UNIT 1 INDIA'S FOREIGN TRADE

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1.0 OBJECTIVES

After studying this unit, you should be able to:

- describe the role of foreign trade in the economic development of a country
- explain the trends in India's foreign trade
- describe the composition and direction of exports and imports
- explain the problems of foreign trade.

1.1 INTRODUCTION

Government of India took bold initiatives in July 1991 by way of introduction of reforms notably in the sphere of industrial, trade and fiscal policy. The trade policy reforms aimed to create an environment to enable increase in exports at a rapid pace, raise India's share in world exports and find a lasting solution to the balance of payments crisis. For this purpose, significant changes in the Export -Import (EXIM) Policy were made and country specific and commodity specific measures were taken to promote exports. In this unit, you will learn the role of foreign trade in the economic development, trends in India's foreign trade and composition and direction of exports and imports. You will be also acquainted with the problems of India's foreign trade.

1.2 FOREIGN TRADE AND DEVELOPMENT

J.S. Mill in his book titled Principles of Political Economy discussing the gains from foreign trade pointed out that "setting aside its enabling countries to obtain commodities which they could not produce themselves, its advantage consists in a more efficient employment of the productive forces of the world". Progress for small countries (small in terms of domestic market) depended upon their ability to trade relatively freely with the rest of the world. On the other hand, economic growth led by exports is accompanied by flow of capital and acquisition of new technology, rising level of savings, economies of scale, etc. This also leads to improvement in quality and forces firms to cut costs, and seek new ways of producing and selling their goods. These measures would improve the productivity of the different sectors of the economy.

Countries which liberalise their trade practices and learn to compete in the global market place have economies which grow and develop much faster than those countries which choose to protect their domestic markets. One only needs to look in to Asia to prove this point. In the past ten years, over 1.5 billion people in the emerging markets of Asia have doubled their income. Look at Table 1.1 which shows export of selected East Asian countries which have grown at a faster rate.

Table 1.1: Exports of Selected East Asian Countries

(US $ billion)

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

Source: Economic survey, GOI, (1999-2000).

The table reflects that the export of China, Malaysia, Indonesia, Singapore and Thailands have been growing at a faster rate than India. In the year 1998, the export of China was about 5 times more than India.

The arguments for trade liberalisation are clear and compelling. For producers and suppliers, markets are enlarged and sales opportunities are increased. Workers gain new employment opportunities, while consumers enjoy lower prices and greater choice in products. Finally, overall economies gain greater growth potential.

Nevertheless, there remains continuing disagreement in all countries as to how far they should go towards abolishing restrictions on foreign trade. Labour immobility, income disparity, productivity differences and long-standing ethnic and national conflicts all combine to generate political resistance to continued trade and investment liberalisation measures.

Developing nations around the world are demonstrating an increasing understanding of the benefits of trade liberalisation and integration. Whether on their own valuation or due to external pressures from such international organisations as WTO, IMF, World Bank or other Multinational agencies, many countries are constantly moving to join conventions which, by definition, commit them to market-oriented trade and investment rules.

A global trading system was conceived and eventually embodied in the General Agreement on Tariff and Trade (GATT). The GATT system, founded in 1947, had as its underlying premise that protectionist policies were inimical to nations economic well-being. GATT established a variety of principles which began a process of economic integration that continues to this day. The World Trade Organisation (WTO), successor organisation of the GATT is the latest culmination of multilateral trade policy consensus-building efforts taken in response to lessons learned back in the 1930s.

Beyond the GATT/WTO "global approach", numerous regional arrangements have also taken hold. The North American Free trade Agreement (NAFTA), the European Union, and numerous regional pacts of varying scope in central and South America, Southern Africa, South-East Asia, Middle East and even the foreign Soviet Union all signify a growing commitment by the governments to trade and investment liberalisation as a preferred engine of economic growth.

1.3 TRENDS IN INDIA'S FOREIGN TRADE

Look at Table 1.2 for a clear understanding of India's Exports Imports and Trade Balances. The export has been gradually increasing but the import has increased at a faster rate. As a result, the trade balance has been negative over the years. The table shows that India's Trade Balance was Rs.-2 Crores during 1950-51 and it has gone up to Rs. -20, 103 crores during 1996-97. It has further gone up to -34495 in the year 1998-99.

Table 1.2: Trends in India's Foreign Trade

(Rs. in crores)

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
1991-92	44041	47851	-3810
1992-93	54688	63375	-9687
1993-94	69751	73101	-3350
1994-95	82674	89971	-7297
1995-96	106353	122678	-16325
1996-97	118817	138920	-20103
1997-98	130101	154176	-24075
1998-99(p)	141604	176099	-34495

Source: Economic Survey (1999-2000), Ministry of Finance, Government of India.

A reduction in trade deficit is possible either by a deduction in imports or by an increase in exports. A reduction is not only necessary to curtail the trade deficit but also because, quite often, imported supplies are costlier than domestic supplies. Some of our imports consist of essential consumer goods which are necessary to maintain the domestic price stability. Any cut in these imports would adversely affect production leading to unutilised capacities and a cut in exportable surplus. Capital goods which have shown a significant increase in the last few years because of the need for technology upgradation now account for (22%) of the total imports for the year 1996-97. Fuel accounts for (26%) of the total imports for the year 1996-97. For the year 1998-99 the share of capital goods has been reduced to 16.16%. A similar reduction has been witnessed in petroleum & lubricants which has come down to 15.4%. It may be very difficult to curtail these imports because they contribute to the economic development of the nation.

In the past, we depended on foreign aid, largely consisting of loans, to finance our import surplus. India's total debt was US $ 98.87 billion at the end of September 1999. The debt service ratio was about 18% in the year 1998-99. Of late, India's external indebtedness position has also improved in the global context. India ranks eighth among developing countries in terms of total indebtedness. India's external debt is very high. Thus, there is no alternative but to intensify export effort. The expansion in export sector will be able to generate the revenue for meeting the import requirement.

Realising the importance of exports in the development of the economy, Government of India have been making continuous effort to promote exports. The Government took major steps in July 1991 by introducing reforms in industrial, trade and fiscal policy. The trade reforms aimed at creating environment to enable increase in exports at a rapid pace. Country specific and commodity specific measures were taken to promote exports. The Board of trade identified 34 extreme focus products aimed at achieving 30% annual growth in exports. The Ministry of Commerce has undertaken in depth analysis for identifying countries and products for boosting exports. 15 products and 15 countries have been identified covering 75% of India's foreign trade. The identified products include: gems and jewellery, cotton yarn, fabrics and

made ups, man made yarn, 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 are US, Japan, Germany, Belgium, UAE, Saudi Arabia, UK, Singapore, Russia, Italy, Bangladesh, France, Netherlands, Hong Kong and Thailand. In order to boost exports, the country shoul make all out efforts to streamline the external sector.

Check Your Progress A

1) Enumerate three benefits of trade liberalisation.

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2) Enumerate two methods of reducing trade deficit.

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3) State whether following statements are **True** or **False**.

   i) Countries which liberalise their trade practices develop faster than protected countries.

   ii) India's trade balances have been favourable over the years.

   iii) A reduction in trade deficit is possible by increase in imports.

   iv) India's external debt is very low.

   v) India's imports have increased faster than the exports.

1.4 COMPOSITION OF FOREIGN TRADE

There has been substantial change in the composition of foreign trade over the years. Several new items have been entered in the export basket. Let us discuss the structure of commodities in detail. First we shall discuss the composition of exports followed by composition of imports.

1.4.1 Composition of Exports

India's export was largely agro-based during 50's. Three principal traditional items- textiles, jute manufactures and tea accounted for nearly 54% of the country's export. The contribution of all primary and traditional items was about 85% of the total export. During this period, emphasis was given on the attainment of self sufficiency and there was stringent restrictions on imports. The need of industrialisation was felt badly. Capital goods and technology were needed for the industrialisation. The country was not having modern technology, capital goods and raw materials for the fast developmental requirements. Hence, it was further realised that only increased imports of technology, machinery and essential raw materials could provide the foundations for the industrial base. This would also generate export production for world markets. During 60's various measures were adopted to give a fillip to India's foreign trade. Imports were made relatively easier and the export promotion measures were adopted. As a result, the share of traditional items in the export basket started declining

slowly. The share of iron and steel, machinery, transport equipment, non-metallic mineral manufactures and chemicals started increasing.

Government of India gave a definite shape for the first time to the export policy during 70's. Exports were accorded the third place of importance next to the defence and food. As a result, the major changes were witnessed in the composition of exports. The share of traditional products went down further and non traditional items started increasing. Engineering goods, leather manufactures, readymade garments, gems and jewellery, chemicals and marine products figured significantly. Thus, the exports of manufactured commodity witnessed upward movement. The share of manufactured goods in the total export went up from 45% in 1960-61 to 50% in 1970-71 to about 59% in 1980-81. The effort to enhance export further sustained during 80's. The share of manufactured export to total exports increased significantly. The major foreign exchange earners during this period were gems and jewellery, readymade garments engineering goods, leather manufactures, marine products, chemicals, etc.

Table 1.3: Composition of Exports

Items	1960-61	1970-71	1980-81	1990-91	1992-93	1995-96	1996-97	1997-98	1998-99
Agricultural and Allied Products	284 (44.2)	487 (36.0)	2057 (30.7)	6317 (19.4)	9456 (17.6)	21138 (19.9)	24239 (20.4)	25419 (19.5)	26164 (18.5)
Ores and Minerals	52 (8.1)	164 (12.1)	414 (6.2)	1497 (4.6)	1814 (3.4)	3061 (2.9)	3185 (2.7)	3062 (2.4)	2976 (2.1)
Textile Fabrics and Manufactures	73 (11.4)	145 (10.7)	933 (14.0)	6832 (21.0)	12498 (23.3)	24149 (22.7)	27793 (23 .4)	32109 (24.7)	35897 (25.4)
Leather and Leather Manufactures	28 (4.4)	80 (5.9)	390 (5.8)	2600 (8.0)	3700 (6.9)	5790 (5.4)	5609 (4.7)	6061 (4.7)	6817 (4.8)
Gems and Jewellery	1 (0.2)	45 (3.3)	618 (9.2)	5247 (16.1)	8896 (16.6)	17644 (16.6)	16872 (14.2)	19867 (15.3)	24839 (17.5)
Chemicals & Allied Products	7 (1.1)	29 (2.1)	225 (3.4)	2111 (6.5)	3991 (7.4)	9849 (9.2)	11463 (9.6)	13692 (10.5)	14188 (10.0)
Machinery Transport and Metal Manufactures (including Iron & Steel)	22 (3.4)	198 (14.6)	827 (12.3)	3872 (11.9)	7118 (13.3)	14578 (13.7)	17431 (14.7)	19528 (15.0)	18371 (13.0)
Minerals, Fuels and Lubricants (Including Coal)	7 (1.1)	13 (1.0)	28 (0.4)	948 (2.9)	1520 (2.8)	1761 (1.7)	1832 (1.5)	1399 (1.1)	510 (0.4)
Others	168 (26.1)	94 (13.3)	1219 (18.2)	3129 (9.6)	4694 (8.7)	8383 (7.9)	10393 (8.7)	8964 (6.9)	11842 (8.4)
Total	642	1355	6711	32553	53688	106353	118817	130101	141604

(Figures in Parentheses denote percentages)

Source: Economic Survey (1999-2000), Ministry of Finance, Government of India.

90's witnessed a new era for the India's foreign trade. The foreign exchange reserves dwindled to the lowest level in 1990-91. Realising the importance of export in the development of the economy, the Government of India introduced reforms in industrial, trade and fiscal policy in July 1991. Imports were further liberalised and new export promotional measures were seriously adopted. The share of manufactured goods to the total exports went up to 75% during the year 1996-97 and 76.6% in the year 1998-99. The composition of exports has also changed during 90's. Various new products have entered into the export basket. Look at Table 1.3 which shows composition of exports. Let us briefly analyse the trends in major products exported from India.

Agricultural products: The share of agricultural products was 44.2% in the year 1960-61. The share of export was so high because of high concentration of export of primary com-

modities. The share of export has come down to 36% in 1970-71 and 30.7% in 1980-81. It has further come down to 19.4% in 1990-91. The thrust of export of manufactured items and more value addition in the agricultural products led to the declined share of agricultural commodities to the total product.

The share of export of agricultural and allied products has gone up from 19.4% in 1990-91 to 20.4 in 1996-97. It has further declined to 18.5% in the year 1989-99. New commodities have been entered into the export basket of agricultural commodity. The major agricultural export products are: tea, coffee, cereal, unmanufactured tobacco, spices, cashewnuts, oil meals, fruits and vegetables, marine products and raw cotton. Marine products were the largest foreign earnings of the agricultural items in 1999-2000. Rubber, rice, wheat, tobacco, soyameal, marine products, floriculture and processed food are rated as the commodity of higher returns. The ceilings imposed on exports of wheat and rice and the European Union's ban on marine imports contributed to slower growth of agricultural exports. There is enough scope to enhance the exports of agricultural commodities. In order to realise increased foreign exchange earnings and achieve the targeted 20% growth, further value addition is needed in the agro-products.

Textiles fabrics and manufacturers: Textiles, fabrics and manufactures account for 23.4% of the total exports for the year 1996-97 and 25.4% in 1998-99. The share of export of textiles fabrics and manufactures was only (11.4%) in 1960-61 and 10.7% in 1970-71. The share of export started gradually increasing during 80's and 90's. The scheme of export promotion of capital goods helped in modernisation of textile sector. Favourable export environment and government policy led to the surge in export during 90's. The export has been steadily increasing since 1990-91. The export has increased by five times since 1990-91. Textiles is the largest net foreign exchange earner because the import content in textiles is very low. Being the labour intensive industry, India has competitive advantage in the manufacture of textiles commodities. As a result of GATT and subsequently the implementation of the market access provision, there is ample scope to increase the export of textiles commodity. India would face stiff competition from other South East Asian countries. Hence, it requires immediate modernisation and upgradation of technology to capture the growing world market of the textile commodities.

Leather and leather manufactures: It accounts for about 4.7% of the total exports for the year 1996-97 and 4.8% in the year 1998-98. The share of leather and leather manufactures was only (4.4%) of the total export for the year 1960-61. It was gradually increasing and reached to 8% of the total export for the year 1990-91. The share of leather and leather manufactures has come down from 8% in 1990-91 to 4.7% in 1996-97 and 4.8% in 1998-99. The exports have been adversely affected due to objection by industrial countries against chemicals used in Indian tanneries. The leather industry has been identified as one of the thrust areas and initiatives have been taken to encourage value added exports of leather products.

Gems and Jewellery: It accounts for 14.2% of the total export of the country for the year 1996-97 and 17.5% in 1998-99. The share of gems and jewellery was only 0.2% in the year 1980-81. Favourable export environment and liberal import of inputs of jewellery led to the surge of export during 90's. The share of gems and jewellery was 16.1% for the year 1990-91, it went up to 18% for the year 1993-94. Since then the share started declining and reached to 14.2% in 1996-97. The share has slightly increased to 17.5% in the year 1998-99. Gems and Jewellery involves high content of import. There has been fluctuations in the cost of raw materials in the international markets. The demand has also been reduced considerably as a recession in the world market. India is having large number of skilled personnel for the manufacture of jems and jewellery. The industry requires further modernisation to compete the growing world market.

Chemical and allied products: It accounts for 9.6% of the total exports for the year 1996-97 and 10.6% in the year 1998-99. The export has been steadily growing. The share of export was only 1.1% in 1960-61. It went up to 3.4% in 1980-81. It grew at a faster rate during 90's. The liberalisation strategy facilitated the growth of export. The export has gone up from 6.5% in 1990-91 to 9.6% in 1996-97 and 10.6% in 1998-99. Stringent control measures in the developed world have facilitated the export of chemical products from the developing world. India requires to manufacture chemical products of world standard to meet the demand of the world trade.

Machinery, transport and metal manufactures: It accounts for 14.7% of the total exports for the year 1996-97 and has marginally reduced to 13% in the year 1998-99. The share of export was only 3.4% in the year 1960-61. The industrialisation policy favoured the growth of export from this industry. The share of export went up to 14.6% in 1970-71. The share came down to 12.3% in 1980-81 and 11.9% in 1990-91. Slow industrial growth and recession were the major causes for declining export. The export has been slowly growing since 1990-91. There has been considerable potential for the export of machinery goods and metal manufactures. The well thought strategy is needed to exploit this opportunity. The quality need to be improved to match the international standards. The sector requires immediate automation, modernisation and upgradation.

Minerals, fuels and lubricants: It accounts for 1.5% of the total export for the year 1996-97 and has reduced to 0.4% in the year 1998-99. The share of export was 1.1% in the year 1960-61. The export has gone up to 2.9% in year 1990-91. It has gradually gone down to 1.5% in the year 1996-97 and further 0.4% in 1998-99. There is a stiff competition in the world market for the export of minerals, fuels and lubricants. It requires further initiation and commitment to increase the export of these commodities.

Besides these commodities, there is a large scope to enhance the export of tourism, software consultancy, handicraft items, etc. in the world market. This certainly requires proper infrastructural facilities and high commitment to reap the benefits of export from these areas.

1.4.2 Composition of Imports

In order to attain self sufficiency, Government of India put stringent restrictions on imports since beginning. The policy of import substitution was adopted to give boost to the domestic industry. The second plan gave a new thrust to the process of planned development with emphasis on capital intensive investment. The country was not in a position to produce the required capital goods needed for the developmental purposes. The need for import of capital goods was felt at this juncture. It was gradually realised that increased import of technology, machinery and essential raw materials would be able to enhance the industrialisation process of the country. Proper production facilities will certainly provide room for the export business. Therefore, liberal import of capital goods, technology and raw materials are required to boost the export of the country. You must remember here that import bill must be met by the export proceeds. Hence, the policy of import management should be followed in such a manner that export business gets a boost.

During 60's India's imports comprised of capital goods (31.7%). Iron and steel (11%), petroleum, oil and lubricants (6.1%), ferrous metal (4.2%) and chemical elements and compounds (3.5%) and fertiliser and fertiliser mate (1.2%). There has been a significant shift in the import composition. In the year 1996-97, the major import item was petroleum, oil and lubricants (25.6%) followed by capital goods (21.5%), pearls, precious and semi- precious stones (7.5%), iron and steel (4.9%), ferrorus metal (2.8%), fertilisers and fertilised mate 2.3% and plastic materials (2%). In the year 1998-99 the major import item was capital goods (16.6%) followed by petroleum and lubricants (15.4%,) pearls precious and semiprecious stone (9.0%) Iron & steel (2.8%) and fertiliser & fertiliser mfg. (2.4%) Look at Table 1.4 which shows the trends in India's imports. Let us now briefly learn the trend of India's major import commodities.

Petroleum oil and lubricants : It accounts for 25.6% of the total imports for the year 1996-97 and it has gone down to 15.4% in the year 1998-99. The share in total import has increased four times from 6.1% in the year 1960-61 to 25.6% in the year 1996-97. The import has been gradually rising since the increase in prices of petroleum products in 1973. The fall in domestic production of crude oil and gulf crisis further enhanced the import bill of the petroleum products. Petroleum products were considered as an important factor for increase in import bill and widening trade deficit during 80's. During the year 1980-81, the share of petroleum products went up to 42% of total import. The efforts were made to increase the production of

petroleum oil in the domestic market. The increased production arrested the increasing trend of the petroleum imports. The share of import came down to 25% in the year 1990-01.

The import went up marginally to 27% in 1992-93 and came down to 20.5% in 1995-96. The import again went up to 25% in the year 1996-97 and came down to 15.4% in the year 1998-99. Petroleum, being an exhaustive nature, all out efforts should be made to conserve it. Optimum utilisation and proper management are immediately required. Optimum utilisation and increase in domestic production may be very helpful in containing the mounting bill of petroleum import.

Table 1.4: Composition of Imports

(Rs. in crore)

	1960-61	1970-71	1980-81	1990-91	1992-93	1995-96	1996-97	1997-98	1998-99
Petroleum oil and lubricants	69 (6.1)	135 (8.3)	5264 (42.0)	10816 (25.0)	17142 (27.0)	25173 (20.5)	35629 (25.6)	30341 (19.7)	27064 (15.4)
Fertilizers and Fertilizer mfg.	13 (1.2)	86 (5.3)	818 (6.5)	1766 (4.1)	2832 (4.5)	5628 (4.6)	3235 (2.3)	3799 (2.5)	4179 (2.4)
Chemical elements and compounds	39 (3.5)	68 (4.2)	358 (2.9)	2289 (5.3)	4134 (6.5)	9403 (7.7)	10382 (7.5)	1111 (0.7)	1662 (0.9)
Plastic materials	9 (0.8)	8 (0.5)	121 (1.0)	1095 (2.5)	1218 (1.9)	2687 (2.2)	2826 (2.0)	2574 (1.7)	2781 (1.6)
Pearls, precious and semi-precious stones	.1 (0.08)	25 (1.5)	417 (3.3)	3738 (8.7)	7072 (11.1)	7045 (5.7)	10384 (7.5)	12421 (8.1)	15827 (9.0)
Iron and steel	123 (11.0)	147 (9.0)	852 (6.8)	2113 (4.9)	2254 (3.6)	4838 (3.9)	6866 (4.9)	5281 (3.4)	4956 (2.8)
Non ferrous Metals	47 (4.2)	119 (7.3)	477 (3.8)	1102 (2.6)	1144 (1.8)	3024 (2.5)	3925 (2.8)	3420 (2.2)	2823 (1.6)
Capital goods	356 (31.7)	404 (25.0)	1910 (15.2)	10466 (24.2)	10839 (17.1)	28289 (23.0)	29868 (21.5)	28016 (18.2)	29220 (16.6)
Others	465 (41.4)	641 (39.2)	2332 (18.6)	9813 (22.7)	16740 (26.4)	36591 (29.8)	35804 (25.8)	67213 (43.6)	87587 (49.7)
Total	1122	1634	12549	43198	63375	122678	138919	154176	176099

Source: Economic Survey (1999-2000), Ministry of Finance, Government of India.

Capital goods: It accounts for 21.5% of the total import for the year 1996-97 and 16.6% in the year 1998-99. As a result of implementation of the scheme of import substitution, the share of import of capital goods came down from (31.7%) in the year 1960-61 to 25% in (1970-71). It further came down to the level of 15.2% in 1980-81. During this period, the modemisation and upgradation of technology were encouraged. The share of import went up to 24.2% during 1990-91. As a result of the scarcity of foreign exchange and recession, the share of import of capital goods came down to 17.1 % in the year 1992-93. The economic reforms introduced the reduction of import duties and encouraged the import of capital goods. Capital goods got much importance after liberalisation. Again the share of capital goods went up to the level of 23.0% in the year 1995-96. The share has marginally come down in the year 1996-97 as a result of recession and slowing down of the investment. It has further gone down to 16.6% in the year 1998-99.

Chemical elements and compounds: It accounts for 7.5% of the total imports for the year 1996-97 and 0.9% in 1998-99. The share of chemical elements and compounds was only 3.5% in the year 1960-61. The share of import went up to 4.2% in 1970-71 and came down to 2.9% in 1980-81. During 90's the increased manufacturing activities in the pharmaceutical sector and chemical industries enhanced the demand of chemical ingredients. The import increased to 5.3% in 1990-91. It further went up to 8.2% in the year 1994-95. It has marginally come down to 7.7% in 1995-96 and 7.5% in 1996-97. It has further gone down to 0.9% in 1998-99.

Pearls, precious and semi-precious stones: It accounts for 7.5% of the totoal imports for the year 1996-97 and 9% in 1998-99. The share of import was only 0.08% in the year 1960-61. The

share of import has gradually moved up to 1.5% in 1970-71 and 3.3% in' 1980-81. There was a surge in export in the gems and jewellery sector during 90's. Pearls and precious stones are important ingredient of gems and jewellery. Hence, the share of import went up to 8.7% in 1990-91. The upward movement continued till 1992-93 and the share of import went up to 11.3% in the year 1993-94. The export of gems and jewellery suffered during the period of 1994-96. As a result, the share of import came down to 5.7% in the year 1994-95 and 1995-96. The import went up to 7.5% in the year 1996-97. It has further gone up to 9.0% in the year 1998-99.

Iron and steel: It accounts for 4.9% of the total import for the year 1996-97 and went down to 2.8% in 1998-99. The share of import of iron and steel was 11% in the year 1960-61. The share of iron and steel has been gradually declining since 1960-61. During 90's the share of import was about 3.4% of the total import. The share of import has marginally moved up to 4.9% in the year 1996-97. It has further gone down to 2.8% in 1998-99.

Fertilizers and fertilizer manufactures: It accounts for 2.3% of the total import for the year 1996-97 and 2.4% in 1998-99. The share of import was 1.2% in the year 1960-61. The use of fertilizers started increasing after new agricultural technology was adopted during 70's. The share of import went up to 5.3% in 1970-71. It further moved up to 6.5% in 1980-81. The domestic production of fertilizer started increasing. The increased supply of fertilizer led to the decreased import share to 4.1% in 1990-91. It further came down to 4.5% in 1992-93 and 3.5% in 1993-94. It went up to 4.6% in 1995-96 and came down to 2.3% in the year 1996-97 and reached to 2.4% in the year 1998-99.

1.5 DIRECTION OF FOREIGN TRADE

Substantial changes have also been witnessed in the direction of foreign trade. USA has emerged as a major trading partner of India. Let us now discuss the directional pattern in detail.

1.5.1 Direction of Exports

Look at Table 1.5 which shows India's export to major destinations. During the year 1960-61 India's major export partner was UK followed by USA, Japan, Russia, Germany and France. They accounted for 57.4% of our total export. The share of individual country to total India's export was - UK (26.9%), USA (16%, Japan (5.5%), Russia (4.5%), Germany (3.1%) and France(1.4%).

The trade agreements between India and East European Countries on rupee payment started bearing fruits during 70's. The policy of counter trade helped in rapid expansion of trade between India and USSR. As a result, USSR became the leading market for India during the year 1970-71. USSR remained the leading market for India's export during the 80's followed by USA, Japan, UK and Germany. Germany became fourth largest export partner of India during the year 1980-81. During the year 1990-91, Russia remained the major export market followed by USA, Japan, Germany, UK, Belgium and France.

The significant change was witnessed in the direction of India's export after 90's as a result of collapse of USSR. The share of export to USSR went down from 16.1% in the year 1990-91 and subsequently changed trade policy also brought changes in the direction of India's export. During the year 1996-97, India's major export market was USA followed by UK, Japan, Germany, Belgium, Netherlands and France. The significant growth rate and unification in the form of European Economic Community facilitated India's export to European countries. Hence, the share of export increased in European nations. The country wise share of export was — USA 19.8%, UK 6.1%, Japan 6.0%, Germany 5.6%, Belgium 3.3%, Netherlands 2.5% and France 2.2%. These 6 countries accounted for 45.5% of total India's export. In the year 1998-99, country wise share of export was USA 21.8%, UK 5.7%, Germany 5.6%, Japan 4.9%, Belgium 3.9% and France 2.5%. They accounted for 44.4% of India's total export.

The above trend shows that India's export is highly concentrated in a few markets. It requires to formulate a suitable strategy to diversify the export market.

Table 1.5: Direction of Exports

(percentage share)

	1960-61	1970-71	1980-81	1990-91	1992-93	1995-96	1996-97	1997-98	1998-99
UK	26.9	11.1	5.9	6.5	6.5	6.3	6.1	6.1	5.7
Germany	3.1	2.1	5.7	7.8	7.7	6.2	5.6	5.5	5.6
Belgium	0.8	1.3	2.2	3.9	3.7	3.5	3.3	3.5	3.9
France	1.4	1.2	2.2	2.4	2.5	2.3	2.2	2.2	2.5
Netherlands	1.3	0.9	2.3	2.0	2.2	2.4	2.6	2.3	2.3
USA	16.0	13.5	11.1	14.7	19.0	17.4	19.6	19.4	21.8
Japan	5.5	13.3	8.9	9.3	7.7	7.0	6.0	5.4	4.9
Saudi Arabia	0.5	0.9	2.5	1.3	2.2	1.5	1.7	2.0	2.3
Russia	4.5	13.7	18.3	16.1	3.3	3.3	2.4	2.7	2.1
Other Least Developed Countries	14.8	19.8	19.2	16.8	20.8	25.7	27.1	26.2	24.6
Others	25.2	23.2	21.7	19.2	24.4	24.4	23.4	24.7	24.3
Total	100	100	100	100	100	100	100	100	100

Source: Economic Survey (1999-2000). Ministry of Finance, Government of India.

1.5.2 Direction of Imports

Look at Table 1.6 which shows India's imports from major destinations. During the year 1960-61 India's major importing partner was USA (29.2%) followed by UK (19.4%), Germany (10.9%), Japan (5.4%), Iran (2.6%), France (1.9%), Belegium and Russia (1.4%) each and Saudi Arabia (1.3%). The scenario has changed over a period of 40 years. For the year 1996-97 India's major importing partner was USA (8.8%) followed by Saudi Arabia (7.3%), Germany (7.2%), Belgium (6.3%), Kuwait (6.2%), Japan (5.7%), UK (5.4%), Iran (2.3%) and Russia (former USSR) (1.6%). The increasing quantity and amount of import of petroleum products has made Saudi Arabia and Kuwait 2nd and 5th largest import partners of India in 1996-97. In the year 1998-99, India's imports from major market was USA (8.7%), UK (6.1%) Belgium (6.0%), Japan (5.7%), Germany (5.1%) and Saudi Arabia (4.5°/o) and Kuwait (3.6%). They accounted for 39.7% of total India's import.

Table 1.6: Direction of Imports

Country	1960-61	1970-71	1980-81	1990-91	1992-93	1995-96	1996-97	1997-98	1998-99
UK	19.4	7.8	5.8	6.7	6.5	5.2	5.5	5.9	6.1
Germany	10.9	6.6	5.5	8.0	7.6	8.6	7.2	6.1	5.1
Belgium	1.4	0.7	2.4	6.3	8.3	4.6	5.8	6.4	6.0
France	1.9	1.3	2.2	3.0	2.7	2.3	2.0	1.9	1.7
USA	29.2	27.7	12.9	12.1	9.8	10.5	9.4	9.0	8.7
Japan	5.4	5.1	6.0	7.5	6.5	6.7	5.6	5.2	5.7
Saudi Arabia	1.3	1.5	4.3	6.7	6.8	5.5	7.1	6.0	4.5
Kuwait	0.0	0.3	2.7	0.8	4.4	5.4	6.1	5.5	3.6
Iran	2.6	5.6	10.7	2.4	1.8	1.6	2.2	1.5	1.2
Russia (former USSR)	1.4	6.5	8.1	5.9	1.2	2.3	1.6	1.6	1.3
Other Least Developed Countries	11.8	14.6	15.7	18.4	15.2	18.3	16.7	17.9	21.1
Others	14.7	22.3	23.7	22.2	29.2	29.0	30.8	33.0	35.0
Total	100	100	100	100	100	100	100	100	100

Source: Economic Survey (1999-2000), Ministry of Finance, Government of India.

1.6 MAJOR PROBLEMS OF INDIA'S EXPORT SECTOR

Among the major problems faced by Indian exporters include poor quality image, high costs, unreliability, infrastructural bottlenecks, inadequacy of trade information system, supply problems, faceless presence, uncertainties, procedural complexities and institutional rigidities, etc.

Poor Quality Image: "Made in India" does not enjoy good reputation in the markets abroad. Rather it is considered to be a sign of poor quality. The products manufactured in Japan, Korea and now even China are frequently quoted abroad as examples of dependable quality. Despite the measures taken under the Exports (Quality Control and Inspection) Act and other laws, our exports continue to suffer because of the quality problem. On several occasions, carelessness and lack of commitment on the part of the exporters are also responsible. There is a general impression that a proper export culture is lacking in India.

High Costs: The rate of interests on export finance is substantially higher as compared to other countries. It is estimated that interest rates alone constitute nearly 15 per cent of the cost of production in India. Moreover, the bank charges in India work out to nearly 3 per cent compared to 1 per cent in countries like Japan and Republic of Korea. Similarly, the port charges in India are stated to be three to four times higher than those of Colombo, Hong Kong, Singapore and South Korea.

Technological factors and low productivity also contribute to high cost of production in India. Further, the advantages of the economies of scale and ability of bulk supplies are not available to the Indian exporters. Productivity performance is linked to the issue of technology and management. Our policy towards technology has been somewhat lukewarm in encouraging the adoption of modern technology and technological innovations. Our traditional export sectors of textiles and jute have already suffered a lot due to lack of modernisation, whereas many other, competing countries have made rapid strides in this regard.

Unreliability: As pointed out above the products originating from India are considered to be of poor quality. Besides quality, Indian exporters are regarded as unreliabe on certain other factors such as going back on a contract and refusing to fulfil it on its original terms, inability to provide prompt aftersales service. Exporters from countries like Japan, South Korea and Taiwan normally replace a defective consignment free of cost and without taking much time. It is the prompt response or aftersales service which projects image of the supplying country for generating additional business. In sharp contrast, within the framework of our policies and procedural formalities a quick response for replacing a damaged or defective consignment or for providing a prompt aftersales service more often than not remains a far fetched idea for Indian exporters.

Infrastructural Bottlenecks: In India, infrastructural shortages such as energy shortages, inadequate and unreliable transport and communication facilities hinder growth of exports. Power shortages and breakdowns disrupt production schedules, increase cost and adversely affect timely shipments. Improving the transportation system, including the expansion and modernisation of the port facilities, rationalisation of the charges, improving the procedural system, etc. are very much essential for the development of the export sector.

Inadequacy of Trade Information System: An efficient trade information system is essential for success in the dynamic global market. Electronic Commerce including Electronic Data Interchange and Internet are playing very significant role in world trade. With the phenomenal expansion of the Internet it has become very easy in the world today to obtain information. However, in India because of lack of proper facilities of communication it is not possible to depend on Internet for obtaining latest trade information. Even if these facilities are available the same are very costly. Some of the developed countries have mentioned that they would not like to trade with a country whose exporters/importers are not in a position to complete necessary formalities through the mode of Electronic Data Interchange. In India, satisfactory progress has not been made so far in this direction.

Supply Problems: A serious drawback of the Indian export sector is its inability to provide continuous and smooth supply in adequate quantities in respect of several products. The problem is that much of the exporting is the result of the residual approach rather than conscious effort of producing for export. The tendency for exporting what we produce rather than producing for export still continues to characterise the export behaviour.

Faceless Presence: Major export items of India like seafood, leather manufactures, spices, etc. have, in many cases, a faceless presence in foreign markets. Although these exports may undergo further processing or repacking in many cases, in several cases the Indian exports are sold in the foreign markets in the same condition as they are exported but under foreign brand names. It may also be true that when the product carries a foreign brand name it may fetch a much higher price than the same product with an Indian name.

Uncertainties, Procedural Complexities and Institutional Rigidities: One of the defects of our trade policy regime has been the uncertainty about future policies, incentive schemes, etc. In order to bring some stability in this direction, the Import-Export Policy has been given a five year span. However, still every year a large number of amendments in the Exim-Policy are effected. There have been reports of loss of exports worth hundreds of crores of rupees due to the problem of inter-departmental coordination. With regard to export documentation and formalities, it has been observed that most of the existing procedural and documentation formalities prescribed by different authorities have been developed to suit their own individual requirements without much regard to the repercussions they might have on the total export activity. When the export effort of the country is being intensified, it is necessary that the documentation and procedural formalities related to export activity are also streamlined and simplified so that they do not constitute impediments to the growth of the country's export trade.

Check Your Progress B

1) Enumerate five major commodities exported from India.

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2) Enumerate four major items imported to India.

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3) Enumerate four major markets for India's exports.

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4) State whether following statements are **True** or **False**.

   i) The contribution of agricultural and allied products is highest in India's export in 1998-99.

   ii) The contribution of petroleum oil and lubricants is highest in India's total import in 1998-99.

   iii) India's largest export was destined to USA in 1998-99.

   iv) In India, the largest imports come from Japan.

   v) The policy of counter trade helped in rapid expansion of trade between India and USSR.

1.7 LET US SUM UP

Trade facilitates the flow of capital and speed up the acquisition of new technology. Exports not only contribute directly to economic growth but more important, also permit more imports, and a rapid modernisation of production. The result is an efficient domestic industry fully geared to international competition.

In the 50's exports largely comprised agricultural products. During the third plan, several new products principally in the engineering and chemical fields emerged for the first time and this trend continued. The 70s saw a significant diversification of exports, Handicrafts emerged as the single largest foreign exchange earner. Indian exports now include engineering goods, electronics and computer software, chemical and chemical products, leather and leather manufactures, garments, cotton fabrics, rayon and wollen textiles, gems and jewellery, handicrafts, hand-made carpets, processed foods and marine products. Emphasis at the same time has also been laid on the export of traditional items like agricultural commodities, ores and minerals and plantation crops.

There has been significant changes in the composition of imports. The share of capital goods has increased in absolute amount but their relative share has declined. After the hike in oil-price in 1979, the share of imports in the total import bill has been rising.

The major Indian markets are: USA, UK, Germany and Japan. India's major imports come from USA, UK, Belgium, Japan, Germany and Saudi Arabia.

1.8 KEY WORDS

Capital Goods: Plant, machinery, equipment or accessories required for production process.

Duty Drawback: Scheme of refund of import duty on raw materials, components and packing materials used in export product.

Manufacturer Exporter: A person who exports goods manufactured by him.

Merchant Exporter: A person engaged in trading activity and exporting.

Trade Deficit: Excess of imports over exports.

1.9 ANSWERS TO CHECK YOUR PROGRESS

A3 i) True ii) False iii) False iv) False v) True

B4 i) False ii) False iii) True iv) False v) False

1.10 TERMINAL QUESTIONS

1. Outline the changing pattern of India's foreign trade with reference to composition of foreign trade.

2. Describe the changing pattern of India's foreign trade with reference to markets.
3. Discuss the main features of India's foreign trade.
4. Considering imports and exports seperately, highlight the changes that have taken place in the composition and direction of the country's foreign trade. Point out their significance.
5. On what grounds is the strategy of export-led growth held justified for an underdeveloped country? Critically examine its suitability for India.

UNIT 2 INDIA'S BALANCE OF PAYMENTS

Structure

2.0 Objectives
2.1 Introduction
2.2 Concepts of Balance of Payments
- 2.2.1 Balance of Trade and Balance of Payments
- 2.2.2 Balance of Payment Accounting

2.3 Salient Features of India's Balance of Payments
2.4 India's Current and Capital Account
2.5 Role of Invisibles in Balance of Payments
2.6 Recent Policy Measures
- 2.6.1 Foreign Exchange Policy
- 2.6.2 Convertibility

2.7 Let Us Sum Up
2.8 Key Words
2.9 Answers to Check Your Progress
2.10 Terminal Questions

2.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the concept of balance of payment
- describe the accounting procedure of BOP
- review the trade policy of India
- explain the trends in India's balance of payment
- discuss the role of invisibles in BOP
- explain the recent policy measures.

2.1 INTRODUCTION

Balance of payment refers to all economic transactions between domestic and foreign residents over a stipulated period. The balance of payment of a country provides an overall view of its international economic position. It is very much helpful for the policy makers and the business communities. It this unit, you will learn the concept of balance of payment, the balance of payment accounting procedure, trends in India's balance of payment and recent policy measures.

2.2 CONCEPTS OF BALANCE OF PAYMENTS

Balance of payments refer to all economic transactions between domestic and foreign residents over a stipulated period generally one year. The analysis of balance of payment is immensely useful for the policy makers and business communities. Moreover, it is an important instrument for maintaining external economic stability. A close understanding of dependence of international business upon balance of payments is necessary for successful strategy of international business. Let us learn various aspects of balance of payment in detail.