniform and common tax on supply of goods and services. This means interim tax stages such as excise duties and service tax and state levies like VAT will be absorbed under GST. The simpler tax system will facilitate uniformity of price and transparency in the tax system. The salient features of the bill are:[41]

i. The bill provides for four tax rates namely 5 per cent, 12 per cent, 18 per cent and 28 per cent. Some goods and services would be under the list of exempt items. In order to compensate states for any revenue loss on account of implementation of GST, cess over the peak rate of 28 per cent on luxury and sin goods would be imposed for a period of five years.

ii. All administrative control over 90 per cent of taxpayers having a turnover below Rs. 1.5 crore would vest with State tax administration and 10 per cent with the Central tax administration. Additionally, all administrative control over taxpayers having turnover above Rs. 1.5 crore shall be divided equally in the ratio of 50 per cent each for the Central and State tax administration.

Table 8. Goods and Services Tax Bill 2017	
The Central Goods and Services Tax Bill 2017 (The CGST Bill)	Provisions for levy and collection of tax on **intra-state** supply of goods or services for both by the Central Government.
The Integrated Goods and Services Tax Bill 2017 (The IGST Bill)	Provisions for levy and collection of tax on **inter-state** supply of goods or services or both by the Central Government.
The Union Territory Goods and Services Tax Bill 2017 (The UTGST Bill)	Provisions for levy on collection of tax on **intra-UT** supply of goods and services in the Union Territories without legislature. Union Territory GST is akin to States Goods and Services Tax (SGST) which shall be levied and collected by the States/Union Territories on intra-state supply of goods or services or both.
The Goods and Services Tax (Compensation to the States) Bill 2017 (The Compensation Bill)	Provides for **compensation** to the states for loss of revenue arising on account of implementation of the goods and services tax for a period of five years as per section 18 of the Constitution (One Hundred and First Amendment) Act, 2016.

Source: Central Board of Excise and Customs (CBEC).

Annexure 2

Land Acquisition Bill, 2015

The Land Acquisition Bill, 2015 or the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement (Second Amendment) Bill, 2015, allows the government (both centre and the state) to acquire land for the purpose of industrialization, development of infrastructural facilities or urbanization of the private land, and provides compensation to the affected land owners and their rehabilitation and resettlement.[41] Promulgated on April 3, 2015 by the President of India, the Bill amends the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (Table 9).[41]

Table 9

Provisions	**Land Acquisition Act, 2013**	**Land Acquisition Rehabilitation and Resettlement (Amendment, Second Ordinance Bill, 2015**
	Exemptions	
Consent	i. No consent required for government projects. ii. Consent of 70% land owners required for Public-Private Partnership projects. iii. Consent of 80% land owners required for private projects.	Projects exemption from consent requirements: (i) defence, (ii) rural infrastructure, (iii) affordable housing, (iv) industrial corridors set up by government/government undertakings, up to one km on either side of the road/railway of the corridor, and (v) infrastructure including PPP projects where the government owns the land
Social Impact Assessment (SIA)	Mandatory for all projects except: (i) in cases of urgency or (ii) for irrigation projects where an Environmental Impact Assessment is required.	i. Exemption for the above five types of projects. ii. The government is to ensure that the extent of land being acquired is in keeping with the minimum land required.
Irrigated Multi-crop land	Irrigated multi-cropped land cannot be acquired beyond a limit specified by the state government.	i. Exemption for the above five types of projects. ii. The government is to ensure that the extent of land being acquired is in keeping with the minimum land required.
	Miscellaneous	
Offences by Government	An offence is committed by a government department/the head of the department will be deemed guilty unless he can show that he had exercised due diligence to prevent the commission of the offence	The court shall take cognizance of such offence provided the procedure laid down in section 197 of the Code of Criminal Procedure, 1973 is followed.

Private ‘companies’ to ‘entity’	Private company defined as one included in the Companies Act, 1956, or under the Societies Registration Act, 1860.	The term ‘private company’ changed to ‘private entity’ which is defined as an entity other than a government entity, and includes a proprietorship, partnership, company, corporation, non-profit etc.
Return of unutilized land	If land acquired under the Act remains unutilised for five years from the date of taking possession, it must be returned to the original owners or a land bank.	The period after which unutilised land has to be returned will be the later of: (i) five years, or (ii) any period specified at the time of setting up the project.
Authority	The Land Acquisition, Rehabilitation and Resettlement (LARR) Authority.	Hold the hearing in the district where the land acquisition takes place for settlement of the objections raised in the reference.
Rehabilitation & Resettlement award	Includes employment to one member of an affected family.	Amended as ‘including compulsory employment to at least one member of such affected family of a farm labourer’.

Source: The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013; the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement (Amendment) Second Ordinance, 2015