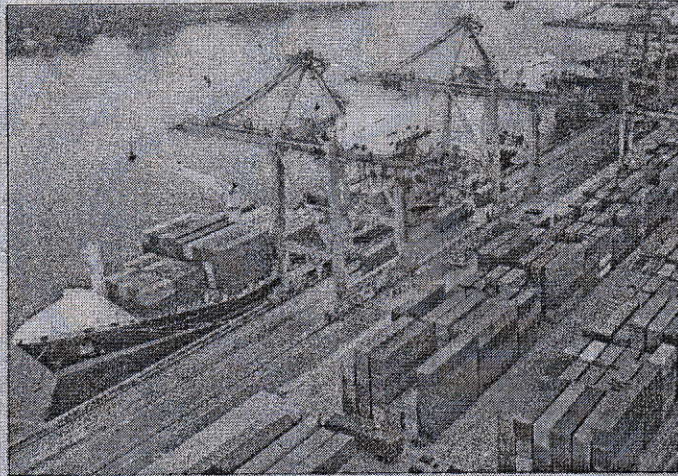


EXPLAINER

MERCHANTING TRADE FOR EXPORT BOOST

Foreign Trade Policy 2023 extended "merchanting trade" to restricted/prohibited items. With exporters making Dubai, Singapore and Hong Kong etc. as merchanting hubs, India will become a more reliable trading partner and its forex earnings will rise. **Manish Gupta** explains:



What are the likely difficulties to its progress?

GIVEN THAT MERCHANTING trade is virtual and goods do not touch the Indian borders, there can be concerns of over-invoicing to transfer profits to tax havens. Regulations in such cases may be more difficult compared to normal trade. Secondly, Indian exporters will need to be cautious of the quality standards of the items they are shipping from other countries so as to not lose their buyers. Thirdly, RBI's condition that each individual trade involving imports-for-exports (as under Advance Authorisation Scheme which allows duty-free import of inputs subject to mandatory physical use in exported products), has to be positive may work as a dampener for commodity traders in merchanting trade. Instead, if the central bank checks the net forex earning capacity of an exporter over a period of time like a quarter, it will encourage exporters to go for big commodity trading despite price uncertainties.

What is merchanting trade?

MERCHANTING TRADE involves shipment of goods from one foreign country to another without touching Indian ports, involving an Indian intermediary. Though not expressly prohibited, such trade hasn't really picked up among Indian exporters. The provisions introduced in the FTP 2023 allows merchanting trade of even the restricted and prohibited items. However, this will be subject to compliance with RBI guidelines and will not be applicable for items classified in the CITES (endangered species of wild fauna and flora) and SCOMET (dual-use items having potential as weapons of mass destruction) lists, as per international agreements.

March 31, 2023

FTP 2023 ALLOWS MERCHANTING TRADE IN RESTRICTED AND PROHIBITED ITEMS

July 11, 2022

RBI ALLOWED INVOICING AND PAYMENTS FOR INTERNATIONAL TRADE IN INDIAN RUPEE

18 countries

INDIAN RUPEE HAS NOW BEEN ACCEPTED BY 18 COUNTRIES FOR TRANSACTIONS

What are the likely benefits?

FIRST, IT will help Indian exporters to retain their markets even if export of their products has been restricted. For example, if wheat is suddenly put under the restricted list in India, the exporters and traders can continue to honour their foreign orders by sourcing their supplies from another country. Second, the merchanting trade will also help develop new markets for products that are either not produced in India, or do not command international demand or are in the not-for-export list currently. Once that product is available for export, it will have ready market access. For instance, India lost big international orders for N95 masks during pandemic as it remained a restricted item even long after India became one of the major producing countries. Such obstacles to trade will ease with the new facility.

How will merchanting and trade settlement in rupee help each other?

RBI IN July permitted invoicing of exports and imports in rupees through special rupee Vostro accounts, and dozens of such accounts have since been opened. Indian banks can settle trade in rupee in Vostro accounts

of correspondent bank/s of the partner trading country. For merchanting trade in rupees, the rupee trade option should be available with the foreign countries concerned backed by the vostro accounts.

International trade transactions in rupee and acceptance by more countries will also promote merchanting trade by reducing dependence on foreign exchange and cutting transactions cost of trade.

Besides, a country with lot of rupee in vostro accounts in India may ask its Indian trading partner to ship its consignment from another country and thereby also liquidate its rupee reserves.