



INDIA'S FOREIGN TRADE

I.B.O.-3

**Chapter Wise Reference Book
Including Solved Sample Papers**

By: Subhash G. Deo

Based on

I.G.N.O.U.

& Various Central, State & Other Open Universities



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**Sample Preview
of the
Solved
Sample Question
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QUESTION PAPER

Exam Held in
February – 2021

(Solved)

INDIA'S FOREIGN TRADE

I.B.O-3

Time: 3 Hours]

[Maximum Marks: 100

Weightage: 70%

Note: Answer any five questions. All questions carry equal marks.

Q. 1. (a) Describe the changing pattern of India's foreign trade with reference to products and markets.

Ans. Ref.: See Chapter-2, Page No. 5, 'Composition of Exports' and Page No. 7, 'Trends in Major Items of Export' and Chapter-8, Page No. 48, 'Product/Market Development' and Chapter-24, Page No. 145, 'Products and Markets'.

(b) Analyse the major problems of India's Export Sector.

Ans. Ref.: See Chapter-2, Page No. 12, 'Major Problems For India's Export Sector'.

Q. 2. Explain the export promotion measures initiated by Government of India to boost exports from India.

Ans. Ref.: See Chapter-8, Page No. 43, 'Export Promotion Measures in India'.

Q. 3. (a) Describe the governments measures to enhance agricultural exports from India.

Ans. Ref.: See Chapter-16, Page No. 94, 'Measures to Improve Agricultural Exports'.

(b) Suggest strategies to boost agricultural exports from India.

Ans. Ref.: See Chapter-16, Page No. 95, 'Strategies to Boost Agricultural Exports'.

Q. 4. How are exports of service different from merchandise exports? Discuss the main issues of International Trade in Services.

Ans. Ref.: See Chapter-29, Page No. 177, 'What is meant by Services' and Page No. 178, 'Issues in International Trade in Services'.

Q. 5. Discuss the thrust areas of ASEAN Economic Cooperation. What are India-ASEAN trade prospects? Explain.

Ans. Ref.: See Chapter-34, Page No. 218, 'Economic Cooperation' and Page No. 222, 'India-Asean Trade Prospects'.

Q. 6. Write notes on the following:

(a) Export Promotion Capital Goods (EPCG) Scheme.

Ans. Ref.: See Chapter-10, Page No. 58, 'Export Promotion Capital Goods (EPCG) Scheme'.

(b) Advance Licensing Scheme for Export Promotion.

Ans. Ref.: See Chapter-10, Page No. 58, 'Duty Exemption Scheme'.

Q. 7. What are Export Oriented Units (EOUs)? How can EOUs be established? Discuss the benefits and facilities available to EOUs in India.

Ans. Ref.: See Chapter-13, Page No. 77, 'Defining EPZS and EOUs' and Page No. 79, 'Incentives Benefits and Facilities'.

Q. 8. What is WTO? Explain India's Trade Policy response to WTO regime in terms of incorporating the various WTO agreements as a part of India's Foreign Trade Policy.

Ans. Ref.: See Chapter-10, Page No. 59, 'Influence of WTO on India's Policy'.

■ ■

QUESTION PAPER

(December – 2019)

(Solved)

INDIA'S FOREIGN TRADE

I.B.O-3

Time: 3 Hours]

[Maximum Marks: 100

Weightage: 70%

Note: Answer any five questions. All questions carry equal marks.

Q. 1. Describe the salient features of India's balance of payments and discuss the two policy measures that have effected significant changes in India's balance of payments position.

Ans. Ref.: See Chapter-4, Page No. 19, 'Significant Features of India's BOP' and Page No 22, 'Crucial Policy Measures'.

Q. 2. What are the various measures taken by the Government of India to enhance agricultural exports? What strategies would you suggest to boost exports of agricultural products.

Ans. Ref.: See Chapter-16, Page No. 94, 'Measures to Improve Agricultural Exports' and Page No. 95, 'Strategies to Boost Agricultural Exports'.

Q. 3. (a) Explain the role of World Trade Organisation (WTO) in World Trade.

Ans. Ref.: See Chapter-6, Page No. 35, 'Role of Global Organizations in World Trade'

(b) State the position of India-CIS Trade.

Ans. Ref.: See Chapter-32, Page No. 204, 'India-CIS Trade'.

Q. 4. "Unlike merchandise trade where border measures like tariffs and alternative restrictions become important, international trade in services gets affected by some specific non-border aspects". Discuss.

Ans. Ref.: See Chapter-10, Page No. 59, 'Tariff Policy' and Chapter-29, Page No. 179, 'Non Border Aspects of Global Service Trade'.

(b) Outline the avenues and prospects of India's chemical exports.

Ans. Ref.: See Chapter-27, Page No. 165, 'Chemical Industry and New Free Economy', 'Reasons for Growth of Chemical Sector', Page No. 166, 'Major Sectors of Chemical Industry' and Page No. 168, 'Chemical Exports From India'.

Q. 5. Describe the recent economic developments in Japan and its foreign trade. Also state the composition of its exports and imports and their markets.

Ans. Ref.: See Chapter-33, Page No. 209, 'Recent Economic Developments in Japan', 'Foreign Trade of Japan'.

Q. 6. Explain the rationale of export promotion policies in India and discuss the guidelines for effective export promotion strategies being adopted.

Ans. Ref.: See Chapter-7, Page No. 39, 'Rationale Behind Export Promotion', Chapter-8, Page No. 48, 'Effective Export-Growth Strategies'.

Q. 7. Analyse the avenues and prospects of India's electronic items for the global market. Also state weaknesses of Indian electronic commodities.

Ans. Ref.: See Chapter-23, Page No. 139, 'Avenues and Prospects', Page No. 140, 'India's Competitive Edge and Lacunas', Chapter-24, Page No. 146, 'Problems Faced By Electronics Industry'.

Q. 8. Write explanatory notes on the following:

(a) India's competitive advantages and disadvantages in leather exports

Ans. Ref.: See Chapter-22, Page No. 132, 'India's Competitive Edge'.

(b) India-US Trade

Ans. Ref.: See Chapter-31, Page No. 192, 'Indo-USA Trade'.

(c) Constraints Hampering Effective Export Promotion Effort

Ans. Ref.: See Chapter-8, Page No. 46, 'Constraints in Export Promotion'.

(d) Major problems of India's Export Sector

Ans. Ref.: See Chapter-2, Page No. 12, 'Major Problems For India's Export-Sector'.



Sample Preview of The Chapter

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INDIA'S FOREIGN TRADE

India and World Trade

1

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- 1.1 Introduction
- 1.2 What You Will Learn?
- 1.3 Foreign Trade, Exports and Imports
- 1.4 Recent Trends in India's Foreign Trade
- 1.5 Solved Questions
- 1.6 Additional Questions

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

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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 consensus-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.

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- (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.

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.

