Unit 1: India's Foreign trade BCA IIIrd year VIth Sem

Meaning and Definition of Foreign Trade or International Trade!

Foreign trade is the exchange of capital, goods, and services across international borders or territories.All countries need goods and services to satisfy the wants of their people. Production of goods and services requires resources. Every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements. Similarly, it sells to other countries the goods which it has in surplus quantities. India too, buys from and sells to other countries various types of goods and services.

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 outside.

International trade means trade between the two or more countries. International trade involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Thus, International trade is more complex.

According to Wasserman and Haltman, "International trade consists of transactions between residents of different countries".

According to Anatol Marad, "International trade is a trade between nations".

According to Eugeworth, "International trade means trade between nations".

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. Without international trade, nations would be limited to the goods and services produced within their own borders. The main difference is that international trade is typically more costly than domestic trade.

The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture. International trade consists of 'export trade' and 'import trade'. Export involves sale of goods and services to other countries. Import consists of purchases from other countries.

International or Foreign trade is recognized as the most significant determinant of economic development of a country, all over the world. The foreign trade of a country consists of inward (import) and outward (export) movement of goods and services, which results in outflow and inflow of foreign exchange. Thus it is also called EXIM Trade.

For providing, regulating and creating the necessary environment for its orderly growth, several Acts have been put in place. 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, apart from projecting such image, an important Act – Exports (Quality control & inspection) Act, 1963 has been passed. Development of foreign trade depends 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.

Composition of Exports in India

The composition of foreign trade is an important indicator of the pattern of trade developed by country. By the term composition of trade we mean the structural analysis involving the various types and the volume of various items of exports and imports of the country.The composition of foreign trade of a country reflects on the diversification and specialization attained in its productive structure along with its rate of progress and structural changes. The country exporting more of primary products, viz., raw materials and importing finished manufacturing goods and capital goods can be branded as an underdeveloped country. With the passage of time a country attempts to change the pattern of trade in such a manner so that it can attain a better term of trade for its products by transforming the country from a primary producing one to a producer of finished manufactured products.

At the dawn of independence, the export basket of the country was mostly of jute, tea and cotton textiles, which jointly contributed more than 50 per cent of the total export earning of the country. In 1950-51, these three commodities contributed about 60 per cent of the total export earnings of the country. But this export of primary products is always disadvantageous as the terms of trade always goes against the exporter country in this respect due to its inelastic demand in international markets.

With the gradual diversification and growth of the industrial sector, India started to export various types of non-traditional products. Accordingly the share of jute, tea and cotton textiles in the total export earning of the country gradually declined to 31 per cent in 1970-71 and then considerably to 2.73 per cent in 2008-2009. But the share of machinery and engineering goods in India's total export increased gradually from a mere 2.1 per cent in 1960-61 to 12.9 per cent in 1970-71 and stood at 25.8 per cent in 2008-2009.

1. Jute was one of the most important export items initially and contributed Rs. 213 crore, i.e., about 20 percent of the total export earnings. But its share gradually declined to 12.4 per cent in 1970-71 and then to only 0.16 per cent in 2008-09.

2. Tea was the second most important item of export which contributed Rs. 187 crore (18.7 percent of total export earnings) in 1960-61. Its share declined gradually to 9.6 per cent in 1970-71 and then to 3.3 per cent in 1990-91 and about 0.31 per cent in 2008-2009.

3. The share of cotton fabrics in total export earnings of the country also declined marginally from 8.7 per cent in 1960-61 to 6.4 per cent in 1990-91 and 2.25 per cent in 2008-09.

4. Export of handicrafts rose considerably from a mere Rs. 73 crore in 1970-71 to Rs. 1,33,465 crore in 2008-09 which constituted about 15.8 per cent of total export earning in 2008-09 and occupied third place.

5. Export of readymade garments has also increased considerably from Rs. 29 crore in 1970- 71 to Rs. 50,294 crores in 2008-09 which constituted nearly 5.98 per cent of total export earnings in 2008-09 and occupied fourth place.

6. Exports of machinery and engineering goods rose substantially from a mere Rs. 22 crore in 1960-61 to Rs. 2,16,856 crore in 2008-09, which constituted about 25.8 per cent of total earnings in 2008-2009. It occupied first place.

Moreover, in recent years (2008-09) the exports of some other articles also increased considerably which include leather and leather manufactures (Rs. 15,931 crore—5th place), chemicals and allied products (Rs. 85,697 crore—4th place), iron ore (Rs. 21,725 crore) etc.

Again the exports of the country have been broadly classified into five groups:
(1) Agriculture and allied products,
(2) Ores and minerals,
(3) Manufactured goods,
(4) Mineral fuels and lubricants,
(5) others.

What is Foreign Trade?

- International trade in goods and services is the oldest and most prominent type of international division of labour.
- The flow of services or capital created outside of national borders is known as foreign trade.
- The concept of trade refers to the purchase and sale transactions that enable manufactured commodities and services to be provided to consumers.
- The concept of overseas trade is represented by these purchases and sales transactions with foreign countries.
- In terms of delivery of buying and selling transactions, foreign trade takes the shape of import and export.

Trends in Foreign Trade:

Current trends are towards the increasing foreign trade and interdependence of firms, markets and countries.The mutual exchange of services or goods between international territories and borders is known as foreign trade. Increasing foreign trade and interdependence of enterprises, markets, and countries are among the current trends.

Intense competition among countries, industries, and firms on a global level is a recent development due to the merging of several major trends. Among these trends are:

1) Forced Dynamism:

International trade is a complex topic, because the environment it operates in is constantly changing. First, businesses are constantly pushing the frontiers of economic growth, technology, culture, and politics which also change the surrounding global society and global economic context. Secondly, factors external to international trade (e.g., developments in science and information technology) are constantly forcing international trade to change how they operate.

2) Cooperation among Countries:

Countries cooperate with each other in thousands of ways through international organizations, treaties, and consultations. Such cooperation generally encourages the globalization of business by eliminating restrictions on it and by outlining frameworks that reduce uncertainties about what companies will and will not be allowed to do. Countries cooperate:

i) To gain reciprocal (involving two or more people or groups who agree to help each other or to behave in the same way towards one another).advantages,

ii) To attack problems they cannot solve alone, and

iii) To deal with concerns that lie outside anyone's territory.
Agreements on a variety of commercially related activities, such as transportation and trade, allow nations to gain reciprocal advantages. For example, groups of countries have agreed to allow foreign airlines to land in and fly over their territories, such as Canada's and Russia's agreements commencing in 2001 to allow polar over flights that will save five hours between New York and Hong Kong.

Groups of countries have also agreed to protect the property of foreign-owned companies and to permit foreign-made goods and services to enter their territories with fewer restrictions. In addition, countries cooperate on problems they cannot solve alone, such as by coordinating national economic programs (including interest rates) so that global economic conditions are minimally disrupted, and by restricting imports of certain products to protect endangered species.

Finally, countries set agreements on how to commercially exploit (misuse) areas outside any of their territories. These include outer space (such as on the transmission of television programs), non-coastal areas of oceans and seas (such as on exploitation of minerals), and Antarctica (for example, limits on fishing within its coastal waters).

3) Liberalization of Cross-border Movements:
Every country restricts the movement across its borders of goods and services as well as of the resources, such as workers and capital, to produce them. Such restrictions make international trade cumbersome(difficult); further, because the restrictions may change at any time, the ability to sustain international trade is always uncertain. However, governments today impose fewer restrictions on cross-border movements than they did a decade or two ago, allowing companies to better take advantage of international opportunities. Governments have decreased restrictions because they believe that:
i) So-called open economies (having very few international restrictions) will give consumers better access to a greater variety of goods and services at lower prices,

ii) Producers will become more efficient by competing against foreign companies, and
iii) If they reduce their own restrictions, other countries will do the same.

4) Transfer of Technology:

Technology transfer is the process by which commercial technology is disseminated (transmit). This will take the form of a technology transfer transaction, which may or may not be a legally binding contract, but which will involve the communication, by the transferor, of the relevant knowledge to the recipient. It also includes non-commercial technology transfers, such as those found in international cooperation agreements between developed and developing states. Such agreements may relate to infrastructure or agricultural development, or to international; cooperation in the fields of research, education, employment or transport.

5) Growth in Emerging Markets:

The growth of emerging markets (e.g., India, China, Brazil, and other parts of Asia and South America especially) has impacted international trade in every way. The emerging markets have simultaneously increased the potential size and worth of current major international trade while also facilitating the emergence of a whole new generation of innovative companies.

Benefits of Trends in Foreign Trade

- Companies gain extra markets, expand their turnover, and create more jobs as a result of their trade links with other countries.
- These trends enhance cooperation among nations and thus promote economic globalization by removing barriers.
- It increases the size and value of current significant international trade.
- They make it possible for a new generation of innovative enterprises to emerge.
- India's total exports (Merchandise and Services combined) are expected to reach USD 61.41 billion in January 2022*, representing a positive growth of 36.76% over the same period last year and 38.90% over January 2020.

Conclusion

International trade in itself is vital to a country's economy, as it contributes significantly to GDP (GDP). Therefore, the emerging trends in the foreign trade are responsible for facilitating global growth and development that is not restricted to a single country. The introduction of new technology, increased communication, and enhanced infrastructure have made it easier to take advantage of the opportunities of international trade.

Key Problems of India's Export Sector

Among the major problems faced by Indian exporters the crucial ones are poor quality image, high costs, unreliability, infrastructure bottlenecks, inadequacy of trade information system, supply problems, faceless presence, uncertainties, procedural complexities and institutional rigidities, etc.

List of Major Problems of India's Export Sector:

1: Poor Quality Image:

The Made in India product line does not enjoy a good reputation in markets abroad. Rather it is considered to be a sign of poor quality. The products manufactured in Japan, Korea and now even in China are frequently quoted abroad as examples of dependable quality.

Despite the measures taken under the Exports (Quality Control and Inspection) Act and other laws, our exports continue to suffer because of the quality problem. On several occasions, carelessness and lack of commitment on the part of exporters are also responsible. There is a general impression that a proper export culture is lacking in India.

2: High Costs:

In India, the rate of interest on export finance is much higher as compared to other countries.According to trade circles, interest payments alone constitute nearly 15 percent of the cost of production in India. In addition, there are also the bank charges in India, which work out to be as high as 3 per cent compared to 1 per cent in countries like Japan and Republic of Korea.

Similarly, even the port charges in India are three to four times. higher than those of Colombo, Hong Kong, Singapore and South Korea.

Further, Indian exporters are also deprived of advantages of the economies of scale and do not utilize their ability to supply bulk supplies due to lack of finance and other reasons.Productivity is thus low leading to higher costs. Manufacturing performance is directly related to use of technology and management techniques.

The Indian policy towards technology has been somewhat lukewarm. Indians lag behind in the adoption of modem technology and technological innovations, as is done by South-East Asian countries.

Our traditional export sectors of textiles and jute have suffered a lot due to this lack of modernization, whereas many other, competing countries have gone ahead of us in modernizing their industries.

3:Unreliability:

As pointed out above the products imported from India are considered to be of poor quality. Besides quality, Indian exporters are also looked upon as unreliable on many counts such as going back on a contract or refusing to fulfill it on its original terms.

A major deficiency is also the inability to provide prompt after-sales service. Exporters from countries like Japan, South Korea and Taiwan normally replace a defective consignment free of cost and without taking much time.It is the prompt response or after-sales service which projects an image of the supplying country for generating additional business.In sharp contrast, within the framework of our policies and procedural formalities a quick response for replacing a damaged or defective consignment or for providing a prompt after-sales service more often than not remains a difficult idea for Indian exporters.

This unprofessional unwillingness to give good and timely service after-sales ultimately results in their losing all future business.

4:Infrastructure Bottlenecks:

In India, infrastructure deficiencies such as energy shortages, inadequate and unreliable transport and communication facilities have so far hindered growth of exports.Power shortages and breakdowns are so common that they often disrupt production schedules, increase costs and badly affect timely shipments.Improving the transportation system, including the expansion and modernization of the port facilities, rationalization of their charges, improving the procedural, etc., is absolutely necessary if the country is serious about development of its export sector.

5;Inadequacy of Trade Information System:

Efficient and time bound trade information systems are a basic need for success in today’s dynamic export business. Electronic commerce including Electronic Data Interchanges (EDI) and Internet play a very crucial role in world trade at present.
The spreading out of the Internet, has taken the world into the Age of information Superhighway. It has now become very easy to obtain any kind of information in a matter of seconds.

However, in India there are still no proper facilities of communication and therefore it is not possible to rely on the Internet for getting up to date trade information.Even if the facilities are available, they are very costly. Some of the developed countries insist that they would not like to trade with a country whose exporters/importers cannot even complete necessary formalities through the Electronic Data Interchange.

In India, satisfactory progress in communications and information highway is still a pipe dream.

6:Supply Problems:
A very severe shortcoming of the Indian export sector is its inability to ensure continuous and smooth supply in sufficient quantities relating to many products.Such an attitude still continues to characterize the export behavior and has proved extremely harmful for the export business.

7:Faceless Presence:
Major export items of India like seafood, leather manufacturers, spices, etc. mostly have a faceless (unknown) presence in world markets. The exports undergo further processing or repacking in many cases.
However, in such instances Indian goods are sold in the foreign markets in the same condition as they are exported but under foreign brand names. Possibly, when a product carries a foreign brand name it gets a much higher price than if it is sold with an Indian name.

8:Uncertain Policies:
A basic defect of India’s trade policy has been the uncertainty about future policies, incentive schemes, etc. To free the exporters from anxiety and ensure stability in this direction, the Export- Import (EXIM) Policy is given a five-year span. However, even then every year a large number of amendments are made in the EXIM Policy.

9:Procedural Complexities and Institutional Rigidities:
India has lost exports worth hundreds of crores of rupees due to the serious problem of interdepartmental coordination. It is observed that most of the existing procedural and documentation formalities prescribed by different authorities have been defined to suit their own individual requirements with no regard to the adverse consequences they can lead to on the total export activity.

When the country is trying its utmost to boost exports, it is absolutely necessary that the documentation and procedural formalities related to exports are streamlined, simplified and kept to bare minimum. This way they will not become obstacles in the path of growth of the country's export business.