

# India's trade policy and WTO

Dr. Pankaj Kumar\*

Department of Commerce, R.N.M College Hunterganj

**Abstract - International trade has an important role in the economic development of any country. The trade policy is an instrument with which the government can control and direct the countries international trade. For India, the trade policy remains one way through which the central government regulates the volume of trade flows, stabilises domestic prices and controls and guides the market system. The World Trade Organisation was set up to provide conditions for free and fair world trade. Today many people are questioning the viability of such a multilateral body. This article examines the impact of foreign trade policy in India's economic growth in the light of WTO agreements. Using various secondary sources of data, the article advocates the need to strengthen the World Trade Organisation on the one hand and also to harness the benefits of Preferential Trade Agreements with different countries in order to maximise trade potential.**

**Keywords - Agreements, Export, Foreign trade, Import, policy,**

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## INTRODUCTION

After independence, India followed a protectionist policy trying to keep imports at a minimum. For a long time, the country followed a policy of domestic self-sufficiency and trade control as it was felt that import substitution would increase domestic production capacity and reduce dependency on other countries for basic food needs thus saving precious foreign exchange. The opening up of the economy in 1991, led to liberalisation in many sectors, mainly manufacturing. By 1994-95, these reforms began to permeate every sector by showing a broad based economic recovery reflected in rising incomes and demand.

It is well established that foreign trade among countries is governed by various agreements and pre-settled terms in order to avoid dispute and reduce arbitration. Countries enter into trade agreements with other countries for trade and commerce, political and strategic concerns, cultural and social exchanges, to name a few objectives. Foreign trade is carried out under agreements among nations. These agreements can take the form of partial scope agreement PSA, free trade agreement FTA, customs union see you, common market CM, economic union EU (India Today, 2019). India has signed bilateral FTA is with Sri Lanka in 1998, Afghanistan in 2003, Thailand in 2004, Singapore in 2005 Bhutan in 2006, Nepal in 2009, Korea in 2009, Malaysia and Japan in 2011 respectively. India is also member of two regional trade agreements the South Asian free trade agreement SAFTA 2004 and the India – Association of Southeast Asian Nations agreement ASEAN,2010.

In 2004 FTA was signed with MERCUSUR and in 2006 with Chile. The transpacific partnership TTP has been signed but not yet ratified by members and the transatlantic trade and investment partnership TTIP is being negotiated.

The trade policy of any country gives an insight into the working of the government and its expectations from trade. The trade policy is an important instrument in the hands of the government to regulate the volume of trade flows, stabilise domestic prices, as well as control and guide the market system. It guides producers and sellers to expectations and requirements of market and government.

Till the nineties the trade policy of the country was called the export-import policy, EXIM policy for short. It stressed on protection through large scale import substitution and encouraged self-sufficiency. After 1994, there has been a marked change with the government going in for measured liberalisation of exports and imports. From 2004, the government switched to formulating the foreign trade policy for a period of five years, with annual revisions.

The foreign trade policy (FTP) provides of a foundation of policy and strategy aimed at promoting exports and directing trade. India's foreign trade policy is generally reviewed every five years to adapt to changing domestic and international scenario. It provides commodity and country specific strategy in the medium and long-term in order to make India a major player in global trade.

About 70% of India's exports constitute of products that have just 30% share in global trade. India needs to expand its export basket in order to promote exports such as high value added products where India has a strong domestic manufacturing base like engineering goods, electronics, drugs and pharmaceuticals, textiles and agriculture.

The current foreign trade policy, FTP 2015-20 focused on improving India's market share in existing markets and products as well as exploring new products and new markets. It envisaged helping exporters gain benefits of GST, improve trading across borders, boost India's agricultural exports along with promoting exports from MSME and labour-intensive sectors. Given the COVID-19 pandemic situation, The FTP 2015–20 was extended till March 2022 and it is expected that the new foreign trade policy will be unveiled shortly.

In order to double India's exports by 2025, a country specific and commodity specific strategy becomes important. The commodity-specific strategy for increasing market share included focus on sectors like gems and jewellery, leather, textile and apparel, engineering sector, electronics, chemicals and petrochemicals, pharma, agri and allied products and marine products. The territory specific strategy was expected to cover North American Free Trade Agreement, Europe, North-East Asia, ASEAN, South Asia, Latin America, Africa and WANA, Australia New Zealand and CIS.

The formation of the World Trade Organization (WTO) in 1995 led to many changes in the way trade between countries was carried out. INDIA is one of the founding members of the WTO. It aimed to lay down certain conditions which member states had to comply with so as to regulate international trade in a fair manner. The WTO was set up as the largest multilateral body governing international trade. It aims to provide conditions for free and fair trade across the world.

## METHODOLOGY

In order to analyse the significance of open trade policy we have looked at India's share in international trade over the last three decades. In order to work out the utility of trade, we have analysed the value of India's trade over the last five years. This is then compared with the value of India's trade under various FTAs and RTAs over the same period.

The research is based on secondary sources of data. Various published reports of the Government of India and Reserve Bank of India have been accessed apart from books journals and newspapers.

## LITERATURE REVIEW

Matt and Stern have discussed the various aspects of the Doha development agenda (DDA) in *India and*

*the WTO*, which is a collection of essays. It provides clarifications on India's stand and discusses the implications for India and other South Asian countries regarding MFA abolition, Service trade liberalisation, tele-communication policy reform, foreign direct investment, technical barriers to trade, trade and environment. Different economists provided their inputs on these topics.

Arvind Panagariya presents an analytical account of major economic developments in post-independence India in *India: The emerging Giant*. The author has discussed the major areas of the national economy- poverty & inequality, growth, macroeconomic policies and microeconomic policies. In *India Unlimited: Reclaiming the lost glory*, (2020) he has talked in depth about the steps that must be taken in order to achieve success. Here he has stressed on trade liberalisation, trade facilitation, labour and land market reforms, urban development etc as necessary for economic development.

Further in 2019, the Reserve Bank of India commissioned a study to examine the impact of India's trade agreements on India's trade. It found that trade increased with partner countries after formulation of trade agreements vis-a-vis non-partner countries. However, a drastic increase in imports was observed over exports in these cases.

## INDIA'S TRADE SCENARIO

### 1. Since setting up of WTO

India's share in global trade washed plummeted during the eighties as a result of ill-conceived policies followed since independence, natural calamities and other other events. The decade of nineties witnessed two events that have drastically affected Indian economy. First was domestic, where besieged by balance of payment problems the country undertook number of structural changes its economy. The second was the completion of the Uruguay round of trade discussions culminating in the setting up of World Trade Organisation (WTO). India had barely 0.5% share in world trade as can be seen from table 1. In 1991, when the country embarked on a new economic policy based on globalisation, liberalisation and privatisation, Indian trade policy also changed in favour of a more liberal and open policy. With the setting up of WTO, the country continued to open up its economy to global trade encouraging both exports and imports. By 2000, India's share in world trade had risen to 0.7% which further improved to 1.5% in 2010. By 2016 it had reached 1.6% and was 1.7% in 2018. It can be safely inferred from the Table 1 that over the years India's share has gradually increased in the world trade.

**Table 1: India's share in world trade**

Year	% Share
1990	0.5
2000	0.7
2005	1.0
2010	1.5
2015	1.6
2016	1.6
2017	1.7
2018	1.7

**Source:** Various issues of United Nation's International Trade Statistics Year Book and for 2017 & 2018 data accessed from <http://comtrade.un.org/>

## 2. Value of India's trade in last 5 years

Table 2 shows the value of India's trade in last five years. As can be seen, the value of exports and imports have generally been increasing barring 2019 and 2020. This reduction can be explained by the worldwide Covid 19 pandemic and the resultant economic slowdown/shutdown in most countries which had adverse repercussions on overall economic activity and especially on trade.

**Table 2: Value of India's trade in last five years (in US \$ million)**

Year	Export	Import	Trade balance	Rate of change in export (%)	Rate of change in import (%)
2016-17	275852	384357	-108505	5.2	0.9
2017-18	303526	465581	-162055	10.0	21.1
2018-19	330078	514078	-184000	8.7	10.4
2019-20	313361	474709	-161348	-5.1	-7.7

2020-21	291808	394436	-102627	-6.9	-16.9
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**Source:** DGCI&S, Kolkata

The trade balance has been tilted in favour of imports as can be seen from the table 2. However an analysis of commodities being traded shows an increase in the imports of intermediate goods and raw materials as well as increase in imports of machinery. This is a positive development encouraging growth of manufacturing capabilities in the country. With increased and efficient production, exports will receive a fillip in future.

## 3. Value of India's trade with FTA/RTA partners

India has 11 free trade agreements (FTAs) and regional trade agreements (RTAs) with other countries or regions. Also, it has six limited coverage preferential trade agreements with various countries (PIB, 2021). The table 3 provides information on export and import over the last five years with FTA / RTA partner countries.

**Table 3: Value of India's trade with FTA/RTA partner countries in last 5 years (in US \$ million)**

	Export	Import
2016-17	59152.29	65789.08
2017-18	67576.95	77692.17
2018-19	73550.13	93827.57
2019-20	63515.49	87327.72
2020-21	63105.49	74538.07

**Source:** DGCI&S

Table 3 depicts the value of export and import of commodities and services with partner countries over the last five years. While there has been a consistent increase in the value of trade in the first three years, the last two years show a downfall due to the effects of COVID-19 pandemic. However, a recovery is expected in 2022 with easing of restrictions and resumption of economic activities across the country and across the world.

## ISSUES OF CONCERN

In 2015, India crossed the US \$ 1000 per annum of per capita gross national income (GNI) benchmark.

This means that under the WTO Agreement on Subsidies, it is now liable to be challenged for subsidies provided. Hence India needs to shift from a subsidy-based regime towards structural reform measures in order to improve long-term competitiveness.

India has improved its ease of doing business (EDB) ranking over the last few years. However, a number of steps need to be taken to encourage international trade. Research and development should be concentrated towards product development as well as improving the value chain. Exporters need to be incentivised for designing creating and marketing new products or existing products with new features this will lead to greater diversification of both the product as well as market

India's experiment with special economic zones has not been very fruitful. Steps must be taken to promote efficiency in the SEZ, clusters and mega trade parks focusing on specific products which comprise a major portion of global exports but where India has a very small presence.

India's participation in regional trade agreements continues to be cautious due to various geopolitical considerations. For example the RCEP was originally planned between 16 countries – ASEAN members and the countries with which they had FTEs namely Australia, China, Korea, Japan, New Zealand and India. The main purpose was to make it easier for products and services of each of these countries to be available across the nation the negotiations have been going on since 2013, in November 2019 India decided to exit The RCEP over significant outstanding issues. In order to safeguard the interests of industries like agriculture and dairy and to give an advantage to the country's services Centre sector it was ultimately decided two exit discussions. The continuing strained relations between India and China are an important reason for this step. Since India has trade deficits with 11 of the 15 RCEP countries (Raghavan, 2020), exiting the trade agreement does not invoke confidence for overcoming trade deficit in future trade interactions with these countries.

Trade multilateralism, as advocated at WTO forums, though advisable remains hostage to stalling by various members. India has generally avoided and opposed the linking of non-trade issues with trade at both bilateral and multilateral levels (Mehta & Sharma, 2021). However it seems prudent that certain issues like environmental and sustainability concerns will probably play a greater role in trade negotiations in the coming future. While India was not party to the 2020 Communication on trade and environmental sustainability where trade and environmental sustainability structure discussions (TESSD) of the WTO were launched, India may have to incorporate chapters on trade and sustainable development in its proposed BTS with the UK and

EU. This suggests that India needs to assess the implications of its stand on trade related issues both at the bilateral as well as multilateral level to ensure that new rules on WTO plus matters do not push it into a corner.

## CONCLUSION

In conclusion, it may be inferred that trade remains an important aspect affecting economic development of the country. The trade policy has a very strong role to play in encouraging trade. While the WTO provides a multilateral forum where countries can address trade issues in today's times plurilateral treaties have also become important. India has used the WTO platform to voice its concerns on various issues affecting global trade. Its stand on public procurement and stock holding, investment, competition policy, and trade facilitation (also known as Singapore Issues) has prevented the developed countries from pushing aside the legitimate concerns of developing and least developed countries. The WTO gives equal standing to all its members and this is an important reason why WTO should continue to exist and remain empowered.

While India has had to change the number of domestic laws in order to comply with the WTO agreements such as Agreement on trade related intellectual property rights (TRIPs), the eventual gains from such changes have been highly favourable for Indian economy.

But the lengthy process of decision making at the WTO has provided a reason for cultivating regional treaties that can augment trade among members in the meantime. India should consider product specific MoUs with different economies in order to foster exports in diverse regions on demand bases this can be a good alternative two preferential trade agreements and free trade agreements which India has been reluctant to sign due to the potential of surge in imports and various security concerns

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#### **Corresponding Author**

**Dr. Pankaj Kumar\***

Department of Commerce, R.N.M College  
Hunterganj