India's Foreign Trade

By: Subhash G. Deo

This reference book can be useful for

BBA, MBA, B.Com, BMS, M.Com, BCA, MCA

and many more courses for Various Universities

NEERAJ
PUBLICATIONS
www.neerajbooks.com

Published by:

NEERAJ PUBLICATIONS

(Publishers of Educational Books)

Sales Office : 1507, 1st Floor,
Nai Sarak, Delhi-110 006
E-mail: info@neerajbooks.com
Website: www.neerajbooks.com

Typesetting by: Competent Computers

Terms & Conditions for Buying E-Book

- The User must Read & Accept the Terms and Conditions (T&C) carefully before clicking on the accept option for Buying the Online Soft Copy of E-books. Under this Particular Facility you may buy only the Online Soft Copy of E-books, no Hard Copy or Printed Copy shall be provided under this facility.
- These E-Books are valid for 365 days online reading only (From the Date of Purchase) and no kind of Downloading, Printing, Copying, etc. are allowed in this facility as these products are just for Online Reading in your Mobile / Tablet / Computers.
- All the online soft copy E-books given in this website shall contain a diffused watermark on nearly every page to protect the material from being pirated / copy / misused, etc.
- This is a Chargeable Facility / Provision to Buy the Online Soft Copy of E-books available online through our Website Which a Subscriber / Buyer may Read Online on his or her Mobile / Tablet / Computer. The E-books content and their answer given in these Soft Copy provides you just the approximate pattern of the actual Answer. However, the actual Content / Study Material / Assignments / Question Papers might somewhat vary in its contents, distribution of marks and their level of difficulty.
- These E-Books are prepared by the author for the help, guidance and reference of the student to get an idea of how he/she can study easily in a short time duration. Content matter & Sample answers given in this E-Book may be Seen as the Guide/Reference Material only. Neither the publisher nor the author or seller will be responsible for any damage or loss due to any mistake, error or discrepancy as we do not claim the Accuracy of these solution / Answers. Any Omission or Error is highly regretted though every care has been taken while preparing these E-Books. Any mistake, error or discrepancy noted may be brought to the publishers notice which shall be taken care of in the next edition. Please consult your Teacher/Tutor or refer to the prescribed & recommended study material of the university / board / institute / Govt. of India Publication or notification if you have any doubts or confusions before you appear in the exam or Prepare your Assignments before submitting to the University/Board/Institute.
- Publisher / Study Badshah / shall remain the custodian of the Contents right / Copy Right of the Content of these reference E-books given / being offered at the website www.studybadshah.com.
- The User agrees Not to reproduce, duplicate, copy, sell, resell or exploit for any commercial purposes, any portion of these Services / Facilities, use of the Service / Facility, or access to the Service / Facility.
- The Price of these E-books may be Revised / Changed without any Prior Notice.
- The time duration of providing this online reading facility of 365 days may be alter or change by studybadshah.com without any Prior Notice.
- The Right to accept the order or reject the order of any E-books made by any customer is reserved with www.studybadshah.com only.
- All material prewritten or custom written is intended for the sole purpose of research and exemplary purposes only. We encourage you to use our material as a research and study aid only. Plagiarism is a crime, and we condone such behaviour. Please use our material responsibly.
- In any Dispute What so ever Maximum Anyone can Claim is the Cost of a particular E-book which he had paid to Study Badshah company / website.
- If In case any Reader/Student has paid for any E-Book and is unable to Access the same at our Website for Online Reading Due to any Technical Error/ Web Admin Issue / Server Blockage at our Website www.studybadshah.com then He will be send a New Link for that Particular E-Book to Access the same and if Still the Issue is Not Resolved Because of Technical Error/ Web Admin Issue / Server Blockage at our website then His Amount for that Particular Purchase will be refunded by our website via PayTM.
- All the Terms, Matters & Disputes are Subjected to "Delhi" Jurisdiction Only.

CONTENTS

Sample Preview
of
The Chapter

Published by:

NEERAJ
PUBLICATIONS
www.neerajbooks.com

INDIA'S FOREIGN TRADE

India and World Trade

1

CONTENTS

1.1 INTRODUCTION

In July 1991, Government of India finally initiated the long awaited and expected economic reforms in the industrial, trade and fiscal policy. The trade policy reforms aimed at creating an atmosphere, in which exports could increase at a fast pace, jack up India's share in world exports and find a lasting solution to the balance of payments crisis. To achieve all these objectives, government made significant changes in the Export-Imports (EXIM) Policy. It then went ahead and took country specific and commodity, specific measures to promote and maximise exports. In this chapter, our primary interest is in learning about the role of foreign trade in economic development of a country, and to study trends in India's foreign trade and their effect on Indian economy.

1.2 WHAT YOU WILL LEARN?

- What role foreign trade plays in the economic development of a country?
- What are the trends in India's foreign trade?
- How the changing trends in India's foreign trade are affecting its economy?

1.3 FOREIGN TRADE, EXPORTS AND IMPORTS

Noted economist J.S. Mill has observed in his thought provoking book *Principles of Political Economy* that the gains from foreign trade meant "*setting aside its enabling countries to obtain commodities which they could not produce themselves, its advantages consists in a more efficient employment of the productive forces of that world*".

Progress of small countries, having small sized domestic markets, depends upon their ability to trade comparatively freely with other countries of the world. Alternatively, economic growth dominated by exports goes together with by flow of capital and getting hold of new technologies, expanding level of savings, economies of scale, etc. This also means improvement in quality and results in cutting of production costs. Companies in various sectors seek new ways of producing and selling their goods. All these activities improve the productivity of the different sectors of the economy of the country.

It is a fact that economies of countries with liberalised trade and actively competing in the global market grow and develop much faster than those countries, which try to protect their domestic markets. A cursory look at East Asian nations should make this point obvious. In the past twenty years, over 1.5 billion people in the growing economies of Asia have doubled their income. Table 1.1 shows exports of select East Asian countries, which have thus grown at a faster pace.

Table 1.1

Exports of Select East Asian Countries

Country	*1994*	*1995*	*1996*	*1997*	*1998*
China	121.05	148.80	151.20	182.88	183.59
Malaysia	58.8	73.9	78.3	78.7	73.3
Indonesia	40.1	45.4	49.8	53.4	48.8
Singapore	96.8	118.3	125.0	125.0	109.9
Thailand	45.3	56.4	55.7	57.4	54.5
India	25.0	30.6	33.1	35.0	33.6
Developing Countries	1351.2	1631.5	1748.0	1857.3	1740.5
World	4265.3	5098.3	5309.3	5495.3	5405.1

The table indicates that the exports of China, Malaysia, Indonesia, Singapore and Thailand have been growing at a much faster rate than India. In the year 1998, the export of China was almost five and half times more than India.

The arguments for trade liberalisation are plain, clear and forceful. Liberalisation gets the markets enlarged and sales opportunities increased for local producers and suppliers. There are new employment opportunities for the workers. Consumers are also happy as they enjoy lower prices and better choices in products. The most significant factor is, however, that of the overall economics achieving greater growth potential.

In spite of all these factors, there is a persisting disagreement in all countries as to what extent they should relax restrictions on foreign trade. Labour apathy, income disparity, productivity difference and age-old ethnic and national conflicts all intermix to spawn political resistance to a continued trade and investment liberalisation policy.

Examples now abound among the developing nations around the world demonstrating the benefits of trade liberalization and integration. Either on their own initiative or because of external pressures from world organizations like WTO, IMF, World Bank or other multinational agencies, many countries are joining conventions, which, by their ground rules, commit these countries to market-oriented economy, trade and investment rules.

A global trading system was conceived and eventually evolved into the General Agreement on Tariff and Trade (GATT). The underlying premise of the GATT system, introduced in 1947, had always been that protectionist policies were unfavourable to economic well-being of nations. GATT founded a wide range of principles, which started a process of economic integration that continues all these years. The World Trade Organization (WTO) is the successor organization of GATT. It represents zenith of multilateral trade policy consensuses-building efforts carried out in the wake of lessons learned back in the economic depression years in the West in 1930s.

Apart from the global approach of GATT/WTO, there are now many regional trade arrangements in operation across the world. The North American Free Trade Agreement (NAFTA), the European Union, SAARC, and numerous regional pacts of varying scope in Central and South America, Southern Africa, South-East Asia, Middle East and even the former Soviet Union all point out towards a growing realisation by the governments that trade and investment liberalization are necessary for economic growth and prosperity.

1.4 TRENDS IN INDIA'S FOREIGN TRADE

Table 1.2 clearly brings out the position of India's Exports, Imports and Trade Balance. The export is only gradually increasing but the import has increased at a very fast rate. Therefore, the trade balance was negative over the years. The table shows that India's trade balance was Rs. 2 crore during 1950-51 and it went up to Rs. 20,103 crore during 1996-97. It further jumped to Rs 34,495 crore in the year 1998-99.

Table 1.2
Trends in India's Foreign Trade

Year	*Exports (including re-exports)*		
	Imports	*Trade*	*Balance*
1950-51	606	608	–2
1960-61	642	1112	–480
1970-71	1535	1634	–99
1980-81	6711	12549	–5838
1990-91	32553	43198	–10645
1990-92	44041	47851	–3810
1990-93	54688	63375	–9687
1990-94	69751	73101	–3350
1990-95	82674	89971	–7297
1990-96	106353	122678	–16325
1990-97	118817	138920	–20103
1990-98	130101	154176	–24075
1990-99	141604	176099	–34495

A reduction in such trade deficit is possible only either by reducing imports or by enhancing exports. A reduction is desirable not only to check the trade deficit but also because, many times, imported goods and supplies are costlier than indigenous goods. Some of India's imports are of basic consumer goods, which are considered necessary to ensure the domestic price stability. Any reduction in these imports can adversely affect the production causing unutilised capacities and thereby also a cut in exportable surplus. Capital goods have shown a significant increase in the last few decades because there is need for technology upgradation. These accounted for 22% of the total imports for the year 1996-97. Fuel made up 26% of the total imports for the same year. For the year 1998-99 the share of capital goods was, however, reduced to 16.16%. A similar reduction was there in the petroleum and lubricants, which came down to 15.4%. To cut down these imports is very difficult because they do contribute to the general economic development of the country in a significant way.

In the early years of Independence, we heavily depended on foreign aid, largely in the form of loans, to purchase our import surplus. India's total debt was an unbearable US $ 98.87 billion at the end of September, 1999. The debt service ratio was 18% in the year 1998-99. Thanks to the economic reforms, in recent years, India's external indebtedness position has improved considerably in the global context. India now ranks eighth among the developing countries in terms of total indebtedness. However, India's external debt is still very high and as such there is no other option, but to make stronger our export efforts. Only an expansion in the export performance will help the country in generating the revenue needed to buy further import requirements and wipe out the debt.

After realizing importance of exports in development of country's economy, the Government of India is constantly encouraging and making continuous efforts to improve exports. It took major bold steps in this direction in July, 1991 by introducing reforms in industrial, trade and fiscal policy. The trade reforms were meant to create an environment in which exports could grow very rapidly. Government also took country specific and commodity specific measures to promote exports. The Board of Trade identified 34 products for utmost focus and aimed at crossing 30% annual growth in exports. The Ministry of Commerce did an in depth search and analysis for identifying countries and products for boosting the exports. It recognised as many as 15 products and 15 countries as priority entities. These covered almost 75% of India's foreign trade. The identified products included gems and jewellery, cotton yarn, fabrics, man-made yarn, readymade garments, marine products, transport equipment, metal manufactures, machinery and instruments, leather, organic and inorganic chemicals, dyes, intermediates, etc., plastic and linoleum products, agro-chemical and oil, etc. The identified countries were USA, Germany, Belgium, UAE, Saudi Arabia, UK, Singapore, Russia, Italy, Bangladesh, France, Netherlands, Hong Kong and Thailand. The list continues to hold its sway over our exports even in 2005. To boost country's exports to new heights, we must continue with sustained efforts to make more efficient our external sector of economy.

1.5 SOLVED QUESTIONS

Q. 1. State whether following statements are True or False:

(a) Countries, which liberalize their trade practices, develop faster than protected countries.

(b) India's trade balance has been favourable over the years.
(c) A reduction in trade deficit is possible by increase in imports.
(d) India's external debt is very low.
(e) India's imports have increased faster than the exports.

Ans. *(a)* True *(b)* False *(c)* False *(d)* False *(e)* True

Q. 2. State three benefits of trade liberalization.

Ans. The three benefits of trade liberalization are:

(i) Liberalisation gets a country's markets enlarged and increases sales opportunities for its manufacturers and suppliers.
(ii) It creates new employment opportunities for the workers.
(iii) It also makes consumers happy as they can now purchase things at lower prices due to healthy competition and have wider choices in products.
(iv) The most significant benefit is, however, that of the achieving greater growth potential for the overall economy of the country.1

Q. 3. Explain any two methods of reducing trade deficit.

Ans. A reduction in trade deficit is possible only either by reducing imports or by enhancing exports. A reduction in imports is desirable to control and prevent the trade deficit as well as because imported goods and supplies are mostly costlier than indigenous goods. Secondly, only by improving its export performance a country can generate the revenue necessary for purchasing its vital import requirements and clear any foreign debt.

Q. 4. What are the main advantages of export?

Ans. Export trade makes easy flow of capital possible and also speeds up the acquisition of new technologies in diverse fields. Exports not only contribute directly to economic growth but more importantly also allow more imports, and a rapid modernization of production. This leads to emergence of an efficient domestic industry that is fully geared to meet global competition.

Q. 5. Define the following terms:

***(a)* Capital Goods**

***(b)* Duty Drawback**

***(c)* Manufacturer exporter**

***(d)* Merchant Exporter**

***(e)* Trade Deficit**

Ans. *(a)* Capital Goods: Plant, machinery, equipment or accessories required for production process.

***(b)* Duty Drawback:** A scheme for refund of import duty on raw materials, components and packing materials that are used in exported products.

***(c)* Manufacturer exporter:** A person who exports goods manufactured by himself.

***(d)* Merchant Exporter:** A person who carries out trading activity and exports goods made by others.

***(e)* Trade Deficit:** The excess of imports over exports.

1.6 ADDITIONAL QUESTIONS

Q. 1. Explain the changing pattern of India's foreign trade with reference to its composition.

Q. 2. Explain the changing pattern of India's foreign trade with reference to global markets.

Q. 3. What are the main features of India's foreign trade?

Q. 4. List five commodities and five countries identified for extreme focus in export efforts by India.

■■