Foreign Trade, Export-Import Policy and Regional Trade Agreements of India


Part III: India’s Exports, Imports, Customs Tariff, and Special Economic Zones (SEZs): ■ India’s Exports: Composition, Destination and Promotional Strategy ■ India’s Imports: Composition and Origin ■ Customs Tariff Policy ■ Special Economic Zones (SEZs)

Part IV: Exchange Rate and Convertibility: ■ Exchange Rate Determination and Management ■ Foreign Exchange Reserves ■ Current Account Convertibility and Flows ■ Capital Account Convertibility and Flows

Part V: Foreign Debt, Aid and Investment: ■ Foreign Debt and Aid ■ Foreign Direct Investment (FDI) ■ Foreign Portfolio Investment

Part VI: WTO and India’s Regional Trade Agreements: ■ World Trade Organization (WTO) and India ■ India’s Regional Trade Agreements (RTAs)

Appendix 1: Foreign Trade Policy (FTP), August 27, 2009 to March 31, 2014 ■ Appendix 2: Group of Twenty (G-20) ■ Appendix 3: E-commerce

Year-wise Review of Developments in India’s Foreign Trade: 1947-48 to 2011-12 ■ Glossary of Trade-related Terms ■ Time-series Statistics of India’s Foreign Trade ■ Bibliography ■ Index

By

Vibha Mathur
Associate Professor, Department of Commerce, Jesus and Mary College (JMC), University of Delhi

New Century Publications
New Delhi, India
Part I: International Trade: Theoretical Settings and Emerging Pattern

1. Basics of International Trade
   1.1 Reasons for International Trade
   1.2 Theory of Absolute Advantage
   1.3 Theory of Comparative Advantage
   1.4 Heckscher-Ohlin Theory of Trade
   1.5 Balance of Payments
      1.5.1 Book Keeping in Balance of Payments
      1.5.2 Monetarist Approach in Balance of Payments
      1.5.3 Neo-Cambridge Approach to Balance of Payments
      1.5.4 Structural Approach to Balance of Payments
      1.5.5 Balance of Trade
      1.5.6 Absorption Approach
   1.6 Terms of Trade
      1.6.1 Net Barter Terms of Trade
      1.6.2 Gross Barter Terms of Trade
      1.6.3 Income Terms of Trade
      1.6.4 Factoral Terms of Trade
      1.6.5 Real Cost Terms of Trade
      1.6.6 Secular Deterioration in Terms of Trade Hypothesis
   1.7 Exchange Rate Determination
      1.7.1 Purchasing Power Parity (PPP) Theory
      1.7.2 Monetary Models
      1.7.3 Choice of Exchange Rate Regime
1.7.4 Pre-conditions for Successful Exchange Rate Policy

2. Changing Pattern of International Trade 18-34
2.1 Developments in International Trade since 1950
2.2 Trade Openness
   2.2.1 Developing Countries and Trade Openness
2.3 Emergence of World Trade Organization (WTO)
2.4 Globalization and International Trade
   2.4.1 Meaning of Globalization
   2.4.2 Dimensions and Features of Globalization
   2.4.3 Globalization and Developing Countries
   2.4.4 Globalization and the Poor
   2.4.5 Future of Globalization
2.5 Global Economic Crisis and International Trade
   2.5.1 Period Preceding the Present Crisis
   2.5.2 Genesis of the Present Crisis
   2.5.3 Contagious Nature of Crisis and the Rejection of
      De-coupling Theory
   2.5.4 Intensity of the Crisis
   2.5.5 Damage Control Measures at World Level
2.6 Future Scenario of World Trade

Part II: India's Foreign Trade Policy and Developments

3. Foreign Trade during Pre-Independence Period 35-41
3.1 First World War
3.2 Great Depression
3.3 Second World War
3.4 Post-War Period

4. Post-Independence Trade Policy 42-52
4.1 Partition and the Aftermath
4.2 Depletion of Sterling Balances
4.3 Empire Dollar Pool
4.4 Devaluation of the Rupee in September 1949
4.5 Korean War and the Export Boom
4.6 Trade Agreement with Pakistan, 1950
5. Post-liberalization (1991 onwards) Reforms in the Foreign Trade Sector

5.1 Initiation of Reforms in the Foreign Trade Sector
5.2 EXIM Policy, 1992-97
5.3 EXIM Policy, 1997-2002
  5.3.1 Objectives
  5.3.2 Salient Features
5.4 Modified EXIM Policy, April 1998
5.5 EXIM Policy, 1999-2000
5.6 EXIM Policy, 2000-01
  5.6.1 Export Promotion
  5.6.2 Import Liberalisation
5.7 EXIM Policy, 2001-02
  5.7.1 Removal of Quantitative Restrictions
  5.7.2 Agricultural Export Zones
5.8 EXIM Policy, 2002-07
  5.8.1 Special Economic Zones (SEZs)
  5.8.2 Employment Generation
  5.8.3 Technology Upgradation
  5.8.4 Growth-oriented
5.9 EXIM Policy, 2003-04
5.10 Mini EXIM Policy, January 2004
5.11 Foreign Trade Policy (FTP) 2004-09
  5.11.1 Objectives and Strategy
  5.11.2 Special Focus Initiatives
  5.11.3 New Export Promotion Schemes
  5.11.4 Simplification, Rationalization and Modifications of Ongoing Schemes
  5.11.5 Simplification of Rules and Procedures and Institutional Measures
5.12 Annual Supplement 2005-06 to the Foreign Trade Policy, 2004-09
5.13 Annual Supplement 2006-07 to the Foreign Trade Policy,
5.14 Annual Supplement 2007-08 to the Foreign Trade Policy, 2004-09
5.14.1 Objectives
5.14.2 Strategy
5.14.3 Partnership
5.14.4 Roadmap
5.15 Annual Supplement 2008-09 to the Foreign Trade Policy, 2004-09
5.16 Trade Facilitation Measures, February 2009
5.17 Foreign Trade Policy (FTP), 2009-14
5.18 Gender Sensitization of Trade Policy

6. Legal and Institutional Framework for Foreign Trade

6.1 Constitutional Provisions and the Law
6.2 Department of Commerce, Ministry of Commerce and Industry
6.3 Attached and Subordinate Offices of the Department of Commerce
   6.3.1 Attached Offices
   6.3.2 Subordinate Offices
6.4 Autonomous Bodies
   6.4.1 Commodity Boards
   6.4.2 Marine Products Export Development Authority, Cochin
   6.4.3 Agricultural and Processed Food Products Export Development Authority (APEDA)
   6.4.4 Export Inspection Council (EIC), New Delhi
   6.4.5 Indian Institute of Foreign Trade (IIFT), New Delhi
   6.4.6 Indian Institute of Packaging (IIP), Mumbai
6.5 Public Sector Undertakings
   6.5.1 State Trading Corporation (STC) of India
   6.5.2 Minerals and Metals Trading Corporation (MMTC)
   6.5.3 Project and Equipment Corporation (PEC) of India
   6.5.4 Export Credit Guarantee Corporation (ECGC) of India
   6.5.5 India Trade Promotion Organization (ITPO)
6.6 Export Promotion Councils (EPCs)
6.7 Advisory Bodies
   6.7.1 Board of Trade (BOT)
Part III: India's Exports, Imports, Customs Tariff, and Special Economic Zones (SEZs)

7. India's Exports: Composition, Destination and Promotional Strategy

7.1 Post-Independence Export Performance at a Glance
7.2 Composition of Exports: Commodity-wise Description
   7.2.1 Project Exports from India
   7.2.2 India’s IT Sector
   7.2.3 Gems and Jewellery: Recent Export Measures
   7.2.4 Pharmaceutical Industry
   7.2.5 Engineering Goods
   7.2.6 Chemicals
   7.2.7 Electronics Goods
   7.2.8 Leather
   7.2.9 Readymade Garments
   7.2.10 Carpets
   7.2.11 Agriculture Exports
7.3 Destination of Exports
7.4 Export Strategy and Concerns
   7.4.1 Reservations for Small-Scale Industries and Export Growth
   7.4.2 Competitiveness of Exports
   7.4.3 Medium Term Export Strategy (MTES)
7.5 Credit Flow to Export Sector
   7.5.1 Working Group to Review Export Credit, 2005
7.6 Future of India’s Exports
8. India's Imports: Composition and Origin 122-130
8.1 Euphoria for Import Substitution
8.2 Reduction in Tariff and Non-tariff Barriers
8.3 Composition of Imports
  8.3.1 Gem and Jewellery
8.4 Import Intensity of Exports in India
8.5 Origin of Imports
8.6 Agricultural Imports
  8.6.1 Protecting Domestic Agriculture
8.7 Future of India's Imports

9. Customs Tariff Policy 131-137
9.1 Various Types of Customs Duties
  9.1.1 Basic Customs Duty
  9.1.2. Additional (Countervailing) Duty of Customs
  9.1.3 Export Duty
  9.1.4 Cesses on Exports
9.2 Post-liberalisation Reduction and Rationalisation of Import Tariff
  9.2.1 Off-budget Package of Tax Concessions, January 2004
9.3 Recent Thinking on Customs Tariff
  9.3.1 Customs Tariff Report, 2002
  9.3.2 Import Duty Structure Recommended by Task Force on Indirect Taxes, 2002
9.4 Export Tariff Policy

10. Special Economic Zones (SEZs) 138-148
10.1 Special Economic Zones Act, 2005
10.2 Approval Mechanism and Administrative Set up of SEZs
  10.2.1 Approval Mechanism
  10.2.2 Administrative Set up
10.3 Criteria for Approval
10.4 Conversion of EPZs into SEZs
  10.4.1 How are SEZs Different from EPZs?
  10.4.2 Will EPZ Conversion Help?
10.5 Incentives and Facilities Offered to Units in SEZs
10.6 Incentives and Facilities Available to SEZ Developers
10.7 Apprehensions and Concerns
10.8 SEZs and National Security

10.9 Lessons from China
   10.9.1 Size of SEZ
   10.9.2 Customs Regulations
   10.9.3 Incentives Package
   10.9.4 Labour Laws
   10.9.5 Involvement of State and Local Authorities
   10.9.6 DTA Sales
   10.9.7 Foreign Investment and Technology

10.10 Issues Relating to SEZs
   10.10.1 Impact of Direct Tax Code (DTC)
   10.10.2 Goods and Services Tax (GST)
   10.10.3 Power Generation and Distribution
   10.10.4 Dual Control and Co-ordination
   10.10.5 Disinvestment

---

Part IV: Exchange Rate and Convertibility

11. Exchange Rate Determination and Management 149-165

11.1 Importance and Challenges of Exchange Rate Policy
11.2 Exchange Rate Management: The Indian Experience
   11.2.1 Brief History
   11.2.2 Balance of Payments Crisis, 1991
11.3 Structure of India’s Foreign Exchange Market
11.4 Measures Undertaken to Develop the Indian Foreign Exchange Market
11.5 Hedging for Foreign Currency Exposure
11.6 Hedging Facilities for Authorised Dealers (ADs)
11.7 Hedging Facilities for Non-Residents
11.8 Declining Value of Rupee
11.9 Foreign Exchange Dealers’ Association of India

12. Foreign Exchange Reserves 166-181
12.1 Introduction
12.2 Motives for Holding Foreign Exchange Reserves
12.3 Cost and Benefits of Holding Reserves
12.4 Tests of Foreign Exchange Reserve Adequacy
12.5 India’s Foreign Exchange Reserves
12.6 Committee on Balance of Payments (Chairman: C. Rangarajan), 1993
12.7 Foreign Exchange Reserves: Cost and Utilisation Considerations
12.8 India’s Approach to Reserve Management
12.9 Reserve Management Practices in India
   12.9.1 External Asset Managers
   12.9.2 Audit and Management Information System
   12.9.3 Risk Management Practices
   12.9.4 Credit Risk
   12.9.5 Market Risk
   12.9.6 Liquidity Risk
   12.9.7 Operational Risk
   12.9.8 Custodial Risk
12.10 Management of Gold Reserves

13.1 Current Account Deficits: Global and Indian Experience
13.2 Developments in India’s Current Account
13.3 Current Account Convertibility in India
13.4 Current Account Sustainability in India
13.5 Stability Factors in India’s Current Account
   13.5.1 Exports of Services
   13.5.2 Workers’ Remittances
13.6 General Agreement on Trade in Services (GATS) and India

14.1 Capital Flows: Recent Global Experience
14.2 Volatility of Capital Flows
14.3 Capital Inflows and Outflows: India’s Policy and Experience
14.4 Instruments of Sterilisation
   14.4.1 Recommendations of the Working Group on Instruments of Sterilisation
14.5 Capital Account Convertibility (CAC)
   14.5.1 Lessons from East Asia
   14.5.2 Advantages and Pitfalls of CAC
14.6 Global Experience on Capital Controls
15.5.2 ECB Policy Review, January 2004
15.5.3 Special Purpose Commercial Borrowing by India
15.5.4 India Development Bonds (IDBs), 1991
15.5.5 Resurgent India Bonds (RIBs), 1998
15.5.6 India Millennium Deposits (IMDs), 2000
15.5.7 Non-resident Deposits
15.6 Foreign Aid
15.6.1 Foreign Aid and Millennium Goals
15.6.2 Indian Experience

16. Foreign Direct Investment (FDI) 239-251
16.1 Prohibited Sectors for FDI
16.2 Entry Routes for FDI
16.2.1 Automatic Route
16.2.2 Government Approval
16.3 Foreign Investment Promotion Board (FIPB)
16.3.1 Levels of Approvals for Cases under Government Route
16.3.2 Cases Which do not Require Fresh Approval
16.4 Caps and Conditions on FDI in Strategic Sectors
16.5 Post-approval Procedures
16.5.1 Project Clearances
16.5.2 Registration and Inspection
16.5.3 Foreign Exchange Management Act (FEMA), 2000
16.6 Entry Options for Foreign Investors
16.6.1 Incorporation of a Company
16.6.2 Liaison Office/Representative Office
16.6.3 Project Office
16.6.4 Branch Office
16.6.5 Branch Office on Stand-Alone Basis in Special Economic Zones (SEZs)
16.6.6 Investment in a Firm or a Proprietary Concern by NRIs
16.6.7 Investment in a Firm or a Proprietary Concern by Other Than NRIs
16.7 Foreign Technology Agreements
16.7.1 Automatic Approval
16.7.2 FIPB Route
17. Foreign Portfolio Investment

17.1 Advantages of Portfolio Investment Inflows
   17.1.1 Improvement in Corporate Capital Structure
   17.1.2 Competition in Financial Markets
   17.1.3 Enhanced Efficiency in Capital Markets
   17.1.4 Improvement in Corporate Governance

17.2 Disadvantages of Portfolio Investment Inflows
   17.2.1 Management Control
   17.2.2 Volatility of Portfolio Flows
   17.2.3 Pro-cyclical
   17.2.4 Hedge Funds

17.3 Liberalisation of Portfolio Investment Flows into India
   17.3.1 Investments by FIIs
   17.3.2 Equity Capital from Foreign Sources by Indian Corporates

17.4 Eligibility for Registration as FII
17.5 Restrictions on Foreign Portfolio Investments

Part VI: WTO and India's Regional Trade Agreements

18. World Trade Organization (WTO) and India

18.1 Introduction

18.2 Agreements on Agriculture at WTO
   18.2.1 Agreement of Agriculture (AoA)
   18.2.2 Aggregate Measure of Support (AMS)
   18.2.3 Green Box Support
   18.2.4 Blue Box Support
   18.2.5 Special and Differential Treatment Box Support
   18.2.6 Export Competition

18.3 Agriculture at Hong Kong Ministerial Conference of WTO
18.4 India's Stand on Agricultural Issues
18.5 Non-Agricultural Market Access (NAMA)
18.6 Non-tariff Barriers
18.7 Services
18.8 Anti-dumping and Subsidies Agreements
18.9 Trade Related Aspects of Intellectual Property Rights (TRIPS) and Public Health
18.10 Agreement on Textiles and Clothing (ATC)
18.11 Textile Sector in the Post-Quota Era
  18.11.1 Implications for India
  18.11.2 Measures Taken by the Government
18.12 Revised Draft Modalities Texts on Agriculture and Non-Agricultural Market Access (NAMA), 2008
18.13 Fifth Trade Policy Review (TPR) of India
18.14 Recent WTO Negotiations and India

19. India’s Regional Trade Agreements (RTAs) 287-304
19.1 India’s Look East Policy
19.2 South Asia Free Trade Area (SAFTA)
  19.2.1 Rules of Origin
  19.2.2 Mechanism for Compensation of Revenue Loss (MCRL) for the Least Developed Contracting States
  19.2.3 Technical Assistance to Least Developed Contracting States in Agreed Areas
  19.2.4 Implementation of SAFTA Agreement
19.3 Association of South East Asian Nations (ASEAN) and India
19.4 India-Sri Lanka Free Trade Agreement (ISLFTA)
19.5 India-Thailand Comprehensive Economic Cooperation Agreement (CECA)
19.6 Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Agreement (FTA)
19.7 India-Singapore Comprehensive Economic Cooperation Agreement (CECA)
19.8 Asia Pacific Trade Agreement (APTA)
19.9 India-Chile Preferential Trade Agreement (PTA)
19.10 India-South Korea Comprehensive Economic Partnership Agreement (CEPA)
19.11 India-Gulf Cooperation Council (GCC) Free Trade Agreement (FTA)
19.12 India-Japan Comprehensive Economic Cooperation Agreement (CECA)
19.13 India-Malaysia Comprehensive Economic Cooperation Agreement (CECA)
19.14 India-Mauritius Comprehensive Economic Cooperation
and Partnership Agreement (CECPA)
19.15 India-SACU Preferential Trade Agreement (PTA) Negotiations
19.16 India-Pakistan Trading Arrangement
19.17 India-Nepal Treaty of Trade
   19.17.1 Treaty of Trade
   19.17.2 Treaty of Transit
   19.17.3 Agreement of Cooperation to Control Unauthorized Trade
   19.17.4 Inter-Governmental Committee (IGC) at Commerce Secretary-level
19.18 India-EU Broad-based Trade and Investment Agreement
19.19 India-European Free Trade Association (EFTA) Negotiations on Broad-based Bilateral Trade and Investment Agreement
19.20 Global System of Trade Preferences (GSTP)

Appendix 1: Foreign Trade Policy (FTP), August 27, 2009 to March 31, 2014 305-368
Appendix 2: Group of Twenty (G-20) 369-371
Appendix 3: E-commerce 372-376

Year-wise Review of Developments in India’s Foreign Trade: 1947-48 to 2011-12 377-466

Glossary of Trade-related Terms 467-510

Time-series Statistics of India’s Foreign Trade 511-522

Bibliography 523-528
Index 529-536