

FOREIGN TRADE POLICY AND TRENDS IN INDIA

1947-48 to 2008-09

Incorporating

A Comprehensive Description and Analysis of Post-Independence Developments in India's Foreign Trade and Allied Sectors with Focus on Post-1991 Period

Topics Covered Include: Changing Pattern of International Trade □ Pre- and Post-Independence Developments in India's Foreign Trade □ Compositional and Directional Shifts in Exports from India □ Compositional and Policy Shifts in Imports into India □ Foreign Trade Policy in Recent Years □ Rationalisation, Simplification and Moderation of Customs Tariff Regime □ Current Account Convertibility and Flows □ Capital Account Convertibility and Flows □ Exchange Rate Determination and Management □ Foreign Exchange Reserves □ External Debt and Aid □ Foreign Direct Investment (FDI) □ Foreign Portfolio Investment

Special Coverage: Globalisation and International Trade □ Global Economic Crisis and International Trade □ India's Regional Trade Agreements (RTAs) □ World Trade Organisation (WTO) and India's Foreign Trade □ Global Economic Crisis and the Indian Economy

Annual Review of Developments in India's Foreign Trade: 1947-48 to 2008-09

7 Appendices Containing Relevant Information on India's Foreign Trade

Glossary of Trade-related Terms

Time-series Statistics of India's Foreign Trade

Vibha Mathur

Reader, Department of Commerce
Jesus and Mary College
University of Delhi
New Delhi



New Century Publications
New Delhi, India

Contents

<i>Trade-related Abbreviations/Acronyms</i>	<i>xix-xxiii</i>
<i>Explanation of Select Terms Related to India's Foreign Trade</i>	<i>xxiv-xxvi</i>
<i>Author's Note on the Book</i>	<i>xxvii-xliv</i>
<i>Key to Numeration</i>	<i>xlv</i>
1. INTERNATIONAL TRADE: THEORY AND TRENDS	1-22
1.1 Why Does Trade Take Place?	
1.2 Theory of Absolute Advantage	
1.3 Theory of Comparative Advantage	
1.4 Purchasing Power Parity (PPP) Theory	
1.5 Heckscher-Ohlin Theory of Trade	
1.6 Balance of Payments	
1.6.1 Book Keeping in Balance of Payments	
1.6.2 Monetarist Approach in Balance of Payments	
1.6.3 Neo-Cambridge Approach to Balance of Payments	
1.6.4 Structural Approach to Balance of Payments	
1.6.5 Balance of Trade	
1.6.6 Absorption Approach	
1.7 Terms of Trade	
1.7.1 Net Barter Terms of Trade	
1.7.2 Gross Barter Terms of Trade	
1.7.3 Income Terms of Trade	
1.7.4 Factoral Terms of Trade	
1.7.5 Real Cost Terms of Trade	
1.7.6 Secular Deterioration in Terms of Trade Hypothesis	
1.8 Changing Pattern of International Trade	
1.8.1 First Phase: 1950-80	
1.8.2 Second Phase: 1980 onwards	
1.8.3 Trade Openness	
1.8.4 Developing Countries and Trade Openness	
1.9 Globalization and International Trade	
1.9.1 Meaning of Globalization	
1.9.2 Dimensions and Features of Globalization	
1.9.3 Globalization and Developing Countries	

- 1.9.4 Globalization and the Poor
- 1.9.5 Future of Globalization
- 1.10 Global Economic Crisis and International Trade
 - 1.10.1 Period Preceding the Present Crisis
 - 1.10.2 Genesis of the Present Crisis
 - 1.10.3 Contagious Nature of Crisis and the Rejection of De-coupling Theory
 - 1.10.4 Intensity of the Crisis
 - 1.10.5 Damage Control Measures at World Level
 - 1.10.6 Future Scenario at World Level

2. PRE-INDEPENDENCE TRENDS IN INDIA'S FOREIGN TRADE

23-27

- 2.1 First World War
- 2.2 Great Depression
- 2.3 Second World War
- 2.4 Post-War Period
- 2.5 Conclusion

3. POST-INDEPENDENCE DEVELOPMENTS IN FOREIGN TRADE SECTOR

28-47

- 3.1 Partition and the Aftermath
- 3.2 Depletion of Sterling Balances
- 3.3 Empire Dollar Pool
- 3.4 Devaluation of the Rupee in September 1949
- 3.5 Korean War and the Export Boom
- 3.6 Trade Agreement with Pakistan, 1950
- 3.7 Devaluation of the Rupee in June 1966
- 3.8 Import Substitution: Cornerstone of Trade Policy
- 3.9 Balance of Payments Crisis, 1991
- 3.10 Post-1991 Reforms in Foreign Trade Sector
- 3.11 East Asian Crisis
- 3.12 Tenth Five Year Plan (2002-07) on the Role of Foreign Trade
- 3.13 Eleventh Five Year Plan (2007-12) on Trade Liberalisation
- 3.14 Gender Sensitization of Trade Policy
- 3.15 Conclusion

4. INDIA'S EXPORTS: COMPOSITION, DESTINATION AND PROMOTIONAL STRATEGY	48-62
4.1 Post-Independence Export Performance	
4.2 Trends in the Composition of Exports	
4.2.1 Project Exports from India	
4.2.2 India's IT Sector	
4.2.3 Gems and Jewellery: Recent Export Measures	
4.3 Trends in the Destination of Exports	
4.4 Export Strategy and Concerns	
4.4.1 Reservations for Small-Scale Industries and Export Growth	
4.4.2 Competitiveness of Exports	
4.4.3 Medium Term Export Strategy (MTES)	
4.5 Future of India's Exports	
5. INDIA'S IMPORTS: COMPOSITION AND ORIGIN	63-68
5.1 Euphoria for Import Substitution	
5.2 Trends in the Composition of Imports	
5.3 Import Intensity of Exports in India	
5.4 Trends in the Origin of Imports	
5.5 Reduction in Tariff and Non-tariff Barriers	
5.6 Future of India's Imports	
6. FOREIGN TRADE POLICY IN RECENT YEARS: OBJECTIVES, STRATEGIES AND MEASURES	69-87
6.1 EXIM Policy, 1992-97	
6.2 EXIM Policy, 1997-2002	
6.2.1 Objectives	
6.2.2 Salient Features	
6.3 Modified EXIM Policy, April 1998	
6.4 EXIM Policy, 1999-2000	
6.5 EXIM Policy, 2000-01	
6.5.1 Export Promotion	
6.5.2 Import Liberalisation	
6.6 EXIM Policy, 2001-02	
6.6.1 Removal of Quantitative Restrictions	
6.6.2 Agricultural Export Zones	
6.7 EXIM Policy, 2002-07	
6.7.1 Special Economic Zones (SEZs)	

- 6.7.2 Employment Generation
- 6.7.3 Technology Upgradation
- 6.7.4 Growth-oriented
- 6.8 EXIM Policy, 2003-04
- 6.9 Mini EXIM Policy, January 2004
- 6.10 Foreign Trade Policy (FTP) 2004-09
 - 6.10.1 Objectives and Strategy
 - 6.10.2 Special Focus Initiatives
 - 6.10.3 New Export Promotion Schemes
 - 6.10.4 Simplification, Rationalization and Modifications of Ongoing Schemes
 - 6.10.5 Simplification of Rules and Procedures and Institutional Measures
- 6.11 Annual Supplement 2005-06 to the Foreign Trade Policy, 2004-09
- 6.12 Annual Supplement 2006-07 to the Foreign Trade Policy, 2004-09
- 6.13 Annual Supplement 2007-08 to the Foreign Trade Policy, 2004-09
 - 6.13.1 Objectives
 - 6.13.2 Strategy
 - 6.13.3 Partnership
 - 6.13.4 Roadmap
- 6.14 Annual Supplement 2008-09 to the Foreign Trade Policy, 2004-09
- 6.15 Trade Facilitation Measures, February 2009

7. CUSTOMS TARIFF POLICY

88-94

- 7.1 Various Types of Customs Duties
 - 7.1.1 Basic Customs Duty
 - 7.1.2. Additional (Countervailing) Duty of Customs
 - 7.1.3 Export Duty
 - 7.1.4 Cesses on Exports
- 7.2 Post-liberalisation Reduction and Rationalisation of Import Tariff
 - 7.2.1 Off-budget Package of Tax Concessions, January 2004
- 7.3 Recent Thinking on Customs Tariff
 - 7.3.1 Customs Tariff Report (Chairman: Arvind Virmani), 2002
 - 7.3.2 Import Duty Structure Recommended by Task Force on Indirect Taxes (Chairman: Vijay Kelkar), 2002
- 7.4 Export Tariff Policy

8. CURRENT ACCOUNT CONVERTIBILITY AND FLOWS

95-109

- 8.1 Current Account Deficits: Global and Indian Experience

8.2	Developments in India's Current Account	
8.3	Current Account Convertibility in India	
8.4	Current Account Sustainability in India	
8.5	Stability Factors in India's Current Account	
8.5.1	Exports of Services	
8.5.2	Workers' Remittances	
8.6	General Agreement on Trade in Services (GATS) and India	
9.	CAPITAL ACCOUNT CONVERTIBILITY AND FLOWS	110-142
9.1	Capital Flows: Recent Global Experience	
9.2	Volatility of Capital Flows	
9.2.1	East Asian Crisis	
9.3	Capital Inflows and Outflows: India's Policy and Experience	
9.4	Instruments of Sterilisation	
9.5	Recommendations of the Working Group on Instruments of Sterilisation	
9.6	Capital Account Convertibility (CAC)	
9.6.1	Lessons from East Asia	
9.6.2	Advantages and Pitfalls of CAC	
9.7	Global Experience on Capital Controls	
9.7.1	Emerging Market Economies (EMEs)	
9.7.2	Capital Controls in Developed Countries	
9.8	Objectives of Capital Controls	
9.9	Types of Capital Controls	
9.10	Mechanism of Capital Controls	
9.11	Timing of Capital Account Liberalisation	
9.12	Capital Account Convertibility: Indian Experience	
9.12.1	From FERA to FEMA	
9.12.2	Report of the Committee on Capital Account Convertibility (Chairman: S.S. Tarapore), 1997	
9.13	Recent Measures to Liberalise Capital Account in India	
9.14	Impact of Capital Account Liberalisation on Indian Financial System	
9.15	Capital Account Convertibility: Approach of Multilateral Institutions	
9.15.1	International Monetary Fund (IMF)	
9.15.2	World Bank	
9.15.3	Organisation for Economic Cooperation and Development (OECD)	

9.15.4 World Trade Organisation (WTO)

9.16 Conclusion

**10. EXCHANGE RATE DETERMINATION AND
MANAGEMENT**

143-164

- 10.1 Exchange Rate Determination: Theoretical Framework
 - 10.1.1 Purchasing Power Parity (PPP) Theory
 - 10.1.2 Monetary Models
- 10.2 Choice of Exchange Rate Regime
- 10.3 Pre-conditions for Successful Exchange Rate Policy
- 10.4 Exchange Rate Management: The Indian Experience
 - 10.4.1 Brief History
 - 10.4.2 Balance of Payments Crisis, 1991
- 10.5 Structure of India's Foreign Exchange Market
- 10.6 Measures Undertaken to Develop the Indian Foreign Exchange Market
- 10.7 Hedging for Foreign Currency Exposure
- 10.8 Hedging Facilities for Authorised Dealers (ADs)
- 10.9 Hedging Facilities for Non-Residents
- 10.10 Conclusion

11. FOREIGN EXCHANGE RESERVES

165-180

- 11.1 Introduction
- 11.2 Motives for Holding Foreign Exchange Reserves
- 11.3 Cost and Benefits of Holding Reserves
- 11.4 Tests of Foreign Exchange Reserve Adequacy
- 11.5 India's Foreign Exchange Reserves
- 11.6 Committee on Balance of Payments
(Chairman: C. Rangarajan), 1993
- 11.7 Foreign Exchange Reserves: Cost and Utilisation Considerations
- 11.8 India's Approach to Reserve Management
- 11.9 Reserve Management Practices in India
 - 11.9.1 External Asset Managers
 - 11.9.2 Audit and Management Information System
 - 11.9.3 Risk Management Practices
 - 11.9.4 Credit Risk
 - 11.9.5 Market Risk

- 11.9.6 Liquidity Risk
- 11.9.7 Operational Risk
- 11.9.8 Custodial Risk
- 11.10 Management of Gold Reserves
- 11.11 Conclusion

12. EXTERNAL DEBT AND AID

181-197

- 12.1 Introduction
- 12.2 External Debt: Recent Cross-Country Experience
- 12.3 Indicators of Sustainable Level of External Debt
 - 12.3.1 Solvency Factor
 - 12.3.2 Liquidity Factor
 - 12.3.3 Monitoring System
- 12.4 India: External Debt Management Since 1991
 - 12.4.1 Changing Profile of India's External Debt
- 12.5 Components of India's External Debt
 - 12.5.1 External Commercial Borrowings (ECB)
 - 12.5.2 ECB Policy Review, January 2004
 - 12.5.3 Special Purpose Commercial Borrowing by India
 - 12.5.4 India Development Bonds (IDBs), 1991
 - 12.5.5 Resurgent India Bonds (RIBs), 1998
 - 12.5.6 India Millennium Deposits (IMDs), 2000
 - 12.5.7 Non-resident Deposits
- 12.6 NRI Deposits and Monetary Management
- 12.7 External Aid
 - 12.7.1 Foreign Aid and Millennium Goals
 - 12.7.2 Indian Experience
- 12.8 Conclusion

13. FOREIGN DIRECT INVESTMENT (FDI) IN INDIA

198-219

- 13.1 FDI Policy Regime
- 13.2 Recent Initiatives to Attract FDI
 - 13.2.1 Specific Measures
 - 13.2.2 Simplification of Procedures
- 13.3 Routes for Inward Flows of FDI
 - 13.3.1 Automatic Route
 - 13.3.2 Government Approval
 - 13.3.3 Restricted List of Sectors
- 13.4 Post-approval Procedures

- 13.4.1 Project Clearance
- 13.4.2 Registration and Inspection
- 13.4.3 Foreign Exchange Management Act (FEMA), 2000
- 13.5 Entry Options for Foreign Investors
 - 13.5.1 Incorporation of a Company
 - 13.5.2 Liaison Office/Representative Office
 - 13.5.3 Project Office
 - 13.5.4 Branch Office
 - 13.5.5 Branch Office on Stand-Alone Basis in Special Economic Zones (SEZs)
 - 13.5.6 Investment in a Firm or a Proprietary Concern by NRIs
 - 13.5.7 Investment in a Firm or a Proprietary Concern by Other Than NRIs
- 13.6 Entry Rules and Sectoral Caps on FDI
- 13.7 Foreign Technology Agreements
 - 13.7.1 Automatic Approval
 - 13.7.2 FIPB Route
- 13.8 Mergers, Acquisitions and Disinvestment
- 13.9 Takeover Code
- 13.10 Competition Law and Mergers and Acquisitions
- 13.11 Important Legislations Governing Business in India
- 13.12 Important Rules/Regulations Governing Foreign Investments in India
- 13.13 Investment Promotion and Facilitation in India
 - 13.13.1 Foreign Investment Promotion Board (FIPB)
 - 13.13.2 Secretariat for Industrial Assistance (SIA)
 - 13.13.3 Foreign Investment Implementation Authority (FIIA)
 - 13.13.4 Foreign Investment Promotion Council (FIPC)
 - 13.13.5 Investment Commission (IC)
 - 13.13.6 India Brand Equity Foundation (IBEF)
- 13.14 India as an Investment Destination
- 13.15 India's Performance in the Global Context
- 13.16 Foreign Investment Trends in India
 - 13.16.1 Annual Investment Inflows
 - 13.16.2 Top Investing Countries
 - 13.16.3 Sectors Attracting Highest FDI Inflows
 - 13.16.4 India's Share in FDI Flows to Developing Countries
 - 13.16.5 FDI Approvals and Actual Inflows

14. FOREIGN PORTFOLIO INVESTMENT	220-232
14.1 International Capital Market and Portfolio Investments	
14.2 Liberalisation of Portfolio Investment Flows into India	
14.3 Eligibility for Registration as FII	
14.4 Restrictions on Foreign Portfolio Investments	
14.5 Restrictions on Foreign Ownership in Select Asian Countries	
14.5.1 India	
14.5.2 China	
14.5.3 Taiwan	
14.5.4 South Korea	
14.5.5 Hong Kong	
14.5.6 Indonesia	
14.5.7 Thailand	
14.5.8 Malaysia	
14.5.9 Philippines	
14.5.10 Sri Lanka	
14.6 Conclusion	
15. INDIA'S REGIONAL TRADE AGREEMENTS (RTAS)	233-248
15.1 India's Look East Policy	
15.2 South Asia Free Trade Area (SAFTA)	
15.2.1 Rules of Origin	
15.2.2 Mechanism for Compensation of Revenue Loss (MCRL) for the Least Developed Contracting States	
15.2.3 Technical Assistance to Least Developed Contracting States in Agreed Areas	
15.2.4 Implementation of SAFTA Agreement	
15.3 Association of South East Asian Nations (ASEAN) and India	
15.4 India-Sri Lanka Free Trade Agreement (ISLFTA)	
15.5 India-Thailand Comprehensive Economic Cooperation Agreement (CECA)	
15.6 Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Agreement (FTA)	
15.7 India-Singapore Comprehensive Economic Cooperation Agreement (CECA)	
15.8 Asia Pacific Trade Agreement (APTA)	
15.9 India-Chile Preferential Trade Agreement (PTA)	
15.10 India-South Korea Comprehensive Economic	

- Partnership Agreement (CEPA)
- 15.11 India-Gulf Cooperation Council (GCC) Free Trade Agreement (FTA)
- 15.12 India-Japan Comprehensive Economic Cooperation Agreement (CECA)
- 15.13 India-Malaysia Comprehensive Economic Cooperation Agreement (CECA)
- 15.14 India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA)
- 15.15 India-SACU Preferential Trade Agreement (PTA) Negotiations
- 15.16 India-Pakistan Trading Arrangement
- 15.17 India-Nepal Treaty of Trade
 - 15.17.1 Treaty of Trade
 - 15.17.2 Treaty of Transit
 - 15.17.3 Agreement of Cooperation to Control Unauthorized Trade
 - 15.17.4 Inter-Governmental Committee (IGC) at Commerce Secretary-level
- 15.18 India-EU Broad-based Trade and Investment Agreement
- 15.19 India-European Free Trade Association (EFTA) Negotiations on Broad-based Bilateral Trade and Investment Agreement
- 15.20 Global System of Trade Preferences (GSTP)

16. WORLD TRADE ORGANIZATION (WTO) AND INDIA'S FOREIGN TRADE

249-267

- 16.1 Basics of WTO
- 16.2 Third Trade Policy Review of India at WTO (June 2002)
- 16.3 Agreements on Agriculture at WTO
 - 16.3.1 Agreement of Agriculture (AoA)
 - 16.3.2 Aggregate Measure of Support (AMS)
 - 16.3.3 Green Box Support
 - 16.3.4 Blue Box Support
 - 16.3.5 Special and Differential Treatment Box Support
 - 16.3.6 Export Competition
- 16.4 Agriculture at Hong Kong Ministerial Conference of WTO
- 16.5 Non-Agricultural Market Access (NAMA)
- 16.6 Non-tariff Barriers
- 16.7 Services

- 16.8 Singapore Issues
- 16.9 Anti-dumping and Subsidies Agreements
- 16.10 TRIPS and Public Health
- 16.11 Agreement on Textiles and Clothing (ATC)
- 16.12 Textile Sector in the Post-Quota Era
 - 16.12.1 Implications for India
 - 16.12.2 Measures Taken by the Government
- 16.13 Revised Draft Modalities Texts on Agriculture and Non-Agricultural Market Access (NAMA), 2008

17. GLOBAL ECONOMIC CRISIS AND THE INDIAN ECONOMY

268-280

- 17.1 Impact of Present Crisis on India
 - 17.1.1 Indian Financial System
 - 17.1.2 Slump in Indian Stock Market
 - 17.1.3 Cash/Liquidity Crunch in Domestic Money Market
 - 17.1.4 Foreign Exchange Reserves and Depreciating Rupee
- 17.2 Government's Policy to Deal with the Crisis
- 17.3 Remedial Measures Taken by the Government
 - 17.3.1 Measures to Boost Demand
 - 17.3.2 Measures to Boost Exports
 - 17.3.3 Measures to Contain Price Rise
 - 17.3.4 Deviation from Fiscal Consolidation
- 17.4 Remedial Measures Taken by the Reserve Bank of India (RBI)
 - 17.4.1 Measures to Rupee Liquidity/Credit Delivery
 - 17.4.2 Measures to Encourage Flow of Credit to Hard-pressed/Priority Sectors
 - 17.4.3 Measures Aimed at Managing Forex Liquidity/Modulate Exchange Rate Movements
 - 17.4.4 Measures Aimed at Export Promotion
- 17.5 Measures Taken by Securities and Exchange Board of India (SEBI)
- 17.6 Outlook for India
 - 17.6.1 Positive Factors
 - 17.6.2 Negative Factors
- 17.7 Conclusion

ANNUAL REVIEW OF DEVELOPMENTS IN INDIA'S FOREIGN TRADE: 1947-48 TO 2008-09	281-368
APPENDICES	369-458
Appendix 1: List of Export Promotion Councils and Commodity Boards under the Department of Commerce, Ministry of Commerce and Industry, Government of India	369-372
Appendix 2: India's Foreign Trade Policy (2004-2009) (September 1, 2004 to March 31, 2009)	373-444
Appendix 3: Report of the Task Force on Indirect Taxes (Chairman: Vijay Kelkar), December 2002: Recommendations on Foreign Trade Reforms	445-447
Appendix 4: Main Recommendations of the Committee on Capital Account Convertibility (Chairman: S.S. Tarapore)	448-449
Appendix 5: Management of Capital Inflows: Cross-country Experiences	450-452
Appendix 6: National Currencies Worldwide	453-455
Appendix 7: Major Regional Trade Groups in the World	456-458
GLOSSARY OF TRADE-RELATED TERMS	459-502
TIME-SERIES STATISTICS OF INDIA'S FOREIGN TRADE	503-514
SELECT BIBLIOGRAPHY	515-520
INDEX	521-534