

# Indias' Role in Foreign Trade

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The importance of Foreign Trade cannot be denied in the economic development of a country. This is on account of the fact that all countries need to trade to obtain the resources they do not possess. According to Prof. W.A. Lewis "Over populated countries (like India) which cannot hope to increase their agricultural output for food as rapidly as their demand for food, however, much they may try, they have to give urgent attention to increase the export market for their manufactures, since, in the last analysis it is the rate of growth of their exports which gets the limit to their internal expansion." From the mentioned statement it is clear that from the view point of developing countries, role of foreign trade in their economies can no longer be ignored, because the nations strive to set those things that they cannot produce or that are in scarce supply in their country. India, though attained self sufficiency in respect of food grains, have to achieve the much faster rate of economic growth. This throws light on the need to accelerate the agricultural and industrial output and create surpluses for exports. The mentioned statement of Prof. W.A. Lewis is very much significant even today for India. Even if a country possesses all the needed resources, it cannot afford to be entirely dependent on itself. Growth is a continuous and dynamic process. New techniques need to be adopted so as to remain at par with others in the fast growing and changing structure of the world economy. Exports constitute an important source of meeting

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the import requirements of the country so as to enable it to realise the objective of rapid economic development and self-reliance. Expansion of exports is also important for the purpose of servicing the foreign debt obligations of the country and for reducing the erratic deficits in the balance of payments account. The balance of payment problems can be overcome through the application of 'Import Regulation' and Import Substitution Policies. But the use of such policies contain very high costs. Therefore, the expansion of the exports is highly desired to move the economy at higher level of equilibrium and to import competitiveness and efficiency to the various sectors of the economy. Moreover, higher level of exports can also help in making use of unutilised resources and installed capacity of the country and in providing employment to large number of people.

### **Review of India's Exports**

The analysis of India's exports clearly indicates that the improvement in India's Foreign Trade' situation during the year 1982-83 was maintained during 1983-84 inspite of the recession in the world economy and stagnation in the international trade. During the seventies exports have increased about 4 times i.e., from Rs. 1535 crores in 1970-71 exports have gone upto Rs. 6135 crores in 1979-80. But on the other hand the imports have increased much faster. It has gone up by more than 5 times during the same period. In 1970-71 imports were worth Rs. 1634 crores and grown to the level of Rs. 8342 crores in 1979-80. In 1980-81 total exports were Rs. 6711 crores and in 1981-82 total exports were Rs. 7358 crores. In these years total imports were Rs. 12,524 crores and Rs. 13,110 crores. This clearly shows the matching of imports with exports which provided a total deficit of Rs. 5752 in balance of trade in 1981-82. In 1982-83 for the first time in five years the balance of trade deficit registered a decline in absolute terms. The trends that are indicated above are likely to be maintained during the current financial years. The trends of India's exports can be shown with the help of the following tables. Table I indicates the position of Imports and exports and also per cent change over previous years.

Table II indicates the per cent annual rate of growth and percentage share of India's exports to world exports.

Table III indicates the balance of trade position.

TABLE—I

## Foreign Trade of India

(Rs. Crores)

Year	Exports (+)	% change over previous year	Imports (—)	% change over previous year
1970-71	1535	—	1634	—
1971-72	1608	4.8	1825	11.7
1972-73	1871	22.6	1837	2.3
1973-74	2523	28.0	2955	58.3
1974-75	3329	31.9	4519	52.9
1975-76	4043	21.4	5265	16.5
1976-77	5146	27.3	5074	—3.6
1977-78	5404	5.0	6025	18.7
1978-79***	5226	6.0	6814	13.1
1979-80****	6135	7.1	8342	22.4
1980-81 (April-June)	6711 *(6118.35)		12524 **(10171.38)	
1981-82	7358		13110	
1982-83 (April-Dec.)	6858	912.1	10416	0 2.3

\*\*\* Provisional

\*\*\*\* Revised

\* Provisional  
 Comparison on the basis of  
 provisional figure of previous year

— Provisional

## Source :

1. RBI Bulletin
2. The Economic Times  
(Nov. 29, 1980 ; May 16, 1984)
3. Reports on currency and finance.



TABLE—II

## Trend of India's Exports—1970-80

Year	World Exports	Annual rate of growth %	India's exports (in million U.S.A.)	Annual rate of growth %	% share of India exports to world exports.
1970	280000	—	2026	—	0.72
1971	314100	12.18	2034	0.39	0.65
1972	372300	18.53	2401	10.04	0.64
1973	517800	39.09	2923	21.74	0.56
1974	768700	48.46	3920	34.45	0.51
1975	788100	2.52	4393	11.78	0.56
1976	897500	13.88	5526	25.79	0.62
1977	1018300	13.46	6378	15.41	0.63
1978	1176100	15.50	6614	3.70	0.56
1979	1475900	25.49	6702	1.33	0.45
1980 (Jan. March)	440000	19.25**	1678	—5.82**	0.36
1982-83	2219000		2240		

\*\* On the basis of annualised exports

Source : UN Monthly Bulletin of Statistics

Monthly Statistics of Foreign Trade—India—March issue

Issues & Report of the Ministry of Commerce—1978-79 and 1979-80

TABLE—III

## India's Foreign Trade

(Rs. Crores)

Year	Import	Exports	Total Value of Trade	Balance of Trade (Surplus and Deficit)
	Merchandise			
1950-51	650	601	1,251	—49
1960-61	1,122	642	1,764	—480
1965-66	1,409	806	2,215	—603
1970-71	1,634	1,535	3,169	—99
1975-76	5,265	4,043	9,308	—1,222
1978-79	7,398	5,555	12,953	—1,843
1979-80	9,022	6,459	15,481	—2,563
1980-81	12,524	6,711	19,235	—5,813
1981-82	13,110	7,358	20,468	—5,752

Source : RBI, Reports on Currency and Finance.

A number of factors explain this overall rising trend in the country's exports particularly in recent years. Before the Third Plan, the two principal factors which inhibited fast growth in exports were the predominance of traditional goods in the export sector which bear low elasticities of demand in developed countries and the high domestic costs of producing most of the export goods. Since 1966 the rise in exports is partly explained in terms of devaluation of the rupee which boosted exports. Bi-lateral agreements and agreements with a number of countries, in particular socialist countries, ensured an increase of exports and stability to the rising export curve. Realising the need for expanding exports to meet the heavy import bill of the heavy industry biased growth, the government too made special efforts (e.g. schemes of cash incentives, import entitlements to exporters etc.) including the establishment of an agency for state trading in raising exports.

In recent years certain factors, already in operation as also a few new ones, have contributed large expansion in exports. The principal ones are the following : One is the increase in the world trade, though at an uneven rate with five percent growth in 1975 and 13% in 1976 of which a part has been shared by India. The second is the increase in the competitive position of Indian goods, so that even when the international conditions were recessionary. India was able to sell more than the year before. Thirdly, domestic availability of industrial products etc.

### **Disquieting Features—A Review**

The international trade environment continues to be tough for the export of many of our commodities. The continuous recession in the industrialised countries, associated with the high level of unemployment has led to increased protectivism in the world economy which has provided ser-basic to the export propositions of the developing countries. With special reference to India, in sharp contrast with the expansion in the international trade from 1950 to 1975 World Trade has increased at an average rate of 5% per annum from 1975-79 by 1.5% and in 1980 remained stagnant in 1981 and declined in 1982.

The other disquieting factor in this connection is 'unfavourable terms of trade'. The net terms of trade in 1954 to 1958 (base 1952-53=100) moved down sharply from 110 to 107. The same was repeated during the years 1960-75; between 1960-61 and 1974-75 trade declined from 128 to 84. During 1975-1980 trade declined to 64. This shows a great deal of loss of trading with the fureignness.

The other factor is large and continuous deficits. The deficit in 1950-51 was merely 19 crores. Wherein in 1981-82 the deficit was Rs. 5752 crores as compared to Rs. 5813 crores in 1980-81)



# COMMODITY-WISE EXPORTS

TABLE—IV

## Exports by Major Commodity Groups

(Value in crores of Rs.)

COMMODITY	1982-82	1982-83 (P)	Percentage Change 1982-83/ 1981-82	April-September 1982 (P) 1983 (P)	
Cashew Kernels	181.5	134.0	—26.2	79.5	90.7
Coffee and coffee substitutes	146.3	184.2	25.9	128.5	109.3
Fish & Fish preparation	280.3	349.4	24.7	169.4	154.9
Oil Cakes	117.9	149.4	26.7	78.0	55.4
Raw Cotton	36.3	101.2	178.8	69.3	104.2
Rice	367.8	199.5	—45.8	113.6	44.1
Spices	98.8	88.9	—10.0	34.8	46.5
Sugar	64.2	62.4	—2.8	27.7	24.3
Tea & Mate	395.2	367.5	—7.0	150.8	163.1
Tobacco unmanufactured	204.9	208.5	1.8	161.3	84.8
Iron Ore	351.8	373.8	6.3	151.0	158.2
Engineering goods	850.7	786.2	—7.6	392.8	311.4
Chemicals & Allied products	364.1	308.2	—15.4	169.8	124.2
Cotton Fabrics	294.6	265.5	—9.9	116.0	120.7
Iron & Steel	79.1	55.8	—29.5	25.4	22.1
Iron Manufacture	257.5	202.8	—21.2	92.2	90.8
Leather & leather manufactures including footwear	405.5	371.8	—8.3	174.5	180.5
Ready-made garments	595.8	527.5	—11.5	232.9	202.4

(Contd.)

(Contd.)

COMMODITY	1981-82	1982-83 (P)	Percentage Change 1982-83/ 1981-82	April-September	
				1982(P)	1983(P)
Handicrafts	1130.9	1172.2	3.7	306.6	794.3
Handicrafts of which :					
Pearls ; precious & semi- precious stones	(761.1)	(824.9)	(8.4)	(138.6)	(612.4)
Others	1582.7	2921.0	84.6	1394.6	1390.6
of which, Crude oil	(196.2)	(1023.3)	(421.6)	(582.3)	(574.5)
Total	7805.9 (a)	8829.8*	13.1	4068.7	4272.5

(P) Provisional (a) Figures as per March, 1982 issue of the "Monthly Statistics of Foreign Trade of India".

\*Revised to Rs. 8,834 crores for supplementary data received upto Oct. 1983

@ These exports mainly consist of machinery and transport equipment and metal manufacturers excluding Iron and Steel.

Source : DGCI & S. Calcutta.

The available commodity wise figures reveal that the items which have registered a significant increase in export earnings during 1982-83 as compared to 1981-82 include coffee, oil-cakes, marine products, raw cotton, prints and vegetables, gems and jewellery. Export of iron and tobacco also showed some increases. Export of crude oil were substantial at a level of Rs. 1023 crores in 1982-83 and emerged as an important source of foreign exchange earnings, on the other hand, exports of a number of manufactured goods such as textiles (including ready made garments) machinery and transport equipment, chemicals and allied products, leather and leather manufacturers and hand made carpets showed a decline in 1982-83 because of recessionary conditions in world economy and the policies followed by industrialised countries. Some traditional items such as tea, rice, jute manufacturers, spices and cashew also suffered a set back due to the shabby demand and severe competition in the international market. However, in the case of items such as tea and rice supply constraints were also responsible partly for the decline of exports in 1982-83.



During the current financial year, available evidence suggest that, exports of certain textile items, leather and leather manufacturers as also handmade carpets are showing signs of recovery during 1983-84. Exports of gems and jewellery are doing exceedingly well. The exports prospects of sugar are decidedly better. It is particularly worth noting that exports earnings from tea are likely to be in the range of Rs. 500 crores at the end of the current financial year, following the dramatic increase in world prices of tea.

The trends in exports of certain important products/product groups as given in the annual report are briefly examined below :—

## I. Tea

During 1982-83, export of tea declined to 191.6 million kgs valued at Rs. 367.5 crores from 213.8 million kgs. valued at Rs 395.2 crores in the previous year. Exports of tea suffered during 1982-83 on account of a fall in domestic production, particularly of the exportable varieties, owing to drought conditions. Export volume continued to decline during April-September 1983 but the value of exports increased by 8.2% because of an increase of about 25.5% in unit value realisation. Prices of tea have risen sharply in world markets after August 1983. The sharp rise in domestic price of tea, which began in 1982-83 continued this year. In December 1983, the Govt. had to resort to a ban on export of CTC tea, (largely consumed domestically) in order to ease the pressure on domestic prices. However, it is likely that non-oil export growth for the year as a whole will be better than in the previous year, expected to be higher than in the previous year due to higher unit value realisation. Export earnings from coffee had declined in 1981-82 but recovered in 1982-83, showing an increase of 25.9%. This was attributable to an increase of 23.2% in unit value with volume growth being limited to 2%. Unit value increases reflected the emergence of a shortage of coffee in the world market owing to frost damage to the Brazilian coffee crop. However, during the first six months of 1983-84 coffee exports have suffered a set back, declining by 18.6% in volume and 14.9% in value. Coffee exports to the USA and EDC have declined while exports to the Rupee payment area have shown improvement. Exports of coffee to non-member countries are hampered by high prices of Indian coffee vis-a-vis major exporters which offer sizeable discounts on their prices. Both tea and coffee exports are suffering from long term stagnation which is marked by periodic booms and slumps.

## II. Cashew

Cashew exports showed a decline of around 26.2% during 1982-83 in value, although the volume at around 30,500 tonnes was the same as in the previous year. The set-back in cashew exports arose from a fall in unit value realisation of 25.6%, because of severe

competition from other edible nuts. The USSR market had helped in sustaining cashew export prices at higher levels and reduced purchases by the USSR in 1982-83 affected prices adversely. Export of cashew kernels during April-Sept. 1983 showed an increase in volume of 35.8 per cent but a smaller increase in value of 14% owing to the continued fall in unit value realisation. Exports of rice declined from 872,500 tonnes valued at Rs. 367.8 crores in 1981-82 to 435,000 tonnes valued at Rs. 199.5 crores in 1982-83, registering a fall of 50% in volume and 46% in value. The declining trend in rice exports continued during the first half of 1983-84 with a fall of 76.5% in volume and 61.2 per cent in value. The fall in export volume in fact of buoyant market conditions was on account of a decline in domestic availability following the drought in 1982.

### 3. Spices

Export of spices amounted to 76,100 tonnes valued at Rs. 88.9 crores in 1982-83 showing a decline in volume of 2.6% and a drop in value of around 10%. Exports recovered in April-September, 1983 with a volume increase of 24.5% this, together with an appreciation of 7.5% in unit value, led to an increase of 33.6% in export value. Most of the Indian spices, notably cardamom and pepper continue to face stiff competition in the world markets and the exportable surplus is getting limited because of stagnancy in production.

### 4. Oil-Cakes

Exports of oil cakes showed an increase of 27.5% in volume and 26.1% in value during 1982-83. However, during the first six months of the current year, oil cakes suffered a set back and exports declined by 24.2% in volume and 28.8% in value. The decline in oil cake during the current half year largely reflects reduction in surplus available for export following the poor crop in 1982-83. Export earnings from unmanufactured tobacco showed an increase from Rs. 2049 crores in 1981. to Rs. 208.5 crores during 1982-83. There was a decline in volume from 115,400 tonnes to 98,000 tonnes over the same period but this was off set by an appreciation of 19.7 per cent in unit value. During April-September, 1983, exports of tobacco unmanufactured decreased by 46.5 per cent in volume and 47.4 per cent in value.

### 5. Sugar

Exports of sugar amounted to Rs. 62.4 crores in 1982-83 as against Rs. 64.3 crores in the previous year. During April-September, 1983 sugar exports showed a marginal increase in volume by 1.4% but there was a decline in export earnings of 12.3 per cent on account of a fall in unit value realisation of 13.4 per cent. India had to sell a large part of its sugar in free markets abroad where the prices were much lower than in the preferential markets open to contain leading sugar exporting countries.



## 6. Marine Products

Exports of marine products touched an all time high in 1982-83 increasing from 73,900 tonnes valued at Rs. 280.3 crores in 1981-82 to 94,800 tonnes valued Rs. 349.4 crores in 1982-83. This represented an increase of 28.3 per cent in volume and 24.7 per cent in value. The bulk of the country exports of marine products consists of frozen shrimps and Japan and the USA continued to be the main markets. There has been a set-back in the first six months of the current year with a decline of 19.9% in volume which has been partly offset by an appreciation in the unit value realisation of 14.3% so that in value terms exports have declined by only 8.5%.

## 7. Iron-Ore

The demand for iron ore fluctuates with the requirement of the world iron and steel industry which continued to be affected by recess. Exports of iron ore during 1982-83 declined to 20.7 million tonnes compared with 23.7 million tonnes in the previous year though export values increased by 6.3% to reach Rs. 373.8 crores. This pattern has continued in the first half of 1983-84, with iron ore exports declining by 9.2% in volume terms but showing an increase of 4.8% in earnings, Japan is the major market for the country's iron ore exports and India continues to face tough competition from Australia and Brazil.

## 8. Jute Manufacturers

Exports of jute manufactures had suffered severe set back in 1981-82 and showed a further decline in 1982-83. There was a 23.3% decline in volume and exports fell by 21.2 per cent in value. The poor performance reflected stagnant world demand for jute and jute products resulting particularly from the recession in the US market, and reduced purchases by the USSR. This trend has continued in the first six months of the current year, when exports of jute manufactures fell by 13.3 per cent in volume but the decline in earnings was limited to 1.5 per cent because of some recovery in prices. With the revival of the market for carpet backing, exports of jute manufactures may show some improvement over the year.

## 9. Raw Cotton

Raw Cotton exports which had suffered a set back in 1981-82 improved in 1982-83. This recovery is attributed to the tightening of world market in raw cotton and prices of Indian raw cotton attaining parity with world prices. During April-September 1983, earnings from raw cotton increased by 50.4 per cent.

## 10. Fabrics

Exports of both cotton fabrics and ready made garments suffered a set back in 1982-83. In case of cotton fabrics, there was a decline in volume which inspite of some appreciation in unit value led to a fall of 9.9% in value. During April-September, 1983 the volume



of exports declined by 17.5% but this was offset by increased unit value realisation. In the case of ready made garments, export earnings fell by 11.5% in 1982-83 reflecting depressed market conditions. During April-September, 1983 there was a further decline of 13.1%. However, an improvement is expected in the second half of the current year. International trade in cotton textiles is characterised by restrictive trade practices as well as severe competition among exporting countries. Since there has been a decline in quota utilisation on the part of India in several categories and in several markets the explanation for the relatively poor export performance of the Indian cotton textile industry in recent years may largely lie in domestic factors as much as in protectionist barriers. Price competitiveness has been seriously eroded on account of escalation in cost of inputs, inadequate modernisation and low labour productivity.

#### **11. Leather**

Exports of leather and leather manufactures declined by 8.3% in 1982-83 but showed an increase of 3.4% during April-Sept., 1983. Depressed market conditions for leather in the EEC countries was the major factor contributing to lower exports. This is one of the export sectors where India enjoys competitive advantage in terms of large cattle population and labour intensive character of the industry. Export performance could be considerably improved with strict adherence to quality standards.

#### **12. Engineering**

Engineering exports which had continuously shown rising trend during the past decade, have performed poorly in recent years. There was a decline of 7.6% in value during 1982-83 and an even steeper decline of 20.7% during April-Sept., 1983. Engineering exports had received considerable boost from the high level of project exports during the seventies especially to West Asian countries. The slow down in economic activity in these countries seems to have adversely affected India's project exports. India is only a marginal supplier of engineering products in the world market and in a situation of weak demand conditions and intense competition from newly industrialised countries, price competitiveness is of crucial significance. Supply constraints on domestic producers also directly influence costs of production and price competitiveness as well as quality and reliability of Indian supplies. To some extent, Indian exports may be suffering from technological obsolescence compared with its competitors,

#### **13. Pearls**

Exports of pearls and precious stones showed an increase of 8.4% in 1982-83. During April-September, 1983 these exports amounted to Rs 612.4 crores. This item has been better able to weather demand recession in view of India's specialisation in small sized diamonds.

During 1982-83, India exported 4.35 million tonnes of crude oil valued at Rs. 1,023.3 crores as against 0.84 million tonnes valued at Rs. 196.2 crores in 1981-82. The oil was exported on a swap basis as it could not be refined in the country.

## Conclusion

A detailed review of India's export accomplishment shows that most of the products manufactured in the country could not make a thrust into the international market. This has been mainly due to a general world phenomenon of slump and the resultant anxiety towards protection and safety. This may look unhealthy on the face of it. But in the coming years this is certainly going to be a blessing in disguise as the rising for Indian products are going to be wider in the world than one would envisage.

Nevertheless, the fact that quality should not be a casualty for products meant for export should not be overlooked if India has to make a niche in the world market.