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INDIA'S FOREIGN TRADE POLICY REFORMS SINCE INDEPENDENCE ANALYSING INDIA'S TRADE POLICY REFORMS

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Abstract

India’s trade policy provides regulations regarding imports, exports, duties, and other measures to ensure economic stability and international cooperation. Over time since gaining independence, these policies have undergone liberalization from extreme protectionism, thereby enhancing India's influence within the international economy. Such policies involving reduced tariffs, dismantled barriers, and enhanced exports are necessary for development in India. They enhance competitiveness, attract investments, and boost GDP growth among a large population.

Between 1947 and 1991, efforts were made to achieve self-sufficiency by imposing high tariffs and quotas, leading to inefficiencies until the 1991 financial crisis necessitated liberalization, reducing tariffs to around 50 percent, removing quotas, devaluing the rupee, and increasing export incentives. India’s 2023 Foreign Trade Policy emphasizes digital trade, industry-specific assistance, and diversification, but there are challenges such as trade deficits and foreign risks.

This research paper focuses on optimal approaches like tariff optimization, World Trade organisation (WTO)-based facilitation, Regional comprehensive economic partnership (RCEP)-type agreements, digital assistance for Small medium-sized enterprises (SMEs), and resilient diversification to improve trade and optimize economic benefits.

Introduction

Foreign Trade Policy in India sets rules for imports, exports, tariffs, and incentives. It's a key part of economic policy and world relations since independence. As a country short on resources but with a huge population, India's trade rules balance protecting local needs with growing global trade.

India's foreign trade policy changed hugely since 1947 from strict protectionism to an open, export-focused system that mixes self-reliance with world links. This study looks at these changes step by step, checks their effects on growth, and suggests smart plans for the future amid problems like trade gaps and world tensions.

This study is undertaken for analysing the foreign trade policy of India since independence, for the Easy analysis the time period since independence till 2023 is divided into 5 phases. In the first phase, after independence from 1947 to 1950, India used import controls to build its own economy. In the second phase, from the 1960s to 1990, India followed the License Raj system, where trade was tightly controlled with heavy taxes and quotas. In the third phase, the 1991 economic crisis forced India to open up its economy by reducing restrictions and encouraging exports. In the fourth phase, from 2001 to 2022, India became more connected to the world through WTO rules, free trade agreements (FTAs), and special economic zones (SEZs). In the fifth phase, FTP 2023 focused on digital trade, support for MSMEs, and the goal of increasing exports.

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By studying these stages, the paper shows how reforms made India a global trade player while pushing for lower tariffs, faster FTAs, and digital help for Micro, Small, and Medium Enterprises (MSMEs) to stay strong.

Before 1991, India had a strict trade policy with high taxes, import controls, and the License Raj system to protect local industries. Arvind Panagariya's book **India: The Emerging Giant** (2008)shows that strict trade policy helped self-reliance but reduced competition, exports, and growth. In 1991, a financial crisis forced major reforms. Bhagwati and Panagariya's book **Why Growth Matters** explains that India devalued the rupee, cut import taxes, and removed many restrictions. These changes increased exports and foreign investment, helping India move toward a more open economy.

Amita Batra in her book named **India's Trade Policy in the 21st Century-** From Liberalization to Atmanirbhar Bharat the author talks about WTO, new deals with ASEAN and UAE, special zones like SEZs, and problems like trade gaps today. It covers 2023 goals for $2 trillion exports and online help for small businesses.

Objectives of the Study

1. To examine how India's trade rules shifted from strict import controls after 1947 to open export policies following the 1991 economic crisis.
2. To analyze India's trade agreements like Free trade agreements (FTAs) with UAE, Australia, and UK, along with crucial schemes.
3. To identify current trade issues, including large deficits with China, Red Sea disruptions, and heavy reliance on other nations.
4. To propose practical solutions, such as further tariff reductions, faster FTAs, support for small businesses in online sales, and new markets in Africa.

Methodology of the Study

This study employs a qualitative-dominant mixed methods approach, utilizing secondary data from the Directorate General of Foreign Trade (DGFT) Foreign Trade Policies (1947-2023), Ministry of Commerce TRADESTAT portal, Reserve Bank of India (RBI) bulletins, World Trade Organization (WTO) reviews, Press Information Bureau (PIB) releases, and World Bank datasets.

Data reliability is ensured through cross-verification with Brookings and Peterson Institute for International Economics (PIIE) reports, prioritizing DGFT, Ministry of Commerce, RBI, WTO, and PIB sources while excluding outdated information. Descriptive and comparative techniques generate timelines and analyses of trade reforms (1947-2026), encompassing tariffs, exports, deficits, and Free Trade Agreements (FTAs).

Analysis and Interpretation: Using resources from official sources, reports and publications the results and analysis of the India's foreign trade policy reforms are expounded as follows in 5 different Phases

Soon After Independence: (1947-1950)

After India got independence in 1947, the government introduced the first Foreign Trade (Development and Regulation) Act. This allowed them to control imports and exports using a licensing system, aiming for a self-reliant economy.

The country was short on food and jobs for its huge population. These policies kicked off Import Substitution Industrialization (ISI), which reduced costly imports and boosted local production.

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The Import-Export Policy from 1948-1951, made by the Ministry of Commerce, required permits for nearly all imports. It shielded new Indian industries like jute and tea from foreign competition while ensuring essentials for people.

The policy stressed fair sharing of limited resources. Imports focused on capital goods and raw materials for factories, aligning with the First Five-Year Plan (1951-1956). Export curbs on raw materials kept them domestic, avoiding risks from global market swings.

This era established a highly protectionist trade approach. The Directorate General of Foreign Trade (DGFT, set up in 1947) provided guidelines for allocating scarce resources toward economic independence.

The key goal was building industrial strength without external vulnerabilities, as noted in early Ministry of Commerce reports. It stabilized supply chains post-colonialism but restricted trade openness, favoring self-sufficiency over global ties. This laid the foundation for decades of strict controls.

Pre- 1991 Protectionism(1960s–1990)

India's trade policy from the 1960s to 1990s focused on strong protectionism during the "License Raj." Strict import licenses were managed by the Ministry of Commerce and Directorate General of Foreign Trade (DGFT) under the Import Policy. Most consumer and intermediate goods had quantity limits, and even basics went through government bodies like the State Trading Corporation (STC) to save foreign money, especially in wars like 1957 and 1971.

Tariffs were very high, but they mainly filled government pockets rather than blocking trade. The real barriers were non-tariff measures: "actual user" rules, phased manufacturing programs, and industrial licensing that blocked foreign firms and protected local ones.

For exports, there were subsidies and cash rewards, but "export pessimism" ruled. Leaders saw world markets as too risky and stuck to import substitution industrialization (ISI) in the Second to Seventh Five-Year Plans.

The EXIM Policies from 1970-73 to 1990-92 tightened controls after undoing the 1966 rupee devaluation. They cut the Open General License (OGL) list and favored capital goods for heavy industries. The aim was self-reliance and fair growth. But it failed: protected companies became inefficient (X-inefficiency), exports were ignored due to anti-export bias, and technology didn't improve, as Ministry of Commerce reviews showed.

Overall, this closed system kept trade-to-GDP ratios low and blocked openness until the 1991 crisis exposed its problems.

1991 Crisis And Liberalization

India's 1991 economic crisis brought the country to the edge. Foreign exchange reserves fell to just $1.1 billion, enough for only two weeks of imports by June, as per Reserve Bank of India (RBI) records. This payments crisis forced Prime Minister P.V. Narasimha Rao and Finance Minister Manmohan Singh pledged gold for an International Monetary Fund (IMF) bailout. There were Moody's credit downgrades, stopped World Bank and IMF aid, and money fleeing out.

IJMSRR
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Causes were clear that is too much government spending, Gulf War oil price jumps, lower remittances, and an overvalued rupee from past loans. Years of strict protectionism had collapsed.

The fix came fast with the New Economic Policy on July 24, 1991. The rupee was devalued twice: 9% on July 1 and 11% on July 3 to boost exports and cut imports. Commerce Minister P. Chidambaram's Export-Import Bank of India (EXIM) Policy 1992-97 went further: it removed import licenses for most capital goods, expanded the Open General License (OGL) list, limited tariffs to 150% max then cut averages to 50%, and lifted quantity limits on over 1,000 items. The shift was from blocking imports to growing trade.
These steps broke down License Raj barriers.

The New Industrial Policy allowed automatic Foreign Direct Investment (FDI) up to 51% in key sectors. The Export Promotion Capital Goods (EPCG) scheme lets firms import machines duty-free. Ministry of Commerce statements said India was joining global markets for better efficiency, not just self-reliance. Critics called it IMF-forced cuts, but reforms led to export growth and FDI rushes, moving from closed socialism to openness.

Post-1991 Evolution: (2001-2022)
After 1991 reforms, India's trade policy grew with World Trade Organization (WTO) rules by 2001. The government removed all leftover quantity limits on consumer goods, as per Ministry of Commerce notices. This matched Export-Import (EXIM) rules under Directorate General of Foreign Trade (DGFT) oversight. Foreign Trade Policy (FTP) 2004-09 added market-based perks like better duty drawbacks. Tariffs stayed at WTO limits and fell over time. This helped Special Economic Zones (SEZs) grow via the 2005 SEZ Act for investments in electronics and textiles.

Later FTPs built on this. FTP 2009-14 set step-by-step export goals during world recovery. FTP 2015-20 brought digital tools like Indian Customs Electronic Gateway (ICEGATE) and Status Holder badges for top exporters.

Early Free Trade Agreements (FTAs) included India-Singapore Comprehensive Economic Cooperation Agreement (CECA) in 2005, ASEAN FTA in 2010, and Japan Comprehensive Economic Partnership Agreement (CEPA) in 2011. These spread trade to cars and services beyond old markets, as shown in Ministry of Commerce yearly reports. The 2008 global money crisis led to longer export credit from Export Credit Guarantee Corporation of India (ECGC) to keep shipments steady.

COVID-19 in 2020-21 cut trade volumes, per Reserve Bank of India (RBI) payments data. But recovery came fast with Merchandise Exports from India Scheme (MEIS) rewards and Production Linked Incentive (PLI) tests in mobiles and pharma. It mixed Atmanirbhar Bharat self-reliance with open trade.
By 2022, trials with rupee payments and e-commerce showed progress, though inverted duties stayed, as WTO Trade Policy Reviews pointed out.
This time greatly increased world links and prepared for FTP 2023 with lessons on strong supply chains.

2023 FTP And Beyond
India's Foreign Trade Policy (FTP) 2023 started on April 1, 2023, announced by the Ministry of Commerce through the Directorate General of Foreign Trade (DGFT). It has no end date, so changes

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can happen anytime based on feedback to match world changes. It rests on four main parts: switching incentives to remission (like bigger Remission of Duties and Taxes on Exported Products [RoDTEP] replacing Merchandise Exports from India Scheme [MEIS], Service Exports from India Scheme [SEIS]), export boosts via teamwork between exporters, states, and districts, easy business with online tools like Bharat Trade Network (BTN), and new fields like e-commerce exports. The goal is $2 trillion total exports by 2030 ($1 trillion each from goods and services).

Key steps include "Towns of Export Excellence" for places like Faridabad (handicrafts) and Medchal (apparel), amnesty to clear old export duties, and simpler rules for special chemical, organisms, materials, equipment, and technology (SCOMET) exports that could have dual uses. Merchanting trade through Gujarat International Finance Tec-City (GIFT) City and rupee payments per Reserve Bank of India (RBI) rules open new paths. Exemptions for dairy and leather from average export duties help those sectors. Press Information Bureau (PIB) updates stress better processes, lower costs via automation, and links with PM GatiShakti for logistics.

Changes up to 2026 keep the push going: RoDTEP now covers Special Economic Zones (SEZs), higher e-commerce limits for Micro, Small, and Medium Enterprises (MSMEs), and better Free Trade Agreements (FTAs) like UK and EU talks to fight deficits. FTP 2023 blends Atmanirbhar self-reliance with world competition, making India a trade center even with outside problems.

Findings

1. High tariffs, import licenses, and quotas helped build local industries like steel and textiles for self-reliance after British rule. But License Raj killed competition, kept trade-to-GDP under 15%, created lazy firms, and left India weak to shocks by 1991.
2. Crisis forced big changes: rupee devalued, capital goods licensing ended, tariffs cut from over 80% to 50%. Exports doubled by 2000, Foreign Direct Investment (FDI) poured in. Export-Import (EXIM) Policy 1992's Export Promotion Capital Goods (EPCG) scheme allowed duty-free machine imports, restarting manufacturing.
3. The World Trade Organization (WTO) ended quotas in 2001. Free Trade Agreements (FTAs) with Singapore (2005), ASEAN, Japan (2010-11) boosted services, IT, pharma exports. Foreign Trade Policy (FTP) 2015 added automation and Special Economic Zones (SEZs), pushing trade-to-GDP over 50% and moving beyond old goods.
4. Pandemic sped up digital trade with Indian Customs Electronic Data Interchange Gateway (ICEGATE), Bharat Trade Net (BTN) portals, and Merchandise Exports from India Scheme (MEIS) rewards for supply chain strength. Production Linked Incentives (PLI) tests in mobiles, pharma cut China reliance, grabbing shifted factories during world changes.
5. The no-end-date policy aims for $2 trillion exports by 2030 via Remission of Duties and Taxes on Exported Products (RoDTEP) replacing MEIS, e-commerce centers, and district export teams. Rupee trade and Gujarat International Finance Tec-City (GIFT City) merchanting beat dollar swings, mixing Atmanirbhar self-reliance with world links.

Policy Recommendations

Tariff Rationalization: India should cut tariffs in steps to an average below 10%, and remove inverted duties on raw materials. This will lower exporter costs by 15-20%. It protects farming and Micro, Small, and Medium Enterprises (MSMEs) with World Trade Organization (WTO)-allowed safeguards against US protectionism and European Union (EU) carbon border taxes.

FTA Acceleration: India should fast-track Free Trade Agreements (FTAs) with the European Union (EU) and Oman, plus join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). This targets 20% export growth to Europe and Asia-Pacific to counter US-China decoupling risks and Red Sea disruptions that reroute 12% of India's oil imports.

Digital MSME Boost: India should expand Bharat Trade Network (BTN) and e-commerce platforms with zero-duty digital exports and rupee payments. This will help 60 million Micro, Small, and Medium Enterprises (MSMEs) skip Ukraine war shipping problems and grab $1 trillion in global digital trade, avoiding physical border fights.

Market Diversification: India should send export missions to Africa, Latin America, and Central Asia through duty-free corridors. This cuts China dependency (15% imports) and US tariff threats by building 20 new Free Trade Agreements (FTAs) strong against Middle East conflicts.

Supply Chain Resilience: India should link Production Linked Incentive (PLI) schemes with PM GatiShakti for local Active Pharmaceutical Ingredients (API) and semiconductor production. This cuts China reliance amid Taiwan risks, ensures exports continue during global shocks, and supports $2 trillion Foreign Trade Policy (FTP) targets.

Rupee Trade Expansion: India should require rupee settlements for 50% of oil and energy imports from Russia and Middle East using Unified Payments Interface (UPI)-linked systems. This protects reserves from dollar swings amid sanctions and builds forex buffers against Societies for Worldwide Interbank Financial Telecommunication (SWIFT) exclusions.

Strategic Reserves Buildup:
India should diversify forex reserves into gold (target 15% share) and Special Drawing Rights (SDRs), while channeling $100 billion annual remittances into Non-Resident Indian (NRI) bonds. This counters Fed rate hikes and Taiwan Strait risks eroding $650 billion holdings.

Critical Minerals Security: India should start government mining deals in Africa and Australia for lithium and cobalt. Build stockpiles for 6 months as strategic reserves. This will protect electric vehicle (EV) and battery exports from China's control and supply problems.

Conclusion

India's foreign trade policies changed a lot from strict protectionism after independence to the bold Foreign Trade Policy (FTP) 2023. Now it's making India strong in the world economy, facing issues like US-China split, Red Sea shipping blocks, and EU carbon taxes. Production-Linked Incentive (PLI) schemes bring manufacturing to electronics and pharma, while Free Trade Agreements (FTAs) with UAE, Australia, and UK open new markets. Rupee trade cuts money risks, aiming for $2 trillion exports by 2030 despite deficits like $34.7 billion in January 2026.

At its core, Atmanirbhar Bharat mixes self-reliance with world links. PLI pulls supply chains here, helped by digital centers like GIFT City. FTAs and PM GatiShakti cut logistics costs, while new ties to Africa and Latin America ease pains from Ukraine war disruptions. This mix revives manufacturing and boosts exports without going alone.

Problems remain, like trade gaps, inverted duties, 15% imports from China, and shortages of key minerals due to oil reroutes, dollar changes, and partners' hidden barriers. Smart steps forward include

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cutting tariffs below 10%, speeding EU and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) FTAs, giving Micro, Small, and Medium Enterprises (MSMEs) digital export tools, and building strategic reserves. These secure India's role as a trade leader, driving Gross Domestic Product (GDP) growth, investments, and supply chain power in a divided world.

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