Subject – Indian Economy - I

Notes Unit 4 Part A

By -

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Direction of India's Foreign Trade -

Direction of foreign trade means the countries to which India exports its goods and the countries from which it imports. Thus, direction consists of destination of exports and sources of our imports. Prior to our Independence when India was under British rule, much of our trade was done with Britain.

Therefore, UK used to hold the first position in India's foreign trade. However, after Independence, new trade relationships were established. Now USA has emerged as the most important trading partner followed by Germany, Japan and UK. India is also making efforts to increase the exports to other countries also the direction of India's exports and imports.

Share of major destinations of India's exports and sources of imports during 2009-10 (April-September) are given in figure 3.6 and 3.7 respectively:

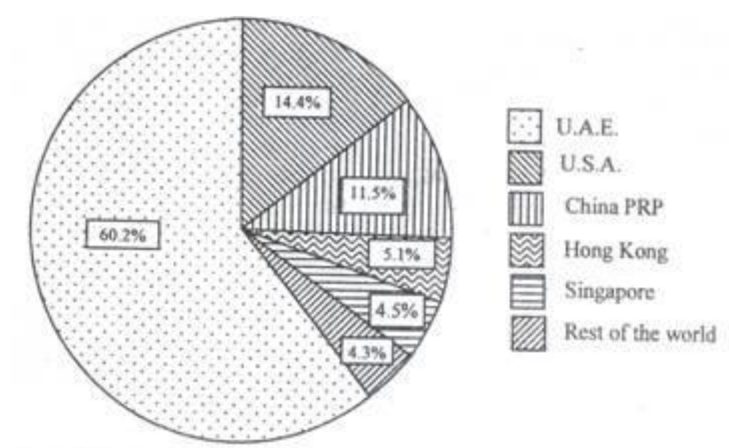
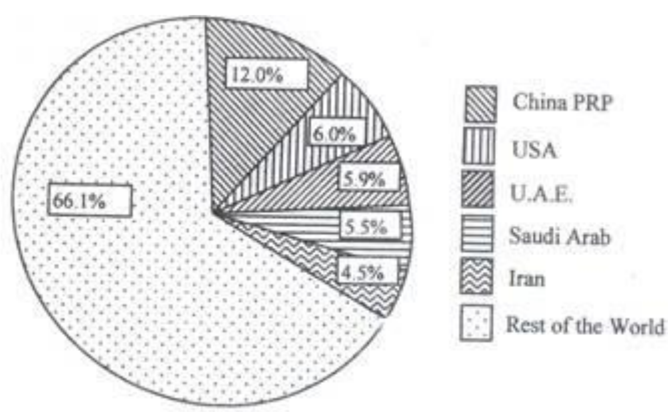


Figure 3.6: Major Destinations of India's Exports: 2009-10 (April-September)

During the period 2009-10 (April-September), the share of Asia and ASEAN region comprising South Asia, East Asia, Mid-Eastern and Gulf countries accounted for 55.0 per cent of India's total exports. The share of Europe and America in India's exports stood at 21.4 per cent and 15.3 per cent respectively of which EU countries (27) comprises 20.0 per cent. During the period United Arab Emirates (14.4 per cent) has been the most important country of export destination followed by U.S.A. (11.5 per cent), China (5.1 per cent), Hong Kong (4.5 per cent), Singapore (4.3 per cent), Netherlands (3.7 per cent), U.K. (3.7 per cent), Germany (3.1 per cent), Saudi Arabia (2.7 per cent) and Belgium (2.1 per cent).



re 3.7: Major Sources of India's Imports: 2009-10 (April-September)

Asia and ASEAN accounted for 61.3 per cent of India's total imports during the period followed by Europe (19.1 per cent) and America (9.4 per cent). Among individual countries the share of China stood highest at (12.0 per cent) followed by U.S.A. (6.0 per cent), U.A.E. (6.0 per cent), Saudi Arabia (5.5 per cent), Iran (4.5 per cent), Switzerland (4.4 per cent), Germany (3.8 per cent), Kuwait (2.9 per cent), Nigeria (2.5 per cent), and Iraq (2.3 per cent).

Import of Sensitive Items during April 09-September 09:

The total import of sensitive items for the period April-September 2009- 10 has been Rs 29,256.29 crore as compared to Rs 21,186.61 crore during the corresponding period of last year thereby showing an increase of 38.1%. The gross import of all commodities during same period of current year was Rs 7, 90,644 crore as compared to Rs 6, 05,075 crore during the same period of last year. Thus import of sensitive items constitutes 2.7% and 4.8% of the gross imports during last year and current year respectively.

Imports of automobiles, cotton and silk, products of SSI alcoholic beverages and food grains have shown a decline at broad group level during the period. Imports of all other items, viz., edible oil, pulses, fruits and vegetables (including nuts), rubber, spices, marble and granite, tea and coffee, and milk and milk products have shown increase during the period under reference.

In the edible oil segment, the import has increased from Rs 6,265.69 crore last year to 1,831.43 crore for the corresponding period of this year. The imports of both crude edible oil as well as refined oil have gone up by 97% and 55% respectively. The increase in edible oil import is mainly due to substantial increase in import of crude palm oil and its fractions.

Imports of sensitive items from Indonesia, Myanmar, Brazil, Malaysia, United States of America, Japan, Canada, Ukraine, Argentina, Australia, Benin, Guinea Bissau, etc., have gone-up while those from China PRP, Korea RP, Germany, Thailand, Cote D' Ivoire, Czech Republic, etc., have shown a decrease.

Composition of Indian Foreign Trade -

A study of a country's imports and exports of products and services is known as the composition of trade. In another sense, it provides information on a country's imports and exports of commodities. As a result, it reveals a nation's structure and level of economic development. Raw resources, agricultural products, and intermediate commodities are exported by developing countries, whereas developed nations export finished goods, equipment, and machines. The Indian Foreign Trade Policy boosts the economy by allowing India's exports and imports to rise significantly.

Composition of Indian foreign trade: Imports

The composition of India's import basket included oils, pulses, machinery, chemicals, hardware, pharmaceuticals, dyes, yarns, paper, grains, non-ferrous metals, cars, and other items at the time of independence. With the advent of planning and the emphasis on establishing capital goods and engineering sectors, the government was required to purchase a large number of capital equipment and maintenance imports.

The top eight import items during April-February of FY22 were:

- Petroleum crude & products (25.7 percent of total imports)
- Plastic materials, artificial resins, etc. (3.3 percent)
- Pearls, semi-precious & precious stones (5 percent)
- Gold (8.2 percent)
- Electronic goods (11.8 percent)
- Electrical & non-electrical equipment (6.6 per cent)
- Inorganic & organic chemicals (5 percent)
- Coal, coke, etc. (4.9 percent).

In FY22, these main import items accounted for 70.6 percent of overall imports.

The composition of India's imports is segregated into three categories: raw materials, capital goods, and consumer products.

Raw materials

Petroleum oil, lubricants, edible oil, iron and steel, fertilisers, non-ferrous metals, precious stones, pearls, and other commodities fall into this category. The percentage of total imports made up of all of these commodities skyrocketed significantly from 47% in 1960-61 to nearly 80% in 1980-81.

Presently, concerns about supply disruptions have risen due to Russia's invasion of Ukraine, bringing oil prices to multi-year highs. Given that India imports roughly 80% of its oil, the current circumstance puts its trade deficit in jeopardy.

Petroleum imports increased from USD 13.1 billion in January to USD 15.3 billion on February 22. Due to rising international oil prices, higher mobility, and a corresponding increase in domestic and foreign oil consumption, petroleum imports climbed significantly from USD 72.4 billion in FY21 to USD 141.7 billion in FY22.

Capital goods

Non-electrical and electrical machinery, metals, locomotives, and other transport equipment, among other things, fall into this category. These items are necessary for the country's industrial development. Capital goods imports accounted for roughly 32% of overall imports in 1960-61, amounting to around INR 356 crore. This gradually decreased, and in 1992-93, it was around 21%.

Consumer products

It involves importing electrical items, food grains, medications, and paper, among other things. Until the end of the Third Five-Year Plan, India had a severe food grain shortfall. As a result, India would import enormous amounts of food grains. Presently, India has become self-sufficient in food production.

Composition of Indian foreign trade: Exports

The top eight export items during the April-February period of FY22 were:

- Engineering goods (26.9% of total exports)
- Organic & inorganic chemicals (7.1%)
- Gems &jewellery (9.4%)
- Drugs & pharmaceuticals (5.9%)
- Textiles (3.8%)
- Electronic goods (3.7%)
- Petroleum products (14.8%)
- Cotton yarn/fabs/made-ups, handloom products etc. (3.7%).

These eight goods accounted for approximately 75 percent of overall exports in FY22.

India’s export composition can be classified into two categories: traditional exports and non-traditional exports.

Traditional products

Traditional items include the export of coffee, tea, jute goods, iron ore, animal skin, cotton, minerals, fish and fish products, etc. These products accounted for nearly 80% of our overall exports at the start of the planning era. However, these items’ contribution is gradually decreasing, while non-traditional items’ contribution is increasing.

Non-traditional products

Engineering goods, sugar, chemicals, electrical goods, iron and steel, leather goods, gems and jewellery are among the non-traditional items exported.

Engineering goods and petroleum products are the two major components of India’s total exports. Exports of engineering goods have climbed to USD 101 billion in FY22, a 49.8% increase. Also, petroleum exports have skyrocketed from USD 22.2 billion in FY21 to USD 55.5 billion in FY22.

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