Foreign Trade of India

EXERCISE [PAGE 98]

Exercise | Q 1.1 | Page 98

Choose the correct option:

Types of foreign trade

a) Import trade

b) Export trade

c) Entrepot trade

d) Internal trade

1. a and b
2. **a, b and c**
3. a, b, c and d
4. None of these

Solution: a, b and c

Exercise | Q 1.2 | Page 98

Choose the correct option:

Export trends of India's foreign trade include

a) Engineering goods

b) Gems and Jewellery

c) Textiles and ready-made garments

d) Gold

1. a and c
2. **a, b and c**
3. b, c and d
4. None of these

Solution: a, b and c

Exercise | Q 1.3 | Page 98

Choose the correct option:

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

1. a and b
2. **a, b and c**
3. b and d
4. None of these

Solution: a, b and c

Exercise | Q 2.1 | Page 98

Identify and explain the concept from the given illustration:

India purchased petroleum from Iran.

Solution: Import Trade – (Type of foreign trade)

Explanation:
Import trade refers to the purchase of goods and services by one country from another country or inflow of goods and services from a foreign country to the home country. For example, India imports petroleum from Iraq, Kuwait, Saudi Arabia, etc.

Exercise | Q 2.2 | Page 98

Identify and explain the concept from the given illustration:

Maharashtra purchased wheat from Punjab.

Solution: Internal Trade

Explanation:

Buying and selling of goods and services within the boundaries of a nation are referred to as 'Internal Trade' or 'Domestic Trade' or 'Home Trade'.

Exercise | Q 3.1 | Page 98

Distinguish between the following:

Internal trade and International trade.

Solution:

Basis	Internal trade	International trade

Meaning	Internal trade refers to the buying and selling of goods within the geographical limits of a country.	International trade refers to the buying and selling of goods beyond the geographical limits of a country.
Countries Involved	Only one country is involved.	Minimum Two countries are involved.
Currency	Payments are made and received in-home currency only.	Payment is made and received in mutually agreed foreign currency only.
Risk	Less degree of risk is involved	High degree of risk is involved, such as transit risk, risk of fluctuation of currency and demand, etc
Government Restrictions	Internal trade is not restricted, except on a few goods.	International trade is strictly monitored by the government and prior approval is required before international transactions.

Exercise | Q 3.3 | Page 98

Distinguish between the following:

Balance of payments and Balance of trade.

Solution:

Basic for comparison	**Balance of payments**	**Balance of trade**
Meaning	Balance of Payment is a statement that keeps track of all economic transactions done by the country with the remaining world.	Balance of Trade is a statement that captures the country's export and import of goods with the remaining world.
Records	Transactions related to both goods and services are recorded.	Transactions are related to goods only.
Result	Both the receipts and payment sides tallies.	It can be Favorable, Unfavorable, or balanced.
Capital Transfers	Balance of Payment is included.	The Balance of Trade is not included.
Component	Current Account and Capital Account.	It is a component of the Current Account of Balance of Payment.

Exercise | Q 4.1 | Page 98

Answer the following:
Explain the concept of foreign trade and its types.
Solution:

Foreign Trade is traded between the different countries of the world. It is called International Trade or External Trade.

Types of foreign trade:

Foreign trade is divided into the following three types

1. **Import Trade:** Import trade refers to the purchase of goods and services by one country from another country or inflow of goods and services from a foreign country to the home country. For example, India imports petroleum from Iraq, Kuwait, Saudi Arabia, etc
2. **Export Trade:** Export trade refers to the sale of goods by one country to another country or outflow of goods from one country to a foreign country. For example, India exports tea, rice, jute to China, Hong Kong, Singapore, etc.
3. **Entrepot Trade:** Entrepot trade refers to the purchase of goods and services from one country and then selling them to another country after some processing operations. For example, Japan imports raw material required to make electronic goods like radio, washing machine, television, etc. from England, Germany, France, etc. and sells them to various countries in the world after processing them.

Exercise | Q 4.2 | Page 98

Answer the following:
Explain any four features of composition of India's foreign trade.
Solution:

Main feature of the composition of India’s foreign trade are as follows:

1. **Change in the composition of exports:** The composition of export trade in India has undergone a change. Prior to Independence, India used to export primary products like jute, cotton, tea, oil-seeds, leather, foodgrains, cashew nuts and mineral products.
2. **Change in the composition of imports:** India used to import consumer goods like medicines, cloth, motor vehicles, electrical goods, etc. Apart from petrol and petroleum,

India is now importing mainly capital goods like high-tech machinery chemicals, fertilizers, steel, etc.

3. **Oceanic trade:** Most of India's trade is by sea. India has trade relations with its neighbouring countries like Nepal, Afghanistan, Myanmar, Sri Lanka, etc.
4. **Development of new ports:** For its foreign trade, India depended mostly on Mumbai, Kolkata and Chennai ports. Therefore these ports were overburdened. Recently, India has developed new ports at Kandla, Cochin, Vishakhapatnam, Nhava Sheva etc. to reduce the burden on the existing ports.

Exercise | Q 4.3 | Page 98

Answer the following:
Explain the trend in India's imports.
Solution:

Trends in Imports:

1. **Petroleum:** Petroleum has always remained the most important item of imports in India's trade in the pre as well as post-reform period. It had a share of 27% of total imports in 1990-92 which currently stands at around 31%.
2. **Gold:** After petroleum, the second most imported item is gold. It has been observed that there is a significant drop in gold imports during 2013-14. The gold imports declined from 53.3 billion dollars in 2011-12 to 27.5 billion dollars in 2013-14. This was primarily due to a fall in international gold prices and various policy measures taken by the government to curb gold imports.
3. **Fertilizers:** The share of fertilizers in import expenditure declined from 4.1% in 1990-91 to only 1.3% in 2016-17.
4. **Iron and Steel:** The share of iron and steel in import expenditure declined from 4.9% to 2.1% in 2016-17.

Exercise | Q 5.1 | Page 98

State with reason whether you agree or disagree with the following statement:
During British rule, indigenous handicrafts suffered a severe blow.

1. **Agree**
2. Disagree

Solution: Agree

Explanation:

Before 1947, the pattern of India's foreign trade was typically colonial. India was a supplier of raw materials to the industrialized nations, particularly England and importer of manufactured goods. This dependence on foreign trade did not permit industrialization at home. As a result, the indigenous handicrafts suffered a severe blow.

Exercise | Q 5.2 | Page 98

State with reason whether you agree or disagree with the following statement:

Trade is an engine of growth for an economy.

1. **Agree**
2. Disagree

Solution: Agree

Explanation:

Trade is an engine of growth of an economy because it plays an important role in economic development. In developed countries, it represents a significant share of the Gross Domestic Product.

Exercise | Q 5.3 | Page 98

State with reason whether you agree or disagree with the following statement:

Foreign trade leads to division of labour and specialization at world level.

1. **Agree**
2. Disagree

Solution: Agree

Explanation:

Foreign trade leads to division of labour and specialization at world level. Some countries have abundant natural resources, they should export raw material and import finished goods from countries which are advanced in skilled manpower. Thus, foreign trade gives benefits to all countries thereby leading to division of labour and specialization.

Exercise | Q 7.1 | Page 98

Answer in detail:

Explain the meaning and role of foreign trade.

Solution: Meaning of Foreign Trade:

Foreign Trade is traded between the different countries of the world. It is called International Trade or External Trade.

Role of foreign trade can be justified on the basis of the following points:

1. **To earn foreign exchange:** Foreign trade provides foreign exchange which can be used for very productive purposes. Foreign trade is a remarkable factor in expanding the market and encouraging the production of goods.
2. **Encourages Investment:** Foreign trade creates an opportunity for the producers to reach beyond the domestic markets. It encourages them to produce more goods for export. This leads to an increase in total investment in an economy.
3. **Division of labour and specialization:** Foreign trade leads to the division of labour and specialization at the world level. Some countries have abundant natural resources, they should export raw material and import finished goods from countries which are advanced in skilled manpower. Thus, foreign trade gives benefits to all countries thereby leading to the division of labour and specialization.
4. **Optimum allocation and utilization of resources:** Due to specialization, resources are channelized for the production of only those goods which would give the highest returns. Thus, there is rational allocation and specialization of resources at the international level due to foreign trade.
5. **Stability in price level:** Foreign trade helps to keep the demand and supply position stable which in turn stabilizes the price level in the economy.

Exercise | Q 7.2 | Page 98

Answer in detail:

Explain the recent trends in India’s exports.

Solution: Following are the recent trends in India’s exports:

1. **Engineering goods:** According to the Engineering Goods Export Promotion Council (EGEPC) Report, the share of engineering goods was 25% in India’s total exports in 2017-18. Within this category, some of the prominent exported items are transport equipment including automobiles and auto components, machinery and instruments. During the period 2010-11 to 2014-15, exports of transport equipment have grown from 16 billion dollars to 24.8 billion dollars.
2. **Petroleum products:** India’s petroleum capacity increased significantly since 2001-02, due to which India turned as a net exporter of petroleum refinery products. Petroleum products had a share of 4.3% in India’s total exports in 2000-01, which rose steadily to 20.1% in 2013-14.
3. **Chemicals and chemical products:** An important export item that has performed reasonably well over the last few years is chemicals and chemical products. The share of this item was 10.4% in 2014-15.
4. **Gems and Jewellery:** Gems and jewellery are one of the major contributors to export earnings in India, having a share of 13.3% in India’s merchandise export in 2014-15.

5. **Textiles and readymade garments:** Textiles and garment exports together accounted for 11.3% of India's exports 97in 2014-15. In fact, India is one of the leading exporting countries of textiles and readymade garments in the world.