Foreign Trade

1. Before independence, the foreign trade of India was being operated on the principles of colonialism. But after independence, there have been huge changes in its state and direction.

2. After independence, inward looking foreign trade policies were accepted and the policy of import replacement was its base.

3. Efforts were made for trade liberlisation during the decade of 1980 and the comprehensive policy of liberalisation and globalisation was made in the decade of 1990s (after the year 1991).

Volume of India's Foreign Trade

1. After independence, Indian foreign trade has made cumulative progress both qualitatively and quantitatively. Though the size of foreign trade and its vlaue both have increased during post-independence era, this increase in foreign trade cannot be said satisfactory because Indian share in total foreign trade of the world has remained remarkable low.

2. In 1950, the Indian share in the total world trade was 1.78%, which came down to 0.6% in 1995. According to the Economic Survey 2001-02 this share percentage of 0.6% continued in years 1997 and 1998. Since 1970, this share has remained around 0.6% which clearly indicates that India has failed to increase its share in the total world trade.

3. India's total external trade (exports + imports including re-exports) in the year 2009-10 reached a level of Rs. 8,45,534 crore registering a growth of 0.57%. In US $ terms, exports reached a level of US $ 178.8 billion, registering a negative growth of -3.5% as compared to a growth of 13.6% during the previous year.

Composition of India's Foreign Trade

1. Imports have been classified into Bulk imports and Non-bulk imports.

2. Bulk imports are further sub-divided into Petroleum, oil and lubricants (POL) and non-POL items such as consumption goods, fertilizers and iron and steel.

3. Non-bulk items comprise capital goods (which include electrical and non-electrical machinery), pearls, precious and semiprecious stones and other items.

4. The structural changes in imports since 1951 show : (a) rapid growth of industrialisation necessiating increasing imports of capital goods and raw materials; (b) growing imports of raw materials on the basis of liberalisation of imports for export promotion; and (c) declining imports of food grains and consumer goods due to the country becoming self-sufficient in food grains and other consumer goods through agricultural and industrial growth.

5. Exports of India are broadly classified into four categories : (i) Agriculture and allied products which include coffee, tea, oil cakes, tobacco, cashew kernels, spices, sugar, raw cotton, rice, fish and fish preparations, meat and meat preparations, vegetable oils, fruits, vegetables and pulses; (ii) Ores and minerals which include manganese ore, mica and iron ore; (iii) Manufactured goods which include textiles and ready-made garments, jute manufactures, leather and footwear handicrafts including pearls and precious stones, chemicals, engineering goods and iron steel; and (iv) Mineral fuels and lubricants.

6. Exports of India over the years show a clear decline in the importance of agriculture and allied products and a substantial increase in the importance of manufactured goods. This has been due to changing production structure of the economy and the overall growth of the economy.

Direction of Foreign Trade

India is having maximum trade with OECD countries (mainly the USA, EU and Japan). The direction of Indian trade registered a change during recent past years. Indian trade has been partially shifted from West-Europe to East Asia and OECD countries.
The high growth rate in Japan and ASEAN countries gave a high demand and favourable market to Indian exports. This has been one of the major reasons responsible for increasing Indian exports to East-Asian region of the world.

‘New Foreign Trade Policy (2009-2014)

In the Foreign Trade policy for the year 2009-14 announced on 27 August, 2009, the Government spelt out a bold vision to double India's exports of goods and services by 2014 and to double India's percentage share of global trade by 2020 and to focus on the generation of additional employment.
Stability of trade policy regime and need based support measures extended from time have yielded positive results since the inception of the Foreign Trade Policy (FTP) 2009-14.

Exim Policy 2002-07

The major highlights of Exim Policy 2002-07 are :

(i) Removal of quantitative and packaging restrictions on agri exports.

(ii) Transport assistance for movement of agri goods.

(iii) Export thrust on items indentified in Medium Term Export Strategy.

(iv) Continuance of existing duty neutralisation schemes till the Value Added Tax (VAT) becomes fully operational.

(v) Extension of the period for fulfilling export obligations under Export Promotion Capital Goods (EPCG) Scheme from 8 to 12 years.

(vi) Exemption of banking units set up in SEZs from statutory requirements like SLR and CRR.

(vii) Easing of external commercial borrowing norms by permitting less than three years tenure loans.

(viii) Provision for repatriation of export earnings within 360 days instead of the earlier 180 days.

(ix). Retention of entire export earnings in Export Earners Foreign Currency Account (EEFA).

(x) Tax benefits on sales from domestic tariff areas to Special Economic Zones (SEZs).

(xi) Reduction of processing fees, fewer physical inspections, same day licensing in all offices of DGFT (Director Gen. of Foreign Trade).

(xii) Common classification for DGFT and customs department to eliminate classification related disputes.

(xiii) No licence requirement for relocation of overseas industrial plants in India.

(xiv) Industrial towns such as Tirpur, Panipat and Ludhiana to get Market Access Initiative (MAI) funds, priority for infrastructure development.

(xv) Allocation to states from Rs. 350 cr. Assistance to States for Infrastructure Development (ASIDE) fund linked to their export performance.

(xvi) Permission for captive power generation and duty free import of fuel for power generation, for exporters.

(xvii) Reduction in the eligibility for getting Export House status from Rs. 15 crores to Rs. 5 crores.

Balance of Payment : A statement of all transactions of a country with the rest of the world during a given period. Transactions may be related to trade, such as imports and exports of goods and services; movement of short-term and long-term investments; gifts, currency and gold. The balance of payments may be classified into current account, capital account, unilateral transfer account and gold account.

Balance of Trade : Part of the nation's balance of payments concerning imports and exports. A favourable balance of trade means that exports exceed imports in vlaue.

Invisibles : A term used to describe those items, such as financial series, included in the current Balance of Payments accounts, as distinct from physically visible Imports and Exports of goods. Invisibles include government grants to overseas countries and subscriptions to international organizations, net payment for shiping services, travel, royalties, commissions for banking and other services, transfers to or from overseas residents, Interest, Profits and Dividends received by or from overseas residents.

Foreign Exchange Reserves in India

1. The foreign exchange reserves of the country include three important components : (i) Foreign Exchange Assets of RBI. (ii)Gold Stock of RBI (iii) SDR holdings of the Government.

2. After 1991, Indian foreign exchange reserves have rapidly increased due to various reasons which are as follows : (i) Devlauation of Rupee, (ii) Availability of loans from international institutions, (iii) Availability of foreign exchange from NRIs under various schemes, (iv) Increased foreign investment (both direct and indirect), (v) Full convertibility of Rupee on current account.

3. FEMA (Foreign Exchange Management Act) came into force in July 2000. This FEMA has replaced Foreign Exchange Regulation Act., 1973 (FERA-1973).

4. Under FEMA provisions related to foreign exchange have been modified and liberalised so as to simplify foreign trade and payments. FEMA will make favourable development in foreign Money Market.

India's foreign trade

1. India's total external trade (exports plus imports including re-exports) in the year 1950-51 stood at Rs. 1214 crore. Since then, this has witnessed continuous increase with occasional downturns.

2. India's share in total world trade has gone up from 1.1% in 2004—i.e. initial year of the Foreign Trade Policy (2004-09) to 1.5% in 2006.

3. During 2008-09 the vlaue of India's external trade reached Rs. 22,15,191 crore.

4. India's imports were highest from Asia and ASEAN (35.22%) followed by West Europe (21.17%) and America (7.78%), during 2005-06.

5. During 2009—10 India's imports reached to Rs. 13,63,736 crore from Rs. 13,74,436 crore in 2008—09, registering a negative growth of 0.78% in rupee terms. In US $ terms, imports reached a level of US $ 288.37 billion in 2009—10, registering a negative growth of -5.05%.

6. During 2009—10, UAE (13.4%) has been the most important country to export destination followed by USA (!0.9%), China (6.5%), Hong Kong (4.4%), Singapore (4.2%), Netherlands (3.6%), U.K. (3.5%), Germany (3%), Saudi Arabia (2.2%).

7. Asia and ASEAN accounted for 60.9% of India’s total imports during 2009-10 followed by Europe (19.2%) and America (10.2%). Among individual countries the share of China stood highest at 10.7% followed by UAE (6.8%), Saudi Arabia (5.95%), USA (5.9%).

8. During 2009-10, the share of Asia and ASEAN region comprising South Asia, East Asia, North East Asia, WAN A accounted for 53.93% of India's total exports.

9. Trade deficit decreased during 2009-10 to Rs. —5,18,202 crore as against Rs. -5,33,681 crore - during 2008-09. In Us $ terms also, trade deficit decreased to US $ 109.6 billion from a level of US $ 118.4 billion during 2008-09.

10. The share of Europe and America in India's exports stood at 21.56% and 15.02% respectively of which EU countries (27) comprises 20.17%.

Trade Organisations

1. International Monetary Fund (IMF) was established on 27th December, 1945 on the basis of decision taken in the Bretenwood Conference and it started functioning w.e.f. 1st March, 1947.

2. The total member countries of IMF in 2002 were 183.

3. The function of IMF is to encourage financial and economic co-operation between member countries and to extend world trade.

4. International Bank for Reconstruction and Development (IBRD) was established in 1945.

5. IBRD alongwith other institutions is also called World Bank. The other institutions are International Finance Corporation, International Development Agency and Multilateral Investement Guarantee Agency.

6. Presently, it is helping member countries in capital investment and encouraging long-term balanced development.

7. General Agreement on Tariffs and Trade (GATT), came into being on 30th October, 1947 and started functioning from 1st January, 1948.

8. The principle of GATT was - equal tariffs policy, to remove quantitative ban and disposal of business dispute in a democratic way.

9. On 1st January, 1995 the World Trade Organisation took over the place and position of GATT.

10. The Headquarter of WTO is in Geneva and the number of its member countries in the year 2003 was 146. India is a founder member of it.

11. The India-ASEAN Trade in Goods Agreement has come into effect on Jan. 1, 2010, though it was signed on August 13, 2009.

12. The signing of the India-ASEAN Trade in Goods Agreement paves the way for the creation of one of the world's largest free trade areas (FTA)—market of almost 1.8 billion people with a combined GDP of US $ 2.75 trillion.