UNIT 18  STRUCTURE OF INDIA’S FOREIGN TRADE

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18.0 OBJECTIVES
After going through this unit, you will be able to:
• Discuss the significance of foreign trade in the Indian economy;
• Analyze the broad trends in India’s foreign trade;
• Spell out the composition of India’s exports and imports;
• Determine the direction of trade;
• Examine India’s foreign trade policy; and
• State the concept of foreign trade multiplier.

18.1 INTRODUCTION
Foreign trade, more generally, has been considered as an engine of growth. Like in every other economy, Indian economy and foreign trade are closely interlinked. Foreign trade has a significant impact on the GDP growth as well as expansion. As such foreign trade is a crucial part of development strategy. It has been an effective mechanism of financial growth, creation of job opportunities and poverty reduction in the economy. Foreign trade results in proper use of the resources of the country; making available necessary inputs for industrialization; providing outlet for surplus production; earning much needed foreign exchange. It helps the country to deal with the periods of natural calamities (droughts, floods, etc.) through import of food grains and other necessary consumer goods. In the present age of globalization, the government has initiated changes in its strategy on trade, foreign investment, and tariffs. An appropriate and skillfully designed
foreign trade policy is essential for India’s rapid economic growth. In this unit, you will learn the trends in volume of trade, composition of trade; and direction of trade in post – reform period. We will also examine the principal features of India’s foreign trade policy. We will sum up the discussion with highlight on the concept of foreign trade multiplier.

18.2 TRENDS IN INDIA’S FOREIGN TRADE

During 2019-20, total of exports and imports trade of India represents 43.3 per cent of the country's GDP. Earlier, till 1980s this volume ranged between 15 to 20 per cent of GDP. As per the WTO data for the year 2018 India's share in global exports of merchandise was 1.7 percent and in global imports 2.6 percent. In the services sector, India's share in global exports 3.5 percent and imports was 3.2 percent. The low world share of India’s exports, however, does not bring out the importance of foreign trade for the Indian economy. All-out efforts are being made by the government to raise the share of India in the global exports. In this section, we will analyze the trends in value, composition and direction of exports and imports and highlight the growing importance of services trade in recent times.

The value of India’s exports grew at the rate of 14.5 per cent a year during the 20 year after 1991. The first decade of reforms is characterized by a relatively low growth of 8 per cent a year, while the second decade stands apart for its strong growth rate of 21 percent a year. In general, the growth rate of Indian exports has been higher than the world exports throughout the post-reform period. This is in contrast to the pre-reform period when the Indian growth rates had been below the world average. Looking at the level rather than growth, the value of exports stood at $23 billion in 1993-94 which increased to $45 billion in 2001-02. In other words, during the early phase of the reforms, it took as many as eight years to double the value of exports. However, thereafter within a period of four years, the export value increased to more than doubled from $45 billion in 2001-02 to $105 billion in 2005-06. Further, between 2002-03 and 2010-11, the value of exports increased nearly five times from about $54 billion to $250 billion. Consistent with this trend, India's share in the world exports first increased slowly from about 0.6 percent in 1993 to 0.7 percent in 2001 and then increased relatively faster to 1.7 percent in 2018. India's total merchandise trade as a percentage of the gross domestic product (GDP) increased from 28.2 percent in 2004-5 to 43.2 percent in 2011-12. India's merchandise exports as a percentage of GDP increased from 11.8 per cent to 16.5 percent during the same period.

From 1991 to 2018, the total value of goods exports increased more than 16 times from $18 billion to over $322.5 billion. During the same time span, goods imports increased almost 22 times from $24 billion to $508 billion.


The sustainability of India's export and prospects for further growth are strongly contingent on the trends in world demand. Economic survey 2019-20 has observed that export growth remains subdued with external demand weakened by slowdown in global investment, output and heightened trade tensions, notwithstanding resilient service exports. The global pandemic in form of Covid -19 adversely affected trade. We are witnessing a sharp recovery presently.
Check your progress A

1) Identify four major trends in India’s foreign trade since 1991.
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   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................

2) Indicate India’s position in global trade.
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   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................

3) Highlight the importance of foreign trade in Indian economy.
   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................

4. Which of the following statements are True or False?
   i) Foreign trade is considered as an engine of growth.
   ii) During 2019-20, total of exports and imports trade of India were lower than those during the 1980s.
   iii) The first decade of reforms is characterized by a relatively low growth.
   iv) From 1991 to 2018, the total value of goods exports increased more than 16 times.
   v) Global pandemic in the form of Covid -19 did not affect India’s foreign trade.

18.3 COMPOSITION OF FOREIGN TRADE

18.3.1 Composition of Exports

Composition of foreign trade refers to the items of imports and exports. Over the last seven decades, India’s foreign trade has undergone a complete transformation in terms of composition of commodities. Manufacturing holds an important part of India’s exports growth. Four sectors viz. engineering, gems and jewelry, petroleum and textiles contributes to about three-quarters of India’s exports. The composition of India’s exports trade has undergone structural changes mainly as a result of industrial progress.

India's merchandise trade increased exponentially in the 2000s decade from US$ 95.1 billion in 2000-01 to US$ 793.8 billion in 2011-12. India's share in global exports and imports also increased. Its ranking in the leading exporters and importers stood at 19 for exports and 10 in imports in 2018 rank. Total export from India (merchandise and services) stood at US$ 528.45 billion in 2019-20, while total import was estimated at US$ 598.61 billion. Merchandise export stood at US$ 314.31 billion in 2019-20, while merchandise import touched US$ 467.19 billion in the same period. The estimated value of services export and import for 2019-20 stood at US$ 214.14 billion and US$ 131.41 billion, respectively.
Some of the major changes can be identified as follows:

(i) The most striking aspect of the structural change in India's exports is that the share of capital-intensive products has more than doubled. The capital-intensive groups such as transport equipment, machinery, and base metals registered higher growth than the traditional groups like textiles.

(ii) The share of petroleum products in India's export basket increased dramatically from about 2 percent in 1993 to as high as 13.7 percent in 2019. This export surge has been driven mainly by India's private sector oil refineries.

(iii) There has been a consistent structural change in export leading to increase in the shares of human capital and technology-intensive products and a consistent decline in the shares of natural resource and unskilled labour-intensive products.

(iv) The phenomenal growth of ‘mineral products’ has been driven by ‘mineral fuels and oils’ while ‘organic chemicals’ and ‘pharmaceutical products’ are responsible for the export growth of ‘chemical products’.

(v) The export growth of ‘machinery’ has been driven primarily by ‘electrical machinery and equipments’. The growth of ‘transport equipments’ has been brought about by ‘vehicles other than railway or tramway rolling-stock’ and ‘ships, boats and floating structure’.

A total of 68 dynamic products in India’s export basket have been identified, of which 50 belong to the capital-intensive category and the remaining 18 belong to the traditional category.

The combined share of these 68 products in India's total exports has increased very fast. The capital-intensive category as a whole contributes about 56 percent of India's total exports. This indicates a high degree of concentration in export activity.

To sum up compositional changes in India's export basket have been taking place over the years. While the share of primary products in India's exports fell over the years mainly due to the fall in shares of traditional items like textiles and leather and leather manufactures even though the share of engineering goods and chemicals and related products increased. In short, the proportions of high value and differentiated products have increased in India’s export basket.

The composition of trade is now dominated by manufactured goods and services. The diversification in export products has risen rapidly following the reforms. In recent times, the composition of India’s exports has become more broad-based with visibly decreased dependency on any one product category.

18.3.2 Composition of Imports

There has been a shift in India’s import trade from primary products to capital goods and other intermediate manufactures. Now the import of primary fertilizers, iron and steel, non-ferrous metals, and other industrial inputs has increased substantially. The changes in the composition of imports have occurred to meet the consumption and investment needs of the growing economy of India. The most notable change is the rise in share of capital goods imports. The strong growth of the manufacturing and services sector is reflected in its import bill.

The shares of import bill telecommunications, equipment, office machines, and aircrafts have risen appreciably. Fuel imports remain a major import item. The other product categories in India’s imports include: electronic goods, gold and
silver, chemicals, pearls and precious and semi-precious stones, iron and steel, non-ferrous metals, professional instruments, optical goods, etc., and computer software. Due to the greater rise in the demand for edible oils as compared to production, India’s dependency on edible oils continues. As India has multiplied domestic production capacity for manufacturing capital goods, its import share of capital goods has declined.

**Table 18.1**: Commodity-wise Composition of Exports (Share in Total Exports Percent)

<table>
<thead>
<tr>
<th>Items</th>
<th>2011-12</th>
<th>2019-20 (April-November)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum Products</td>
<td>18.5</td>
<td>13.7</td>
</tr>
<tr>
<td>Pearl, Precious, Semiprecious Stones</td>
<td>9.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Drug Formulations, Biologicals</td>
<td>2.6</td>
<td>5.0</td>
</tr>
<tr>
<td>Gold and Other Precious Metal Jewellery</td>
<td>4.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>2.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Products of Iron and Steel</td>
<td>2.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Organic Chemicals</td>
<td>1.7</td>
<td>2.8</td>
</tr>
<tr>
<td>RMG Cotton including Accessories</td>
<td>3.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Ship, Boat and Floating Struct</td>
<td>2.7</td>
<td>2.5</td>
</tr>
<tr>
<td>Other Commodities</td>
<td>5.0</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: Department of Commerce, Government of India

**Table 18.2**: Commodity-wise Composition of Imports in (Share in Total Imports Percent)

<table>
<thead>
<tr>
<th>Items</th>
<th>2011-12</th>
<th>2019-20 (April-November)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum: Crude</td>
<td>27.4</td>
<td>21.0</td>
</tr>
<tr>
<td>Gold</td>
<td>11.6</td>
<td>6.4</td>
</tr>
<tr>
<td>Petroleum Products</td>
<td>4.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Coal, Coke and Briquettes, etc.</td>
<td>3.6</td>
<td>4.8</td>
</tr>
<tr>
<td>Pearl, Precious, Semiprecious Stones</td>
<td>5.8</td>
<td>4.6</td>
</tr>
<tr>
<td>Fertilizers Manufactured</td>
<td>1.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Telecom Instruments</td>
<td>2.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Organic Chemicals</td>
<td>1.9</td>
<td>2.7</td>
</tr>
<tr>
<td>Industrial Machinery for Dairy etc.</td>
<td>2.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>2.8</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Source: Department of Commerce, Government of India

**18.3.3 Main Items of Exports and Imports of India**

Since liberalization, there has been an increasing diversification of both exports and imports. The transformation in the composition of India’s exports has been made possible because of rapid growth and diversification of Indian industries. The composition of imports also underwent changes.

India’s imports primarily consist of petroleum products, fertilizers, capital goods, edible oils, etc., wherein there is little flexibility to reduce its imports bill.

The main items of exports of manufactured goods from India consist of:

(i) gems and jewellery,
(ii) readymade garments,
India’s exports of agricultural and allied products include:
(i) marine products,
(ii) raw cotton,
(iii) oil meals, fruits and vegetables,
(iv) spices, cashewnuts, coffee and tea,
(v) unmanufactured tobacco,
(vi) cereals, and others.

Important items of imports of goods to India consist of:
(i) Petroleum Crude,
(ii) Gold, Pearl, Precious, Semiprecious Stones,
(iii) Petroleum Products Coal,
(iv) Electronics Components,
(v) Telecom Instruments,
(vi) Organic Chemicals,
(vii) Industrial Machinery for Dairy etc.,
(viii) Iron and Steel,
(ix) Plastics, plastic articles,
(x) Medical apparatus,
(xi) Other items.

Check your progress B

1) Name four main items of exports by India.

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2) Name four main items of imports by India.

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........................................................................................................................................
........................................................................................................................................

3) Point out three major changes in India’s imports.

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4) What is the most striking aspect of the structural change in India's exports in the recent past?

5. Which of the following statements are True or False?
   i) Manufacturing holds an important part of India’s exports growth.
   ii) The share of capital-intensive products in India's exports has more than doubled.
   iii) The share of import bill of telecommunications, equipment, office machines, and aircrafts has decreased appreciably.
   iv) India’s main item of exports is petroleum crude.
   v) India has emerged as a leading exporter of software.

18.4 TRADE IN SERVICES

India’s services trade has been a major driver of its exports over the past two decades. The country has emerged among the fastest growing nations in global services trade as can be seen from Table 18.3.

Table 18.3: India’s trade in services (2014-18) (value in $ billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Trade balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>157.20</td>
<td>128.36</td>
<td>28.83</td>
</tr>
<tr>
<td>2015</td>
<td>156.28</td>
<td>123.57</td>
<td>32.71</td>
</tr>
<tr>
<td>2016</td>
<td>161.82</td>
<td>133.53</td>
<td>28.29</td>
</tr>
<tr>
<td>2017</td>
<td>185.29</td>
<td>154.60</td>
<td>30.70</td>
</tr>
<tr>
<td>2018</td>
<td>205.11</td>
<td>176.58</td>
<td>28.52</td>
</tr>
</tbody>
</table>


This sector has not only attracted significant foreign investment flows but also contributed significantly to exports as well as provided large-scale employment. India’s services sector covers a wide variety of activities such as trade, hotels and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

India’s services exports have significantly grown in the post reform period as can be seen from Table 18.4 below. The trade in services has been growing faster than the merchandise trade, and the share of services in the total export trade has been increasing.

Table 18.4: Service Exports as percent of GDP

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>7.7</td>
<td>7.5</td>
<td>7.7</td>
</tr>
<tr>
<td>Imports</td>
<td>4.4</td>
<td>4.3</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India.
India is now the world’s back-office because companies from rich nations have outsourced business processes and other IT-intensive and knowledge-based operations to Indian partners. India’s services trade surplus has increased due to the surge in IT exports. There has been considerable growth in transport, travel, and other services, such as telecommunications, financial, construction, and legal. The software services are mainly responsible for the surplus in services trade. Over the years, the composition of services exports from India has undergone considerable change. Some of these changes can be highlighted as follows:

An analysis of services exports from India reveals that the largest services segment, software and IT-enabled services, has graduated to newer services. The new services include: packaged software implementation, systems integration, network infrastructure management, and IT consulting. There remains a huge untapped potential for IT-enabled services.

Under the miscellaneous services segment, India’s entertainment industry covers film, music, broadcast, television, and live entertainment and is basically an intellectual-property-driven sector with small to large players spread across India. Education process outsourcing includes: imparting online education, training, and coaching, and other related services through the Internet and has emerged as a significant segment for services exports. The travel and tourism sector has also shown significant growth in recent years.

India’s imports of services have increased from $128.36 billion in 2014 to $176.58 billion in 2018. The relative shares of the various constituents of service imports have not varied much with business services constituting about a third of service imports, which is in consonance with the rising level of economic activity in the country. The component of travel services has however been steadily increasing reflecting the growing attractiveness of global destinations to the domestic tourists in the country. India has maintained trade surplus in all the major services. However, the trade surplus has shown fluctuations in the past five years.

**Table 18.5: India’s imports of services (2014-18)**

<table>
<thead>
<tr>
<th>Code</th>
<th>Service label</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>S</td>
<td>All services</td>
<td>128.36</td>
<td>123.57</td>
<td>133.53</td>
<td>154.60</td>
<td>176.58</td>
</tr>
<tr>
<td>SOX</td>
<td>Memo item: Commercial services</td>
<td>127.40</td>
<td>122.69</td>
<td>132.85</td>
<td>153.96</td>
<td>175.45</td>
</tr>
<tr>
<td>3</td>
<td>Transport</td>
<td>58.90</td>
<td>52.26</td>
<td>47.95</td>
<td>57.06</td>
<td>66.74</td>
</tr>
<tr>
<td>10</td>
<td>Other business services</td>
<td>26.87</td>
<td>29.81</td>
<td>32.74</td>
<td>35.44</td>
<td>38.71</td>
</tr>
<tr>
<td>4</td>
<td>Travel</td>
<td>14.59</td>
<td>14.84</td>
<td>16.38</td>
<td>18.44</td>
<td>21.31</td>
</tr>
<tr>
<td>SN</td>
<td>Services not allocated</td>
<td>5.10</td>
<td>5.97</td>
<td>12.26</td>
<td>14.43</td>
<td>16.83</td>
</tr>
<tr>
<td>8</td>
<td>Charges for the use of intellectual property n.i.e.</td>
<td>4.85</td>
<td>5.01</td>
<td>5.47</td>
<td>6.52</td>
<td>7.91</td>
</tr>
<tr>
<td>9</td>
<td>Telecommunications, computer, and information services</td>
<td>4.32</td>
<td>3.80</td>
<td>4.75</td>
<td>6.07</td>
<td>7.09</td>
</tr>
<tr>
<td>6</td>
<td>Insurance and pension services</td>
<td>5.88</td>
<td>5.23</td>
<td>5.07</td>
<td>6.29</td>
<td>6.75</td>
</tr>
<tr>
<td>7</td>
<td>Financial services</td>
<td>4.12</td>
<td>3.12</td>
<td>5.02</td>
<td>5.80</td>
<td>4.04</td>
</tr>
<tr>
<td>11</td>
<td>Personal, cultural, and recreational services</td>
<td>1.39</td>
<td>1.37</td>
<td>1.89</td>
<td>2.14</td>
<td>2.54</td>
</tr>
<tr>
<td>5</td>
<td>Construction</td>
<td>1.13</td>
<td>0.96</td>
<td>0.95</td>
<td>1.22</td>
<td>2.49</td>
</tr>
<tr>
<td>12</td>
<td>Government goods and services n.i.e.</td>
<td>0.96</td>
<td>0.88</td>
<td>0.68</td>
<td>0.64</td>
<td>1.13</td>
</tr>
<tr>
<td>2</td>
<td>Maintenance and repair services n.i.e.</td>
<td>0.22</td>
<td>0.31</td>
<td>0.32</td>
<td>0.51</td>
<td>1.00</td>
</tr>
<tr>
<td>1</td>
<td>Manufacturing services on physical inputs owned by others</td>
<td>0.03</td>
<td>0.03</td>
<td>0.05</td>
<td>0.04</td>
<td>0.04</td>
</tr>
</tbody>
</table>

Source: ITC Trade Map; values are in US$ billion
After independence, India’s trade expanded in many new directions. Change has been evident in countries which India trades with. The direction of both imports and exports of India has changed significantly. India has trading relations with all the major trading blocs and all the geographical regions of the world. At present, India’s major trading partners are: China, U.S.A., U.K., Russia, Japan, Germany, France, Iran, Iraq, Belgium, Saudi Arabia, UAE, Hong Kong, Singapore. Trade with emerging markets and developing countries has expanded spectacularly. Within Asia, while the share of North East Asia (consisting of China, Hong Kong, Japan) and ASEAN (Association of South East Asian Nations) fell there was a noticeable rise in the share of West Asia-GCC (Gulf Cooperation Council) countries. The country has recently signed free trade agreements with South Korea and ASEAN, and has entered into negotiations with several partners (EU, MERCOSUR, Australia, New Zealand and South Africa). The top five countries of exports are U.S.A., U.A.E., China, Hong Kong and Singapore. As regards the direction of imports, the top five countries of imports are China, USA, United Arab Emirates, Saudi Arabia and Iraq.

### Top ten export and import destinations of India in 2019-20

#### Export Destinations

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>16.95</td>
</tr>
<tr>
<td>2</td>
<td>United Arab Emirates (UAE)</td>
<td>9.21</td>
</tr>
<tr>
<td>3</td>
<td>China</td>
<td>5.30</td>
</tr>
<tr>
<td>4</td>
<td>Hong Kong</td>
<td>3.50</td>
</tr>
<tr>
<td>5</td>
<td>Singapore</td>
<td>2.85</td>
</tr>
<tr>
<td>6</td>
<td>UK</td>
<td>2.80</td>
</tr>
<tr>
<td>7</td>
<td>Netherland</td>
<td>2.67</td>
</tr>
<tr>
<td>8</td>
<td>Germany</td>
<td>2.65</td>
</tr>
<tr>
<td>9</td>
<td>Bangladesh</td>
<td>2.62</td>
</tr>
<tr>
<td>10</td>
<td>Nepal</td>
<td>2.29</td>
</tr>
</tbody>
</table>

#### Import Destinations

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>13.75</td>
</tr>
<tr>
<td>2</td>
<td>USA</td>
<td>7.55</td>
</tr>
<tr>
<td>3</td>
<td>United Arab Emirates (UAE)</td>
<td>6.38</td>
</tr>
<tr>
<td>4</td>
<td>Saudi Arabia</td>
<td>5.66</td>
</tr>
<tr>
<td>5</td>
<td>Iraq</td>
<td>5.00</td>
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<td>6</td>
<td>Hong Kong</td>
<td>3.57</td>
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<td>7</td>
<td>Switzerland</td>
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</tr>
<tr>
<td>8</td>
<td>South Korea</td>
<td>3.30</td>
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<tr>
<td>9</td>
<td>Indonesia</td>
<td>3.17</td>
</tr>
<tr>
<td>10</td>
<td>Singapore</td>
<td>3.11</td>
</tr>
</tbody>
</table>


The destination-wise exports of major items to the major trading partners show great changes in the composition of exports to USA and China. In the case of India’s exports to the USA, the share of exports of primary products has increased
while the share of manufactured goods in India's exports to the USA has fallen. This decline has been mainly due to the fall in growth rates of exports of textiles and gems and jewellery. In the case of India's exports to China, the share of primary products has fallen due to the fall in share and growth rate of ores and minerals. The share of manufactures in India's exports to China has increased mainly due to the rise in share of engineering goods, textiles, and chemicals and related products. In the case of India's exports to the EU, there has been a marginal rise in the share of primary products and petroleum products and a fall in the share of manufactured goods.

**Traditional Markets and Emerging Markets**

It is convenient to divide the different market regions into two broad groups:

(i) Traditional markets’ comprising Australia and New Zealand, Europe, Japan, and North America; and

(ii) Emerging markets which include south and Central America, the Caribbean and the various regions of Asia and Africa.

The aggregate share of traditional markets in India's exports has declined steadily. The emerging markets account for nearly two-thirds of India’s exports. India's export shares to most of the countries in this group has increased over the years, with the increase being particularly pronounced for the UAE and China.

With the country focusing on its Look-East policy since 2009 and exploring new destinations, such as Latin America, Africa and Oceania, growth in exports has, more or less, been steady, even as demand from traditional markets of the US and the EU is on a decline. China continues to be the largest exporter to India followed by USA, UAE and Saudi Arabia. There is need to diversify the markets.

**Check your progress C**

1) Write three importance of trade in services.

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2) Name five main items of exports and imports in trade in services.

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3) Describe the main trade partners of India for both exports and imports.

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4) Name three important emerging markets for Indian exports.

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5. Which of the following statements are **True** or **False**?

   i) India has emerged among the fastest growing nations in global services trade.
   
   ii) India is now the world’s back-office.
   
   iii) India has maintained trade surplus in all the major services.
   
   iv) The share of manufactured goods in India’s exports to the USA has increased.
   
   v) The Caribbean has been the traditional market for India’s exports.

### 18.6 INDIA’S FOREIGN TRADE POLICY

India used to be a protectionist state for a long time, but presently the country has become progressively more open to international trade. Since July 1991, the economy is largely driven by market dynamics. This is true for India’s foreign trade. The Indian economy has been opened up to foreign participation for the first time, in an attempt to improve the efficiency and competitiveness of Indian industries.

The outward looking trade policy measures announced in 1991 mark the initiation of a new era in India’s foreign trade. India adopted export promotion strategy just to promote its exports so as to increase its foreign exchange earnings. Post 1991, the gradual liberalization of the Indian economy created a conducive environment for India’s exports to flourish and evolve into an engine of social and economic growth. Hence, the last three decades have witnessed India’s transformation from a closed economy to a big player in the global market. Many pro-export policies have been adopted after the reforms, which have a favorable impact on India’s trade. The process of trade liberalization is still not completed.

**Foreign Trade Policy 2015-20**

The Foreign Trade Policy (FTP) 2015-20 was unveiled on April 1, 2015. India aims to increase its export of merchandise and services from $465 billion in 2013-14 to approximately $900 billion by the 2019-20 and to raise India’s share in the world export from 2 percent to 3.5 percent. The focus of the policy is to support both the manufacturing and services sectors, with a special emphasis on improving the ‘ease of doing businesses’. It lays down a road map for India’s global trade engagement in the coming years.

India’s Foreign Trade Policy (FTP) consists of schemes to support the domestic exporting community. These include development policies that help set-up special trade and economic zones in different parts of the country. The FTP is primarily growth-oriented. Its main objective is to encourage exports. The government is pitching India as a friendly destination for manufacturing and exporting goods, and the policy is being seen as an important step towards realising that goal.

The policy describes the market and product strategy and measures required for trade promotion, infrastructure development and overall enhancement of the trade eco system. It seeks to enable India to respond to the challenges of the external environment, keeping in step with a rapidly evolving international trading architecture and make trade a major contributor to the country’s economic growth and development. Following are the salient features of the FTP:

(i) The policy provides a framework for increasing exports of goods and services as well as generation of employment. The focus is on increasing value addition in the country, in line with the ‘Make in India’ programme.
(ii) It aims to enable India to respond to the challenges of the external environment, keeping in step with a rapidly evolving international trading architecture. It aims at making trade a major contributor to the country’s economic growth and development.

(iii) It introduces two new schemes. The first is ‘Merchandise Exports from India Scheme (MEIS)’ for export of specified goods to specified markets. The second scheme is ‘Services Exports from India Scheme (SEIS)’ for increasing exports of notified services.

(iv) In order to give a boost to exports from SEZs, the policy extends benefits of both the reward schemes (MEIS and SEIS) to units located in SEZs. It is hoped that this measure will give a new impetus to development and growth of SEZs in the country. Duty credit scrips issued under MEIS and SEIS and the goods imported against these scrips are fully transferable.

(v) Measures have been adopted to nudge procurement of capital goods from indigenous manufacturers under the EPCG scheme.

(vi) It provides boost to exports of defense and hi-tech items.

(vii) A number of steps for encouraging manufacturing and exports under 100 percent EOU/EHTP/STPI/BTP Schemes has been taken.

(viii) 108 ‘MSME clusters’ have been identified for focused interventions to boost exports. Accordingly, ‘Niryat Bandhu Scheme’ has been galvanized and repositioned to achieve the objectives of ‘Skill India’. Outreach activities will be organized in a structured way at these clusters with the help of EPCs and other willing “Industry Partners” and “Knowledge Partners”.

(ix) Trade facilitation and enhancing the ease of doing business are the other major focus areas of FTP. Attention has been paid to simplify various ‘Aayat Niryat’ Forms, bringing in clarity in different provisions, removing ambiguities and enhancing electronic governance.

The government has extended the existing foreign trade policy till March 2022 amid the outbreak of the coronavirus pandemic. Notwithstanding all the changes and reforms, India’s trade regime and regulatory environment still remains relatively restrictive.

18.7 FOREIGN TRADE MULTIPLIER

The concept: The foreign trade multiplier also known as the export multiplier operates like the investment multiplier. It may be defined as the amount by which the national income of a nation will be raised by a unit increase in domestic investment on exports. As exports increase, there is an increase in the income of all persons associated with export industries. These in turn create demand for goods. But this is dependent upon their marginal propensity to save (MPS) and the marginal propensity to import (MPM). The smaller the ratio of these two marginal propensities, the larger will be the value of multiplier and vice versa resulting in increase in domestic product to an addition to exports. As for example, if an increase in exports by ₹1000 crores has raised national income through the foreign trade multiplier by ₹2000 crores, given the values of MPS and MPM.

Assumptions

The foreign trade multiplier is based on the following assumptions:

(i) There is full employment in the domestic economy.
(ii) There is a direct link between domestic and foreign country in exporting and importing goods.

(iii) It is on a fixed exchange rate system. The multiplier is based on instantaneous process without time lag and the domestic Investment (Id) remains invariable.

(iv) There is no accelerator and the analysis is applicable to only two countries.

(v) There are no tariff barriers and exchange controls.

(vi) The government expenditure is constant.

**Working**

The foreign trade multiplier process can be explained like this. Suppose the exports of the country increase. To begin with, the exporters will sell their products to foreign countries and receive more income. In order to meet the foreign demand, they will engage more factors of production to produce more. This will raise the income of the owners of factors of production. This process will continue and the national income increases by the value of the multiplier. The value of the multiplier depends on the value of marginal propensity to save (MPS) and marginal propensity to import (MPM). There has been an inverse relation between the two propensities and the export multiplier.

Imports depend on the level of national income. As the national income increases, so do domestic expenditures on imports. Thus, marginal propensity to import (MPM) is defined as:

\[ MPM = \frac{\text{change in import}}{\text{change in income}} \]

Exports have no relationship with the level of domestic national income, thus they are independent. Exports are dependent on national income of importing country.

**Multiplier effect**

(i) Given the assumptions, an increase in exports tends to raise domestic income. The increased income also encourages some imports, which act as ‘leakages’. These tend to reduce the full multiplier effect that would exist if imports remained constant. Thus, MPM is the fraction of any increase in income that ‘leaks’ into imports.

(ii) Open economy’s allocation of income is MPC + MPS + MPM = 1.

(iii) The foreign trade multiplier is defined as the reciprocal of all the leakages, including imports.

\[ \text{Foreign trade multiplier} = \frac{1}{\text{MPS + MPM}} = \frac{1}{\text{leakage}} \]

(iv) If MPS is constant then the MPM has an inverse relationship with MPC. As more imports are consumed, there are smaller amounts to be consumed for domestic goods.

**Importance**

The Foreign Trade multiplier brings about the effect of change in exports on change in income. In the open economy, exports are exogenous i.e., they do not depend upon national income of an economy. It gets determined exogenously in the external factors like taste and preferences of the residents of the foreign country and the national income of the foreign countries. There is a direct and positive relationship between imports and national income. As total national income rises imports rise too and vice versa.
In reality, countries are linked to each other indirectly also. A country’s exports or imports affect the national income of the other country which, in turn, affects the foreign trade and national income of the first country. The smaller the country is in relation to other trading partner, the negligible is the foreign repercussion. But the foreign repercussion will be high in the case of a large country because a change in the national income of such a country will have significant foreign repercussions. The policy implications are that the export promotion measures raise national income via the simple foreign trade multiplier, whereas increases in domestic investment policies raise national income many times in multiplier rounds via the repercussion effects.

**Shortcomings**

The analysis of foreign trade multiplier is based on the unrealistic assumptions. Exports and investment are not independent. A rise in exports does not always lead to increase in national income. On the contrary, certain imports, of say capital goods, have the effect of increasing national income. The foreign trade multiplier is assumed to be an instantaneous process whereby it provides the final results. Thus, it involves no lags and is unrealistic. The assumption of full employment is not realistic. It is not applicable to more than two countries. The foreign trade multiplier assumes that there are no tariff barriers and exchange controls. In reality, such trade restrictions exist which restrict the operations of the foreign trade multiplier. Governments always interfere through monetary and fiscal policies which affect exports, imports and national income. However, despite these shortcomings, the foreign trade multiplier is a powerful tool of economic analysis which helps in formulating policy measures.

**Check your progress D**

1) Distinguish between outward looking policy and import substitution strategy.

2) What do you mean by liberalized trade policy?

3) Point out six salient features of foreign trade policy (FTP) of 2015-20.

4) What is the concept of foreign trade multiplier?
5) Which of the following statements are True or False?

i) India used to be a protectionist state for a long time.

ii) The focus of the foreign trade policy 2015-20 is to place special emphasis on improving the ‘ease of doing businesses’.

iii) The foreign trade multiplier is related to the domestic investment on exports.

iv) In the open economy, exports depend upon national income of an economy.

v) Governments interfere in exports and imports through monetary and fiscal policies.

18.8 LET US SUM UP

It is significant to note the four important aspects of India’s foreign trade which include huge growth in the value and volume of trade, higher growth of imports, inadequate growth of exports, and mounting trade deficit.

Since independence, the composition of India’s foreign trade has changed as a result of economic development and industrialization of the country. India's major exports include manufacturing and engineering goods. It is no longer confined to a few countries or few commodities. Presently India has trade relations with almost all the countries of the world. India’s exports cover over 9300 commodities to about 220 countries. Imports from about 180 countries accounts for over 8200 commodities. India is now importing intermediate goods and raw material so as to make full use of its production capacity, known as maintenance imports.

India’s share in the world trade both in terms of imports and exports has been increasing. The bulk of India’s trade is with the developed countries of the West, the oil producing countries and China. However, there is a good scope for expanding trade, particularly exports, with South-East Asia, Middle-East, and East Africa.

The government has been following a liberalised foreign trade policy since 1991 and has mainly concentrated on reforms on liberalization, openness and export promotion activity.

The foreign trade multiplier may be defined as the amount by which the national income of a nation will be raised by a unit increase in domestic investment on exports. As exports increase, there is an increase in the income of all persons associated with export industries. But the assumptions of foreign trade multiplier are unrealistic.

18.9 KEY WORDS

Diversification of trade: A broadening of the range of products that a country exports and imports. It is a key element which helps a country to move to a more diverse production and trade structure. Diversification provides a more stable path for growth of trade.

Globalization: The growing interdependence of the world’s economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information.
**External Sector of Indian Economy**

**Import Substitution Strategy:** It incorporates three main stages: (1) domestic production of previously imported simple nondurable consumer goods, (2) the extension of domestic production to a wider range of consumer durables and more-complex manufactured products, and (3) the export of manufactured goods and continued industrial diversification. India adopted import substitution strategies for its industrialization.

**An outward-looking strategy:** The stance of this strategy is vigorous promotion of manufactured goods exports. It focuses on international trade reducing protection, lifting subsidies and increasing FDI. The major characteristics of the outward policy are: Deregulation, free trade, floating exchange rate, high competitiveness and increased flows of FDI.

**Trade protectionism:** Protectionist policy is a policy that protects domestic industries from unfair competition from foreign ones for the benefit of a domestic economy. The four basic tools are tariffs, subsidies, quotas, and currency manipulation which a government can use under protectionism. It is a politically motivated defensive measure.

**18.10 ANSWERS TO CHECK YOUR PROGRESS**

A 5 i) True, ii) False, iii) True, iv) True, v) False
B 5 i) True, ii) True, iii) False, iv) False, v) True
C 5 i) True, ii) True, iii) True, iv) False, v) False
D 5 i) True, ii) True, iii) True, iv) False, v) True

**18.11 TERMINAL QUESTIONS**

1. Point out significance of foreign trade in Indian economy. Describe the broad trends in India’s foreign trade since 1991.
2. Explain changes in the composition of India’s exports and imports. Highlight the direction of trade in recent times.
3. What is services trade? Describe its importance in India’s foreign trade.
4. What do you mean by liberalized foreign trade policy? Examine its importance.
5. Analyse the salient features of India’s foreign trade policy of 2015-20. How will it be of help in promoting India’s exports?
6. What is the meaning of foreign trade multiplier? Indicate its importance.

**SOME USEFUL REFERENCES**


GoI (2020): Trends in India’s Foreign Trade, Department of Commerce, New Delhi http://commerce.nic.in/publications/annual-report-pdf-2020
