

Introduction :

Before 1947, the pattern of India's foreign trade was typically colonial. India was a supplier of raw materials to the industrialized nations, particularly England and importer of manufactured goods. This dependence on foreign trade did not permit industrialization at home. As a result the indigenous handicrafts suffered a severe blow. However, many underdeveloped countries that won independence in the post World War II period, viewed foreign trade as an investment.

Meaning of Internal Trade :

Buying and selling of goods and services within the boundaries of a nation are referred to as 'Internal Trade' or 'Domestic Trade' or 'Home Trade'. For example, if goods produced in Maharashtra are sold to states like West Bengal, Uttar Pradesh, Tamil Nadu etc, then it is known as internal trade.



Fig. 10.1

Meaning of Foreign Trade :

Foreign Trade is trade between the different countries of the world. It is called as International Trade or External Trade.

Definition :

According to Wasserman and Hultman, "International Trade consists of transaction between residents of different countries".

Types of foreign trade :

Foreign trade is divided into the following three types.

1) Import Trade, 2) Export Trade, 3) Entrepot Trade

1) Import Trade : Import trade refers to purchase of goods and services by one country from another country or inflow of goods and services from foreign country to home country. For example, India imports petroleum from Iraq, Kuwait, Saudi Arabia, etc.

2) Export Trade : Export trade refers to the sale of goods by one country to another country or outflow of goods from one country to foreign country. For example, India exports tea, rice, jute to China, Hong Kong, Singapore etc.

3) Entrepot Trade : Entrepot trade refers to purchase of goods and services from one country and then selling them to another country after some processing operations. For example, Japan imports raw material required to make electronic goods like, radio, washing machine, television etc. from England, Germany, France etc. and sells them to various countries in the world after processing them.

Role of Foreign Trade :

Trade is an engine of growth of an economy, because it plays an important role for economic development. In developed countries it represents a significant share of Gross Domestic Product.

Role of foreign trade can be justified on the basis of the following points :

1) To earn foreign exchange : Foreign trade provides foreign exchange which can be used for very productive purposes. Foreign trade is a remarkable factor in expanding

the market and encouraging the production of goods.

- 2) **Encourages Investment** : Foreign trade creates an opportunity for the producers to reach beyond the domestic markets. It encourages them to produce more goods for export. This leads to an increase in total investment in an economy.
- 3) **Division of labour and specialization** : Foreign trade leads to division of labour and specialization at world level. Some countries have abundant natural resources, they should export raw material and import finished goods from countries which are advanced in skilled manpower. Thus, foreign trade gives benefits to all countries thereby leading to division of labour and specialization.
- 4) **Optimum allocation and utilization of resources** : Due to specialization, resources are channelized for the production of only those goods which would give highest returns. Thus, there is rational allocation and specialization of resources at the international level due to foreign trade.
- 5) **Stability in price level** : Foreign trade helps to keep the demand and supply position stable which in turn stabilizes the price level in the economy.
- 6) **Availability of multiple choices** : Foreign trade provides multiple choices of imported commodities. As foreign trade is highly competitive it also ensures a good quality and standard products. This raises the standard of living of people.
- 7) **Brings reputation and helps earn goodwill** : Exporting country can earn reputation and goodwill in the international market. For example, countries like Japan, Germany, Switzerland etc. have earned a lot of goodwill and reputation in foreign market for their qualitative production of electronic goods.

Try this :

Name the goods exported to and imported from India to China and Japan in recent years by India.

Composition and Direction of India's foreign trade :

Over the last 70 years, India's foreign trade has undergone a complete change in terms of composition and direction. Main feature of composition of India's foreign trade are as follows :

- 1) **Increasing share of Gross National Income** : In 1990-91, share of India's foreign trade (import-export) in gross national income was 17.55%. It increased to 25% during 2006-07 and to 48.8% during 2016-17
- 2) **Increase in volume and value of trade** : Since 1990-91, the volume and value of India's foreign trade has gone up. India now exports and imports goods which are several times more in value and volume.
- 3) **Change in the composition of exports** : Since Independence, the composition of export trade of India has undergone a change. Prior to Independence, India used to export primary products like jute, cotton, tea, oil-seeds, leather, foodgrains, cashew nuts and mineral products. With the passage of time, manufactured items like readymade garments, gems and jewellery, electronic goods, especially computer hardware and software occupy a prime place in India's exports.
- 4) **Change in the composition of imports** : Prior to independence, India used to import consumer goods like medicines, cloth, motor vehicles, electrical goods etc. A part from petrol and petroleum, India is now importing mainly capital goods like high-tech machinery chemicals, fertilizers, steel etc.

- 5) **Oceanic trade** : Most of India's trade is by sea. India has trade relations with its neighbouring countries like Nepal, Afghanistan, Myanmar, Sri Lanka etc. The share of India's oceanic trade is around 68%.
- 6) **Development of new ports** : For its foreign trade, India depended mostly on Mumbai, Kolkata and Chennai ports. Therefore,

these ports were overburdened. Recently, India has developed new ports at Kandla, Cochin, Vishakhapatnam, Nhava Sheva etc. to reduce the burden on the existing ports.

Find out :

Recent share of India's foreign trade in Gross National Income.

Do you know?

Composition of India's Imports

Commodities		Years			
		2015-16		2016-17	
Sr. No.		Expenditure (in million \$)	Percentage	Expenditure (in million \$)	Percentage
1	Petroleum, oil and lubricants	82,944	21.8	86,896	22.6
2	Electronic goods	40,032	10.5	41,941	10.9
3	Pearls and precious stones	20,070	5.3	23,809	6.2
4	Edible oils	10,492	2.8	10,893	2.8
5	Fertilizers	8,072	2.1	5,024	1.3
6	Foodgrains	276	0.1	1,429	0.4

Composition of India's Exports

Commodities		Years			
		2015-16		2016-17	
Sr. No.		Expenditure (in million \$)	Percentage	Expenditure (in million \$)	Percentage
1	Readymade Garments	16,964	6.9	17,368	6.3
2	Iron ore	191	0.0	1,534	0.5
3	Cotton yarn	8,874	3.4	8,550	3.1
4	Petroleum products	31,209	11.9	32,416	11.7
5	Leather manufactures	5,554	2.1	5,308	1.9
6	Engineering goods	7,220	23.0	65,267	23.7

Source : 1) Reserve Bank of India, Handbook of Statistics on Indian Economy 2016-17,
2) Government of India, Economic Survey 2017-18.

Direction of India's foreign trade :

Direction of foreign trade means the countries to which India exports its goods and services and the countries from which it imports the goods and services. Thus, direction consists of destination of exports and sources of our imports. Prior to Independence, much of India's trade was done with Britain. Therefore Britain used to hold the first position in India's foreign trade. However, after Independence, new trade relations with many other countries were established. Now USA has emerged as the leading trading partner followed by Germany, Japan and United Kingdom.



Fig. 10.2

Do you know?

Direction of India's Imports

Countries/Organisation		Year
		2016-17
Sr. no.		(Percentage)
1	OECD	28.1
2	OPEC	24.1
3	Eastern Europe	2.4
4	Developing Nations	43.2
5	Others	2.2

Direction of India's Exports

Countries/Organisation		Year
		2016-17
Sr. no.		(Percentage)
1	OECD	37.9
2	OPEC	16.4
3	Eastern Europe	1.0
4	Developing Nations	43.5
5	Others	1.2

Source : Reserve Bank of India, Handbook of Statistics on Indian Economy.

Trends in India's foreign trade since 2001 :

Since liberalisation, India's foreign trade has expanded manifold and has shown a significant structured shift in imported and exported products, and also in its geographical composition.

Recent Trends in Exports :

- 1) Engineering goods :** According to Engineering Goods Export Promotion Council (EGEPC) Report, the share of engineering goods was 25% in India's total exports in 2017-18. Within this category some of the prominent exported items are transport equipment including automobiles and auto components, machinery and instruments. During the period 2010-11 to 2014-15, exports of transport equipment have grown from 16 billion dollars to 24.8 billion dollars.
- 2) Petroleum products :** India's petroleum capacity increased significantly since 2001-02, due to which India turned as a net exporter of petroleum refinery products. Petroleum product had a share of 4.3% in India's total exports in 2000-01, which rose steadily to 20.1% in 2013-14.
- 3) Chemicals and chemical products :** An important export item that has performed reasonably well over the last few years is chemicals and chemical products. The share of this item was 10.4% in 2014-15.
- 4) Gems and Jewellery :** Gems and jewellery is one of the major contributors to export earnings in India, having a share of 13.3% in India's merchandise export in 2014-15.
- 5) Textiles and readymade garments :** Textiles and garment exports together accounted for 11.3% of India's exports

in 2014-15. In fact, India is one of the leading exporting countries of textiles and readymade garments in the world.

Trends in Imports :

- 1) **Petroleum** : Petroleum has always remained the most important item of imports in India's trade in the pre as well as post reform period. It had a share of 27% in total imports in 1990-92 which currently stands at around 31%.
- 2) **Gold** : After petroleum, the second most imported item is gold. It has been observed that there is a significant drop in gold imports during 2013-14. The gold imports declined from 53.3 billion dollars in 2011-12 to 27.5 billion dollars in 2013-14. This was primarily due to fall in international gold prices and various policy measures taken by the government to curb gold imports.
- 3) **Fertilizers** : The share of fertilizers in import expenditure declined from 4.1% in 1990-91 to only 1.3% in 2016-17.
- 4) **Iron and Steel** : The share of iron and steel in import expenditure declined from 4.9% to 2.1% in 2016-17.

Concept of Balance of payments :

The Balance of payments of a country is a systematic record of all international economic transactions of that country during a given period, usually a year.

According to Ellsworth, "Balance of payments is a summary statement of all the transactions between the residents of one country and the rest of the world.

According to Walter Krause, "The balance of payments of a country is a systematic record of all economic transactions completed between its residents and the rest of the world during a given period of time usually a concept of year. From the above definitions, it is clear that the value of exchange of goods and services among the citizens, businessmen, firms, government

etc. is included in balance of payments.



Fig. 10.3

Balance of Trade :

Balance of trade is the difference between the value of a country's exports and imports for a given period. Balance of trade is also referred to as the international trade balance.

According to Bentham, "Balance of trade of a country is the relation over a period between the values of her exports and imports of physical goods."

According to Samuelson, "if export value is greater than the import value it is called as trade surplus and if import value is greater than export value, then it is called as trade deficit."

It is clear from the above definitions that balance of trade includes the value of imports and exports of visible goods and invisible goods.



Fig. 10.4

Find out :

List of countries coming under OPEC and OECD.

EXERCISE

Q. 1. Choose the correct option :

- 1) Types of foreign trade
 - a) Import trade b) Export trade
 - c) Entrepot trade d) Internal trade

Options : 1) a and b 2) a, b and c
 3) a, b, c and d 4) None of these

- 2) Export trends of India's foreign trade includes
 - a) Engineering goods
 - b) Gems and Jewellery
 - c) Textiles and ready-made garments
 - d) Gold

Options : 1) a and c 2) a, b and c
 3) b, c and d 4) None of these

- 3) Role of foreign trade is
 - a) To earn foreign exchange
 - b) To encourage investment
 - c) Lead to division of labour
 - d) Bring change in composition of exports

Options : 1) a and b 2) a, b and c
 3) b and d 4) None of these

Q. 2. Identify and explain the concepts from the given illustrations :

- 1) India purchased petroleum from Iran.
- 2) Maharashtra purchased wheat from Punjab.
- 3) England imported cotton from India, made readymade garments from it and sold them to Malaysia.
- 4) Japan sells smart phones to Myanmar.

Q. 3. Distinguish between the following :

- 1) Internal trade and International trade.
- 2) Trends in imports and Trends in exports of foreign trade.
- 3) Balance of payments and Balance of trade.

Q. 4. Answer the following :

- 1) Explain the concept of foreign trade and its types.

- 2) Explain any four features of composition of India's foreign trade.
- 3) Explain the trend in India's imports.

Q. 5. State with reasons whether you agree or disagree with the following statements :

- 1) During British rule, indigenous handicrafts suffered a severe blow.
- 2) Trade is an engine of growth for an economy.
- 3) Foreign trade leads to division of labour and specialization at world level.

Q. 6. Observe the following table and answer the questions given below it.

- Direction of India's imports

Countries / Organisations		Years	
		1990-91	2015-16
Sr. No.		Percentage	Percentage
1	OECD	54.0	28.8
2	OPEC	16.3	23.6
3	Eastern Europe	7.8	1.9
4	Developing Nations	18.6	43.2
5	Others	1.4	2.5

Questions :

- 1) Which organisation has the least share in the direction of India's imports in 2015-16?
- 2) Which organisation has maximum share in India's direction of imports in 1990-91?
- 3) Expand the abbreviations of OECD and OPEC
- 4) State your opinion regarding the direction of India's imports from 1990-91 to 2015-16.
- 5) How much is the percentage of increase in the imports of developing nations in 2015-16 as compared to 1990-91?

Q. 7. Answer in detail :

- 1) Explain the meaning and role of foreign trade.
- 2) Explain the recent trends in India's exports.

