DIRECTION AND COMPOSITION OF INDIA'S FOREIGN TRADE

26.1 INTRODUCTION

All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. As you have read in lesson No. 1, every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements. Similarly, it sells to other countries the goods which it has in surplus quantities. India too, buys from and sells to other countries various types of goods and services. In this lesson you will read about the nature of India's foreign trade, what goods and services it buys and sells, and from whom it buys and to whom it sells.

26.2 OBJECTIVES

After going through this lesson, you will be able to :

- explain the meaning of foreign trade;
- state why countries trade with each others;
- state the importance of foreign trade for India;
- state the composition of India's foreign trade i.e. composition of India's exports and imports;
- state the direction, of India's foreign trade and how overtime it has changed;
- state India's share in world trade.

26.3 MEANING OF FOREIGN TRADE

Each country tries to increase the availability of goods and services to its people through purchase from other countries. Similarly, it tries to sell its surplus production to other countries.

Buying of goods from other countries is called import and selling of goods to other countries is called export. Both exports and imports taken together constitute foreign trade of a country. Thus foreign trade can be defined as trade between countries. However, foreign trade not only involves sale and purchase of goods but also sale and purchase of services like shipping, insurance, banking, consultancy services etc.

A special feature of foreign trade

Each country has its own currency which is accepted as a medium of exchange within that country only. When we import goods from other countries, we have to make payment for the imports. The exporter countries may not accept payments in our currency. They will accept payment either in their own currency or in some currency which is internationally acceptable as medium of exchange. Such currencies are, U.S. dollars, pound sterling etc. So, how will the importer country make payments for its imports. Obviously, it must either earn or receive in other ways currencies of other countries or internationally acceptable currencies. These currencies can be received by selling goods to other countries i.e. exports. If payments in foreign currency exceed its receipts, it creates a problem known as problem of foreign exchange. You can now easily understand the importance of exports as a source of financing imports. You will learn about foreign exchange in details in lesson No. 27.

POINTS TO REMEMBER

- Selling of goods to foreign countries is called export. Buying of goods from foreign countries is called import.
- Services like insurance, banking, shipping, etc. are also exported and imported.
- Problem of foreign exchange arises in foreign trade on account of different currencies in different countries.

INTEXT QUESTIONS 26.1

State whether the following statements are true or false.

(i) Foreign trade includes both exports and imports.

(ii) Buying goods from other countries is called export.

(iii) No problems arise in foreign trade on account of difference in currencies.

26.4 IMPORTANCE OF FOREIGN TRADE

Foreign trade includes both exports and imports. The importance of these imports and exports for a country are as follows :

(a) Importance of Imports

Imports are of great importance for any country in the following ways:

(i) Help in Development of the Economy

Capital goods like machinery and equipment are required for industrial development. Industrial development also depends upon infrastructural facilities like power, transport etc. Agriculture also requires machines like tractors, harvestors etc. for faster growth. Fertilizers, pesticides etc. play a key role in agricultural development. A developing country does not have sufficient resources or knowhow to produce such goods or even if it is producing these goods, the production may not be sufficient. This defeciency can be made by importing these goods. Thus, imports can increase the productive capacity of a country.

(ii) To Meet Shortages

Imports can fill the gap between domestic demand and domestic supply of essential goods like food, cooking oils etc. For example, in early years after Independence there was food shortage in our country. So large quantities of foodgrains like wheat and rice were imported. Even now our country does not produce vegetable oils enough to meet our requirements. Hence their import continues.

(iii) Imports for Better Living Standards

The developing countries may not be producing non-essential goods like luxury and semi-luxury items such as television, motorcars, washing machines etc. The rising income levels in the developing countries create demand for such goods. A country can get these goods from other countries.

(iv) Improving Quality of Production

The import of goods may help in improving the quality of domestic production. When faced with competition from foreign goods, the domestic producers try to improve the quality of their products. By doing so, they can effectively compete with foreign producers. For example, import of electronic goods into India has contributed a lot in improving the quality of similar Indian goods.

(b) Importance of Exports

Exports are important in the following ways :

(i) Help in Growth of the Economy

Exports help in the growth of the economy in the following ways:

- **Exports help in increasing production :** Exports help in selling surplus production. For example, in India demand for tea is less than its potential production. If we had not been exporting tea, our total production of tea would have been smaller. Thus export to European markets has helped us to expand our tea production.
- **Exports helps in employment and income generation :** Exports increase the size of the market and this encourage more production. Larger production involves greater use of man-power. Thus more people get jobs and greater employment and income is generated.
- **Expansion of related industries :** Expansion of one industry helps in the expansion of other industries. For example, when exports result in expansion of an industry, it also creates greater demand for packaging, transporting etc., and thus lead to the growth of these sectors.

- **Overall increase in demand for other goods :** Exports generate more income and employment in the economy. Expansion of income leads to greater purchasing power in hands of people who in turn spend this income on goods produced in the economy. This increase in demand for goods causes on increase in production, income and employment. In this way the growth of the economy takes place.
- **Better utilization of resources :** Exports increase the scale of production and thus help in the use of modern technology. This results in better use of resources which, in turn, leads to more production with same resources and lower cost of production. Use of modern technology also helps in improving the quality of goods.

(ii) Source of Foreign Exchange :

Exports are an important source of earning foreign exchange. (Foreign exchange means foreign currencies). Any country needs foreign exchange to pay for its imports. This foreign exchange can be earned through exports.

26.5 WHO ARE ENGAGED IN FOREIGN TRADE

In India, Government as well as private sector participate in foreign trade. In India before independence, foreign trade was mainly carried on by private sector. However, after independence, Government of India set up a number of organisations to engage in foreign trade.

Government Organisations :

The government organisations mainly carry out foreign trade in bulk items like foodgrains, iron ore, minerals and metals etc. Examples of government agencies engaged in foreign trade are STC (State Trading Corporation), MMTC (Mineral and Metal Trading Corporation) etc. The need for such agencies arose because the government wanted to play larger role in foreign trade of the country.

Private Sector :

Private sector is also engaged in foreign trade. Some of the important items exported by this sector are readymade garments, gem and jewellery, handicrafts, tea and coffee etc. Some of the items imported by private sector are capital goods, consumer goods etc.

However, with economic reforms, the share of these government agencies in foreign trade is being reduced and increasing role has been assigned to the private sector.

POINTS TO REMEMBER

- Imports are important on account of the following reasons :

  They increase production capacity of the country. They are helpful in meeting shortages of essential goods. They can be used for raising the standard of living and improve quality of production.
- Exports are important on account of the following reasons :

  Exports increase the level of production, employment and income. Export related industry expand. There is better utilisation of resources. They save foreign exchange.

- In India both public and private sectors trade with foreign countries. State Trading Corporation and Minerals and Metals Trading Corporation are some important public sector organisations engaged in foreign trade. The private sector exports readymade garments, stones and jewellery, handicrafts etc. and imports different types of capital goods.

INTEXT QUESTIONS 26.2

Fill in the following blanks :

(i) Imports meet the difference between ____________ and domestic supply.

(ii) Imports can be helpful in ____________ the quality of domestic production.

(iii) Exports increase ____________ and ____________.

(iv) Export is an important source of earning____________.

(v) Both ____________ and ____________ sectors engaged in foreign trade in India.

26.6 COMPOSITION OF FOREIGN TRADE

Composition of foreign trade means goods that we are exporting and goods that we are importing. Therefore, composition of trade consists of composition of exports as well as composition of imports.

(a) Composition of Imports

Composition of imports means goods that we are buying from other countries. At the time of Independence, our country was primarily an agricultural economy. Industry was not so much developed. The partition of the country, however, brought food shortage because our wheat growing areas remained with Pakistan. Therefore, India had to import large quantities of foodgrains and other goods. Also most of the cotton and jute producing areas remained with Pakistan. We had, therefore, to import large quantity of raw cotton and raw jute.

With the development of economy over the years, there was a marked change in the composition of imports. Economic development required setting up of new industries, modernisation of agriculture and industry. For this, capital goods like machinery, transport equipment, and raw materials, chemicals and fertilizers, petroleum products etc. are imported. Due to increasing home production of foodgrains there has been a rapid decline in their imports and now we are self-sufficient in foodgrains. Our major imports now comprise of capital goods, metals and minerals, chemicals and fertilizers, petroleum, oil and lubricants (POL) etc., which are required to meet the developmental needs of our economy.

Commodity Group-Wise Composition of India's Imports

Table 26.1 gives information regarding composition of our imports for the year 1995-96.

Table 26.1

Composition of India's Imports

(Percentage Shares)

Commodity Group		Year (1995-96)
1.	Food and allied products	3.6
2.	Fuel, of which	23.0
	- POL (20.5)	
3.	Fertilizers	4.6
4.	Paper board, manufactures & newsprint	1.3
5.	Capital goods	27.8
6.	Others, of which	23.5
	- Chemicals (9.9)	
	- Iron and Steel (3.7)	
	- Pearls, precious stones (5.7)	
7.	Unclassified items	16.2
	Grand Total	100

1. Food and allied products

This commodity includes cereals, pulses, cashewnuts, edible oils etc. For the year 1995-96, this commodity group accounted for 3.6% in our total imports.

2. Fuel

Coal and POL (Petroleum, Oil and Lubricants) are the important sources of energy. After Independence with the growth of industry and trade, the requirement of POL has increased very fast. Our domestic production is not sufficient. Now India imports petroleum goods in such large quantities that their share accounts for over one-fifth of our total imports. The share of Coal and POL taken together for the year 1995-96 was 23% in our total imports.

3. Fertilizers

Fertilizers are very important input of agriculture. Our domestic production of fertilizers falls short of our requirements. This commodity - group accounted for 4.6% of our total imports for the year 1995-96.

4. Paper boards manufactures and newsprints

This commodity group accounted for 1.3% in our total imports for the year 1995-96.

5. Capital goods

Capital goods include machinery, transport equipment, electronic goods etc. With the growing requirement of India's rapidly developing economy, import of capital goods continue to have a very high share of our total imports. For the year 1995-96, its share in total imports was 27.8% (i.e. over one-fourth of total imports).

6. Other bulk items

This commodity group includes items like chemicals, pearls and precious stones, iron and steel and non-ferrous metals etc. Its share for the year 1995-96 was 23.5% in our total imports.

7. Unclassified items

Many other items of imports which have not been covered in above categories constitute unclassified items whose share for the year 1995-96 was 16.2% in our total imports.

(b) Composition of Exports

Composition of exports means goods that we are selling to other countries. At the time of Independence, our exports consisted mainly of agricultural products like tea, spices, tobacco and other raw materials etc. We were also exporting cotton textiles and jute products in large quantities. With the industrialisation of the economy, composition of exports have undergone a change. Many raw materials that we exported earlier are now being used in newly developed industries. Therefore, the proportion of raw materials in our exports has declined while that of manufactured goods has increased. Efforts were made to diversify and expand our exports. It was necessary as our imports were increasing. Therefore, over the years, many new commodities have emerged in our export list. We are now exporting large quantities of items such as machinery and transport equipment, chemicals and allied products, handicrafts, fish and marine products. However, export of items such as cotton fabric, tea, jute manufactures, spices etc. also continues.

Commodity Group-Wise Composition of India's Exports

Table 26.2 gives the information regarding composition of our exports for the year 1995-96.

Table 26.2

Composition of India's Exports

(Percentage shares)

	Commodity Group	Year (1995-96)
1.	Agricultural and allied products	19.2
2.	Ores and minerals	3.7
3.	Manufactured goods, of which,	75.4
	- Gems and Jewellery (16.6)	
	- Cotton yarn, fabrics madeups etc. (8.1)	
	- Readymade garments (11.6)	
	- Handicrafts (3.5)	
4.	Crude and Petroleum products	1.4
5.	Others and unclassified items	0.3
	Grand Total	100

1. Agriculture and allied products

This commodity group includes tea, coffee, cereals, spices, tobacco, cashewnuts, oil meals, fruits and vegetables, marine products and raw cotton etc. For the year 1995-96, this commodity group accounted for about 19% of our total exports.

2. Ores and minerals

This commodity group includes iron ore, processed mineral and other ores and minerals like mica etc. For the year 1995-96, this commodity group accounted for 3.7% of our exports.

3. Manufactured goods

This group includes leather and leather products, gems and jewellery, machinery and transport equipment, electronic goods, drugs, pharmaceuticals, cotton yarn and fabrics, readymade garments and handicrafts etc. For the year 1995-96 this group accounted for 75.4% (i.e. approximately 3/4th) of our exports. Within this commodity group the largest share is of gems and jewellery and readymade garments. Their shares are 16.6% and 11.6% of total exports respectively.

4. Crude and petroleum products

This commodity group was at one time an important part of India's exports. However, with setting up of our own oil refineries, their export is very insignificant. For the year 1995-96 its share was only 1.4% of our total exports.

5. Other unclassified items

Items that have not been included in any of the above categories are included in this list. It constitutes a very insignificant proportion of total exports i.e. only 0.3% of our total exports for the year 1995-96.

It is sometimes asserted that the composition of India's foreign trade is characteristic of a backward country. A backward country, primarily dependent on agriculture with not much of industrialisation is generally an exporter of agricultural goods and importer of manufactured goods. India too, in the past, has been exporting primary products and importing industrial goods. But with the rapid pace of economic development, there has been a change in the composition of imports as well as exports. Though the export of tea, cofee, rice, spices etc. still continues, their share in our exports has greatly declined. Now India's exports also include engineering goods and light machinery, readymade garments, handicrafts including pearls, gems and jewellery, chemical etc. In the import list, major share belongs to capital goods and machinery, petroleum and petroleum products, iron and steel and chemical etc., which are required for economic development. Thus change in composition of exports and imports in India's foreign trade reflect the changing structure of our economy - an economy that is developing fast.

POINTS TO REMEMBER

- Composition of foreign trade means composition of exports and imports.
- Composition of exports and imports has changed in India on account of economic development.
- Major portion of Indian imports consists of fuels, capital goods, chemicals, etc. Major portion of Indian exports is manufactured goods.
- Now India exports engineering goods, light-machinery, readymade garments, handicrafts, gem and jewellery etc. in sufficient quantities.
- Indian imports and exports reflect the changing structure of the economy.

INTEXT QUESTIONS 26.3

Fill in the following blanks :

(i) The share of petroleum products in total imports in 1995-96 was ___________

(ii) The share of capital goods in total imports in the year 1995-96 was ___________.

(iii) On the eve of Independence India mainly exported ___________ products.

(iv) The most important item of manufactured goods in India is ___________.

(v) The share of exports of manufactured goods in total exports in 1995-96 was ___________.

26.7 DIRECTION OF FOREIGN TRADE

Direction of foreign trade means the countries to which India exports its goods and the countries from which it imports. Thus direction consists of destination of our exports and sources of our imports. Prior to our Independence when we were under British rule, much of our trade was done with Britain. Therefore, UK used to hold the first position in our foreign trade. However, after Independence, new trade relationships were established. Now USA has emerged as our most important trading partner followed by Germany, Japan and UK. We are also making efforts to increase our exports to other countries also. Let us study in details, the direction of India's exports and imports.

(a) Direction of India's Imports

Direction of imports means the countries from which we import goods. Before Independence most of our imports were from Britain. After Independence, we are now importing goods from other countries such as USA, Germany, France, Japan etc.

Table 26.3 gives information regarding sources of our imports for the year 1995-96.

Table 26.3

Direction of India's Imports

(Percentage shares)

	Country	Year (1995-96)
1.	UK	5.29
2.	Germany	8.63
3.	Other EU (European Countries)	12.90
4.	USA	10.53
5.	Japan	6.63
6.	Russia	2.35
7.	Other East Europe	1.06
8.	OPEC	20.99
9.	Other LDC's	18.32
10.	Others	13.30
	Total	100.00

As a single country, USA is the largest source of India's imports whose share was 10.5% in the year 1995-96. Other important sources of imports are other European countries, Germany, UK, Japan etc.

In Asia, Japan is an important source of India's imports. In 1995-96, its share was about 6.6% of the total imports. Russia which at one time was India's major trading partner has now gone down very low in our import list accounting for about 2.3% of India's imports in 1995-96. Other Eastern European countries like Romania, Poland, Hungary etc. accounted for 1.06% of our imports.

The increasing requirement of POL imports has resulted in large imports from OPEC countries. OPEC (Organisation of Petroleum Exporting Countries) includes Saudi Arabia, Kuwait, Iran, Iraq, etc. The share of OPEC in our imports was 20.9% (or about 1/5th) in the year 1995-96.

Other less developed countries (LDC's) includes the developing nations of Asia, Africa and South America with whom we have increased our trading relationship. These countries accounted for about 18.3% of our imports in 1995-96.

(b) Direction of India's Exports

Before Independence, Britain had largest share of our exports. After Independence, share of Britain in our total exports declined and USA emerged as the largest single buyer of our goods.

Table 26.4 gives information regarding destination of our exports for the year 1995-96.

Table 26.4

Direction of India's Exports

(Percentage shares)

Country	Year (1995-96)
1. UK	6.31
2. Germany	6.23
3. Other EU	13.89
4. USA	17.34
5. Japan	6.96
6. Russia	3.3
7. Other East Europe	0.56
8. OPEC	9.64
9. Other LDC's	25.90
10. Others	9.87
Total	100.00

USA is the single largest buyer of our goods acounting for about 17.3% of our exports. The shares of Japan, UK and Germany are about 7%, 6%, and 6% respectively. Russia which was one of the principal buyers of our goods has now gone down to lower position accounting for about 3.3% of our exports. About a quarter (25%) of our exports go to LDC's (excluding OPEC), while OPEC accounted for 9.7% of our exports in the year 1995-96.

26.8 INDIA'S SHARE IN WORLD TRADE

Table 26.5 shows India's share in world trade (in percentage) since 1950. Column (1) of the table shows India's exports as a percentage of world trade. Column (2) shows India's imports as a percentage of world trade. Column (3) shows India's share in world trade. Figures in column (3) are averages of figures of column (1) and (2) for each year.

Table 26.5

India's share in World Trade (in percentage)

Year	Exports (1)	Imports (2)	Trade (3)
1950	1.85	1.71	1.78
1960	1.03	1.69	1.36
1970	0.64	0.65	0.65
1980	0.42	0.72	0.57
1990	0.52	0.66	0.59
1994	0.60	0.63	0.61

Table 26.5 shows that :

(i) India's share in world exports was 1.85 percent in 1950 and it went on declining till 1980. However, it does not mean that India's total exports declined during this period. It only shows that the rate of growth of world exports was higher than India's rate of growth of exports during this period. After 1980 India's share in world exports has been increasing.

(ii) India's share in world imports have been declining since 1950 except for the year 1980 when it increased. Once again, it does not indicate that our total imports have declined. It only indicates that the growth rate of world imports was faster than the rate of growth of our imports.

(iii) India's share in world trade (as shown in column 3 of table 26.5) had been declining till 1980. It only indicates that the growth of India's world trade was slower than the growth of world trade. Since 1980, India's share in world trade has been increasing.

(iv) India's share of imports has been higher than its share of exports in the world trade.

India's share in world trade is very small (only 0.61 percent). It indicates that there is a great scope for increasing our share in world trade.

POINTS TO REMEMBER

- Direction of foreign trade means the countries to which India exports its goods and the countries from which its imports. Prior to Independence much of our trade was done with Britain. The situation has changed afterwards. Now most of our trade is done with America.
- In 1995-96, the share of imports from America was 10.5%. From Germany it was 8.6%. From oil exporting countries our share was 21%. Imports from Russia have declined. Imports from less developed countries have increased.
- Our major exports are to America. Our exports with less develop countries are increasing. Exports to Russia have declined. Share of exports to America in 1995-96 was 17% while with less developed countries it was 26%.
- India's share in world trade in 1994 was 0.61%. The share in imports was higher.

INTEXT QUESTION 26.4

Fill in the following blanks:

(i) Much of India's trade before Independence was with __________.

(ii) We used to export nearly __________ percent of our total exports to less developed countries.

(iii) The share of India in the world exports in the year 1994 was __________ percent.

(iv) The share of India in the world trade in the year 1994 was __________ percent.

WHAT YOU HAVE LEARNT

The act of buying from and selling to other countries is known as import and export respectively. Both exports and imports taken together constitute foreign trade of a country. Both Government as well as private agencies participate in foreign trade.

Foreign trade is very important for any country. Import of goods and services helps in the development of the economy. It increases the availability of goods for the people of a country. It enables people to make use of larger variety of goods and improve their living standards. It also helps in improving the quality of domestically produced goods by offering tough competition. Exports are also important in the development of the economy. It helps in increasing production, employment and income, better utilisation of resources. It is also an important source of earning foreign exchange.

Pattern of India's foreign trade has undergone a substantial change over time. In the past, India was exporting primary goods and importing industrial goods. But with the rapid pace of economic development, there has been a change in the composition of exports as well as imports. Now India's exports also include engineering goods, pearls, gems and jewellery, readymade garments, etc. In the import list major goods are capital goods like machinery, petroleum and petroleum products, iron and steel, chemicals etc. This changing pattern of foreign trade shows that India is moving on the path of industrialisation.

Direction of India's foreign trade has also undergone a substantial change. In the past, UK used to hold the first position in our foreign trade. Now USA has emerged as our most important trading partner followed by Germany, Japan and UK.

In the world as a whole, India is a very insignificant trader, though our trade with the rest of the world is constantly increasing. With liberalisation process our share in world trade has gone up.

TERMINAL EXERCISE

1. Explain the meaning of foreign trade.
2. Why is foreign trade important for a country like India?
3. State the composition of India's foreign trade for the year 1995-96.
4. State the direction of India's foreign trade for the year 1995-96.

ANSWERS

Intext Questions 26.1

(i) True (ii) False (iii) False

Intext Questions 26.2

(i) domestic demand (ii) improving (iii) income, employment (iv) foreign exchange (v) public, private

Intext Questions 26.3

(i) 20% (ii) 28% (iii) Agricultural (iv) Gem and jewellary (v) 75%

Intext Questions 26.4

(i) Britain (ii) 26%. (iii) 0.6% (iv) 0.61%

Terminal Exercise

1. Read section 26.3
2. Read section 26.4
3. Read section 26.6
4. Read section 26.7