India's Foreign Trade under Plan Periods

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Abstract

International Trade is an engine of growth of an economy. Trade is just not a transfer/exchange of goods and services, but it is more than it. So, when we date back to the history of trade, there we can see it's been long back people started to travel and trade with various countries. Here, the study focuses on India's Trade during plan periods, especially under a five-year plan. Through this research work, it tries to study and evaluate India's foreign trade and its value, composition, and direction.

Keywords: Foreign trade, Export, Import, Trade balance, Economic planning, Exchange rate

Introduction

Indian foreign trade has a very long history. Before independence, the Indian economy was typical of were mainly confined to Britain and other commonwealth countries. Export consisted chiefly of raw materials and plantation crops while other manufactures. Over the last 71 years, India's foreign trade has undergone a complete change both regarding the composition as well as the direction of trade. India's exports before independence comprised primarily of three commodities, namely tea, jute, and cotton textiles. At these constituted about half of the total exports from the country. Some of the other items exported were primarily products, like manganese ore, shellac, rawhides, and skins. Only about 4% of the exports consisted of engineering goods. So far as the direction of trade was concerned the UK & USA accounted for about 40% of the export. The share of other countries was rather small trade with east European countries was negligible.

After independence Indian foreign trade had changed drastically in all its dimensions value, composition, and direction till 1990-91 i.e. during the pre-reform period particularly after the 1990s much progress was witnessed by Indian foreign trade can be observed from the given discussion of the trends in the value of foreign trade, composition, and direction.

Foreign trade plays a vital role in the Indian economy. As the country needs to import diverse products so foreign trade is extremely important to the country. India exports a vast number of products and also imports an equal amount of economy, its tariffs continue to be high when compared with other countries, and its investment norms are still restrictive. This leads some to see India as a “rapid globalize” while others still see it as a “highly protectionist” economy.

Foreign trade is an exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic products (GDP). Generally, no country is self-sufficient. It has to depend upon other countries for importing the goods which are either non-available with it or are available in insufficient quantities. Similarly, it can export goods, which are in excess quantity with it and are in high demand outsides. Foreign trade involves different currencies of different countries and is regulated by-laws, rules, and regulations of the concerned countries.

Foreign trade in India includes all imports and from India. At the level of the central government, it is administered by the ministry of commerce and industry. Before the 1991 economic liberalization, India was a closed economy due to the average tariffs exceeding 200 percent and the extensive quantitative restrictions on imports. Foreign investment was strictly restricted to only allow Indian ownership of businesses. Since the liberalization, India’s economy has improved mainly due to increased foreign trade.

The origin of India’s foreign trade can be traced back to the age of the Indus valley civilization. But the growth of foreign trade gained momentum during that period, India was a supplier of foodstuffs and raw materials to England and an importer of manufactured goods. However, organized 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 in the early 1990s the Indian economy had witnessed dramatic policy changes.

The idea behind the new economic model known as liberalization, privatization, and globalization in India (LPG), was to make the Indian economy one of the fastest-growing economies in the world. An array of reforms was initiated about the industrial, trade, and social sectors to make the economy more competitive. Earlier India was afraid of global companies and facilitated government to ensure high tariff barriers. But now the scenario is changing and the holistic angle. India has been an important trading nation since ancient times. But the restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition, and volume of India's foreign trade. Foreign trade has worked as an engine of growth in the past and even in more recent times.

Objectives of the Study

- To analyze the composition of India's foreign trade.
- To identify the direction of India's foreign trade.

Methodology

The present study is an attempt to understand India's foreign trade under the plan. The study focuses on the value, composition, and direction of India's foreign trade. The study is primarily based on secondary data only. For this analysis, I have taken the data from 1950-51 to 2017-18. I couldn't include the latest data. There, I have used correlation to analyze the relationship between export and import.

Review of Literature

The foreign trade sector is an important sector of an open economy, different writers have dealt with the varied aspects of foreign trade for the economy of the country. Foreign trade not only can affect the resources and output base of an economy, but also its technological capabilities.

B.N.Ganguli's (1956) books provide an extremely valuable account of the evolution of economic development in the Asian and Pacific countries in the past century and of India's economic relations with them. This is one of the important works about India's economic relations with the Asian countries.

S.J.Patel (1959) made a pioneering attempt to analyze the long-term trends in India's foreign trade. He examined the stagnancy of India's exports over years, and explained it in terms of stagnancy and declining world demand for Indian exports.

E.N. Komarv (1975) observed that for more than 20 years Indian firms have business relations with the Russian trade organization, and the cooperation of the Soviet Union and India has very favorable prospects for development. This is guaranteed by the common position shared by both the countries regarding vital international issues, their mutual interest in strengthening and expanding soviet economic ties with India which has become traditional.

The Seminar of the Indian Institute of Foreign Trade (1977) provides the analysis of the total trade that India had with the socialist countries especially with the USSR over the last two decades .the seminar emphasized that Indian exporters interested in promoting stable markets for their products in the east European countries including the USSR. The ultimate marketing success will depend on how best the Indian exporting community can make effective use of marketing facilities provides to foreign exporters in the socialist countries of eastern Europe.

Modi (1984) had mentioned that bilateral trade between India and Pakistan should be liberalized in a manner that does not jeopardize the interest of either country and that both could import from and export to each other as many commodities as possible, and thus reduce dependence on developed countries.

Vijay Singh and Madanlal (1985) expressed that south Asian economic cooperation can enable the countries of the region to achieve economies of scale, better specialization opportunities, improved efficiency through increased competitions, less instability of external earnings and improvement in the bargaining position of the countries involved.

Chandra Sekhara Rao and D.K.R. Sharma (1986) in their paper reviewed the marketing record of Industrial and developing countries of South Asia, by analyzing the origin of their collective imports. They have studied the marketing experience of constituent countries of this region through an analysis of intraregional trade, and finally, they examined India’s experience with this region, particularly in the case of export of machinery and transport equipment.

Saxena and Chawla (1986) felt that there may be keen competitiveness in the arena of trade and that there is scope for the expansion of intra-regional trade in the SAARC region; more specifically, in certain commodities, which are being exported by some of these countries. They emphasized that economic cooperation among the SAARC member has to be utilized for converting competitive values into complementarity features.

Kletzer and Bardhan (1987), show that countries with relatively well-developed financial sectors have a comparative advantage in industries that depend on external finance. They revealed that even when technology and endowments are identical between the countries of scale are absent, credit market frictions lead to one country facing a higher interest rate or rationed credit compared to other countries. This may lead to differences in comparative advantages in processed goods which require more sophisticated manufactured finished goods require more finance to cover selling and distributing costs than primary or intermediate goods.

Vinodapte (1987) appreciated the efforts of the leaders of the South Asian countries in establishing SAARC, despite so many heterogeneous characteristics of the groups. He also mentioned that SAARC is the world's youngest but the most populous regional grouping accounting for one-fifth of the world population's in his report, he has also stated the objectives with which the SAARC was formed.

V.Chandra Sekhara Rao's (1988) study focused on India's trade relations with the organization of petroleum exporting countries (OPEC). He analyzed the trends in OPECs external trade, and studied India's trade relations with OPEC as a whole, and with selected significant countries. He has also analyzed the structural changes that have taken place in the commodity composition of India's exports to and imports from OPEC.

Varshney and Rajkumar (1988) opine that political and economic cooperation among the SAARC member countries will not only make the south Asian region a political and economic power in the world but also help in bringing economic prosperity to the member countries. They go to the extent of saying that economic cooperation is the road to political harmony and unity.

Hari Govind Singh (1988) analyses the main problem involved in the regional trade is the nature of size, population, resource-base, the potential for economic growth, military strength, and viability of the constitution, and political system. In addition, countries of the region have deliberately adopted a restrictive import policy to promote import substitution as it is easier to restrict imports than to promote export

Fanelli Medhora (2002), reveal that the competitiveness of a country depends both on the price and non-price factors. For improving the price competitiveness, devaluation can prove helpful in the short run. However, price competitiveness can be induced in Industries by enhancing the level of productivity.

Vijaya Katti (2005) points out that for India to become a major player in world trade, and Allen compassing and comprehensive view need to be taken for the overall development of the country's foreign trade. The EXIM policy was renamed as the new foreign trade policy was built around two major objectives.

Syamala Gopinath (2006) tries to analyze how the regulatory environment has evolved in the Indian foreign exchange market. According to her, the main objectives of markets including foreign exchange markets should be to support economic activity and raise the potential for economic growth.

The Direction of India's Trade

The direction of trade is referred to describe the statistical analysis of the set of a country's trading partners and their significance in trade. In short, the set of countries where the goods are traded to their significance on a country's trade is known as the direction of trade. The study is trying to find out the relationship between the value of import and export. It is based on secondary data for the period of 1950-2018 by using the correlation method.

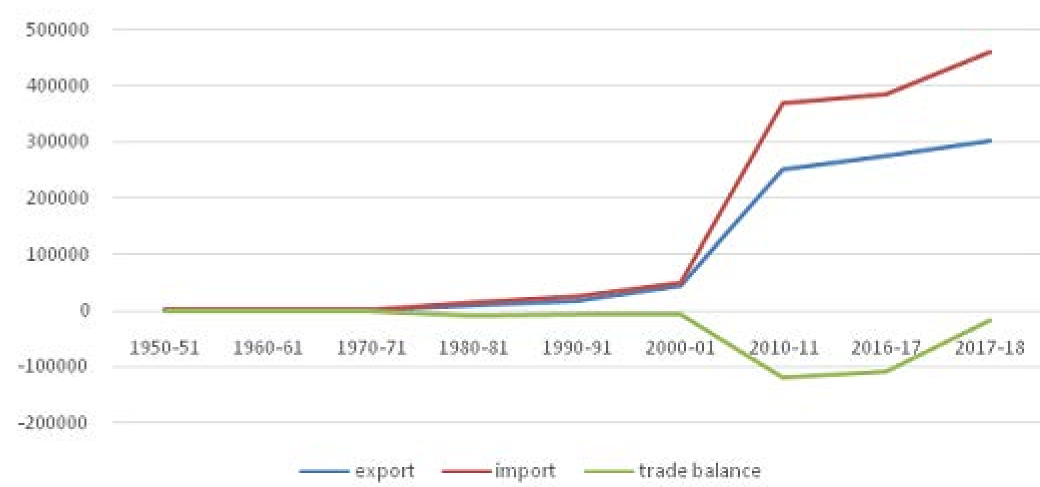
Table 1-Value of Imports and Exports

(Us $ Million)

Year	Exports	Imports	Trade Balance
1950-51	1269	1237	-4
1960-61	1346	2353	-1007
1970-71	2031	2162	-131
1980-81	8486	15869	-7383
1990-91	18143	24075	-5932
2000-01	44560	50536	-5976
2010-11	251136	369769	-118633
2016-17	275852	384356	-108504
2017-18	302840	459670	-15683

Source: Economic Survey of Government of India,

Figure 1: Value of Imports and Exports



The figure shows that the value of India's foreign trade, on every of planning (1950-51), the foreign trade of India showed an excess of import over export. The Cumulative value of export for 2017 18 was $302840 million as against $275852 million & the cumulative value of imports for the period 2017- 18 was US$459670 million as against the US $384356 million.

Table 2: Composition of India's Import

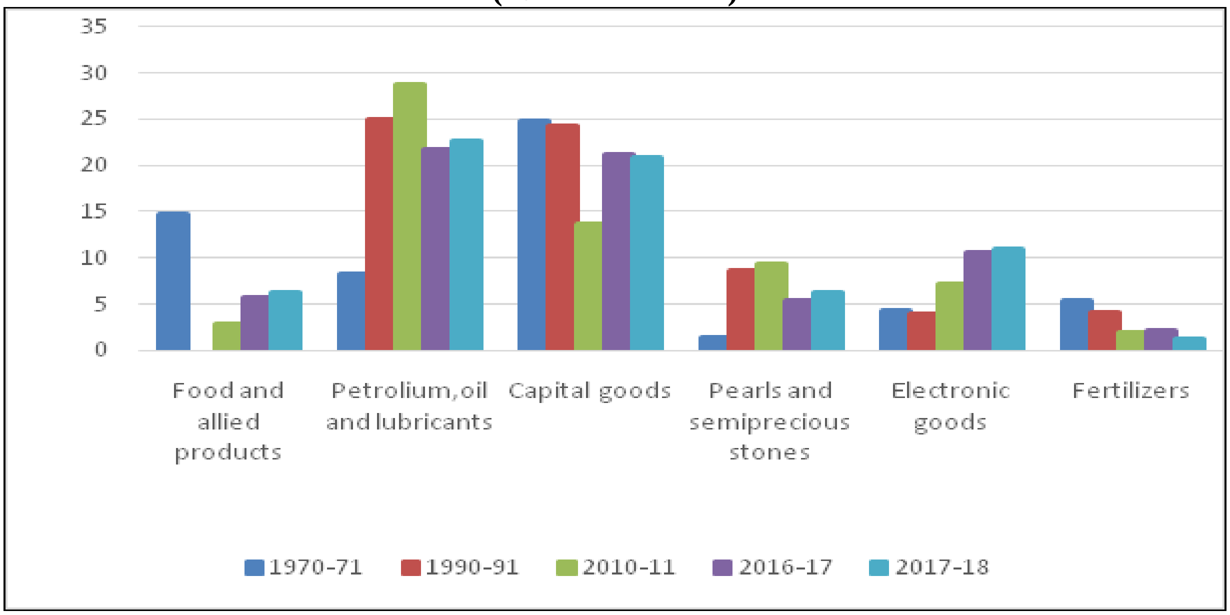
(% Share in Total)

Commodity	1970-71	1990-91	2010-11	2016-17	2017-18
Food and Allied Products	14.8	-	2.9	5.7	6.3
Petroleum, oil and lubricants	8.3	25.0	28.7	21.8	22.6
Capital goods	24.7	24.2	13.6	21.1	20.9
Electronic Goods	4.3	3.9	7.1	10.5	10.9
Fertilizers	5.3	4.1	19	2.1	1.3

***Source**: Government of India, Economic Survey, 2006- 07, 2016-18 computed from Department of Commerce Database*

Figure 2: Composition of India's Import

(% Share in total)



This figure shows that imports of the country have been divided into food and allied products, petroleum and oil lubricants, capital goods, pearls and semiprecious stones, electronic goods fertilizers. The import of food and allied products has declined sharply in the initial years but again start increasing for the next year. Import of fertilizers & pearls and semi-precious stones is declined considerably. And imports of electronic goods are increasing in each year.

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Table 3- Composition of Export
(% Share in total)

Commodity	1970-71	1990-91	2010-11	2016-17	2017-18 (Apr-Nov(p))
Agriculture and allied products	31.1	19.4	9.7	9.9	9.5
Ores and Minerals	10.7	4.6	3.4	0.8	1.2
Gems and Jewellery	2.9	16.1	16.1	15.0	15.7
Engineering and Goods	12.9	11.9	19.4	23.1	24.4
Leader and Manufactures	5.2	8.0	1.0	2.1	1.9

Source: Government of India, Economic Survey, 2006- 07, 2016-18 computed from Department of Commerce Database

Note: p=Provisional

Figure 3: Composition of Exports
(% Share in Total)

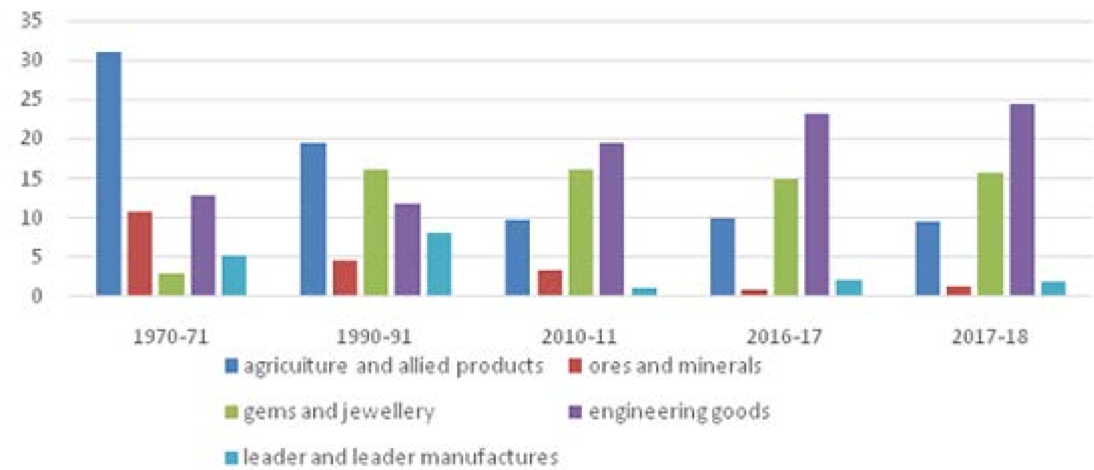
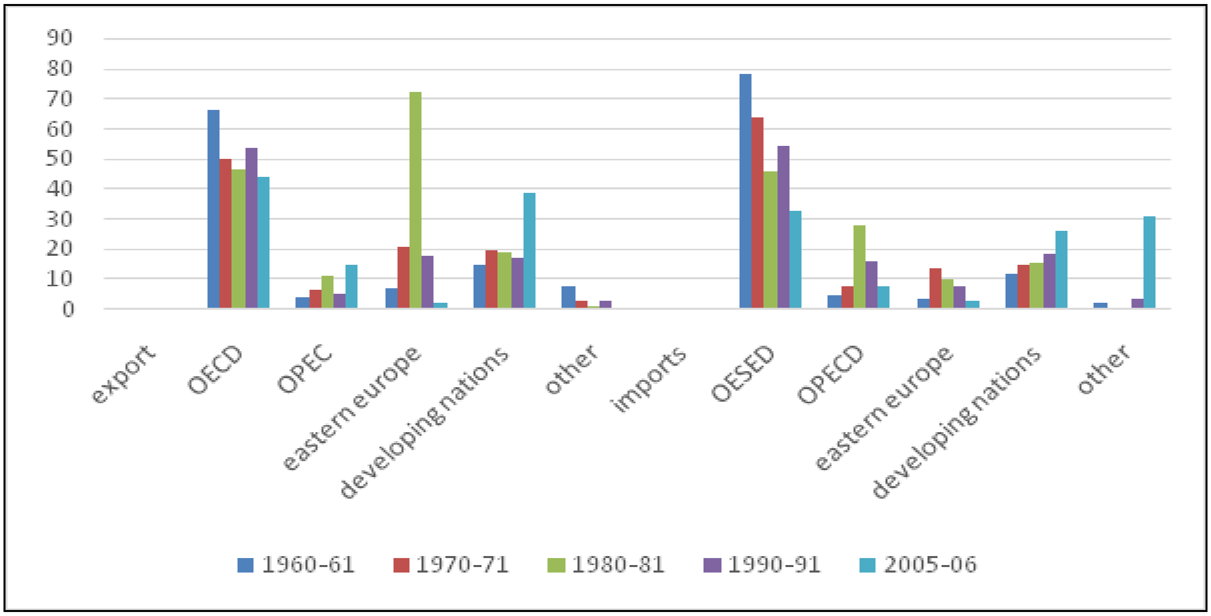


Table 4: Direction of India's Export and Import (% of Total)

Countries	1960-61	1970-71	1980-81	1990-91	2005-06
Exports					
OECD	66.1	50.1	46.6	53.5	44.3
OPEC	4.1	6.4	11.1	5.6	14.8
Eastern Europe	7.0	21.0	22.1	17.9	1.9
Developing Nations	14.8	19.8	19.2	17.1	38.7
Leader and Manufactures	8.0	2.6	1.0	3.0	0.4
Imports					
OECD	78.0	63.8	45.7	54.0	32.73
OPEC	4.6	7.7	27.8	16.3	7.7
Eastern Europe	3.4	13.5	10.3	7.8	2.61
Developing Nations	11.8	14.6	15.7	18.4	25.9
Others	2.2	0.5	0.5	3.5	31.1

Source: Computed from (1) Reserve Bank of India, Report on Currency and Finance, Various Issues & (2) Reserve Bank of India, Handbook of Statistic on the Indian economy 2005-06.

Figure 4: Direction of India's Export and Import (% of Total)



It reveals the direction of trade, in the case of import: the importance of OECD as a group has declined considerably over the period 1960-61 to 2005-06 and the share of OPEC increased considerably over time. In the case of export: OECD group account for a major portion of India's export. The share of this group in 1960-61 was 66.1% and in 2005-06 was 44.2%.

Table 5: Correlation between Value of Export and Import

	Exports (x)	Import (y)
Export (x)	1	
Import (y)	0.99862	1

Summary and Conclusion

There is a Positive relation between the value of export and import in India. Here the study shows that the value of India's foreign trade, on the eve of planning (1950-51), having an excess of import over export. The Import of food and allied products has declined sharply in the initial year but again start increasing for the next year. The major export items in 1970-71 were agriculture and allied products were 31.7% of total export earnings. The importance of the OECD as the group has declined considerably over the period of 1960-61 to 2005-06 and the share of OPEC increased considerably over time. In the case of export; the OECD group has accounted for a major portion of India's exports. The share of this group was 66.1 % in 1960-61and it was 44.2% in 2005-06.

During the evolution, five-year planning, India's export trade has registered an increase of 97.5% and import by 170% in 1950-60. The increase in export was six times and imports by five times in 1999-2000 i.e. hundred years of India's foreign trade deficit have increased significantly over the years.

India is significantly more integrated with the global economic gap in the years ago Foreign trade today plays an important role in the Indian economy. The program's subjects 'Make in India', Digital India and 'Skills India' will provide a framework for increasing exports of goods and services as well as generation of employment and increase the added value to the country. The FTP for 2015/2020 is encouraging the export of labor-intensive products, Agricultural products, high tech products with high export earning potential and eco-friendly and green products and work on focused market diversification.

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