ISAS Insights
No. 731 – 17 April 2023

India's Foreign Trade Policy 2023: New Ideas and Old Challenges

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Summary

India's latest Foreign Trade Policy 2023 (FTP) has several new aspects. These include trade facilitation to cut down the cost and time to obtain export permissions; a grassroots focus on enhancing exports from various districts; emphasising cross-border e-commerce exports; promoting merchanting and encouraging greater settlement of trade in the Indian Rupee (INR). The ostensible goal of the FTP is to encourage India's goods and services exports to grow at a faster pace to achieve a combined export target of US$2 trillion (S$2.6 trillion) by 2030. Coming against the backdrop of recent good performance by exports, the FTP aims to maintain and accelerate the momentum in the years to come. While the objectives of the FTP are laudable, realising these will require obtaining greater efficiency in internal processes, higher administrative coordination between central and state departments, establishing strong merchanting infrastructure and ensuring greater ease of using INR in India's trade with its partners.

Introduction

India announced its latest Foreign Trade Policy 2023 (FTP) on 31 March 2023.[1] The policy replaces the earlier FTP (2015-2020) that was continued after its lapse in 2020 due to unusual circumstances created by the COVID-19 pandemic. The new policy is effective from 1 April 2023.

Economic Context

India's aggregate merchandise trade crossed the landmark of US$1 billion (S$1.3 billion) in FY21/22 (April 2021-March 2022). The trade looks well poised to cross the landmark in FY22/23 as well. During the first 10 months of FY22/23 (April 2022-January 2023), the overall merchandise trade was estimated at US$972 million (S$1292 million), comprising US$372 million (S$494 million) of exports and US$602 million (S$800 million) of imports.[2] Exports have grown at an annual rate of 9.3 per cent during FY22/23, while imports grew by nearly 22 per cent in the same period. The growth rates underline strong global demand for Indian merchandise exports. At the same time, the robust growth in imports points to the heavy domestic demand from Indian industry and consumers.

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1 Foreign Trade Policy-2023; Government of India, Ministry of Commerce and Industry, Department of Commerce, https://www.dgft.gov.in/CP/.

2 Monitoring Dashboard, Merchandise Trade, Government of India, Ministry of Commerce and Industry, Department of Commerce, https://dashboard.commerce.gov.in/commercedashboard.aspx.

Along with merchandise trade, FY21/22 and FY22/23 have been good years for the Indian services trade as well. India's overall trade in services was US$417 million (S$554 million) during the first 10 months of FY22/23.[3] The trade in FY22/23 so far has already surpassed that in FY21/22, estimated at US$401 million (S$533 million). Unlike India's trade in goods, where imports far exceed exports, India's trade in services has services exports exceeding services imports. During FY22/23, services exports were worth US$267.8 million (S$356 million) while services imports were worth US$149.5 million (S$198 million). Services exports in FY22/23 grew at an impressive rate of 29.8 per cent while imports grew by 25.9 per cent in the same period.

The new FTP expresses the confidence that combined Indian exports (goods and services) will reach the milestone of US$750 million (S$997 million) in FY22/23.[4] For the first 10 months of FY22/23, combined goods and services exports are estimated at around US$640 million (S$851 million). The optimism of combined exports hitting US$750 million (S$997 million) comes from the faith in the abilities of both goods and services exports to maintain their current robust growth rates, notwithstanding uncertain global headwinds generated by complicated geopolitics. The confidence in goods and services exports continuing to grow at robust rates is outlined in the vision that the country's combined exports will reach US$2 trillion (S$2.6 trillion) by 2030.[5]

The FTP aims to provide a conducive ecosystem enabling goods and services exports to keep growing at fast rates. The core elements of this ecosystem, as proposed by the policy, include meaningful trade facilitation, accelerating grassroots exports, identifying new growth avenues for exports like merchanting and e-commerce and promoting use of Indian Rupee (INR) in settling trade.

The FTP and a New Ecosystem

Trade Facilitation

Trade facilitation is a major objective of the FTP with specific goals. The latter include granting online approvals within a day to a variety of permissions required by exporters; reducing application fees for medium, small and micro-enterprise (MSME) exporters for the advance authorisation (AA) and export promotion of capital goods (EPCG) schemes; revamping e-Certificate of Origin (COO); and paperless filing of export obligation discharge applications.[6]

Going digital has been the mantra behind the declared trade facilitation goals. The benefits of moving to digital processes for faster on-border clearance of goods are undisputed. India

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[3] Ibid.

[4] Foreword by Commerce and Industries Minister; Director General of Foreign Trade (DGT), Ministry of Commerce & Industry, Government of India, https://www.dgft.gov.in/CP/.

[5] 'Foreign Trade Policy 2023.India unveils FTP 2023,eyes $2 trillion exports by 2023', The Hindu Business Line, 31 March 2023. https://www.thehindubusinessline.com/economy/piyush-goyal-unveils-foreign-trade-policy-2023/article66682696.ece.

[6] Foreign Trade Policy-2023; Government of India, Ministry of Commerce and Industry, Department of Commerce, op. cit.

is a signatory of the World Trade Organization's multilateral Trade Facilitation Agreement. Over the last few years, it has been working on cutting border red tape and associated costs for exporters by focusing on improving customs clearances and logistics efficiency. Digitalising processes, particularly for documentation and invoicing, have been the key enabler in this regard.

The FTP aims to take digitalisation further. By granting automatic online approval for various permissions, such as AA and EPCG issuances, revalidating existing authorisations and extending export obligations within a day, as put down in the FTP, will significantly cut time for obtaining approvals. The lengths of the cuts are from three to seven days, and, in some cases, such as extension of export obligation, even up to 30 days, underpinning significant efficiency gains.[7] On the other hand, issuing a COO will speed up obtaining preferential tariff treatment by exporters in other countries and would reduce carbon footprints by minimising the use of paper.

Grassroots Exports

India's recent efforts to increase overall goods exports include identifying the prospect of exports from districts of the country. The efforts appear to be yielding results with the sharp increase noted in goods exports during FY21/22 and FY22/23.

The new FTP aims to further strengthen the emphasis by developing districts as export hubs and preparing district-specific action plans. This will require building capacities to identify potential exports and enhance their prospects for global markets. The FTP underlines the intention of the central trade and export regulating agency – the Directorate General of Foreign Trade (DGFT) – to work with states and districts to achieve this objective.

Merchanting, E-commerce and Greater Use of Indian Rupee

Merchanting is a novel element of the FTP. The FTP mentions "Merchanting trade involving shipment of goods from one foreign country to another without touching Indian ports; involving an Indian intermediary is allowed subject to compliance with RBI [Reserve Bank of India] guidelines, except for goods/items in the CITES and SCOMET list."[8]

The ostensible objective behind encouraging merchanting is to promote India as an intermediate trading hub. Large traders, alluded to as merchant exporters, and distinct from manufacturing exporters who produce locally and export, will benefit from the policy. They would particularly benefit from trading in goods that are prohibited as exports from India.[9] Locations like the Gujarat International Finance Tec-City stand to benefit from the announcement if large global traders set up trading facilities for engaging in merchanting.

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7 Ibid.

8 Foreign Trade Policy 2023. Government of India, Ministry of Commerce and Industry, Department of Commerce, p. 18, https://www.dgft.gov.in/CP/. The CITES is the Convention on International Trade in Endangered Species of Wild Flora and Fauna and SCOMET refers to special chemicals, organisms, materials, equipment and technologies.

9 'Export curbs: 'merchanting' may aid traders', *The Times of India*, 8 April 2023, https://timesofindia.indiatimes.com/business/india-business/export-curbs-merchanting-may-aid-traders/articleshow/99330439.cms

The FTP's emphasis on e-commerce signals the commitment of the government to encourage India's exports through cross-border digital trade. India's digital trade with the rest of the world has grown fast, with the outbreak of COVID-19 acting as an accelerator. Several MSMEs have become major sources of products for large online retailers like Amazon, Flipkart, Alibaba, Myntra, Nykaa and Snapdeal. Creating national e-commerce export hubs with top-class warehousing facilities and involving post offices and the national postal service network in the drive to expand e-commerce exports can significantly impact the export prospects of many MSMEs selling globally through online platforms.

Encouraging "Invoicing, payment and settlement of exports and imports"[10] in INR has been a notable aspect of the FTP. Such transactions will be through Special Rupee Vostro Accounts (SRVA), maintained by exporters and importers in authorised Indian banks and their corresponding banks in partner countries, according to guidelines issued by the RBI.[11]

There are two important implications of India's trade being settled in INR. As noted during the recent announcement declaring India and Malaysia's decision to settle trade in INR, traders from both countries will be spared the difficulty of converting their local currencies to the United States (US) dollar, if they trade in INR. The SRVAs for India-Malaysia trade will be maintained by the Union Bank of India and its corresponding partner bank, the India International Bank of Malaysia.[12] Besides avoiding costs of converting to the US dollar, which has become significant for traders after the hardening of the US dollar in the aftermath of the Ukraine crisis, more trade invoiced in INR will pave the way for INR's gradual acceptance as a global currency for trade.

Looking Ahead

Effective trade facilitation is essential for enabling Indian exporters to improve their efficiencies and take advantage of the various FTAs that India has already signed or is negotiating. The emphasis also connects well to India's ongoing engagement with the Indo-Pacific Economic Framework for Prosperity,[13] which is working on trade facilitation, including digitalising cross-border operational processes, logistics and transportation issues. Advancing effective trade facilitation requires ensuring that digitalising of border processes and functions are aligned with similar efforts behind borders.[14] Exporters will continue to

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[10] Foreign Trade Policy 2023. Government of India, Ministry of Commerce and Industry, Department of Commerce, op. cit., p. 20.

[11] Amitendu Palit, 'International Trade Settlement Mechanism in the Indian Rupee: Benefits and Implications', ISAS Brief no. 947, 19 July 2022. https://www.isas.nus.edu.sg/papers/international-trade-settlement-mechanism-in-the-indian-rupee-benefits-and-implications/.

[12] 'India, Malaysia move beyond dollar to settle trade in INR', *The Hindu*, 1 April 2023. https://www.thehindu.com/news/national/india-and-malaysia-announce-trade-in-indian-rupees/article66687080.ece.

[13] The Indo-Pacific Economic Framework for Prosperity comprises Australia, Brunei, Fiji, Korea, Malaysia, New Zealand, Japan, India, Indonesia, Philippines, Singapore, Thailand, USA, and Vietnam. The framework is negotiating rules for the bloc across four pillars: trade, supply chains, clean economy, and fair economy.

[14] Amitendu Palit, 'Trade facilitation a major policy objective for India; world's fifth largest economy must adopt TFA+ approach', *Financial Express*, 24 March 2023, https://www.financialexpress.com/economy/trade-facilitation-a-major-policy-objective-for-india-worlds-fifth-largest-economy-must-adopt-tfa-approach/3020658/.

face difficulties if, despite on-border clearances being provided online in quick time, other domestic processes remain cumbersome. This would mean that even if costs for border clearances come down through the initiatives announced by the FTP, internal procedural costs will remain high. Similar discrepancies between digitally enabled expeditious trade facilitation at the border and lengthy domestic business procedures might affect the ease with which Indian exporters can use cross-border digital signatures, establish digital business identities, and engage in cross-border interoperable digital payments.

The big push on promoting exports from districts and encouraging the emergence of district export hubs should firmly embed exports as a key objective in state industrial policies. However, realising the export potentiality of the districts will require raising awareness about benefits that local producers, particularly MSMEs, could obtain by producing for the global market. Grassroots awareness in this regard is limited. If the DGFT, as proposed in the FTP, can work in close coordination with states and local authorities in raising awareness and building capacities necessary for selling in global markets, then Indian exports will diversify and flourish. Inter-agency coordination, however, has traditionally been a weak spot in India's economic governance. The success achieved by the DGFT and state agencies in promoting district exports will, therefore, be eagerly watched.

Merchanting, as mentioned earlier, is an innovative aspect of the FTP. This will hasten India's entry in global supply chains by providing intermediary facilities for moving goods from one country to another. The activity, though, is purely intermediary and will not involve any value addition on part of Indian producers. Much of the success in the growth of merchanting will depend on facilities that private traders are able to create for utilising the policy. Merchanting will enable traders to route goods from India that are prohibited as exports due to concerns over maintaining optimal domestic supplies or other policy restrictions. Global traders of these commodities (for example, agricultural products like wheat) operating from India will no longer be hampered by their access to domestic supplies.

Achieving a combined export target of US$2 trillion (S$2.6 trillion) by 2030 calls for sustained high rates of growth in exports. It is heartening to note that the FTP has noted the importance of e-commerce in this regard. The emphasis on promoting e-commerce needs to proceed together with on-border trade facilitation involving the digitalisation of processes. The latter is essential for the growth of e-commerce by cutting down physical delivery time for exports ordered online.

The option of settling more trade in INR, by the RBI's own admission, is yet to result in large volumes. However, more countries are taking an interest in the option with around 18 countries having opened SRVAs till now.[15] In the immediate future, settling greater volumes of trade in INR is likely to be limited to those trade partners of India that are encountering shortage of foreign exchange reserves and would prefer switching to cheaper alternatives.

[15] 'Central Banks warning up to Rupee: Deputy Governor', *The Economic Times*, 7 April 2023. https://economictimes.indiatimes.com/news/economy/policy/central-banks-warming-up-to-rupee-deputy-governer/articleshow/99305848.cms?from=mdr.

India’s South Asian neighbours like Sri Lanka and Bangladesh are strong possibilities in this regard.[16]

The FTP is strangely quiet on initiatives to enhance services exports. Indian services exports have been doing remarkably well. As is evident from the trends mentioned in the beginning of the paper, in FY22/23, growth in services exports (29.8 per cent) was much higher than that in goods exports (9.3 per cent). At almost US$270 million (S$359 million), services exports are now more than 70 per cent of goods exports worth US$372 million (S$494 million). Notwithstanding this impressive performance, the FTP has hardly had much to offer for services exports by way of encouragement. This is inexplicable, given that the goal of achieving US$2 trillion (S$2.6 trillion) of exports by 2030 is not possible without a sizeable contribution from services exports.

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[16] ‘Bangladesh, Sri Lanka, Malaysia and Egypt Eager to Trade in Rupee’, *Maritime Gateway*, 8 April 2023, https://www.maritimegateway.com/bangladesh-sri-lanka-malaysia-and-egypt-eager-to-trade-in-rupee/.