PUNE RESEARCH SCHOLAR ISSN 2455-314X
AN INTERNATIONAL MULTIDISCIPLINARY JOURNAL VOL 4, ISSUE 5

A STUDY ON FOREIGN TRADE IN INDIA: AN OVERVIEW

DR. PRAMOD R. BOTRE
Associate Professor,
Department of Commerce
Mahatma Phule Mahavidyalay
Pimpri, Pune- 411017. **(MS) INDIA**

ABSTRACT

India's foreign trade have played crucial role in the economic development in the past years. Indian economy is growing rapidly and getting significant place in international worldwide. India's Foreign Trade Policy has, conventionally, been formulated for five years at a time and reviewed annually. The focus of the FTP has been to provide a framework of rules and procedures for exports and imports and a set of incentives for promoting exports. This paper highlighted the performance of India's foreign trade and the various economic policies related to foreign trades which have contributed to its growth. It tried to focus on foreign trade, its meaning and definition, need and importance and types of foreign trade. Export of goods and services to other countries gives more foreign exchange. Similarly imports leads to expend the home currencies. So every country should concentrates on the export of their goods than the import. International trade takes place between the two or more countries. It involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Thus, International trade is more complex. This paper also deals about the Balance of Payments, Balance of trade, Disequilibrium and India's Export & Import performance.

Keywords: *Export & Import, Balance of Payments, Balance of trade, Disequilibrium, Foreign Trade Policy.*

INTRODUCTION:

Foreign trade may be defined as the trade between different countries of the world. It is also known as International Trade, External Trade or Inter – Regional Trade. Foreign trade plays an important and crucial role in the development of any country. Every country requires goods and services to fulfil the needs and wants of their people. Production of goods and services are not enough to satisfy the increasing demand of customers; so one country can buy the goods and services from other country. India also buys from and sells the goods and services to countries. No any one country is self sufficient. It has to depend upon other countries for importing the goods and services which are either not available or are available in insufficient quantities. Similarly it can export goods which are in high demand from outside country. Foreign trade helps to produce those goods and services which have a cheaper cost than others. It also helps to increase the scope of market for domestic traders, who avail the benefit with overall development of their business in domestic country as well as foreign country. Foreign trade helps the manufacturers to arrange different kinds of raw materials of best quality at lowest cost from all over the world. Trade policy for the year 2015-20 announced in April 2015, the Government spelt out a framework for increasing export of goods and services as well as generation of employment and increasing value addition in the country, in line with the 'Make in India' and 'Digital India' programme.

OBJECTIVES OF THE STUDY:

The following are the main objectives of the study:

1) To know the meaning and definition of foreign trade
2) To know the need & importance of foreign trade
3) To study the types of foreign trade & foreign trade regulation in India
4) To understand new foreign trade policy
5) To study India's foreign trade performance
6) To study the Balance of Payment

RESEARCH METHODOLOGY:

The present research paper is based on secondary source of data. The secondary information has been collected from published books, articles published in different journals, various reports and websites.

FOREIGN TRADE:

Meaning:

The buying and selling of goods and services between different countries is called foreign trade. It is the exchange of capital. It consists of import, export and entrepot. The need of foreign trade arises due to uneven distribution of natural resources, climate conditions, growth rate, technology and professional management. The inflow of goods in a country is called import trade whereas the outflow of goods from a country is called export trade.

Definition:

According to Antol Marad, "International trade is a trade between nations".
According to Wasserman and Haltman, 'International trade consist of transaction between resident of different countries".

In short, foreign trade is nothing but the trade between different countries of the world.

TYPES OF FOREIGN TRADE:

Foreign trade can be classified in to following groups:

1. **Import Trade:** It refers to purchase of goods and services by one country from another country.
2. **Export Trade:** It refers to the sale of goods and services by one country to another country.
3. **Entrpot Trade:** It is also called as Re-export of goods and services. It refers to purchase of goods from one country then selling them to another country after some processing operations.

NEED & IMPORTANCE OF FOREIGNH TRADE:

Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Following points explains the need and importance of foreign trade to the nation:

- ❖ **Optimum Use of Resources:** Due to specialisation wastage of resources can be avoided and resources are channelized for the production of those goods which would give highest returns. Therefore, there is an optimum utilisation of resources at international level due to foreign trade.
- ❖ **Economic of Large Scale:** The economies of production, transport, finance, management and advertisements are available to the producers due to foreign trade.

- **Equality in Prices:** Prices can be stabilised by foreign trade. It helps to keep the demand and supply position stable, which in turn stabilise the prices.
- **Availability of Multiple Choices:** foreign trade helps in providing multiple choices to the consumer all over the world.
- **Cultural Diversity:** The import and export of goods and services introduce the test and preference of one group of people to rest of world.
- **Elimination of Monopoly:** Sometimes goods and services can be imported and surplus can be exported. In both cases the seller cannot create monopoly in the market.
- **Employment Opportunities:** Foreign trade helps in generating employment opportunities, by increasing the mobility of labour and resources. It generates direct employment in import sector and indirect employment in other sectors.
- **Economic Development:** due to foreign trade both production and per capita income increases which will result in economic prosperity
- **Maintains Balance of Payment Position:** Every country has to import, which results in outflow of foreign exchange, it also deals in export for the inflow of foreign exchange. So, it helps to maintain the balance of payment position

FOREIGN TRADE REGULATIONS IN INDIA:

In India various Acts have been introduced to regulate and provide necessary environment for its orderly growth. The foreign trade of India is governed by the Foreign Trade (Development & Regulation) Act, 1992 and the rules and orders issued there under. Payments for import and export transactions are governed by Foreign Exchange Management Act, 1999. Customs Act, 1962 governs the physical movement of goods and services through various modes of transportation.

To make India a quality producer and exporter of goods and services, an important Act – Exports (Quality control & inspection) Act, 1963 has been in vogue. Developmental pace of foreign trade is dependent on the Export-Import Policy adopted by the country too. Even the EXIM Policy 2002-2007 lays its stress to simplify procedures, sharply, to further reduce transaction costs.

NEW FOREIGN TRADE POLICY:

Section 3 of Foreign Trade (Development and Regulation) Act [FT(D&R) Act], 1992empowers Central Government to make provisions for development and regulation of foreign trade by facilitating imports and increasing exports, by an order published in Official Gazette. Section 5 of Foreign Trade (Development and Regulation) Act, 1992empowers the Central Government to formulate and announce by notification in Official Gazette, the export and import policy and also amend the same by issuing a notification. Recently "Foreign Trade Policy 2009-14", which was announced on 27-8-2009, has completed its period and the same is replaced by a new Foreign Trade Policy 2015-20. The new Foreign Trade Policy came into force from 1st April, 2015 and will continue till 31st March, 2020.

Key Highlights of New Foreign Trade Policy:

The Foreign Trade Policy 2015-20 was announced on 1st April 2015. The main objective behind this policy is double India's export of goods and services to US $900 billion by 2020 under the theme of 'Make in India'.

The important motivational factor to Indian exporter is that introduced incentives in the five year foreign trade policy**.**

1) India will become significant participant in world trade by 2020.
2) SEIS shall apply to services providers located in India instead of Indian service providers.
3) This policy would reduce export obligation by 25% and give boost to domestic manufacturing.
4) Under the new scheme MEIS (Merchandise Export from India Scheme) SEIS (Services Export from India Scheme) incentive to be available for SEZ also E-commerce of handicraft, handlooms, books etc. Eligible for benefit of MEIS.
5) Industrial products to be supported in major market at rates ranging from 2% to 3%.
6) Agricultural and Village industry products to be supported at the rate of 3% and 5% under MESIS.
7) No need to repeatedly submit physical copes of documents available on Exporter Importer Profile.
8) The criteria for export performance for recognition of status have been changed from Rupees to US dollar earnings.
9) Online procedure to upload digitally signed documents by Chartered Accountant/ Secretary/ Cost Accountant.

FOREIGN TRADE PERFORMANCE OF INDIA:

Foreign trade performance of India deals with export, import and trade balance of foreign trade. Table 1 shows export performance of India during the year 2005-06 to 2015-16.

Table 1: Export Performance of India

(Rs. In Billion)

Year	Oil	Growth	Non-Oil	Growth	Total	Growth
2005-06	515.33	0.00	4,048.85	0.00	4,564.18	0.00
2006-07	845.20	64.01	4,872.59	20.35	5,717.79	25.28
2007-08	1,141.92	35.11	5,416.72	11.17	6,558.64	14.71
2008-09	1,233.98	8.06	7,173.57	32.43	8,407.55	28.19
2009-10	1,328.99	7.70	7,126.35	-0.66	8,455.34	0.57
2010-11	1,887.79	42.05	9,541.43	33.89	11,429.22	35.17
2011-12	2,679.15	41.92	11,980.45	25.56	14,659.60	28.26
2012-13	3,308.19	23.48	13,035.00	8.80	16,343.19	11.48
2013-14	3,832.48	15.85	15,217.63	16.74	19,050.11	16.56
2014-15	3,460.82	-9.70	15,503.63	1.88	18,964.45	-0.45
2015-16*	1,985.76	-42.62	15,158.48	-2.23	17,144.24	-9.60
Total	**2,2219.61**		**1,0974.7**		**1,31,294.31**	

Note: Data for 2015-16 are provisional.
Source: Directorate General of Commercial Intelligence and Statistics.

Table1**:** clearly explains the export of oil and non-oil goods to the other countries. Oil export shows the highest growth rate of 64.01 per cent in the year 2006-07. In the year 2007-08 it has decreased up to 35.11% and thereafter it reveals continuous decline in the above period. Non-oil growth rate shows the highest percentage of 33.89 in the year 2010-11. Thereafter it is also shows increased and decreased position in the above years. Total growth rate of export shows highest percentage of 35.17 in the year 2010-11. Thereafter it also shows continuous declining in the above period.

Chart: 1 Export Performance of India

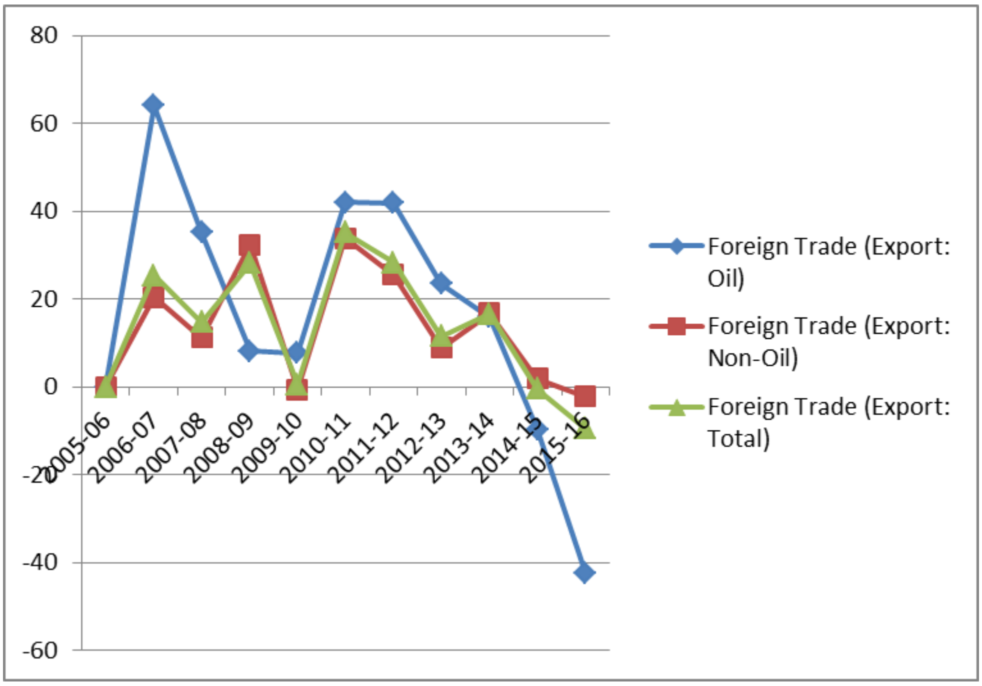


Table 2: Import Performance of India

(Rs. In Billion)

Year	Oil	Growth	Non-Oil	Growth	Total	Growth
2005-06	1,946.40	0.00	4,657.69	0.00	6,604.09	0.00
2006-07	2,585.72	32.85	5,819.35	24.94	8,405.07	27.27
2007-08	3,206.55	24.01	6,916.57	18.85	10,123.12	20.44
2008-09	4,199.68	30.97	9,544.68	38.00	13,744.36	35.77
2009-10	4116.49	-1.98	9,520.86	-0.25	13,637.35	-0.78
2010-11	4,822.82	17.16	12,011.85	26.16	16,834.67	23.45
2011-12	7,430.75	54.07	16,023.88	33.40	23,454.63	39.32
2012-13	8,918.71	20.02	17,772.91	10.92	26,691.62	13.80
2013-14	9,978.85	11.89	17,175.48	-3.36	27,154.33	1.73
2014-15	8,428.74	-15.53	18,942.12	10.29	27,370.87	0.008
2015-16*	5,400.69	-35.92	19,458.58	2.73	24,859.27	-0.09
Total	**61,035.4**		**1,37,843.97**		**1,98,879.37**	

Note: Data for 2015-16 are provisional.
Source: Directorate General of Commercial Intelligence and Statistics.

Table 2**:** clearly explains the import of oil and non-oil goods from the other countries. The highest growth rate of Oil products shows 54.07 per cent in the year 2011-12. In the year 2015-16 it explains least percentage of -35.92 and also it reveals no constant growth rate in the above period. Import of Non-oil goods shows the highest growth rate of 38 per cent in the

year 2008-09. Thereafter it shows declined position and in the year 2013-14 it shows -3.36 per cent which is the least one. The total growth rate of import shows highest percentage of 39.32 in the year 2011-12.

Chart: 2 Import Performance of India

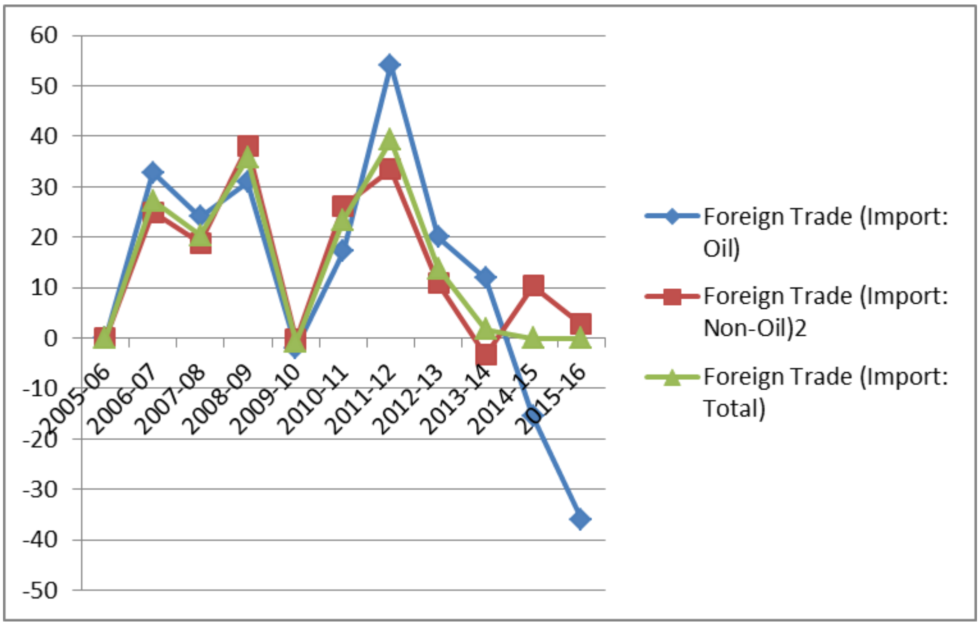


Table 3: Trade Balance of India's foreign Trade

(Rs. In Billion)

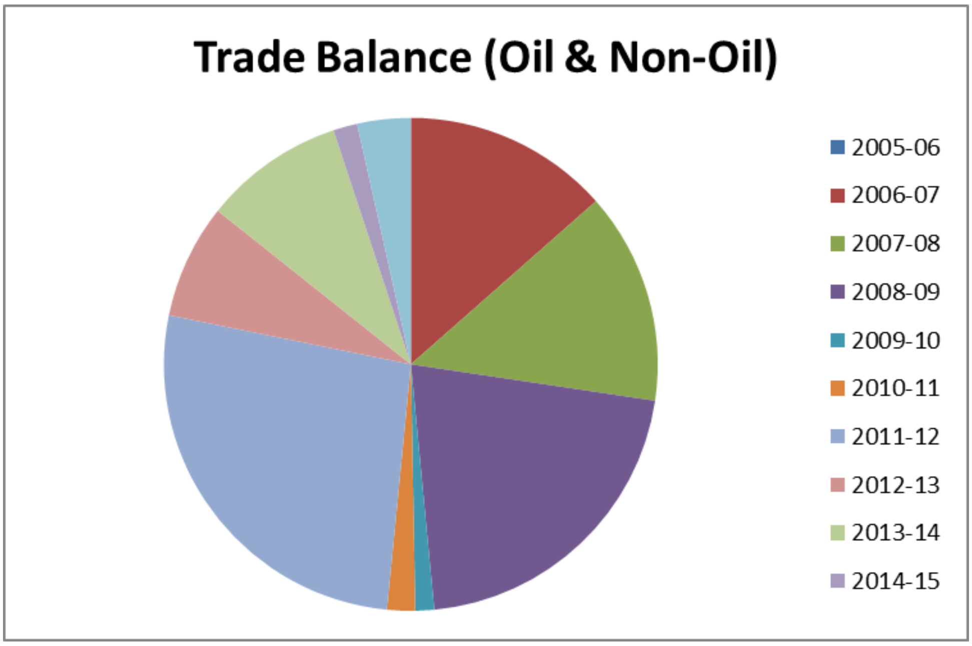
Year	Oil	Growth	Non-Oil	Growth	Total	Growth
2005-06	-1431.07	0.00	-608.84	0.00	-2,039.91	0.00
2006-07	-1,740.52	21.62	-946.76	55.50	-2,687.28	31.74
2007-08	-2,064.63	18.62	-1,499.85	58.42	-3,564.48	32.64
2008-09	-2,965.70	43.64	-2,371.11	58.09	-5,336.81	49.72
2009-10	-2,787.50	-6.01	-2,394.51	0.99	-5,182.01	-2.90
2010-11	-2,935.03	5.29	-2,470.42	3.17	-5,405.45	4.31
2011-12	-4,751.60	61.89	-4,043.43	63.67	-8,795.03	62.71
2012-13	-5,610.52	18.08	-4,737.91	17.18	-10,348.43	17.66
2013-14	-6,146.37	9.55	-1,957.85	-58.68	-8,104.22	-21.69
2014-15	-4,967.92	-19.17	-3,438.49	75.62	-8,406.41	3.73
2015-16*	-3,414.93	-31.26	-4,300.10	25.06	-7,715.03	-8.22
Total	**-38,815.79**		**-28769.27**		**-67,585.06**	

Note: Data for 2015-16 are provisional.

Source: Directorate General of Commercial Intelligence and Statistics.

Table 3**:** clearly explains the difference between export and import of oil and non-oil goods. Both of them show negative position in the above periods. Highest growth of oil trade balance reveals 61.89 per cent in the year 2011-12 and lowest balance shows -6.01 per cent in the year 2009-10. Non-oil trade balances also shows negative positions which 75.62 per cent is the highest and in the year 2013-14 reveals -58.68 per cent is the lowest one. The total growth of trade balance of foreign trade shows highest percentage of 62.71 in the year 2011-12 and lowest percentage of -2.90 in the year 2009-10.

Chart: 3 Trade balance of India's Foreign Trade



BALANCE OF PAYMENT:

Balance of Payments of a country is an annual record of its monetary transaction with other countries of the world. It is also known as balance of international payments. These transactions are made by individuals, firms and government bodies. Thus the balance of payments includes all external visible and non-visible transactions of a country. The BOP is an important index which reflects the true economic position of falling in its external value.

Balance of Payment Account:

Balance of Payments consists of two accounts namely current account and capital account. Current account includes Merchandise, investment income, amount received and paid by the Government, miscellaneous, transfer payments, total current transactions, errors and omissions and surplus. Likewise capital account includes short term as well as long term international borrowings and lending gold transactions taking place between countries. Capital account reflects the real monetary position of a country in the international market.

Disequilibrium in Balance of Payments:

A country's Balance of Payment is in equilibrium when there is perfect equality between the supply and the demand for foreign exchange. A position of disequilibrium in the Balance of Payments exists when the demand for foreign exchange exceeds its supply, or vice versa.

Types of Disequilibrium in Balance of Payments: Following are the three types of disequilibrium in balance of payment:

1) **Secular Disequilibrium:** It indicates the economic development of a country
2) **Cyclical Disequilibrium:** It indicates the business fluctuations in a country
3) **Structural Disequilibrium:** It indicates the changes of demand and supply of exports or imports.

Factors of Disequilibrium in Balance of Payments: following are the various factors of disequilibrium in balance of payments.

1) **Natural Factors:** It includes natural calamities such as flood, famines, draughts etc.
2) **Economic Factors:** It includes the operations of trade cycle, inflation, large scale capital movement, and lack of export promotion, more imports, unsatisfactory use of foreign exchange reserve and import control in developed country.
3) **Political factors:** It includes instable government civil wars.

Measures to correct disequilibrium in BOP: following are the several measures to correct disequilibrium in balance of payments:

1) Encouragement to export
2) Reduction in import
3) Monetary measures
4) Devaluation
5) Exchange control

CONCLUSION:

The present research study concludes that, With the Liberalization, Privatization and Globalization of the Indian economy and following liberal foreign trade, there had been changes in the business environment. The traders face more difficulties for selling of goods and services. Process of import and export are difficult one for every developing country. For the fast and stable development of the country, the commercial relations of the country with the other countries all over the world are very important. This is possible when a country allows imports as well as exports of goods and services. The trade transactions are to be monitored for which framing of the foreign trade policies is very much essential. Government has encouraged exporters to improve production of various commodities. The exports and imports of a country give rise to monetary transactions with other countries. India's New Foreign Trade Policy 2015-20 is unveiled with the objective of bringing stability and ease of doing business. The various new initiatives undertaken are the move towards promoting exports, promoting use of technology, and reduction in the transaction cost.

The New trade Policy 2015-20 is a move to achieve the Government's mission of "Make in India" and shall help to double the percentage share of foreign trade within next few years.

REFERENCES:

1. Chanda, R (2005), "Trade in Financial Services: India's Opportunities and Constrains", Working paper No.152, ICRIER, New Delhi.
2. Sharma, K. (2003). Factors determining India's export performance. *Journal of Asian Economics*, 14, 435-446.
3. The Ministry of Finance, Government of India. Union Budget and Economic Survey 2015
4. Reserve Bank of India Statistics
5. Bhagwati J. (1962): Indian Balance of Payments Policy and Exchange Auctions‖, Oxford Economic Papers.
6. Awdhesh Pathak, "An Analysis of India's Foreign Trade Policy (2015-20). Altius Shodh Journal of Management and Commerce: ISSN 2348-8891.
7. Foreign Trade Policy (1st April, 2015-31st March 2020) Government of India, Ministry of Commerce and Industry, Department of Commerce
8. Dr. M. Rajarajan (2015), "An Empirical Study on Foreign Trade in India". Asia Pasific Journal of Research: ISSN 2320-5504.
9. www.google.com