

Examining the Influence of Trade Facilitation Measures on India's Trade Costs and Operational Efficiency

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Abstract

The facilitation of trade, which involves the streamlining of customs, the automation of procedures, and the reduction of documentation, is essential to the global competitiveness and economic growth of India, particularly with respect to the "Make in India" program. This study investigates the trade facilitation reforms that India has implemented, with a focus on the considerable success that has been made in areas such as the SWIFT platform and electronic governance. As a result of these reforms, the average amount of time that cargo has to be released has been decreased (for example, maritime cargo has gone from 14 days to less than 48 hours). There are still obstacles to overcome, however, such as the existence of gaps in the implementation of paperless commerce and administrative bottlenecks, including delayed payments of duties, which are preventing the full realization of lower trade costs and operational efficiency.

1. Introduction

International trade has expanded considerably in recent decades. This expansion has been enabled by diminished trade expenses resulting from breakthroughs in information and communication technologies, transportation, the liberalization of trade and investment frameworks, and the increasing industrial capability of emerging nations. Commerce expenses are a crucial factor influencing the international distribution of commerce and manufacturing. They influence industry specialization and, subsequently, income levels, poverty rates, and several other significant economic effects (World Trade Organization, 2015 p.62). Recent economic literature has emphasized the significance of trade costs in shaping patterns of specialization and trade (Markusen & Venables, 2007). Trade obstacles, including tariffs, elevate production costs for producers and consumer prices, diminish economic competitiveness, and hinder economic progress. Free Trade Agreements (FTAs) and the World Trade Organization (WTO) aim to reduce trade costs and enhance trade flows among member nations.

Tariff reduction is a component of nearly every type of economic integration, which includes bilateral, regional, and international frameworks. Despite the fact that the costs associated with international trade have reached an all-time low due to the reduction of tariffs and customs duties, the implementation of nontariff barriers (NTBs) has resulted in nations being required to pay more. Nontariff barriers are obstacles that include, but are not limited to, the costs of customs clearance administration, national regulations, and the documentation requirements for trade transactions in the international market (Dennis & Shepherd, 2011; Anderson & Wincoop, 2004). Trade flows as well as the range of goods that can be exported by a country could be impacted by these trade expenses. Due to the global financial crisis, which is commonly referred to as the GFC, the prices associated with both exporting and importing have been on the rise during the years 2008 to 2010 in both developed and developing nations (World Development Indicator Database,

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2018). In order to mitigate the residual trade expenses and make the flow of commodities and services more convenient, a number of countries recognized that it was necessary to take action to put in place policies that might support trade.

2. The Trade Facilitation Agreement of the World Trade Organization

The TFA has 24 articles in three categories. Section 1's first twelve articles cover specific commitments to publication and availability of information (article 1), opportunity to comment, information before entry into force, and consultations (article 2), advance rulings (article 3), appeal or review procedures (article 4), other measures to enhance impartiality, nondiscrimination, and transparency (article 5), and import fees and charges. Section 2 includes developing country and least-developed nation special and differentiated treatment provisions in paragraphs 13–22. Section 3 includes institutional frameworks and final clauses paragraphs 23–24. Article 14 of the TFA lists three categories of provisions: category A contains provisions that a developing country member or least-developed-country member designates for implementation upon entry into force of the agreement, or within one year after entry into force, as provided in article 15; category B contains provisions that India issued a complete list of category A commitment provisions in a March 18, 2016 statement, noting that all additional obligations under section 1 were category B. Category B obligations must be met by February 2022. As of February 22, 2020, India has designated categories A, B, and C and met 72.3% of category A regulations. India would not publish a notification for the remaining 27.7% of category B provisions till April 30, 2020. India's NCTF released the amended NTFAP in August 2019. 7 The plan had sixteen tasks to achieve in the short and medium term, which were completed. Nine category B obligations were due in six to 18 months. There were no Category C provisions. The NTFAP also contained a lengthier list of fifty TFA Plus Activities to be accomplished largely in the medium term. These action points focus on infrastructure development, including major ports (thirteen points), civil aviation (ten points), and land customs posts (three points). After adding category B commitment activities and eleven TFA Plus Activities, the NTFAP now has ninety-six activities. The NCTF's efforts, including those covered by the TFA obligations, are meant to enhance EODB, promote trade, and improve India's economic environment as “enablers” of trade facilitation.

According to reports from the Ministry of Commerce and Invest India, India's trade skyrocketed in the 2022-2023 fiscal year, with total exports reaching all-time highs. This surge was fueled by robust growth in the services sector and policy support such as production-linked incentive (PLI) schemes. However, difficulties persisted in the form of elevated import bills, particularly from China, and ongoing trade deficits. In an effort to address these issues, initiatives such as PM GatiShakti and Bharat Trade Net (BTN) were launched to improve logistics efficiency and reduce costs by streamlining procedures and integrating digital platforms for a more seamless flow of trade, in line with World Trade Organization (WTO) objectives and with the goal of improving global competitiveness.

3. Major Trends in 2022-23

- Record Exports: Overall exports (merchandise + services) surpassed \$776 billion in 2022-23, showing robust growth despite global headwinds.
- Services Sector Dominance: Services exports grew significantly (23.5% in 2021-22), contributing substantially to GDP and cushioning economic disruptions.
- Rising Trade Deficit: While exports boomed, imports also increased, widening the trade deficit to over \$116 billion in 2022-23.
- Increased Trade-to-GDP Ratio: India's trade intensity grew, with the trade-to-GDP ratio reaching 48.1% in 2022-23, up from 19% in 2001-02.

4. Efforts to Reduce Costs & Improve Efficiency

1. PM GatiShakti (2021): A master plan to create integrated, multimodal transport networks, significantly improving logistics infrastructure and connectivity.

2. National Logistics Policy (nlp, 2022): Launched to reduce logistics costs and improve efficiency through digital initiatives like ULIP (Unified Logistics Interface Platform) and LDB (Logistics Data Bank) for cargo tracking.
3. Bharat Trade Net (BTN): A unified digital platform introduced to integrate e-documentation, financing, and customs clearance for faster, transparent trade.
4. Tariff Rationalization: Removal of outdated customs duty rates to lower input costs for investors, especially in growing sectors like EV and mobile manufacturing.
- GST Benefits: The Goods and Services Tax continued to unify the market, simplifying taxes and making local manufacturing more competitive

5. The National Manufacturing Mission: India's new growth engine:

A large proportion of the growth that India is projected to see in the year 2026, which will be 6.3 percent according to the International Monetary Fund, is anticipated to be fueled by the manufacturing sector. With the world economy on the lookout for a reliable and stable manufacturing base, India is in a strong position to provide this need. In addition, it is becoming more and more of a desirable destination in the context of the worldwide "China + 1" diversification plan. In order to back up this idea, the government said that the National Manufacturing Mission will be launched as part of the larger 'Make in India 2.0' initiative.

With the intention of enhancing the ease of doing business for foreign stakeholders, the Mission endeavors to leverage cutting-edge technology in order to bolster India's thriving Micro, Small, and Medium Enterprise (MSME) sector. This endeavor is grounded in the regulatory framework that was established by FTP 2023.

The Mission focuses on a variety of industries:

- ❖ Electronics & Semiconductors: Backed by the PLI initiative, India is establishing fabrication plants, chip packaging facilities, and design clusters to diminish import reliance and seize global demand.
- ❖ Pharmaceuticals and Medical Devices: India's proficiency in generics is now being augmented by advancements in biosimilars and sophisticated medical technology, bolstered by specialized bulk drug and med-tech parks.
- ❖ The government is advocating for the manufacturing of man-made fibers and geotextiles, in addition to cotton and garments, to capitalize on worldwide demand.
- ❖ Automotive and Electric Vehicles: Through governmental endorsement for electric vehicle production and battery supply chains, India is establishing itself as a worldwide powerhouse for electric vehicles.
- ❖ Renewable Energy Equipment: Industries such as solar photovoltaic, green hydrogen, and wind components are benefiting from policy and tariff incentives under India's green manufacturing initiative.

Specific programs are also targeted at businesses that have historically been labor-intensive, such as the toy and leather industries, in addition to the larger objective that encompasses several high-value sectors. The efficiency, quality, and competitiveness of Indian leather manufacturing are all things that the project hopes to improve. The creation of employment for 22 lakh people, the generation of exports that amount to more than ₹1.1 lakh crore, and the generation of a turnover that is predicted to be ₹4 lakh crore are all anticipated outcomes.

The government is working to establish sector-specific clusters, improve local talent development, and construct a resilient manufacturing ecosystem in order to support the growth of the toy industry. They are doing this in order to promote the creation of toys that are made in India and that are sustainable, innovation-driven, and embody the ethos of "Made in India."

6. Major Findings

- i. **Cost Reduction:** The costs of transactions are immediately reduced by automation, single windows (SWIFT), and digital efforts, which simplify documentation and clearing, bringing India closer to international norms.

- ii. **Efficiency Gains:** Modernized customs, Authorized Economic Operator (AEO) programs, and enhanced inter-agency cooperation speed up the movement and release of goods, improving supply chain predictability.
- iii. **Enhanced Competitiveness:** Lower trade costs and faster processes make Indian businesses more competitive internationally, especially for SMEs, and help integrate them into global value chains.
- iv. **Progress & Challenges:** India has made substantial strides in fulfilling WTO Trade Facilitation Agreement (TFA) commitments, yet infrastructure gaps (ports, transport) and slow adoption of paperless trade persist, hindering full potential.
- v. **Policy Impact:** Effective trade facilitation (TF) isn't just about easing rules but fostering "positive integration," shifting focus from restrictive practices to pro-trade activities, notes Manupatra.
- vi. **Focus Areas:** Continued investment in digital infrastructure, improved land border management, harmonization of regional transit protocols (e.g., with neighbors), and robust implementation of e-governance are crucial.

7. Conclusion

Trade facilitation measures markedly diminish India's elevated trade costs and enhance operational efficiency through process automation (such as SWIFT), customs simplification, and increased transparency, thereby improving global competitiveness. However, challenges persist in infrastructure, paperless implementation, and inter-agency coordination, necessitating ongoing reforms and investment to fully achieve advantages such as expedited clearances and reduced transaction costs. India's trajectory, characterized by compliance with the WTO commerce Facilitation Agreement, demonstrates advancement however requires ongoing emphasis on infrastructure, digitization, and standardized laws for efficient cross-border commerce. Although India has adopted trade facilitation to increase efficiency and reduce costs, the final conclusion is that comprehensive and consistent reforms, especially in the areas of infrastructure and seamless digital integration, are essential in order to fully utilize its potential for broader economic growth and participation in global trade.

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