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# " FOREIGN TRADE OF INDIA : ECONOMIC GEOGRAPHY "

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**Abstract:**-The paper makes an attempt to explain the trend in foreign trade ofIndia.It points out that barring setbacks in certain years,the foreign trade in India has been growing steadily.Income & exchange rate are both important determinants in foreign trade.The paper identifies products with high trade potential of India export-import various types of goods, so that these could be targeted in trade facilitation measures or when mutul recognition of eachcountry'scertification is accepted by the other country.

**Keywords:**Foreign Trade, Export, Import, Balance-Composition-Direction of foreign trade, GSI, Trade Finance, EXIM Bank, EXIM Policy,etc.

## INTRODUCTION

No country self-sufficient in all the goods & services that it requires.It has to Depend on other countries for what it lacks.The exchange of goods or merchandise or their sale. Purchase is know as trade. Trade is of three types : (1)Local Trade,(2)Regional Trade &(3)Foreign Trade.

When one country exchanges goods or merchandise with another country,it is known as Overseas Trade.Advancement of foreign trade of a country leads to it's economic prosperity. It is important both as a source of imports & as an outlet for exports."International trade of a country is rightly known as its Economic Barometer".

India has been maintaining trade links with china, Myanmar, Indonesia, Thailand, Iran, Iraq, Afghanistan, Saudi Arabia, Egypt, Greece, etc. Since ancient times, with the establishment of British rule in India,our trade ties becomes stronger with Britain.India used to export raw materials such as Cotton,Tea,Iron Ore,etc. to Britain & import manufactured goods,machinery,medicines,etc.from that country.

If exports are more than imports.it is called trade surplus & if imports are more,it is called trade deficit.India almost every year since dependence had a trade deficit.

### 1.BASIS OF OVERSEAS TRADE:-

Overseas trade depends upon several factors.Some important factors as discussed as under…

**(i)Difference in Natural Resource :-** There are variation in relief,structure,geology,climate & soil from one country to the other.These variation lead to variations in natural resources.Some countries produce certain things more than their requirement & export them while some other countries may be lacking them & import those commodities.

**(ii)Marketable Surplus:-** Some countries are capable of producing certain things more than internal consumption. In ether words, these countries have marketable surplus which they trade with those countries having demand for such products.For example-Tea form India,Coffee from Brazil,Jute from Bangladesh,Paper & Pulp from Norway & Sweden, Wood from Australia & Petroleum advanced countries like U.S.A.,U.K.,Russia,Germany & Japan Export finished goods.

**(iii)Scarcity of Goods:-** There is not even a single country in the world which does not have scarcity of one commodity or the other.Japan & Britain do not have raw materials.Hence these countries have to import raw materials from a large number of countries.Thus scarcity of goods also encourages international trade.Japan depends heavily on Iron Ore supplies from India.

**(iv)Transport & Communication:-** Trade involves exchange of goods which requires paper arrangement for transportation & communication.Land water & air transport have helped international trade to a great extent.Countries with poor transport system have not been able to develop international trade. Realizing the significant role played by transport system for promoting trade.India has launched an ambitious programme to improve surface transport.In addition certain ports like Jawaharlal Nehru, Kandla, Ennore, Haldia, etc have either been developed or improved.

**(v)Disparities in Economic Growth:-** There are disparities in economic growth in different parts of the world.Some countries all still engaged in primary activities such as agriculture,mining,etc.These countries mainly export minerals & agricultural raw materials.India's export consisted of raw materials for a pretty long time even after independence.It is only recently that India has been able to Diversify it's exports as a result of diversification of her economic activities.

**(vi)Trade Policy:-** Free trade policy encourages Foreign trade whereas restrictions of the trade discourage it. E.g. India has e the export of some soil – seeds to meet the domestic demand .similarly, India has imposed heavyimport duty as certain finished good to encourage industries at home.

**(vii) War and Peace:-** Peace is the most important condition for the development of international trade .international trade gets disrupted during the time of war

**(viii)Political Relations :-** Countries having cordial relations have better exchange of goods which encourages international trade. for example,India and Russia have good political relations and trade between two countries has increased . On the other hand , U.S.A. and Russia have strained political relations and trade between these two big countries is at low level.

**2.AGENCIES OF INTERNATIONAL TRADE :-** Following agencies related to international trade .

| | |
|---|---|
| (i)Indent Houses | (ii) Export Houses |
| (ii) Import–Export Traders | (iv) Import – Export Agents |
| (v)Import–Export Association | (vi)Export Department of Manufactures. |

**3.TYPES OF TRADE: –** There are following two main types of trade .

**(I) Internal Trade:-** These type of trade is also divided into Two subtypes .
(a) whole-sale Trade (b) Retail Trade.

**(ii)International / Overseas / Foreign Trade :-** Following Three sub types of these type of trade.
(a)Export Trade (b)Import Trade (c)Enter pot Trade.

**4.INDIA'S FOREIGN TRADE:-** India's foreign trade studied under following three points.
(i)Volume / Balance of Foreign Trade of India

| Years/Imports/Exports/Balance of Trade (In Rs.$ Billion) | Balance Growth (In %)<br>Year/Export/Import/Balance Trade |
|---|---|
| **(a)**1950-51/1.273/1.269/-0.004 | **(a)**2000-01/27.58/7.26/-50.97 |
| **(b)**1970-71/2.162/2.03/-0.131 | **(b)**2002-03/22.06/21.21/16.27 |
| **(c)**1990-91/24.075/18.14/-5.932 | **(c)**2005-06/21.60/31.80/62.25 |
| **(d)**2000-01/50.536/44.56/-5.976 | **(d)**2008-09/28.19/35.77/49.72 |
| **(e)**2010-11/350.300/245.900/-104.400 | **(e)**2010-11/35.17/23.45/4.31 |

**(ii)Composition of foreign Trade of India:-**

**(a)Composition of Import Foreign Trade of India:-** Indian Imports have also increased manifold. India used to import mainly the manufactured goods before Independence. At the time of Independence, roughly 70 % of imports into India consisted of either manufactured consumer goods or inputs for manufacturing industries. But after that, the imports of manufactured goods decreased gradually and our imports saw a large variety of goods, The demand for Petroleum & Petroleum products increased tremendously which made it necessary to import large quantities of these items. The other major items of imports are Machinery, Tools, Cereals, Fertilizers, Edible Oils, Iron-steel, Pearls & Precious stones, superior quality cotton &

paper, etc. like exports,India's Imports are also tending to become broad based. The growth in imports has been contributed by robust increase in imports of food & allied products, capital goods,raw materials & manufactured intermediate & consumer goods.

**Composition of Import Foreign Trade of India - 2010-2011**
**Imports goods / % share in total Import Trade**

| | | | |
|---|---|---|---|
| (a)Fuel (Coal, POL)/31.3 | (b)Capital good /13.1 | (c)Electronic goods/7.2 | (d)Gold & Silver/11.5 |
| (e)Pearls & Precious stone/9.4 | (f)Fertilizers/1.9 | (g)Iron & Steel/2.8 | |
| (h)Chemicals /5.2 | (i)Pulses/2.9 | (j)Edible oil/1.8 | |
| (k)Paper board & News print/0.6 | (l)Cashew nut/0.2 | | |

**There are Four types of restrictions on Imports-**
(I)Tariffs (II)Quantitative Restrictions (III)Banning
(IV)Non-Tariff barriers like quality norms etc.

**(b)Composition of Export Foreign Trade of India:-** India has been a traditional exporter of raw materials since time immemorial. But the complexion of India's export trade has undergone a world of change since Independence. At present, Indian exports cover a wide range of items of agricultural, industrial, handicrafts, handloom& cottage sectors. Exports of electronic, hardware & software goods have increased considerably since the beginning of 1990s, and more significantly, these items are mainly destined to the advanced countries. The export growth is gradually becoming broad based not withstanding some deceleration in export growth of primary commodities. The major contributor to this increase has been the manufacturing sector in general & engineering goods, chemicals & related products, leather & manufactures & gems &jewelry in particular.

**Composition of Export Foreign Trade of India - 2010-2011**
**Export goods / % share in total Export Trade cereals**

| | | |
|---|---|---|
| (a)Engineering goods/18.1, | (b)Cotton oil & Petroleum goods /16.8, | (c)Cereals/1.3 |
| (d)Minerals & Ores/4.0 | (e)Precious stone, Gems &Jewellery/14.7 | (f)Coffee/0.3 |
| (g)Cotton textiles & Yam/6.7 | (h)Chemicals & Allied products/5.5 | (i)Tea/0.3 |
| (j)Marine products/1.0 | (k)Leather & Leather goods/1.5 | (l)Other goods/3.0 |
| (m)Fruits & Vegetables/0.5 | (n)Handicraft goods/0.1 | |

**Salient points of strategy for doubling exports in next three year(2011-12 to 2013-14):** -The target is to double the country's merchandise export in dollar terms over the next three years from US $ 246 billion in 2010-11 to US $ 500 billion in 2013-14. To realize this exports have to grow at a compound average growth of 26.7 % per annum.

**(iii)Direction of Foreign trade of India:-** Direction of foreign trade means those regions & countries with which India has trade relations. Although we have trade compacts with almost all the countries which are more important than the others.

Britain was our most important trade partner before Independence. This was the result of the policy of exploitation of India by the British rules. They exploited the natural resources of India to get the raw materials & created a vast market here for their manufactured goods, But the situation has drastically changed since Independence, Direction of India's exports & imports from different regions / sub-regions is outlined in following table…

**Direction of Export & Import of Foreign trade of India - 2010-11**
**Continent/Export/Import ( % share total Imports & Exports)**

(a)Asia &Asian Countries/56.2/61.2 (b)Africa/6.5/7.0 (c)Europe/20.2/19.3 (d)North& Latin America/14.8
(e)CIS & Baltic Nations/1.1/1.5

**Country wise Direction of Export & Imports of Foreign trade of India – 2010-11**
**Leading Country's name/Export % / Import %**

| Percentage share Export | Percentage share Import |
|---|---|
| **(a)** UAE – 13.7 | **(a)** China - 19.8 |
| **(b)** USA – 10.2 | **(b)** UAE - 8.9 |
| **(c)** China – 7.8 | **(c)** Switzerland - 6.7 |
| **(d)** Hong-Kong – 4.0 | **(d)** Saudi Arabia - 5.5 |
| **(e)**Singapore - 4.0 | **(e)** USA - 5.4 |

**5.INDIA'S EXIM POLICY : IT'S EVOLUTION AND CONTENT :-**

India's external trade has evolved and witnessed many changes since Independence in 1947. Soon after Independence, the government Followed a policy of protectionism & so import substitution was the norm.

The import substitution policy followed during the restrictive phase gave way to a new phase of trade reforms after mid 1980s aimed at easing trade restriction to promote economic growth & competitiveness. The pace of change in India's external trade policy & practices gathered real momentum in 1990s. A slew of reforms were launched which included liberalization of imports. Today, Except for a handful of goods disallowed on environmental health & safety grounds & a few others that are canalized such as fertilizer, cereals, Edible oils & Crude oil, all goods can be imported without a license or other Restrictions. Tariff reforms have also been Addressed in a more Systematic manner with across the board reduction in peaks rates rather than selective exemptions. The peak rate of customs duty has been consistently brought down with the aim of converging it with the ASIAN levels. Today it is 10 %. The reduction helps in making domestic economy competitive & helps imports for exports.

One of the instruments of shaping the country's trade dynamics is the foreign trade policy. The bold foreign Trade Policies (FTP) of 2004-09 & 2009-14 recognized that trade is not & end in itself but it's primary purpose is to stimulate greater economic activity & employment generation. The FTP identified certain thrust sectors having prospects for export expansion & potential for employment generation. These include…(i)Agriculture, (ii)Handloom & Handicrafts, (iii)Gems &Jewelry, &(iv)Leather & Footwear. Accordingly, specific policy initiatives for these sectors have been announced in the various “Annual Supplements” to the FTP every year.

The growth performance of trade is a reflection of trade policies of the government. Initially, with restrictive trade policies India's share in world export declined continuously from 2.2 % in 1948 to 0.42 % in 1980. After implementation of series of trade reform measures India's share in export rose. Today India has a share of 2 % of global trade (2012).

Besides trade policy, another initiative of the government is to give a fillip to exports has been the introduction of Special Economic Zone (SEZ). SEZ, Act 2005 was intended to instill confidence in investors & signal the government's commitment to a stable SEZ policy regime. The main objectives of the SEZ act are….(a)Generation of additional economic activity, (b)Promotion of exports of goods & services, (c)Promotion of investment from domestic & foreign sources, (d)Creation of employment opportunities, (e)Development of infrastructure facilities.

**6.EXPORT - IMPORT BANK :-** The Export-Import Bank of India (EXIM Bank) is a public sector financial institution created by an Act of Parliament , the Export-Import Bank of India Act 1981. The business of EXIM Bank is to finance Indian Exports. Banks primary objective is to help export related companies by offering them a comprehensive range of products & services.

**7.TRADE POLICY :-**The trade deficit during 2011-12 stood higher as US $ 184.9 billion than US $ 118.7 billion during 2010-11 mainly on account of large imports of POL & Gold-Silver accounting for 44.4 % of India's Imports. Trade deficit during 2011-12 was 55.8 % higher than the level recorded in 2010-11.

**8.GLOBAL TRADE :-** Accounting to the WTO, India had the fastest export growth among major economies in 2011, followed by China with the second fastest export growth at 9.3 %. World trade growth in 2011 was weighed down by the ongoing sovereign debt crisis in Eurozone economies, supply chain disruption from natural disasters in Japan & Thailand, & turmoil in Arab countries. As a result, global export growth remained lower than anticipated in most advanced economies in 2011.

Further, India's share in world export also showed some improvement during the recent period. 2 % Going forward, downward risks to India's export continue on account of steeper than expected downturn in Europe, Financial contagion related to the sovereign debt crisis, rapidly rising oil prices & geopolitical risks.

**9.SOUTH-SOUTH TRADE :-** Exports from developing countries now constitute 37 % of global trade, of which about half relates to south-south trade. Hence, the need for deeper south-south interaction & collaboration which will help in having commonality of approaches on the major issues of international importance including climate change, UN reforms, reforms of the International financial system, dealing with the global financial crisis, WTO, etc.

**10.GSI – INDIA :-** GSI ( Global Standards India) India is not for profit standards body promoted by the Ministry of Commerce (GOI) & Indian industry to spread awareness & provide guidance on adoption of global standards in supply chain Management by Indian industry for the benefit of consumers, Industry Government etc.

GSI India is the only organization in India authorized to issue company prefix numbers for use in barcodes, RFID tags etc. for unique, unambiguous & universal identification of products, cartons, containers, etc. GSI standards find wide application in supply chains across sector. GSI standards in identification of consumer products in Retail. GSI India is an affiliate of GSI global office, twin headquartered at Brussels (Belgium) & New Jersey (U.S.A.).

**11.REGIONAL TRADE ARRANGEMENTS AND TRADE :-** India views regional trading arrangements (RTAs) as ‘building blocks' of trade liberalization & as complementary to the multilateral trading system. About 50 % of world trade is now conducted on a preferential basis within FTAs. Recognizing the importance of RTAs, India has engaged with it's trading partners / blocks to begin concluding in principle agreements to move towards Comprehensive Economic Cooperation Agreements (CECA) which cover FTA in goods, services, investment & identifies areas of economic cooperation.

The India – Srilanka FTA, Agreement on SAFTA, India – Singapore CECA, Ceca with Malaysia & South Oreo & Cepa with Japan are important to note. Btia with EU is under negotiations. India inked the FTA with Asian in August 2009 & will come into affecton Jan.1,2010.

The India– Mercosur (Brazil, Argentina, Uruguay & Paraguay) PTA is to be implemented shortly.

**12.TRADE FINANCE :-** Trade finance is related to foreign trade. Trade finance refers to financing Foreign trading transaction. In this financing arrangement, the bank or other institution of the imported on behalf of the importer. Trade finance is necessary to reduce the risks & uncertainness associated with commercial transactions, thus, faciliting trade.

**13.TRADE FINANCE IN INDIA :-**Various export related agencies of state & central Government. May a vital role in assisting / providing various kind of service / facilities to traders / manufactures to encourage exports from country. E.g. RBI, EXIM Bank, LOC Programme, ECGC, The Central Excise Department, EPCs, etc.

**14.SALIENT FEATURES OF FOREIGN TRADE OS INDIA :-**

**(i) Negative or Unfourable Trade :-**India had to import various items like machinery, agricultural implements, mineral oil & metals on a large scale after Independence for economic growth. But our export could not keep pace with our import which left us with negative or unfavorable trade.

**(ii)Diversity in Exports :-**Previously, India used to export its traditional commodities only which included Tea, Jute, Cotton, Textile, Leather, etc. But great diversity has been observed in India's export commodities during the last few years . India now export over 7500 commodities. Since 1991, India has emerged as a major exporter of computer software & that too to some of the advanced countries like the U.S.A. & Japan.

**(iii)Worldwide Trade :**-India had trade links with Britain & few selected countries only before Independence. But now India has trade links with almost all the regions of the world. India exports its goods to as many as 190 countries & imports from 140 countries.

**(iv)Change in Imports :-**Earlier we used to import food grains & manufactured goods only. But now oil is the largest single commodity imported by India. Both the imports as well as exports of pearls & precious stones has increased considerably during the last few years. Our other important commodities are import are iron & steel, fertilizer, edible oils & paper.

**(v)Maritime Trade :-**About 95 % of our foreign trade is done through sea routes. Trade Through land routes is possible with neighboring countries including China, Nepal, Myanmar are cut off from India by lofty mountain ranges which makes trade by land routes rather difficult. We can have easy access through & routes with Pakistan only but the trade suffered heavily due to political differences the two countries.

**(vi)Trade Through a Few Selected Ports Only :-** We have only 13 major ports along the coast of India which handle about 90 % foreign trade of India. Very small amount of foreign trade is handled by the remaining medium & small ports.

**(vii)Insignificant place of India in the World Overseas Trade :-** Although India has about 16 % of the of the world's population, her share in the world overseas trade is less than 1 %.This shows the insignificant place of India in the world's overseas trade . This is however, partly due to very large internal trade, vast dimensions of the country provide a solid base for inter-state trade within the country. Europe is divided into a large number of smaller countries & the international trade is quite high.

**(viii)State Trading :-** Most of the India's overseas trade is done in public sector by state agencies & very little trade is done by individuals.

**15.CONCLUSION :**

-Trade is mostly observed in every country of the world. Trade is undoubtedly one of the major crises facing by under developed & developing countries. Foreign Trade is chronic problem & number of Countries suffering from trade has been steadily increasing in recent years. In India several factors effect on foreign trade, these factors are Internal infrastructure development, Agricultural production is lower as compare to other development country like Israel (because 16 % share of total agricultural production), lack of capital, irregular monsoon, etc. The globe is facing tremendous challenges in providing various goods, medicines, Chemicals, edible oils, fertilizers, stable diets to the growing population.

Although India has about 16.9 % of the of the world's population& 2.4 % total land of the world, its share in the world overseas trade is less than 1 %. This shows the insignificant place of India in the world's overseas trade . At that time, India has Imports 6,000 various type of goods & Export 7,500 types of goods. In recent time, so many export inspiration scheme played In India e.g. EPCG, DEPB, DFIA, etc.

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