



Role of foreign trade policies in economic growth and development

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Abstract

Foreign Trade Policy (FTP) plays a significant role in promoting economic growth and development by regulating and encouraging international trade. This is an attempt to examine the role of Foreign trade Policy (FTP) in stimulating industrial growth, generating employment, attracting foreign investment and promoting technological advancement. Foreign Trade Policy serves as an important tool for increasing exports, managing imports, improving balance of payments, and strengthening a country's position in the global market. The research highlights how effective trade policies contribute to higher productivity, economic diversification, and sustainable development. Using secondary data from government reports, research studies, and international trade sources, the study analyzes the relationship between foreign trade policy and economic performance. The study finds that a well-structured and flexible Foreign Trade Policy contributes significantly to economic growth and helps address challenges emerging from globalization and competitive trade environments. Thus, Foreign Trade Policy remains an essential tool for long-term economic development.

Keywords: Foreign Trade Policy (FTP), Economic growth, Economic development, International trade, Export promotion

Introduction

In an increasingly interconnected world, international trade has become a key factor in economic growth and development. Foreign Trade Policy (FTP) comprises the policies, regulations, and strategies adopted by a government to manage exports and imports while promoting a nation's participation in global trade. It serves as an important instrument for enhancing trade performance and achieving broader economic objectives. A sound Foreign Trade Policy supports export growth, facilitates imports of essential goods and technology, attracts foreign investment, and promotes industrial expansion. By encouraging trade liberalization and improving market access, Foreign Trade Policy contributes to employment generation, productivity growth, and efficient resource utilization. It also strengthens a country's competitiveness in international markets and supports integration with the global economy.

Foreign Trade Policy (FTP), administered in India through the Directorate General of Foreign Trade (DGFT), provides a framework for integrating the national economy with the global trading system. It plays a crucial role in promoting economic growth, generating employment, and supporting industrialization by improving export competitiveness and simplifying import procedures for essential raw materials.

FTP contributes to economic growth through export promotion, which stimulates production, expands economic activity, and supports Gross Domestic Product (GDP) growth. It also helps increase foreign exchange earnings; strengthening the balance of payments and overall economic stability. In addition, the policy supports infrastructure development and technological advancement by reducing transaction costs, encouraging automation, and enabling industries to access

modern technologies, thereby improving productivity and competitiveness.

For developing countries, Foreign Trade Policy is especially significant in fostering economic progress, reducing external imbalances, and promoting sustainable development. At the same time, global competition, trade restrictions, and economic uncertainties present challenges that require adaptive and effective trade policies.

Review of literature

Telnova, H., Shulga, N., & Kochetkov, V. (2023) ^[6,7]. Foreign trade policy and its impact on economic growth. This study examines the impact of foreign trade policy on economic growth during periods of stability, crisis, and post-crisis recovery. The research aims to identify how trade factors influence economic growth under different economic conditions and to justify the adaptation of foreign trade policies to changing macroeconomic environments. The findings reveal that during stable economic periods, higher growth rates can be achieved when exports and imports remain relatively balanced. During crisis periods, countries that control imports while maintaining average export levels tend to experience greater stability and growth potential. In post-crisis recovery, stronger economic growth is associated with increased exports and reduced imports. This study also highlights that exports of high-technology products play a significant role in promoting economic growth, though their level should be aligned with macroeconomic conditions and the structure of international trade.

Rakshit, B. (2022) ^[5]. Dynamics between trade openness, FDI and economic growth: evidence from an emerging

economy. Journal of International Trade Law and Policy, the study investigates the relationship between trade openness, foreign direct investment (FDI), and economic growth in India from 1979 to 2017, while also considering the impact of economic reforms before and after liberalization. The researcher here employs the autoregressive distributed lag (ARDL) model to analyze long-term relationships among variables, along with the Zivot-andrews unit root test to identify structural breaks and the Toda-Yamamoto causality approach to examine casual relationships. The findings indicate that the trade openness has a negative effect on long-run economic growth, whereas FDI inflows contribute positively to growth in the long-run, although they show limited short-run impact.

Objective of the study

- To analyze the role of Foreign Trade Policies in economic growth and development.
- To examine its impact on industrial development and employment.
- To evaluate the relationship between trade policy and economic performance.

Research methodology

The study focuses on the role of foreign trade policy in promoting economic growth, industrial development, employment generation, foreign investment and global competitiveness. The study is based on a descriptive and analytical research design. It examines the relationship between Foreign Trade Policy (FTP) and economic growth by analyzing existing data, policies, and economic trends. This research is based on secondary data collected from reliable sources such as: Government reports and policy documents, Reserve Bank and Ministry of Commerce publications, Reports from organizations like the World Trade Organization, World Bank, and International Monetary Fund, Research journals, books, articles and previous studies.

Role of foreign trade policy in economic growth

- **Promotion of exports:** Foreign Trade Policy provides incentives such as subsidies, tax benefits, and simplified procedures to boost exports. FTP plays a vital role in promoting exports, which are a major driver of economic growth. Through export incentives, duty exemptions, tax benefits, and simplified trade procedures, FTP encourages domestic producers to expand production for international markets. Increased exports generate foreign exchange earnings, strengthen the balance of payments, and contribute to national income. Export promotion under FTP also stimulates industrial growth by creating larger markets for domestic goods and services. It enhances productivity, encourages specialization, and improves global competitiveness. Export-oriented industries often generate employment opportunities and attract investment, further supporting economic development.

- **Industrial development:** Foreign Trade Policy contributes significantly to industrial development by creating a supportive environment for production, investment, and technological progress. Through policies that facilitate imports of raw materials, machinery, and advanced technology, FTP helps industries improve efficiency and expand their productive capacity. Export-oriented trade policies encourage domestic industries to increase output, enhance product quality, and compete in international markets. This promotes industrial expansion and supports the growth of sectors such as manufacturing, textiles, pharmaceuticals, and technology-based industries.
- **Employment generation:** As exports expand, demand for goods and services increases, leading to higher production and the need for more labor across sectors such as manufacturing, agriculture, transportation, and services. Foreign Trade Policy plays an important role in employment generation by promoting trade activities and supporting the growth of export-oriented industries. FTP creates both direct and indirect employment opportunities. Direct employment is generated in export industries, while indirect employment arises in supporting sectors such as logistics, warehousing, banking, and supply chain services. Small and medium enterprises (SMEs) also benefit from trade incentives and market access, further contributing to job creation.
- **Foreign Direct Investment (FDI):** FDI contributes to economic growth by bringing capital, advanced technology, managerial expertise, and innovation into the economy. It supports industrial expansion, increases productivity, and enhances competitiveness in global markets. Foreign investment also generates employment opportunities and strengthens export capacity, particularly in export-oriented industries. FTP plays a significant role in attracting Foreign Direct Investment (FDI), which is essential for economic growth and development. A stable and liberal trade policy creates a favourable business environment that encourages foreign investors to invest in domestic industries. Though reduced trade barriers, simplified regulations, and improved market access, FTP increases investor confidence and promotes international investment flows.
- **Technological advancement:** FTP also promotes technology transfer through international trade and foreign direct investment, allowing domestic industries to adopt global best practices and modern production methods. This enhances industrial competitiveness and supports innovation across various sectors. Foreign trade policy (FTP) contributes significantly to technological advancement by facilitating the import of modern machinery, advanced equipment, and innovative production techniques. Through liberalized trade policies and reduced import barriers, industries gain access to new

technologies that improve efficiency, productivity, and product quality. In addition, export-oriented policies encourage firms to meet an international standard, which often requires upgrading technology and improving research and development activities. Such technologies progress strengthens industrial growth, increases productivity and contributes to long-term economic development.

- **Balance of payments stability:** Foreign Trade Policy (FTP) plays a crucial role in maintaining balance of payments stability by regulating exports and imports. By promoting exports through incentives and facilitating access to international markets, FTP helps increase foreign exchange earnings. At the same time, it manages imports through tariff, quotas, and policy measures to prevent excessive outflow of foreign currency. Moreover, by encouraging export diversification and reducing dependence on imports, FTP strengthens economic resilience against global shocks and fluctuations in international markets. Thus, foreign trade policy plays a vital role in ensuring balance of payments stability and sustaining economic growth.
- **Economic diversification:** Additionally, diversification supported by Foreign Trade Policy strengthens economic stability by spreading risk across multiple industries and markets. It enhances resilience against external shocks, such as changes in global prices or demand patterns. FTP

plays an important role in promoting economic diversification by encouraging the development of a wide range of industries and export products. By providing incentives for non-traditional exports and supporting emerging sectors, FTP reduces overdependence on a limited number of goods or industries.

Challenges of Foreign Trade Policy

India’s trade policy since independence has been utilized as part of the general economic policy to develop the country and to diversify the nation economy. Initially it took the form of restricting imports and boosting exports. India’s foreign trade policies also took the form of organising international trade and bilateral and multi-lateral trade agreements. In the later years, foreign trade policies have taken the form of export promotion through import liberalisation. Formulated by bureaucrats under the influence and guidance of Indian business houses and multinational giants, India’s foreign trade policy did have an important influence on the rapid development of the country, but it is basically responsible for leading the country into the classical debt trap.

The Indian Foreign Trade Policy lays down the ground rules and also modifies them for carrying out the country’s exports and imports. Exclusively from prescribing general provisions relating to imports and exports, it also provides special focus initiatives, duty exemption and remission schemes and promotional measures to help exporters compete in the global marketplace.

Table 1: Showing Comparative analysis of FTP 2009-14 and FTP 2015-2020

Description	FTP 2009-14	FTP 2015-2020
Introduction	The Foreign Trade Policy (FTP) 2009-14 was announced on 27th August, 2009.	The Foreign Trade Policy (FTP) 2015-2020 was announced on 1st April, 2015.
Objectives	To develop export potential and improve export performance. The policy aims at boosting foreign trade of India. To earn valuable foreign exchange. To arrest and reverse declining trend of exports. To double India’s exports of goods and services by the end of the FTP 2009-2014. To double India’s share in global merchandise trade by 2020. Simplification of the application procedure for availing various benefits. To set in motion the strategies and policy measures which catalyse the growth of exports. To encourage exports through a mix of measures which includes fiscal incentives, institutional changes, procedural rationalization and efforts for enhance market access across the world. To diversify exports markets.	To provide a sustainable and stable policy environment for foreign trade in merchandise goods and services. The FTP 2015-2020 seeks to make India a bigger player in global trade by doubling the overseas sales to \$900 billion by 2019-2020. With a view to promote the diversification of India’s export by helping various sectors of the Indian economy to gain global competitiveness. To create an ‘Export Promotion Mission’ for India various initiatives such as link rules, incentives and procedures for exports and imports with other initiatives such as “Make in India” programme, “Digital India”, and “Skill India”, is integrated under this FTP 2015-2020. India to be made a significant participant in the world trade by 2020.
Features	Incentives available under Focus Market Scheme raised from 2.5% to 3%. Incentives available under Focus Product Scheme raised from 1.25% to 2%. Higher allocation for Market Development Assistance (MDA) and Market Access Initiative (MAI). To aid technological upgradation of export sector, EPCG scheme at Zero duty has been introduced.	Foreign Trade policy has been consolidated into two new schemes for export of merchandise and services, viz. Merchandise Export from India Scheme (MEIS) and Service export from India Scheme (SEIS). The benefits of both the schemes that is MEIS and SEIS has been extended to units located in Special Economic Zones- This is a welcome step and is imperative to boost the SEZ sector. The terminology of existing status holder categories modified to One, Two, Three, Four, and Five Star Export House. Export obligation reduced from 90% to 75% for domestic procurement under EPCG scheme to boost the ‘Make in India’ initiative

Focus	Market Diversification Technological Upgradation Focus Market Scheme (FMS) Vishesh Krishi and Gram Udyog Yojana (Special Agriculture and Village Industry Scheme (VKGUY). Support to Status Holders Green Products Export Products from North East	Export Promotion measure Export Promotion Capital Goods Scheme Benefits for export oriented units Trade facilitation and ease of doing business in India
Schemes	Focus Product Scheme Market Linked Focus Product Scheme Focus Market Scheme Agriculture Infrastructure Incentive Scrip VKGUY	Merchandise Exports from India Scheme (MEIS) Service Exports from India Scheme (SEIS)
Exemptions	Duty Entitlement Passbook Scheme (DEPB) Advance Authorisation Scheme (AAS) Gems & Jewellery Exemption from Service tax on services linked to exports.	Imports against Advance Authorisation Scheme shall also be eligible for exemption from Transitional Product specific Safeguard Duty. In order to encourage manufacturing of capital goods in India, import under EPCG Authorisation Scheme shall not be eligible for exemption from payment of anti-dumping duty, safeguard duty and transitional product specific safeguard duty.
New Initiatives	SEZ policy: A major initiative in Public Private Partnership National Export Insurance Account (NEIA) Market Access Initiative Scheme (MAI) Initiatives in Plantation Sector (Tea, Coffee and Rubber) Marketing Development Assistance Scheme (MDA)	E-Commerce Exports Facilitating & Encouraging Export of dual use items (SCOMET) Inter unit transfer of goods and services have been allowed among EOUs, EHTPs, STPs, and BTPs EOUs, EHTPs, STPs have been allowed to share infrastructural facilities among themselves.

The latest Foreign Trade Policy of India, known as FTP 2023, was introduced to boost exports, simplify procedures, and align trade practices with global standards. Unlike earlier policies with fixed timelines, this policy is dynamic and continuously updated to respond to changing global economic conditions. The objectives of new foreign trade policy is to increase exports and to achieve long-term growth targets, to improve ease of doing business, to strengthen India’s position in global trade, and also to promote sustainable and inclusive development.

Table 2: Showing Exports Growth Trend (2023-2026)

YEAR	Total Exports (US\$ Billion)	Growth Rate (%)
2022-23	770.18	-
2023-24	776.68	+0.84%
2024-25	825.26	+6.26%
2025-26	860.09	+4.22%

Source: Researcher here compiled the data as provided on official government data and credible economic reports mainly from Press Information Bureau (Ministry of Commerce & Industry)

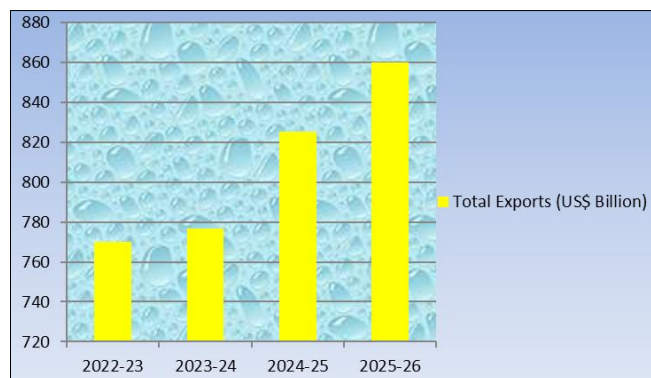


Chart 1: Showing total exports growth trend (2023-2026) in US\$ Billion

The table 2 presents the trend of total exports of India over the period 2022-23 to 2025-26, along with the corresponding growth rates. The data shows a consistent increase in total exports over the four year period, indicating a positive

trajectory in India’s external trade performance. In 2022-23 the total exports stood at US\$ 770.18 billion, serving as the base year with no growth rate calculated. The year 2023-24 shows exports increased slightly to US\$ 776.68 billion, reflecting a modest growth of 0.84%, likely due to global economic slowdown and reduced demand. In 2024-25 a significant rise to US\$ 825.26 billion is observed, with a strong growth rate of 6.26%, indicating recovery and improved trade performance. Year 2025-26 shows exports further increased to US\$ 860.09 billion, showing a steady growth of 4.22%, suggesting sustained expansion through at a slightly moderated pace.

Conclusion

Summing up it is found that the export sector demonstrates resilience and recovery after a slow growth phase. The growth peaked in 2024-25, followed by stable expansion. The upward trend reflects the impact of policies such as Foreign Trade Policies (FTP), global market recovery, and growth in services exports. Overall, the table highlights a steady and positive growth trend in exports, contributing to economic growth, increased foreign exchange earnings, and stronger global trade integration. The new Foreign Trade Policy (FTP 2023) represents a modern and flexible approach to international trade. By focusing on export growth, digitalization, and global competitiveness, it aims to drive economic growth and position India as a major player in global markets.

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