UNIT 13 INDIA'S FOREIGN TRADE

Objectives

This unit facilitates the understanding of the

- need for foreign trade;
- growth trends in India's foreign trade;
- changing composition of India's imports and exports;
- destination of India's exports and origin of India's imports; and
- implications of India's foreign trade growth.

Structure

13.1 INTRODUCTION

Foreign trade or international trade refers to the trading of goods between countries. Thus, international trade is an extension of internal trade i.e., trade between two different regions within a country. Just like as single region within a country cannot produce everything it needs by itself, one single economy cannot produce every commodity all by itself. This could be due to differences in the availability of natural resources, skills of people, etc. Therefore, it would be advantageous for a country to indulge in trade with other countries, by exporting those commodities which it produces cheaper in exchange for what others can produce at a lower cost.

Foreign trade also facilitates the dissemination of technical knowledge, transmission of ideas, and import of know-how/skills, managerial talents and entrepreneurship. In addition, foreign trade encourages movement of foreign capital. In totality, foreign trade can have a profound impact on the growth of an economy in terms of production, employment, technology, resource utilisation and so on.

13.2 INDIA'S FOREIGN TRADE: TRENDS

The origin of India's foreign trade can be traced back to the age of the Indus Valley civilisation. But the growth of foreign trade gained momentum during the British rule. During that period, India was a supplier of food stuffs and raw materials to England and an importer of manufactured goods. However, organised attempts to promote foreign trade were made only after Independence, particularly with the onset of economic planning. Indian economic planning completed five decades. During this period, the value, composition and direction of India's foreign trade have undergone significant changes.

India's foreign trade has come a long way since 1950-51. The values of both exports and imports have increased several times over the period (Table 13.1). The value of exports rose from Rs. 606 crore in 1950-51 to Rs. 1,06465 crore in 1995-96. The value of imports, during the same period, increased from Rs. 608 crore to Rs. 1,21647 crore. With the exception of 1971-72 and 1976-77, the value of India's imports has always been higher than that of exports.

Table 13.1: India's Foreign Trade: Trends

(Rs. in Crores)

Year	Exports	Growth Rate	Imports	Growth Rate	Trade Balance
1950-51	606	—	608	—	–2
1951-52	716	18.2	890	46.4	–174
1952-53	578	–19.3	702	–21.1	–124
1953-54	531	–8.1	610	–13.1	–79
1954-55	593	11.7	700	14.8	–107
1955-56	609	2.7	774	10.6	–165
1956-57	605	–0.7	841	8.7	–236
1957-58	561	–7.3	1035	23.1	–474
1958-59	581	3.6	906	–12.5	–325
1959-60	640	10.2	961	6.1	–321
1960-61	642	0.3	1122	16.8	–480
1961-62	660	2.8	1090	–2.9	–430
1962-63	685	3.8	1131	3.8	–446
1963-64	793	15.8	1223	8.1	–430
1964-65	816	2.9	1349	10.3	–533
1965-66	810	–0.7	1409	4.4	–599
1966-67	1157	42.9	2078	47.5	–921
1967-68	1199	3.6	2008	–3.4	–809
1968-69	1358	13.3	1909	–4.9	–551
1969-70	1413	4.1	1582	–17.1	–169
1970-71	1535	8.6	1634	3.3	–99
1971-72	1608	4.8	1825	11.7	–217
1972-73	1971	22.6	1867	2.3	104
1973-74	2523	28.0	2955	58.3	–432
1974-75	3329	31.9	4519	52.9	–1190
1975-76	4036	21.2	5265	16.5	–1229
1976-77	5142	27.4	5074	–3.6	68
1977-78	5408	5.2	6020	18.6	–612
1978-79	5726	5.9	6811	13.1	–1085
1979-80	6418	12.1	9143	34.2	–2725
1980-81	6711	4.6	12549	37.3	–5838
1981-82	7806	16.3	13608	8.4	–5802
1982-83	8803	12.8	14293	5.0	–5490
1983-84	9771	11.0	15831	10.8	–6060
1984-85	11744	20.2	17134	8.2	–5390
1985-86	10895	–7.2	19658	14.7	–8763
1986-87	12452	14.3	20096	2.2	–7644
1987-88	15674	25.9	22244	10.7	–6570
1988-89	20232	29.1	28235	26.9	–8003
1989-90	27681	36.8	35416	25.4	–7735
1990-91	32553	17.6	43193	22.0	–10640
1991-92	44042	35.3	47851	10.8	–3809
1992-93	53688	21.9	63375	32.4	–9687
1993-94	69547	30.4	72806	15.7	–3259
1994-95	82338	18.4	88705	21.8	–6375
1995-96	106465	29.3	121647	37.1	–15182
1996-97	118817	138920	–20103	11.7	13.2
1997-98	130100	154176	–24076	9.5	11.0
1998-99	139752	178332	–38580	7.4	15.7
1999-2000	159561	215236	–55675	14.2	20.7
2000-01	203571	230873	–27302	27.6	7.3
2001-02	209018	245199	–36181	2.7	6.2

Source: *Economic Survey*, 1995-96 & 2002-03.

As a result, India has been a trade deficit country. Another aspect of India's foreign trade is the fluctuating growth rates of exports and imports. The growth rate for exports ranged from as low as – 19.3 percent in 1952-53 to 42.9 precent in 1966-67. Similarly, the growth rate of imports varied from 21.1 percent in 1952-53 to 58.3 percent in 1973-74.

Imports: During 1950s, the value of trade increased only marginally. The value of exports, remained the same, more or less. But the value of imports, with certain fluctuations, increased by about 60 percent during the decade. The significant rise in imports was largely due to the increase in the quantum of imports of food grains, raw materials, capital equipments and machinary. The emphasis on heavy industries during the second Five Year Plan necessitated the imports of machinery and capital equipments which contributed to the increase in the value of imports.

The emphasis on heavy industries continued during the third Five Year Plan and the three Annual Plans. This resulted in increased imports of machinery and machine products. The bad weather conditions in the sixties led to more imports of food grains and agricultural raw materials. Added to these, the devaluation of the Indian rupee in 1966 further raised the value of imports. As a result, the value of imports rose by about 40 percent during 1960.

It was during the seventies that the value of imports went up sharply. This was largely due to the hike in the prices of petroleum and petroleum products effected by the Organisation of Petroleum Exporting Countries (OPEC) in 1973-74 and then in 1979 and 1980. That is why the value of imports registered an increase of 58 percent in 1973-74, 53 percent in 1974-75, 34 percent in 1979-80, and 37 percent in 1980-81. During 1970-71 to 1979-80, the value of imports increased by more than 500 percent. In addition to the oil price hike, the general inflationary trends prevailing in the international market also contributed to the increase in the value of imports.

The increase in domestic production of crude oil in the eighties slowed down the increase in the value of imports, as the relative share of petroleum products in the country's import bill marked a decline. However, during the late eighties, partly due to an increase in the quantum of petroleum products imported and partly due to a rise in the international oil prices, the value of imports once again increased sharply. The 'Gulf crisis' in 1990 and the currency devaluation in 1991 further pushed up the country's import bill. On the whole, in the post-Independence period, during the sixties and seventies, import of food items and capital goods contributed to the growth of imports. But since the eighties Petroleum products and capital goods determined the growth trends in the value of imports, to a large extent.

However, the growth of imports in the nineties has been characteristically different from the earlier period, especially from the policy point of view. In 1991, the Indian Government initiated a major import liberalisation programme as part of its what is now commonly known as the New Economic Policy. Import liberalisation consisted of gradual reduction of import tariffs and elimination of import restrictions.

Major reductions in tarrifs have been introduced in the nineties. The import-weighted average tariff for the whole economy fell from 76.7 percent in 1990-91 to 40 percent in 1993-94, which further fell in 1994-95. The peak rate of tariff which was as high as 220 percent in 1991 has now been brought down to 65 percent.

Import licensing has been virtually scrapped for new materials, intermediate components and capital goods. These can now be freely imported subject to a "negative list" which is under constant review and has been substantially pruned in the nineties.

Due to these policy measures, the relative share of raw material, intermediate and capital goods imports went up particularly in 1993-94. However, due to slowdown in industrial growth, capital goods imports have declined in the first quarter of 1996-97. Another aspect of import growth during the current year is that due to (i) a fall in domestic crude oil production, (ii) a sharp rise in domestic demand and (iii) the recent spurt in world oil prices, imports of petroleum products are likely to push up the import bill in a big way.

Exports: Exports were more or less stagnant at around Rs. 600 crore during the fifties. The introduction of some export promotion measures led to the rise of exports in the sixties. Significant rise was seen in the exports of gems and jewellery, readymade garments and engineering goods. After the devaluation of 1966, exports of iron ore, leather and leather manufactures, chemical and allied products, etc. received a further boost. During 1960-61—1969-70, exports grew, on an average, by 10.2 percent.

It was in the 1970s, however, that exports grew significantly. On an average, exports grew by more than 19 percent during 1970/71-1979/80. A sizeable contribution, again came from gems and jewellery, readymade garments, engineering goods, chemicals, leather products, etc.

The high growth rate of India's exports in the 70s were mainly due to:

- the increase in the unit value index of exports
- the increase in the quantum index of exports
- new markets for India's exports in oil producing countries with the boom in oil prices
- increase in the price competitiveness of Indian exports as a result of a rise in the world prices of all commodities
- boom in the value of agro-based exports such as oil cakes, marine products and sugar; and
- increase in project exports to the Middle East countries.

During the 80s, particularly in the early 80s, the growth of exports slowed down. Exports grew by about 11 percent in the first half of eighties but the growth picked up later and exports grew by almost 27 percent in the second half of eighties. The sluggishness in export growth in the early eighties was mainly due to decline in demand for Indian exports abroad – adoption of protective measures by developed countries – fall in the value of the US dollar, among others.

The reorientation of the industrial and trade policy regime in the 1980s to release the supply side constraints was combined later in the decade with a more activist policy on the exchange rate so as to attain a steady depreciation in the real effective exchange rate. The improvement in productivity performance and the loosening of the tight import control regime created a better environment for exports. New incentives for exports, notably the exemption from tax of profits on export operations, also encouraged export growth. As a result, the growth of exports went up, both in terms of value and volume.

In 1990-91, export growth once again declined but only marginally to about 18 percent. This deceleration in exports was attributed to:

(1) A slow down in the expansion of world trade. The volume of world trade decelerated from 7.3 percent in 1989 to 4.2 percent in 1990 and further to 0.9 percent in 1991.

(2) Loss of export markets in the Middle East due to the Gulf crisis.

(3) Political and economic upheavals in Eastern Europe, which earlier provided a sheltered market to Indian exports.

(4) Import curbs introduced during 1990-91 in response to foreign exchange shortage and intensified after the Gulf crisis, affecting export-related imports.

(5) Movement in the exchange rate which was broadly supportive of exports since 1986-87 becoming adverse thus affecting competitiveness of exports; and

(6) Internal law and order problems in some states.

The currency devaluation in 1991 and the subsequent liberalisation of export-import regime particularly full convertibility of rupee on current account have given a boost to the growth of exports. As a result, exports grew more significantly during the early '90s as compared to the earlier decades (Table 13.2).

Table 13.2: Growth of Exports: 1960-61—2001-02

Year	Growth Rate (%)
1960-61 to 1969-70	10.2
1970-71 to 1979-80	19.3
1980-81 to 1989-90	14.9
1990-91	17.6
1991-92	35.3
1992-93	21.9
1993-94	30.4
1994-95	18.4
1995-96	29.3
1996-97	11.7
1997-98	9.5
1998-99	7.4
1999-00	14.2
2000-01	27.6
2001-02	2.7

Source: 1. *India: Towards Globalization*, UNIDO, 1995.
2. *Economic & Political weekly,* September 28, 1996.
3. *Economic Survey*, 2002-03.

However, the trends in foreign trade in April-August in 1996-97 have been discouraging as exports have only increased modestly. This was mainly due to a shartp fall in exports in July 1996 (2.66 percent) and in August 1996 (2.3 percent). During April-June 1996, exports grew at 26.7 percent which is quite comparable to the performances of the previous years. The rising cost of production, bottlenecks in ports and heavy rain in some regions are stated to be the factors responsible for the drop in export earnings in the months of July and August. With the easing of the latter two factors, export growth is likely to increase in the subsequent months.

Thus, India's exports have grown considerably both in terms of value and volume, over a period of time. However, a significant indicator of India's export performance is India's share in world exports. Despite the significant growth, India's share in world exports was negligible and the relative share remained more or less at the same level (Table 13.3). This is attributed to India's failure in improving its competitiveness in terms of price and quality in the international market.

Table 13.3: India's Share in World Exports

Year	Exports in US $ Million: World	Exports in US $ Million: India	India's share in World Exports (%)
1970	313706	2026	0.6
1975	875500	4355	0.5
1980	1989867	8378	0.4
1985	1932387	8750	0.5
1990	3137485	18178	0.6
1992	3218905	18145	0.6
1995	4946096	31117	0.6
1998	5091105	32700	0.6
1999	5522372	32639	0.6

Source: *Economic Survey,* 1995-96 & 2002-03.

13.3 INDIA'S FOREIGN TRADE : COMPOSITION

The composition of foreign trade refers to the kinds of goods imported and exported by a country. It is essential to understand the composition of imports and exports as it reveals the economic status of a country. The changes that may occur in the composition of trade over a period of time reflect the economic transformation of a country.

In general, a developing country's imports comprise mainly heavy manufacturing goods like machinery, transport equipments, iron and steel, etc. whereas exports comprise mainly primary commodities like agricultural products, natural resources such as iron ore, and light manufactures consisting of textiles, leather products, processed foods etc. But in the process of industrialisation and economic development, the composition of trade undergoes a transformation. As a consequence, a developed country's imports would include mostly primary commodities and light manufactures and exports would consist mainly of heavy manufactured goods.

Imports: At the beginning of the 1950s, India's imports consisted mainly of food grains, machinery, transport equipment, iron and steel, petroleum and petroleum products, etc.

The announcement of the Industrial Policy Resolution, 1956 and the subsequent emphasis on the development of heavy and basic industries in the second five year plan had an impact on import composition. The policy of import substitution necessitated the setting up of a wide variety of industries to produce various manufactured goods such as machine-tools, sugar mill machinery, cement machinery, railway wagons, commercial vehicles, automobile tyres and tubes, etc. All these led to an increase in the import of capital goods and equipments in the late fifties.

The relatively underdeveloped agriculture and the demand–supply gap for good grains caused the import of food items, particularly cereals and cereal preparations. Food items accounted for about 15 percent of the Import bill in 1950-51. Since then food imports ranged between 15 percent and 17 percent for almost two decades. However, since the eighties, the relative share of food imports has declined considerably. This largely reflects the near self-sufficiency in food grains attained by India over the period.

A significant portion of India's imports comprised raw materials and intermediates (Table 13.4). These accounted for Rs. 527 crore out of the total imports of Rs. 1122 crore in 1960-61, thereby accounting for 47 percent of the value of imports. In 1970-71, raw materials and intermediates accounted for more than 50 percent of the value of imports. In 1980-81, their relative share peaked to about 78 percent. This was largely due to a rise in the quantum and prices of petroleum products. In 1985-86, the share of raw materials and intermediates relatively declined to 71 percent.

Table 13.4: Structure of India's Imports : 1960-61 — 2001-02
(% Share in value)

	Major Items	1960-61	1970-71	1980-81	1990-91	1994-95	2000-01	2001-02
I	Food and related items	19.0	14.8	3.0	N.A.	N.A.	3.7	4.5
II	Raw materials and Intermediate Manufactures of which:	47.0	54.4	77.8	N.A.	N.A.	N.A.	N.A.
a:	Petroleum, oil and lubricants (POL)	6.1	8.3	41.9	25.0	20.7	31.0	27.2
b:	Fertilisers and chemical products	7.8	13.2	11.9	N.A.	N.A.	8.2	8.9
c:	Pearls, precious and semi-precious stones	0.1	1.5	3.3	8.7	5.7	9.6	9.0
d:	Iron and steel	11.0	9.0	6.8	4.9	4.1	1.4	1.5
e:	Non-ferrous Metals	4.2	7.3	3.8	2.6	3.3	1.1	1.3
III	Capital Goods	31.7	24.7	15.2	24.2	22.2	11.0	11.4
IV	Other items (unclassified)	2.3	6.1	4.0	N.A.	N.A.	20.1	22.2
	Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: *Economic Survey*, 1995-96 & 2002-03.

Of the raw materials and intermediates, (i) Petroleum, oil and lubricants (P.O.L) (ii) Fertilisers and chemical products (iii) Pearls, precious and semi-precious stones (iv) Iron and steel (v) Non-ferrous metals are the major items of imports. The very composition of raw material and intermediate imports has undergone a change since the fifties. In 1960-61, iron and steel and non-ferrous metals formed a significant part of the value of imports. However, their importance has declined steadily and gradually since then. POL formed about 1/8 of the value of imports in 1960-61. But their relative share has risen considerably both due to a consistent rise in the quantum imported and in the prices of petroleum products in the international market.

Since the late ’80s, POL imports account for about quarter of the import bill of the country. The recent liberalisation measures introduced with respect to the automobile industry in the country will further push up the domestic demand for petroleum products. The scope for increased domestic production being limited, increased quantum of P.O.L. imports will become indispensable. As a result, the relative share of P.O.L. imports might go up further in the coming years.

The process of agricultural development necessitated a gradual increase in fertiliser imports. Chemical imports comprised mainly of chemical elements and compounds.

The import of pearls, precious and semi-precious stones is done mainly as a raw material for the gems and jewellery industry, which was/is a significant export item of India.

The capital goods imports comprise electrical and non-electrical machinery and transport equipments. The growing industrialisation has only led to increased demand for capital goods of various kinds. The policy of import substitution had little impact on the growth of capital goods imports. In fact, the industrial liberalisation of the nineties, has further pushed up these imports in the first half of nineties. However, there is a remarkable fall in the capital goods imports during April-June, 1996 which is attributed to a likely slow down in the industrial growth of the country. On an average, capital goods have been accounting for about a quarter of the value of imports. Unless and until, India develops its own technology base, its capital goods import requirements will only go up in the future. Thus, P.O.L and capital goods, which together form about a half of the total imports would determine the future growth of India’s imports.

Rise in non-POL imports in 2001-02 was contributed by higher imports of food & related items (mainly pulses, edible oil and spices), capital goods imports and imports of other intermediate goods. Imports under the fuel group, fertilizers and paper board, manufactures & newsprint, however, contracted in 2001-02. A significant feature of the performance in 2001-02 was the reversal in trend in imports of capital goods, which increased by 6.3 percent as against substantial declines in the preceding two years. Another highlight was the turnaround in export related imports that increased by 1.6 percent in 2001-02 as against a decline of 10.9 percent in 2000-01.

Exports: The structure of India’s exports has undergone a considerable change since independence. Exports started growing considerably only since the sixties. India’s exports are broadly classified under:

(i) agriculture and allied items which includes coffee, tea, oil cakes, tobacco, cashew kernels, spices, sugar, raw cotton, rice, fruits and vegetables, etc.

(ii) ores and minerals which include mica and iron ore, among others,

(iii) manufactured goods consisting of gems and jewellery, ready made garments, engineering goods, chemicals, leather products, jute manufactures, etc.

(iv) mineral fuels and lubricants (including coal); and

(v) others.

The major value of India’s exports emanated from agricultural products on the one hand, and manufactured goods on the other (Table 13.5). Among the agricultural items, *tea was a prominent foreign exchange earner for the country.* In 1960-61, tea exports earned about Rs. 124 crore out of the total exports revenue of Rs. 643 crore (thereby it accounted for about 20 percent of the total value of exports). However, the relative contribution of tea exports to total exports has come down gradually. In 1990-91, tea export contribution to total exports amounted to only 3.3 percent. Some of the major agricultural items whose exports have increased over the period, are cashew kernels, spices, rice, fish and fish preparation, tobacco, oil cakes and more recently, fruits and vegetables.

Though the export value of agriculture and allied products has consistently increased since the ’60s, their relative share in the total value of exports declined steadily. This could be broadly attributed to two factors:

- Despite agricultural development (which has been confined to certain regions within the country) commercialisation of agriculture has not taken place on a significant scale. Subsistence farming, which largely, prevails in India constrains the scope for export growth.
- Exports from the manufacturing sector have grown more significantly.

However, in the ’90s agricultural development has been gaining increased attention from the policy markers:

1. The Government of India has brought out an Agricultural Policy which lays more thrust on agricultural development and exports.
2. The food processing industry has been accorded a ‘sun rise industry’ status for its promotion, in order to prevent the wastage of fruits and vegetables due to lack of processing facilities and to promote exports of processed foods.
3. The export obligation of Export Oriented Units (EOUs) related to agriculture and allied products has been brought down to 50 percent. This enables these EOUs to sell the remaining 50 percent of the production in the domestic market thereby enabling them to settle down quickly.
4. Some of the state governments have taken policy decisions to enable food processing units to acquire agricultural land for cultivating the required raw materials for in house consumption.
5. Even ‘contract farming’ is encouraged to promote agriculture industry linkages.

All these are aimed at giving a new turn to agriculture development and exports in the nineties. However, the relative share of agriculture and allied items in total exports has declined further in the nineties. If the potential of Indian agriculture is harnessed appropriately, agriculture and allied items exports could be stepped up more significantly in the future.

The exports of manufactured goods have grown at a much faster rate than that of agriculture. As a result, the relative share of manufactured goods in the total value of exports has gone up steadily from 45 percent in 1960-61 to 78 percent in 1994-95. This reflects a positive outcome of India’s industrial development.

Even within manufacturing exports, the composition has changed over the period. In 1960-61, jute manufactures was the most prominent manufactured item of exports (by contributing more than 46 percent of the total value of manufactured exports which amounted to 21 percent of the total value of exports). However, with the emergence of substitutes for jute goods in the international market and the decline of jute industry domestically, the share of jute goods in the total value of exports decreased continuously. In 1990-91, jute manufactures’ exports accounted for hardly 1 percent of the total value of exports and in 1994-95 it declined further to 0.6 percent.

Table 13.5: Structure of India's Imports : 1960-61 – 2001-02
(% Share in value)

Major Items		1960-61	1970-71	1980-81	1990-91	1994-95	2000-01	2001-02
I	Agriculture and allied products	44.2	31.7	30.7	19.4	16.6	13.5	13.4
II	Ores and Minerals	8.0	10.7	6.2	4.6	3.1	2.6	2.9
III	Manufactured Goods	45.3	50.3	55.8	72.9	78.2	78.0	76.1
	– Gems & Jewellary	0.1	2.8	9.6	16.1	17.1	16.6	16.7
	– Readymades	0.1	1.9	8.4	12.3	12.5	12.5	11.4
	– Engineering Goods	2.0	12.0	13.0	11.9	13.2	—	—
	– Chemicals	1.1	2.3	3.5	6.5	9.2	—	—
	– Leather Products	3.0	4.7	5.0	8.0	6.1	3.8	3.7
	– Jute manufactures	21.0	12.3	4.9	0.9	0.6	—	—
	– Other manufactures	21.0	14.2	11.3	17.2	—	—	—
IV	Minerals/Fuels and Lubricants	1.1	0.8	0.4	2.9	2.0	2.6	2.9
V	Others	1.4	6.5	6.9	0.2	0.1	1.7	2.8
	Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: *Economic Survey,* 1995-96 & 2002-03.

The export of (1) readymade garments, (2) leather and leather products (3) gems and jewellery (4) engineering goods and (5) chemicals has increased gradually. In 1994-95, these five items together had a share of more than 58 percent of the total value of exports. In 1960-61, these same items contributed hardly 8 percent of the total value of exports.

The decline in value of exports in 2001-02 was spread across both the agricultural and manufactured commodity groups. Under manufactured goods, major exports like gems & jewellery, engineering goods, textiles including readymade garments, chemical & related products, leather & manufactures recorded sharp decelerations or even decline in exports. The decline in agricultural and allied exports (including plantation) in 2001-02 was mainly on account of lower exports of tobacco, marine products, spices and cashew nuts. While the decline in exports of tobacco and cashew nuts was due to lower volume of these exports, decline in unit value contributed to lower exports of spices and marine products.

The share, in total exports, of manufactured goods and agriculture and allied products declined from 78.0 percent and 13.5 percent respectively in 2000-01 to 76.1 percent and 13.4 percent respectively in 2001-02. Correspondingly, share of exports of petroleum products and ores and minerals, in total exports, increased to 4.8 percent and 2.9 percent respectively during the year.

This brings out the fact that the export composition of India has grown more in terms of non-traditional items than traditional items. But non-traditional items are largely confined to *light manufactures.* The share of only light manufactures went up from year to year. Thus, though the export composition got diversified in terms of faster growth of non-traditional items, these are largely confined to light manufactures. The near absence of *heavy manufactures* in India's exports reflects the inadequate indigenous technology base for the development of heavy manufactured goods. Unlike industrialising countries like South Korea and Singapore, India's export composition has not yet started diversifying in the form of significant emergence of heavy manufactured goods and consumer durables.

Activity 1

Prepare a chart describing the major stages in the transformation of India's export and import compositions during the planning period.

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13.4 INDIA'S FOREIGN TRADE : DIRECTION

India's foreign trade relations cover the countries all around the world. To understand the reigonal direction of India's foreign trade and its progress, countries of the world are classified under five broad groups :

I. Organisation for Economic Co-operation & Development (OECD) Countries which, in turn, comprise:
   - (1) The European Economic Community (EEC) : United Kingdom, Germany, France, Belgium, etc.
   - (2) North America : Canada, USA
   - (3) Asia and Oceania : Australia, Japan

II. Organisation of Petroleum Exporting Countries (OPEC)

III. Eastern Europe

IV. Developing Countries

V. Others

Imports: Most of India's imports originate from the industrialised (OECD) countries (Table 13.6). In 1960-61, about four-fifths of the imports were from the OECD countries. Of these, the UK and the USA together accounted for as much as 50 percent of the total value of India's imports. However, since then, the relative importance of OECD countries in India's imports has declined to some extent (thought it has increased marginally in the '90s). This is reflected in the gradual fall in the share of UK and USA in the value of India imports. In 1993-94, UK and USA together accounted for hardly 19 percent of the total value of imports. But countries like Belgium and Japan have become more important trading partners as far as India's imports are concerned. By and large, India imports capital goods, raw materials and intermediates from OECD countries.

India imports mainly petroleum, oil and Lubricants (P.O.L) from the OPEC. Both in terms of value and volume, POL had a minor presence in India's import structure in the 60s and 70s. OPEC accounted for hardly 5 percent of the value of imports in 1960-61 and hardly 8 percent in 1970-71. But thereafter, due to the sharp rise in oil prices as well as increase in the quantity of India's imports, the share of OPEC in the value of India's imports went up steeply. As a result, imports in 1980-81 from OPEC accounted for almost 28 percent of the import bill. The subsequent fall in international oil prices resulted in a relative fall but went up again as a result for the Gulf crisis in 1991.

Table 13.6: Direction of India's Imports 1960-61 – 2001-02
(% Share in value)

Countries	1960-61	1970-71	1980-81	1990-91	1995-96	1999-00	2000-01	2001-02
I OECD :	78.0	63.7	45.7	54.0	52.4	43.0	39.9	40.1
1. EEC :	37.1	19.6	21.0	29.4	26.7	21.2	19.8	19.1
– Belgium	1.4	0.7	2.4	6.3	4.6	7.4	5.7	5.4
– East Germany	10.9	6.6	5.5	8.0	8.6	3.7	3.5	3.9
– UK	19.4	7.8	5.8	6.7	5.2	5.5	6.3	5.0
2. North America	31.0	34.9	14.7	13.4	11.6	7.9	6.8	7.2
– USA	29.2	27.7	12.9	12.1	10.5	7.2	6.0	6.1
3. Asia & Oceania	7.1	7.4	7.4	11.2	9.7	7.5	5.9	6.9
– Japan	5.4	5.1	6.0	7.5	6.7	5.1	3.6	4.2
II OPEC :	4.6	7.7	27.8	16.3	20.9	22.5	5.4	5.8
III Eastern Europe	3.4	13.5	10.3	7.8	3.4	1.6	1.3	1.4
– USSR	1.4	6.5	8.1	5.9	2.3	1.3	1.0	1.0
IV Developing Countries	11.7	14.6	15.7	18.4	18.3	20.7	17.5	19.1
– Asia	5.7	3.3	11.4	14.0	14.4	15.7	14.4	15.3
V Others	2.2	0.5	0.5	3.5	5.0	12.2	35.9	33.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: 1. *India: Towards Globalisation,* UNIDO, 1995.
2. *Economic Survey,* 2002-03.

The growing domestic demand for P.O.L and increasing oil prices in the international market will make OPEC all the more important in terms of India's imports in the future.

Eastern Europe, particularly, the former USSR was a significant source of India's imports for nearly two decades: mid-sixties to mid-eighties. The main items of imports from these countries were iron and steel, non-ferrous metals, chemicals, capital equipment, pharmaceuticals and petroleum products. However, with the transformation of the economic system of East-European countries and the disintegration of the USSR, imports from Eastern Europe declined drastically.

The regional shares in sourcing of imports in 2001-02 reveal enhanced shares from all the major regions, with a corresponding reduction in share of residual category. This was contributed by an increase in imports from OECD, OPEC Eastern Europe and from other developing countries.

A significant development in the direction of India's imports is with reference to developing countries, particularly Asia. The imports generated from Asian countries have increased significantly since the '80s. This could be attributed to (i) rapid economic development of many Asian countries, specially South East

Asian-countries and (ii) greater trade co-operation among the members of SAARC (South Asian Association for Regional Co-operation).

On the whole, India has experienced increasing regional diversification in the process of the growth of imports.

Exports : A major share of India's exports goes to industrialised (OECD) countries (Table 13.7). In 1960-61, more than 66 percent of the value of exports were absorbed by OECD countries. But the relative share of OECD countries in India's exports declined in 1970-71 and again in 1980-81. Thereafter, the share has increased again. In the '90s, the exports to OECD countries stood at around 57 percent. Within the OECD countries, UK and USA were the major destinations for India's exports, which accounted for as much as 43 percent of the value of exports in 1960-61. However, the pre-eminent position of these two countries, particularly the UK has declined considerably since then. Of course, in the nineties, the USA is emerging as a major trade partner in terms of India's export destination. In 1990-91, exports to the USA accounted for almost 15 percent of the value of exports.

Table 13.7: Direction of India's Imports 1960-61 – 2001-02
(% Share in value)

Countries	1960-61	1970-71	1980-81	1990-91	1995-96	1999-00	2000-01	2001-02
I OECD :	66.2	50.1	46.6	53.5	55.7	57.3	52.7	49.3
1. EEC :	36.2	18.4	21.6	27.5	26.5	24.7	22.7	21.8
– Belgium	0.8	1.3	2.2	3.9	3.5	3.7	3.3	3.2
– Germany	3.1	2.1	5.7	7.8	6.2	4.7	4.3	4.1
– UK	26.9	11.1	5.9	6.5	6.3	5.5	5.2	4.9
2. North America	18.7	15.2	12.0	15.6	18.3	24.4	22.4	20.8
– USA	16.0	13.5	11.1	14.7	17.4	22.8	20.9	19.4
3. Asia & Oceania	10.1	15.2	10.6	10.4	8.3	5.8	5.1	4.5
– Japan	5.5	13.3	8.9	9.3	7.0	4.6	4.0	3.4
II OPEC :	4.0	6.4	11.1	5.6	9.7	10.6	10.9	12.0
III Eastern Europe	7.0	21.0	22.1	17.9	3.8	3.1	2.4	2.3
– USSR	4.5	13.7	18.3	16.1	3.3	2.6	2.0	1.8
IV Developing Countries	14.8	19.9	19.2	16.8	25.7	25.6	26.7	28.0
– Asia	7.0	10.8	13.4	14.3	21.3	20.9	21.4	22.4
V Others	8.0	2.6	1.0	6.2	5.1	3.4	7.3	8.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: 1. *India: Towards Globalisation,* UNIDO, 1995.
2. *Economic Survey,* 2002-03.

Today, India's exports within OECD are not confined to only UK and USA but more evenly spread among other countries such as Belgium, France, Germany, Japan, the Netherlands, etc. This implies that India's export penetration has been diversified among the OECD countries over the period.

The share of OPEC in India's exports has always been minimum and showed no definite trends over time.

India's export trade with Eastern Europe like that of imports peaked during the '70s and '80s. But since then, due to the factors described earlier, exports to the region have declined rapidly.

Direction of exports over the 1990s show greater consistency in our exports to Organisation for Economic Cooperation and Development (OECD) countries, including the European Union (EU) region and larger fluctuations/dispersal to areas like the Organisation of Petroleum Exporting Countires (OPEC), Eastern Europe and other developing countries. In 2001-02, exports to OECD countries declined due mainly to lower exports to major countries like USA, Japan, Canada, U.K., Germany, France and Belgium. Decline in exports to Eastern Europe was due to lower exports to Russia. The rise in exports to OPEC region was mostly contributed by higher exports to Nigeria, Indonesia and Iraq. Overall, while the OECD countries' and Eastern Europe region share in total exports declined to 49.3 percent and 2.3 percent respectively, the shares, in total exports, increased to 12.0 percent for OPEC region and 28.0 percent for other developing countries in 2001-02.

A significant development in the direction of India's exports, is the emergence of Asian Countries as the major buyers. Since 1960-61, the share of Asian Countries in India's exports has steadily gone up. The growing economic prosperity in South East Asia and greater trade Co-operation among Asian Countries, particularly South Asian countries, may have contributed largely to this development.

The destination of India's exports and imports has some important implications:

- Despite relative decline in importance, OECD countries are the major destination for Indian exports and major source of imports.
- Among the OECD countries, the USA has emerged as the leading trade partner of India.
- The importance of developing countries, particularly Asian countries as trade partners is growing gradually.
- The trade relations with East European countries including Russia have declined drastically since 1990-91.
- Due to P.O.L. imports, the OPEC is an indispensable trade partner but its importance in terms of trade exports is not too significant.
- India's trade relations with South American and African countries are negligible.

Activity 2

Develop a bar diagram for India's trade balance on the basis of data provided in Table 13.1. Analyse the factors for its fluctuations.

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13.5 SUMMARY

India’s foreign trade has grown remarkably, both in terms of value and quantity, since the beginning of economic planning. The policy of industrial and trade liberalisation introduced in 1991 has given a new turn to the growth of both imports and exports. However, imports have always exceeded exports which means that India has become a perennially trade deficit country.

India’s imports mainly comprise capital goods like machinery and equipments, raw materials and intermediates like P.O.L., iron and steel, non-ferrous metals, precious stones, etc. Thus, India’s imports are crucial in nature for the functioning of the economy. India’s export composition has transformed with the faster growth of manufactured goods and the relative decline of agricultural and allied products. But, manufactured exports are largely confined to light manufactures. India’s imports as well as exports have also undergone diversification in terms of destination.

As a result of all these, the share of foreign trade in India’s Gross National Product (GNP) has been increasing steadily. But it is still lower than that of East Asian and Latin American countries. The share of foreign trade in GNP in India accounted for 17 percent in 1992 whereas it was 54 percent in South Korea, 36 percent in China and 23 percent in Mexico. Further, the share of India’s exports in world exports has been negligible which is the outcome of the lack of competitiveness of Indian goods in the international market.
All these show clearly that, despite remarkable growth, India has to go a long way in:

- attaining economic self-sufficiency in the form of paying for imports through exports
- improving the competitiveness of its goods in terms of price and quality to increasingly penetrate the world market
- diversification of exports, specially in terms of heavy manufactures
- realising foreign trade as a major sector of the economy in terms of GNP.

13.6 KEY WORDS

(i) **Import Substitution** The process of developing industries to produce those goods which are currently imported with the objective to acquire indigenous capability to produce imported goods and curtail imports.

(ii) **Balance of Trade** (or trade balance) Refers to the difference between the values of exports and imports. If the value of exports is more than the value of imports, the trade balance is said to be positive or favourable. If the value of imports is more than the value of exports, the trade balance is said to be unfavourable or negative.

(iii) **Negative List** Refers to list of items whose imports are totally banned.

13.7 SELF ASSESSMENT QUESTIONS

1. Write an essay on why a developing country should engage in foreign trade.
2. Discuss the role and significance of foreign trade for a developing economy.
3. Analyse the major trends in the growth of India's foreign trade.
4. "India's imports are more critical and indispensable than exports." Do you agree? Why?
5. "Exporting minerals and agricultural raw materials in the long run may prove counter-productive for the economic development of a country." Do you agree with the statement? Give reasons to support your argument.
6. "India's export composition has transformed more significantly than its import composition over the period." Is it true? Why?
7. "The direction of India's exports and the origin of India's imports have followed a similar pattern in terms of regional diversification". Critically evaluate.
8. Analyse the major implications and shortcomings of India's foreign trade growth since Independence.

13.8 FURTHER READINGS

1. UNIDO, 1995: *India: Towards Globalisation.*
2. Government of India: *Economic Survey,* Ministry of Finance, 1990-91, 1991-92, 1992-93, 1993-94, 1994-95, 1995-96, 2002-03.
3. Ministry of Commerce: *Annual Reports.*
4. Reserve Bank of India: *Annual Reports.*