# INDIA’s FOREIGN TRADE

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# What is Foreign Trade?

- Foreign trade refers to the exchange of goods and services between two or more countries. Foreign trade is an indispensable means for sustaining the economic growth and development of a nation.

- It contributes to economic development in a number of ways:

1) It enables the imports of capital goods and intermediate goods that involve advanced technology, which accelerates the development process. The flow of advanced technology improves the factor productivity.

2) The import of capital goods involving advanced technology offers other advantages in terms of improvement in managerial talents, know-how, skills and entrepreneurship.

3) It generates pressure for dynamic changes through (i) competitive pressure from imports and (ii) pressure of competition for export markets.

# What is Foreign Trade?

4) Exports allow increase in production and exploitation of economies of scale and increasing familiarity with absorption of new technologies. These in turn, help to increase the profitability of the domestic business without any corresponding increases in price.

5) Foreign trade increases worker's welfare through:

- Larger exports that results into higher wages;
- -Cheaper imports enable better consumption pattern;
- -It enables workers to become more productive with the use of better technology and other inputs.
- Further, the increased openness to trade has been strongly associated with the reduction of poverty in most developing countries.

# Composition of Foreign Trade (Exports)

Agriculture & Allied Products

(12.7%)

Ores & Minerals

(1.9%)

Manufactured Goods

(71.2%)

Crude and Petroleum

(12.7%)

Other items

(1.5%)

# Composition of Foreign Trade (Imports)

| | | |
|---|---|---|
| Food & allied products (4.4%) | Fuel (28.3%) | Fertilizers (1.2%) |
| Capital goods (13.6%) | Paper board & newsprint (0.9%) | Other items (39.1%) |

# Direction of India’s Trade

- Direction of trade data reveals that India’s trading partners are about 230 countries globally. But, of these, more than 60% of trade volume (in $) is with 23 countries.
- Among these 23 countries, India depends on only four countries, viz, United Arab Emirates (UAE), China, US and Saudi Arabia, for more than 51% of trade.
- India has been consistently maintaining trade deficits with most of the top trading partners.
- In terms of trade volume, the top 10 countries in order of importance in 2012-13 were: the UAE, China, the US, Saudi Arabia, Switzerland, Germany, Singapore, Hong Kong, Indonesia and Japan, accounting for 48% of total trade.
- China has emerged as one of the important trading partners of India over the years, but the benefits are skewed towards China. In the first five months of 2013, India’s trade deficit with China is reported to have increased by 34% to reach $12 billion.

# Direction of India’s Trade

- Directional changes in **exports** were also seen clearly in the post-crisis period. India’s exports to Europe, America, and Commonwealth of Independent States and Baltic shrunk after the economic slowdown hit in the year 2008.
- India’s exports to Asian and African countries went up after the crisis. India has thus shifted focus from traditional markets in European and American countries to Asian countries.
- The highest and most drastic shift in the direction of **India’s imports** was seen from Asia, which was 29.22% in total imports in 2002-03, which increased to reach 60% of India’s total imports in the year 2012-13.
- Decline in imports from Europe (from European Union countries) has been seen in the post crisis period.

# Causes of Trade Deficit

- **Exports**
- There has been a gradual shift in India's manufacturing exports from labour intensive sectors like textiles, leather and manufacturing, handicrafts, and carpets to capital and skill-intensive sectors. Share of primary products in India's exports fell over the years from 15.90% in FY 2000-01 to 14.20% in FY 2012-13 .
- About 58% to 60% of India's export earnings are generated from four commodity groups, viz, garment, gems and jewellery, engineering goods, and petroleum products.
- The share of engineering goods which reached 21.85% in 2008-09 dipped to 18.9% in 2012-13.
- The share of gems and jewellery came down to around 14% from 17%.
- Export of readymade garments saw a substantial fall during the period. The share of readymade garments dipped to 4.3% from about 12.5% mainly due to competition from China, Bangladesh, Turkey and Vietnam.

# Causes of Trade Deficit

- **Imports**

- India is a net importer of crude for its energy needs and has faced rising petroleum imports. In recent times, global oil prices are more or less stable, but India's petroleum bills have gone up mainly due to an increase in demand for petroleum in volume terms.

- The share of gold import which was averaging at about 7% of total imports jumped to about 11.5% in the last couple of years. As a result import bill increased from $4 billion to $58 billion between 200001 and 2011-12.

# Strategic Steps to correct Imbalance

❖ **Promoting Exports**

1. ***Traditional Sectors***: there is scope to improve efficiency of traditional sectors like textiles, gems and jewellery, leather, jute, carpets and handicrafts which can contribute to enhance their share in manufacturing exports. We need to tide over existing shortcomings by ensuring adequate availability of raw material, skill development, manufacturing parks/clusters, tapping potential markets, appropriate brand promotion, providing financial/fiscal incentives, capacity building for export, continuation of existing schemes, etc.

2. **Micro, small and medium enterprises (MSMEs): E**xport promotion from MSME sector has been accorded high priority in India's export promotion strategy. The sector faces numerous problems which includes low technology, inadequate access to credit, poor marketing and branding. Thus, government should lay strong emphasis on improving this sector.

# Strategic Steps to correct Imbalance

- **Restricting Imports**

1. The focus on gold and oil alone to restrict imports tends to obscure other important impediments which are necessary for the development of the economy.
2. Import substitution in several commodities should be explored such as edible oils and fertilisers.