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STATEMENT OF THE PROBLEM
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RESEARCH METHODOLOGY
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INDIA'S NEIGHBORHOOD TRADE POLICY

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ABSTRACT

Foreign Trade is very crucial for a country's economic development as it has made an increasingly significant contribution to economic growth and substantially to the economic welfare of the people. The foreign trade of a country consists of inward and outward movement of goods and services, which results into outflow and inflow of foreign exchange from one country to another country. No country in the world possesses the adequate facilities for economical production of all the goods and services that are consumed by its people. This implies that no country is self-sufficient in the sense that no country can produce all the goods that it needs. Hence, the need to trade with each other arises. Economies of scale and international specialisation which is also the fruits of scientific and technological progress in the world would become more easily accessible through foreign trade. Developing countries like India need more goods to feed a rapidly growing population. Exports can be a leading sector in growth. It clearly implies that increased earnings from higher marketability of a country's commodities in the international market would stimulate the indigenous industrial activity within the country. This in turn brings many distinct benefits, viz., greater utilisation of resources, larger employment opportunities, more foreign exchange, etc. It was thus considered that foreign trade would make an impressive contribution to a country's development; hence it is considered not simply a device for achieving productive efficiency; but also, an engine of growth. India adopted liberal and free market oriented policy and liberalized its economy to international arena in 1991. With the Liberalization, Privatization and Globalization of the Indian economy and the government policies on exports and imports also changed. Many of the foreign countries which were members of the trading blocks like SAARC, WTO entered into international trade and made many, trade agreements with its neighbours. Indian economy has changed along with the changes in polices of the government. In this regard an attempt is made to find out the impact of India's International trade during this period.

KEYWORDS

foreign trade, exports, imports. growth, opportunities.

JEL CODES

F40, F60.

INTRODUCTION

Modern day economies are all open economies; i.e., every country cultivates and promotes economic relations with the world. Economic isolation and self-sufficiency are things of the past. In face of on-going Information-Technology revolution the world is becoming only a global village. This again underlines the fact that the economic welfare of a country depends as much upon the external environment that a country as upon domestic policy changes. A major component of the external sector is foreign trade. Trade has significant role in key areas of economic development. Through specialization and increased world output, international trade expands the range of commodities available to the population and thus increases choice and welfare of the population. International trade provides countries with access to resources, which they may not have naturally. It provides access to markets for products which may not be consumed domestically. In this way, international trade stimulates economic growth. Trade leads to increased and more efficient use of a nation's resources. An outward looking trade policy is superior to partial or complete isolation. International trade leads to higher output, increased consumption and higher rewards for those sectors where a country has comparative advantage. International trade helps to attract foreign investment to exploit a country's comparative advantage. This can also result into investment in other sectors of the economy. For example, mining and export of minerals can lead to new investments in power generation, plantation agriculture, tourism, etc. when markets and good relations are created abroad. Expanded markets would lead to increased supply of foreign investment, domestic savings and skilled labour. The international trade helps expand economy by outward shift of Production Possibility Frontier and allows consumption outside of PPF. Under the field of macroeconomics PPF represents the point at which an economy is most efficiently producing its goods and services and, therefore, allocating its resources in the best possible way. Export-led growth creates linkages which stimulate the development of other industries. A steady growth of an export industry, such as textiles may create sufficient demand for some input such as dyes to warrant its production. This is the backward linkage associated with trade. For example, the wheat industry in North America created sufficient demand for rail transport and farm equipment so that these industries had to be established. International trade may lead the development of infrastructure such as roads, rails, power plants and telecommunications to facilitate trade. Foreign trade, especially the export sector may encourage the development of local entrepreneurs and skilled labour. Trade leads to travel and exposure to different places and cultural, which can promote learning and enhance experience. International trade enhances competitiveness of domestic industry as domestic industry is required to compete with international products which may be of superior quality and at a lesser price.[1]

OBJECTIVES OF THE STUDY

1. To understand the direction of India's foreign trade.
2. To understand the composition of India's foreign trade.
3. To understand the volume of India's foreign trade.
4. To understand the importance of India's foreign trade.
5. To understand India's neighborhood policy.

RESEARCH METHODOLOGY

The study is mainly descriptive in nature. The data is mainly collected from secondary sources like research papers, book of references, case studies, magazines, internet websites, journals etc. various studies on this subject have also been referred in this study.

DISCUSSION

Foreign trade has a significant impact on the GDP growth as well as expansion. As such foreign trade is a crucial part of development strategy. It has been an effective mechanism of financial growth, creation of job opportunities and poverty reduction in the economy. Foreign trade results in proper use of the resources of the country; making available necessary inputs for industrialization; providing outlet for surplus production; earning much needed foreign exchange. It helps the country to deal with the periods of natural calamities, through import of food grains and other necessary consumer goods. In the present age of globalization, the government has initiated changes in its strategy on trade, foreign investment, and tariffs. An appropriate and skillfully designed foreign trade policy is essential for India's rapid economic growth. To understand the trends in India's foreign trade the paper discusses some major facts about the direction, composition and trends in India's foreign trade.

DIRECTION OF 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.

If we look at the direction of India's exports and imports, we find that during the period 2009-10, 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 comprises 20.0 per cent. During the period United Arab Emirates with a percentage share of (14.4) has been the most important country of export destination followed by U.S.A. (11.5), China (5.1), Hong Kong (4.5), Singapore (4.3), Netherlands (3.7), U.K. (3.7), Germany (3.1), Saudi Arabia (2.7) and Belgium with percentage share of (2.1).

During this period Asia and ASEAN accounted for 61.3 per cent of India's total imports, followed by Europe (19.1) and America (9.4). Among individual countries the share of China stood highest with a percentage share of (12.0) followed by U.S.A. (6.0), U.A.E. (6.0), Saudi Arabia (5.5), Iran (4.5), Switzerland (4.4), Germany (3.8), Kuwait (2.9), Nigeria (2.5), and Iraq (2.3).[2]

After a gap of ten years during 2019-20, total of exports and imports trade of India represents 43.3 per cent of the country's GDP. Earlier, till 1980s this volume ranged between 15 to 20 per cent of GDP. As per the WTO data for the year 2018 India's share in global exports of merchandise was 1.7 percent and in global imports 2.6 percent. In the services sector, India's share in global exports 3.5 percent and imports was 3.2 percent. The low world share of India's exports, however, does not bring out the importance of foreign trade for the Indian economy. All-out efforts are being made by the government to raise the share of India in the global exports. In this section, we will analyze the trends in value, composition and direction of exports and imports and highlight the growing importance of services trade in recent times.

After independence, India's trade expanded in many new directions. Change has been evident in countries which India trades with. The direction of both imports and exports of India has changed significantly. India has trading relations with all the major trading blocs and all the geographical regions of the world. At present, India's major trading partners are: China, U.S.A., U.K., Russia, Japan, Germany, France, Iran, Iraq, Belgium, Saudi Arabia, UAE, Hong Kong, Singapore. The top five countries of exports are U.S.A., U.A.E., China, Hong Kong and Singapore. As regards the direction of imports, the top five countries of imports are China, USA, United Arab Emirates, Saudi Arabia and Iraq. Top ten export destinations of India in 2019-20 with their percentage share in parenthesis are, USA (16.95), United Arab Emirates (UAE) (9.21), China (5.30), Hong Kong (3.50), Singapore (2.85), UK (2.80), Netherland (2.67), Germany (2.65), Bangladesh (2.62), Nepal (2.29). Top ten Import Destinations with their percentage share are, China (13.75), USA (7.55), United Arab Emirates (UAE) (6.38), Saudi Arabia (5.66), Iraq (5.00), Hong Kong (3.57), Switzerland (3.56), South Korea (3.30), Indonesia (3.17), Singapore (3.11).[3]

COMPOSITION OF FOREIGN TRADE

Main Items of Exports and Imports of India Since liberalization

There has been an increasing diversification of both exports and imports. The transformation in the composition of India's exports has been made possible because of rapid growth and diversification of Indian industries. The composition of imports also underwent changes. India's imports primarily consist of petroleum products, fertilizers, capital goods, edible oils, etc., wherein there is little flexibility to reduce its imports bill. The main items of exports of manufactured goods from India consist of, gems and jewellery, garments, machinery and instruments, drugs, pharmaceuticals, and fine chemicals, manufacturer of metals, transport equipment, primary and semi-finished iron and steel, cotton yam, fabrics, and made ups, electronic goods, dyes, intermediates, and coal tar chemicals, leather and manufacturers, handicrafts, leather footwear, and others, petroleum products. India's exports of agricultural and allied products include: marine products, raw cotton, oil meals, fruits and vegetables, spices, cashew nuts, coffee and tea, unmanufactured tobacco, cereals, and others. Important items of imports of goods to India consist of Petroleum Crude, Gold, Pearl, Precious, Semiprecious Stones, Petroleum Products Coal, Electronics Components, Telecom Instruments, Organic Chemicals, Industrial Machinery for Dairy etc., Iron and Steel, Plastics, plastic articles, medical apparatus, etc.

India's services trade has been a major driver of its exports over the past two decades. The country has emerged among the fastest growing nations in global services trade. India's services exports have significantly grown in the post reform period. The companies from rich nations have outsourced business processes and other IT-intensive and knowledge-based operations to Indian partners. India's services trade surplus has increased due to the surge in IT exports. There has been considerable growth in transport, travel, and other services, such as telecommunications, financial, construction, and legal. The software services are mainly responsible for the surplus in services trade. Over the years, the composition of services exports from India has undergone considerable change. Some of these changes can be highlighted as follows: An analysis of services exports from India reveals that the largest services segment, software and IT-enabled services, has graduated to newer services. The new services include: packaged software implementation, systems integration, network infrastructure management, and IT consulting. There remains a huge untapped potential for IT-enabled services. Under the miscellaneous services segment, India's entertainment industry covers film, music, broadcast, television, and live entertainment and is basically an intellectual-property-driven sector with small to large players spread across India. Education process outsourcing includes: imparting online education, training, and coaching, and other related services through the Internet and has emerged as a significant segment for services exports. The travel and tourism sector has also shown significant growth in recent years. India's imports of services have increased from $ 128.36 billion in 2014 to $ 176.58 billion in 2018. The relative shares of the various constituents of service imports have not varied much with business services constituting about a third of service imports, which is in consonance with the rising level of economic activity in the country. The component of travel services has however been steadily increasing reflecting the growing attractiveness of global destinations to the domestic tourists in the country. India has maintained trade surplus in all the major services. However, the trade surplus has shown fluctuations in the past five years.[4]

There has been a shift in India's import trade from primary products to capital goods and other intermediate manufactures. Now the import of primary fertilizers, iron and steel, non-ferrous metals, and other industrial inputs has increased substantially. The changes in the composition of imports have occurred to meet the consumption and investment needs of the growing economy of India. The most notable change is the rise in share of capital goods imports. The strong growth of the manufacturing and services sector is reflected in its import bill. The shares of import bill telecommunications, equipment, office machines, and aircrafts have risen appreciably. Fuel imports remain a major import item. The other product categories in India's imports include: electronic goods, gold and silver, chemicals, pearls and precious and semi-precious stones, iron and steel, non-ferrous metals, professional instruments, optical goods, etc., and computer software. Due to the greater rise in the demand for edible oils as compared to production, India's dependency on edible oils continues.

VOLUME OF TRADE

The volume of trade relates to the size of international transactions. Since a large number of commodities enter in international transactions and their aggregate can be found only by finding their money value, the volume of trade can be measured by finding its value. The trends in the value of trade help to identify the basic forces that may be operating at different periods in the economy. However, mere absolute changes in the value of trade may not be satisfactory guide, hence it is necessary to find the change of value of trade by relating them to two variables, viz., (a) share of exports/imports in GDP, and (b) share of exports/imports in world trade. The share of exports/imports in GDP indicters the degree of outward-orientation or openness of the economy in regard to the trade activity. This share reflects in a broad way the nature of trade strategies adopted in the country. The ratio of exports to GDP could be interpreted also to mean supply capability of the economy in regard to exports. It can be called as average propensity to export. The similar ratio between imports and GDP gives the average propensity to import. The share of exports in the world trade indicates the importance of the country as a nation in the world economy. It reflects the market thrust that the country maintains in the world market. Changes in this ratio thus indicate the shift in the position of the comparative advantage of the country. Further, changes in the value of exports may be compared to the changes in the value of imports. The relationship between these two variables is known as the terms of trade, i.e., the terms at which exports exchange for imports; if the exports value in terms of imports value shows an increase, the terms of trade are said to be favourable. Favourable terms of trade imply that for a given value of exports, a country can import more goods. Conversely, if the terms of trade are unfavorable a country has to give up more exports to procure a given volume of import.

The volume of India's trade has been multiplied. The trade to GDP ratio has gone up from 13 percent in 1980 to 20 percent at present. The increase has been shared both by exports and imports. India's total exports have increased by more than 300 times during the last five decades, from Rs. 606 crores in 1950-51 to over Rs. 2, 91,582 crores in 2003-04. However, the increase has not been uniform over the years. Before 1965-66, India's exports were slow. The total exports were 6.8 percent of the NNP in 1950-51, fell to 3.9 percent in 1965-66 indicating that growth in the exports sector lagged behind the growth in other sector of the economy. India's share in the total world exports was 2.2 per cent in 1950-51, touched the low share to 1.1 percent in 1965. After 1965-66, in order to bring domestic prices into alignment with external prices, the Indian rupee was devalued. After devaluation, exports slowly picked up. In 1972-73 a breakthrough change in exports occurred mainly due to substantial growth in the exports of sugar, iron and steel, fruits and vegetables and food products.[5] A welcoming trend appeared in 1986-87 due to liberal import policy. Due to this, exports increased at an annual average rate of more than 25% in rupee terms. The rising trend in exports turned down in 1996-97. Exports witnessed a sharp upward trend in 1999-2000. In the year 2000-2001, there was a 21% growth in exports. But a marked decline in world output, and trade and slackening of global demand, pushed the growth rate of exports downwards. Again, exports recorded 20.34% during 2002-03 mainly due to rise in international commodity prices, recovery of the domestic manufacturing sector, depreciation of the rupee and the introduction of various export promotion measures. The upward trend maintained itself in 2003-04. If we look at the latest trends, exports in March 2020 were USD 21.41 billion, as compared to USD 32.72 billion in March 2019, exhibiting a negative growth of (-) 34.57 per cent. In Rupee terms, exports were Rs. 1,59,157.98 crore in March 2020, as compared to Rs. 2,27,318.25 crore in March 2019, registering a negative growth of (-) 29.98 per cent. The decline in exports has been mainly due to the ongoing global slowdown, which got aggravated due to the current Covid-19 crisis. The latter resulted in large scale disruptions in demand and supply chains resulting in cancellation of orders. Imports in March 2020 were USD 31.16 billion (Rs. 2,31,710.92 crore), which was 28.72 per cent lower in Dollar terms and 23.72 per cent lower in Rupee terms over imports of USD 43.72 billion (Rs. 3,03,753.76 crore) in March 2019. Cumulative value of imports for the period April-March 2019-20 was USD 467.19 billion (Rs. 33,07,977.05 crore), as against USD 514.08 billion (Rs. 35,94,674.61 crore) during the period April-March 2018-19, registering a negative growth of (-) 9.12 per cent in Dollar terms (negative growth of (-) 7.98 per cent in Rupee terms).[6]

In short, India's exports during the last three and a half decades have shown a mixed trend whereas the rate of growth as measured in terms of past performance or in terms of its share of national income shows an appreciable rise. But it presents a picture of poor performance when measured in terms of the share in world exports[4]. According to IMF Foreign Trade Forecasts, the volume of exports of goods and services increased by 3.9% in 2022 and is expected to further increase in 2023, reaching at 4.9%, while the volume of imports of goods and services increased by 10.1% in 2022 and is expected to increase by 7.2% in 2023[7]

It is significant to note the four important aspects of India’s foreign trade which include huge growth in the value and volume of trade, higher growth of imports, inadequate growth of exports, and mounting trade deficit. Since independence, the composition of India’s foreign trade has changed as a result of economic development and industrialization of the country. India's major exports include manufacturing and engineering goods. It is no longer confined to a few countries or few commodities. Presently India has trade relations with almost all the countries of the world. India’s exports cover over 9300 commodities to about 220 countries. Imports from about 180 countries accounts for over 8200 commodities. India is now importing intermediate goods and raw material so as to make full use of its production capacity, known as maintenance imports. India’s share in the world trade both in terms of imports and exports has been increasing. The bulk of India’s trade is with the developed countries of the West, the oil producing countries and China. However, there is a good scope for expanding trade, particularly exports, with South-East Asia, Middle-East, and East Africa. The government has been following a liberalised foreign trade policy since 1991 and has mainly concentrated on reforms on liberalization, openness and export promotion activity.[8]

CONCLUSION
There are multiple advantages of foreign trade as it promotes efficiency in the field of production, more employment, reduces trade fluctuations, increases revenues, and longer product lifespan. Foreign trade plays a crucial role in the economy of every country as well as it effectively contributes to a country’s GDP. International trade boosts the expansion of goods or services in the foreign market as well as increasing the rate of revenue. It encourages the innovation of products and the effective availability of services and goods. Foreign trade assists in inspiring the farmers for their development as well as assists in economic prosperity of the nation.

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