

## 10) Foreign Trade of India

**Q. 1. Choose the correct option:**

**1) Types of foreign trade**

- a) Import trade
- b) Export trade
- c) Entrepot trade
- d) Internal trade

**Option :**

- 1) a and b

**2) a, b and c**

- 3) a, b, c and d
- 4) None of these

**2) Export trends of India's foreign trade includes.**

- a) Engineering goods

**b) Gems and Jewellery**

- c) Textiles and ready -made garments
- d) Gold

**Options :**

- 1) a and c

**2) a, b and c**

- 3) b, c and d
- 4) None of these

**3) Role of foreign trade is.....**

- a) To earn foreign exchange
- b) To encourage investment
- c) Lead to division of labour
- d) Bring change in composition of exports

**Options:**

- 1) a and b
- 2) a, b and c
- 3) b and d
- 4) None of these

**Q. 2 Identify and explain the concepts from the given illustration:**

**(1) India purchase petroleum from Iran.**

**Ans. (A) Identified concept :** Import trade.

**(B) Explanation of concept :** Purchase of goods and services by one country from another country is called import trade.

**(2) Maharashtra purchased wheat from Panjab.**

**Ans. (A) Identified concept :** Internal / Home trade (inflow of goods)

**(B) Explanation of concept :** Internal trade is the purchase (inflow) and sale (outflow) of goods and services within the geographical boundaries of a nation.

**(3) England imported cotton from India, made readymade garments from it and sold them to Malaysia.**

**Ans: Identified concept :** Entrepot trade

**(B) Explanation of concept:** The process of processing goods imported from one country and exporting them to another country is called entrepot trade.

**(4) Japan sells smart phones to Myanmar.**

**Ans. (A) Identified concept :** Export trade.

**(B) Explanation of concept :** The sale of goods and services by one country to another country is called export trade.

**Q. 3. Distinguish between the following:**

**1) Internal trade and International trade.**

**Ans:**

<b>Internal Trade</b>	<b>International Trade</b>
<b>1. Meaning:</b> The sale and purchase of goods and services within the geographical boundaries of a nation is called internal trade.	The sale and purchase of goods and services outside the geographical boundaries of a nation (with other nations) is called international trade.
<b>2. Use of Currency:</b> Domestic currency is used for buying and selling goods and services in internal trade.	Foreign currency is used for buying and selling goods and services in international trade.

**2) Trends in imports and Trends in exports of foreign trade.**

**Ans:**

<b>Trends in Imports of Foreign Trade</b>	<b>Trends in Exports of Foreign Trade</b>
<b>1. Meaning</b> The import trend of foreign trade is the tendency of a country to reflect goods purchased from other countries, total dimensions of goods purchased from other countries, total value to be paid for goods purchased from other countries, etc.	The export trend of foreign trade is the tendency of a country to reflect goods sold to other countries, the total dimensions of goods sold to other countries, the total value derived from goods sold to other countries, etc.
<b>2. Types</b> Trends in imports of foreign trade of India include the commodities like petroleum, gold, fertilizers, iron and steel, sophisticated machinery, chemicals, etc.	Trends in exports of foreign trade of India include the commodities like engineering goods, petroleum products, chemical products, gems and jewellery, textiles and readymade garments, etc.

**3) Balance of payments and Balance of trade.**

**Ans:**

<b>Balance of Payments</b>	<b>Balance of Trade</b>
<b>1. Meaning:</b> Balance of payments refers to a systematic record of all international	Balance of trade refers to the difference between the value of country's exports and imports for a given period.

economic transactions of a particular country for a given period.	
<b>2. Concept:</b> Balance of trade gets included in the balance of payments. Therefore, balance of payments is a broader concept.	Balance of trade is a part of balance of payments. Therefore, balance of trade is a narrower concept.

#### Q. 4. Answer the following:

##### 1) Explain the concept of foreign trade and its types.

**Ans: (A) Concept of foreign trade :** The concept of foreign trade is as follows:

(1) Foreign trade is trade between different countries of the world. Foreign trade also called international trade or external trade.

(2) According to Wasserman and Hultman, "International trade consists of transactions between residents of different countries."

**(B) Types of foreign trade :** The types of foreign trade are as follows:

**(1) Import trade :** Purchase of goods and services by one country from another country is called import trade. The influx of goods and services from abroad to home country is called import trade. For example, India buys petroleum from Iraq, Kuwait, Saudi Arabia.

**(2) Export trade :** The sale of goods and services by one country to another is called export trade. The outflow of goods and services from home country to abroad is called export trade. For example, India sells tea, rice, jute to China, Hong Kong and Singapore.

**(3) Entrepot trade :** The process of processing goods imported from one country and exporting them to another country is called entrepot trade. For example, Japan imports raw materials for the manufacture of electronics from England, Germany, France, etc. processes the raw materials to make electronic goods such as radios, washing machines, televisions and exports these goods to various countries of the world.

##### (3) Explain any four features of composition of India's foreign trade.

**Ans.** The features of composition of India's foreign trade are as follows:

**(1) Increasing share of GDP :** The share of India's foreign trade in GDP is steadily increasing. The share of India's foreign trade in GDP was only 17.55 per cent in 1990-91. It increased to 25 per cent in 2006-07 and 48.08 per cent in 2016-17.

**(2) Increase in the volume and value of trade:** Since 1990-91, the volume and value of India's foreign trade has been increasing. India currently exports and imports a wide range of high value goods and services.

**(3) Changes in the composition of exports:** Before independence, India used to export basic commodities like jute, cotton, tea, oilseeds, leather, food grains, cashew nuts, mineral products to other countries. Since independence, India has started exporting readymade garments, gems and jewellery, computer hardware and software. Thus the composition of India's exports has changed.

##### **(4) Changes in the composition of imports :**

Before independence, India used to import a large number of consumer goods such as medicines, cloth, motor vehicles, electrical goods, etc. At present, India is a major importer of petrol and petroleum, high-tech machinery, chemicals, fertilizers, steel, etc.

**(5) Oceanic trade :** Most of India's foreign trade is by sea. About 68% of India's total foreign trade is done by sea. India also has foreign trade relations with neighbouring countries like Nepal, Afghanistan, Myanmar, Sri Lanka, etc.

**(6) Development of new ports :** Large scale foreign trade was carried out in India mainly from important ports like Mumbai, Kolkata, Chennai, etc. Therefore these ports were overburdened. Therefore, new ports like Kandla, Cochin, Visakhapatnam, Nhava Sheva, etc. have been developed in India to reduce the additional burden on the existing ports.

### **3) Explain the trend in India's imports.**

**Ans.** The trend in India's imports can be explained with the help of the following points:

**(1) Petroleum :** Petroleum has been an important item in India's import trade even before and after the economic reforms. Petroleum imports accounted for about 27 per cent of India's total imports in 1990-91. At present, petroleum imports account for about 31 per cent of India's total imports. India has been importing the largest amount of petroleum for years.

**(2) Gold :** Gold is the second most imported commodity in India after petroleum. Gold imports of India declined significantly in 2013-14. India gold imports fell to 27.5 billion in 2013-14 from 53.3 billion in 2010-11. The fall in international gold prices and the consequent policy of restrictions by the government on gold imports have led to a sharp decline in gold imports.

**(3) Fertilizers :** Fertilizers accounted for about 4.1 per cent of India's total imports in 1990-91. In 2016-17, the share declined to 1.3 per cent.

**(4) Iron and Steel :** In 1990-91, the share of iron and steel imports in the total imports of India was about 4.9 per cent. At present, the share declined to 2.1 per cent.

### **Q. 5. State with reasons whether you agree or disagree with the following statements :**

#### **1) During British rule, indigenous handicrafts suffered a severe blow.**

**Ans:** Yes, I agree with this statement.

**Reasons :** (1) Prior to 1947, India was a British colony.

Therefore, India's foreign trade was colonial.

(2) Before independence, India mainly exported raw materials to England and imported finished goods from England. Prior to independence, India relied heavily on trade with England for industrial goods.

(3) In the pre-independence period, England started selling large quantities of finished goods made in factories in England to India. As a result, many people in India started buying goods from England and this reduced the demand for indigenous goods. As a result, many small and medium enterprises in India closed down. Thus, during British rule, indigenous handicrafts suffered a severe blow.

#### **(2) Trade is an engine of growth for an economy**

**Ans.** Yes, I agree with this statement.

**Reasons:** (1) Foreign trade earns foreign exchange. The foreign exchange received can be used for various productive activities.

(2) Foreign trade provides an opportunity for domestic producers to sell goods and services in the domestic market as well as export to the world market.

(3) Encouragement of production and market expansion of indigenous goods and services encourages large scale investment in various industries in the country. Large investments increase employment levels and national income, leading to economic growth in the economy. Thus, trade is an engine of growth for an economy.

#### **(3) Foreign trade leads to division of labour and specialization at world level.**

**Ans.** Yes, I agree with this statement.

**Reasons :** (1) In foreign trade, each country seeks to maximize production of various goods and services at minimum cost according to the quantity and quality of labour available to it.

(2) For example, if there are unskilled and abundant labourers available in 'A' country, then such a country produces a large quantity of agricultural produce and exports agricultural produce to other countries. 'B' is a country that produces a large number of electronic goods and exports them to

other countries if it has a skilled and limited number of workers.

(3) In foreign trade, each country consistently promotes the production of specific goods or services with the help of available labour so that maximum profit can be made.

Thus, foreign trade leads to division of labour and specialization at world level.

**Q. 6. Observe the following table and answer the questions given below it.**

**Direction of India's imports**

	Years	-
Countries/ Organisations	1990-91	2015-16
	Percentage	Percentage
1. OECD	54.0	28.8
2. OPEC	16.3	23.6
3. Eastern Europe	7.8	1.9
4. Developing Nations	18.6	43.2
5. Others	1.4	2.5

**Questions:**

**1) Which organisation has the least share in the direction of India's imports in 2015-16?**

**Ans:** The Eastern European Union has the least share in the direction of India's imports in 2015-16.

**2) Which organisation has maximum share in India's direction of imports in 1990-91?**

**Ans:** OECD has the maximum share in India's direction of imports in 1990-91.

**3) Expand the abbreviations of OECD and OPEC**

**Ans: Expansion of abbreviations :**

**(1) OECD:** The Organization for Economic Cooperation and Development

**(2) OPEC:** Organisation of Petroleum Exporting Countries.

**4) State your opinion regarding the direction of India's imports.**

**Ans:** Compared to 1990-91, 2015-16 shows a significant change in the direction of India's imports. Compared to 1990-91, the share of imports from developing countries in India's total imports increased from 18.6 per cent to 43.3 per cent in 2015-16. Similarly, the share of imports from OECD declined from 54.0 per cent to 28.8 per cent. Similarly, the share of imports from Eastern Europe has declined from 7.8 per cent to 1.9 per cent.

**5) How much is the percentage of increase in the imports of developing nations in 2015-16 as compared to 1990-91?**

**Ans:** The percentage of increase in the imports of developing nations in 2015-16 as compared to 1990-91 is by 24.6 per cent.

**Q. 7. Answer in detail :**

**1) Explain the meaning and role of foreign trade.**

**Ans:** (A) Meaning of foreign trade : The concept of foreign trade is as follows:

(1) Foreign trade is trade between different countries of the world. Foreign trade is also called international trade or external trade.

(2) According to Wasserman and Hultman, "International trade consists of transactions between residents of different countries."



**(B) Role of foreign trade :** The role of foreign trade can be explained with the help of the following points :

**(1) To earn foreign exchange :** Foreign exchange is earned through foreign trade. The foreign exchange received can be used for various productive activities. Foreign trade promotes the production and market expansion of domestic goods and services.

**(2) Encourages investment :** Foreign trade provides an opportunity for producers to sell goods and services in the domestic market as well as export to the world market. As a result, the production of various goods and services in the country is boosted and investment is encouraged.

**(3) Division of labour and specialization:** Foreign trade leads to division and specialization of labour at the global level. For example, if workers in country 'A' are skilled in agricultural production and workers in country 'B' are skilled in making electronic products, then country 'A' can export agricultural products to country 'B' by acquiring specialization in agricultural products. 'B' country can export electronic products to A country by acquiring specialization in electronic products.

**(4) Optimum allocation and utilization of resources :** Due to foreign trade, each country channelized the available resources to the production of the same goods from which maximum benefit can be obtained at minimum production cost. For example, if it would be able to produce wheat at the lowest cost based on the resources available in country 'A' and if it would be possible to produce medicines at the lowest cost based on the production resources in country 'B', then country 'A' manufactures wheat and export wheat to country 'B'. Similarly, country 'B' manufactures drugs and exports drugs to country 'A'. Thus foreign trade leads to adequate allocation and utilization of resources internationally.

**(5) Stability in price level :** Foreign trade helps in balancing the demand and supply of goods and hence brings stability in price level in the economy.

**(6) Availability of multiple choices :** Foreign trade provides multiple choices of imported commodities. It thus creates competition in the market and hence high quality goods can be made available to the consumers at reasonable prices. Thus, foreign trade helps in raising the standard of living

**(7) Brings reputation and helps earn goodwill :** Exporting countries get reputation and goodwill in the international market. For example, Japan and Switzerland have gained a great deal of goodwill in the international market by exporting electronic goods worldwide.

**(2) Explain the recent trends in India's export.**

**Ans.** The recent trends in India's export is as follows:

**(1) Engineering goods :** According to the report of the Engineering Goods Export Promotion Council (GEPC), the exports of engineering goods accounted for about 25 per cent of India's total exports in 2017-18. These items mainly included automobiles and auto components, machinery and equipment, computer hardware and software. From 2010-11 to 2014-15. India's exports of transport equipment amounted to 16 billion US dollars to 24.8 billion US dollars.

**(2) Petroleum products :** Significant increase have taken place in India's petroleum capacity since 2001-02. As a result, India became exporter of petroleum refinery products. Between 2001-02 and 2013-14, India's share of petroleum products exports grew sharply from 4.3 per cent to 20.1 per cent.

**(3) Chemicals and chemical products :** In the last few years, India has exported a large number of chemicals and chemical products. At present, chemicals and chemical products account for about 10.4 per cent of India's total exports.

**(4) Gems and jewellery :** Gems and jewellery make a significant contribution to India's exports. Gems and jewellery accounted for about 13.3 per cent of India's total exports in 2014-15.

**(5) Textiles and readymade garments :** In 2014-15, textiles and readymade garments accounted for about 11.3 per cent of India's total exports. India is a world leader in textile exports.