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International Price Ratio of India's External Trade

Dr. Fulwinder Pal Singh

Principal, SBJS Khalsa College, Satlani Sahib, Hoshiarnagar, Amritsar

ABSTRACT

The Terms of Trade denotes the ratio of exchange between one commodity and other (second) commodity at which both nation's agrees to trade. The Terms of Trade denotes as or also as known as International price ratio or the Terms of Trade. It can be interpreted as the amount of import goods an economy can purchase per unit of export goods. A rise in the price of exports or a fall in price of imports implies an improvement in the terms of trade. The terms of trade may be influenced by the exchange rate because a rise in the value of a country's currency lowers the domestic prices of its imports but may not directly affect the prices of the commodities it exports. When trade takes place between two open economies, certain goods are offered for sale by both the countries. The physical exchange ratio at which goods are exchanged for each other is often termed as 'terms of trade'. The terms of trade refer, to the rate at which the goods of one country exchange for the goods of another country. It is a measure of the purchasing power of exports of a country in terms of its imports and is expressed as the relation between export prices and import prices of its goods. (Sodersten, B.O.)When the export price of a country increases relatively to its import prices, its terms of trade are said to have improved. The country gains from trade because it can have a larger quantity of imports in exchange for a given quantity of exports. On the other hand when its import prices increase relatively to its export prices, its terms of trade are said to have worsened. The country's gain from trade is reduced because it can have a smaller quantity of imports in exchange for a given quantity of exports than before.

In this paper secondary data is used and also bifurcated into pre and post reforms period. In the last portion of the paper present scenario is India's foreign trade is also explained.

1. Introduction

1.1 Terms of Trade

The massive trade liberalization measures adopted after 1991 mark a major departure from the relatively protectionist trade policies pursued in earlier years. The new trade policy reforms seem to have been guided mainly by the concerns over globalization of the Indian economy, improving competitiveness of its industry, and adverse balance of payments situation. When trade takes place between two nations, certain commodities are offered for sale by both the nations. The physical exchange ratio at which goods are exchanged for each other is often termed as 'terms of trade'. The terms of trade mention, to the rate at which the goods of one nation exchange for the goods of another nation. It is a measure of the purchasing power of exports of a country in terms of its imports and is expressed as the relation between export prices and import prices of its goods. When the export price of a country increases relatively to its import prices, its terms of trade are said to have improved. The country gains from trade because it can have a larger quantity of imports in exchange for a given quantity of exports. On the other hand when its import prices increase relatively to its export prices, its terms of trade are said to have worsened. The country's gain from trade is reduced because it can have a smaller quantity of imports in exchange for a given quantity of exports than before (**Sood Ajay**).

1.2 Post Reforms Measures of Trade policy

The massive trade liberalization measures adopted after 1991 mark a major departure from the relatively protectionist trade policies pursued in earlier years. The new trade policy reforms seem to have been guided mainly by the concerns over globalization of the Indian economy, improving competitiveness of its industry, and adverse balance of payments situation.
Main feature of trade policies (trade reforms) since 1991 are as follows :

- **Freer imports and Exports**

Substantial simplification and liberalization has been carried out in the reforms period. The tariff line wise import policy wise first announced on March 31, 1996 and at that time itself 6161 tariff lines were made free. The Exim Policy 2000-01 removed quantitative restrictions on 714 items and the Exim Policy 2001-02 removed quantitative restrictions on the balance 715 items.

Rationalisation of Tariff Structure

Acting on the. recommendations of the Chelliah Committee, the government has, over the years, reduced the maximum rate of duty. In the after reforms period, Budget had reduced it from higher percentage to lower percentage. The successive Budgets have reduced it further in stages. The peak import duty on non-agricultural goods is now only 12.5 per cent.

- **Decanalisation**

A higher percentage of exports and imports used to be done through the Government or Public Sector undertakings in India. The supplementary trade policy announced on August 13,1991 reviewed these canalized items and decanalised 16 exports items and 20 import items. The 1992-97 policy decanalised imports of a number of items including newsprint, non-ferrous metals, natural rubber, intermediates and raw materials for fertilizers. However 8 items were to remain canalized. The Exim Policy, 2001-02 put 6 items under special list - rice, wheat, maize, petrol, diesel and urea. Imports of these items were to be allowed only through state trading agencies.

- **Devaluation and convertibility of Rupee on Current Account**

The government made a two-step downward adjustment of 18-19 per cent in the exchange rate of the rupee on July 1 and July 3, 1991. Full convertibility on the trade account in 1993-94 and full convertibility on the current account in August 1994. Substantial capital account liberalization measure have also been announced. The exchange rate of the rupee is now market-determined. Thus, exchange rate policy in India has evolved from the rupee being pegged to a market related system.

- **Trading Houses**

In 1991 policy framed by the then govrenment allowed export houses and trading houses to import a broad range of items. The government also permitted the setting up of trading houses with 51 per cent foreign equity for the purpose of promoting exports.These houses are entitled to membership of apex consultative bodies concerned with trade policy and promotion, representationin important business delegations, special permission for overseas trading and special import licenses at enhanced rate.

- **Special Economic Zones**

As a major step forward meant to instill confidence in investors and signal the government's commitments to a stable SEZ policy regime, a comprehensive Special Zones Act, 2005 was passed by the Parliament in May2005.It received Presidental assent on the 23rd of June 2005. This Act came into force with effect from February 10, 2006. Many relaxations and exemptions were given these SEZ's. The SEZs are to provide an internationally competitive and hassle-free environment for exports and are expected to give a boost to the country's exports. It was also announced that some of the existing EPZs would be converted into SEZs. The government also announced a 'Package of reforms on 18^{th} April,2013 including easing of land requirement norms and an exit policy, to rekindle investor interest in Special Economic Zones.

- **Export Oriented Units Scheme**

The purpose of the scheme was basically to boost exports by creating additional production capacity. The Export oriented units scheme introduced in early 1981 is complementary to the SEZ scheme. Under the EOU scheme, the units are allowed to import or procure locally without payment of duty all types of goods including capital goods, raw materials, components, packing materials, consumables, spares and various other specified categories of equipments including material handling equipments, required for export production or in connection therewith. Even the goods appearing in the restricted list of the EXIM Policy (1997-02) are permitted to be imported. However, the goods prohibited for import are not permitted. In the case of EOUs engaged in agriculture, animal husbandry, floriculture, horticulture, pisciculture, viticulture, poultry, sericulture and granite quarrying, only specified categories of goods mentioned in the relevant notification have been permitted to be imported duty-free.

- **Agriculture Export Zones**

The Exim policy 2001 introduced the concept of Agri Export Zones to give primacy to promotion of agricultural exports and effect a reorganization of our export efforts on the basis of specific products and specific geographical areas. The scheme is centered on the cluster approach of identifying the potential products are grown and adopting an end-to-end approach of integrating the entire process right from the stage of production till it reaches the market. The exporters in these zones can avail of the various export promotion schemes under the Exim policy including recognition as a status holder.

- **Market Access Initiative Scheme**

Market Access Initiative (MAI) Scheme is an Export Promotion Scheme envisaged to act as a catalyst to promote India's exports on a sustained basis. The scheme is formulated on focus product-focus country approach to evolve specific market and specific product through market studies/survey. Assistance would be provided to Export Promotion Organizations/Trade Promotion Organizations/National Level Institutions/ Research Institutions/Universities/Laboratories, Exporters etc., for enhancement of exports through accessing new markets or through increasing the share in the existing markets. Under the Scheme the level of assistance for each eligible activities has been fixed. The key features of the scheme are in -depth market studies for select products in chosen countries to generate data for promotion of exports from India through showrooms and warehouses set up in rental premises by identified exporters, display in identified leading departmental stores total exhibitions trade fairs, etc. The scheme shall also assist quality upgradation of products as per requirements of overseas markets, intensive publicity campaigns, etc.

- **Focus on service exports**

SEPC (Services Export Promotion Council) is an Export Promotion Council set by Ministry of Commerce & Industry, Government of India. It is an apex trade body which facilitates service exporters of India. As an advisory body it actively contributes to the formulation of policies of Government of India and acts as an interface between the Services Industry and the Government. SEPC has been instrumental in promoting the efforts of Indian service exporting community, and in projecting India’s image abroad as a reliable supplier of high quality services. IT organizes a large number of promotional activities such as buyer-seller meets (BSM) – both in India and abroad, overseas trade fairs/exhibitions, and India pavilion/information booths in selected overseas exhibitions to demonstrate the capabilities of Indian Services Industry.

- **Concessions and Exemptions**

The Duty Exemption Scheme enables import of inputs required for export production. The Duty Remission Scheme enables post export replenishment/ remission of duty on inputs used in the export product. These schemes are mostly available on those imported product, which will be latter on used for manufacturing of goods meant for export. This not only stimulates the industrial growth and development but also brings the foreign currency during the final export process. The following are some of the important import incentives offered by the Government of India, which significantly reduce the effective tax rates for the import companies. A large number of tax benefits and exemptions have been granted during the 1990s to liberalise imports and promote exports with the five year Exim Policy 1992-97 and Exim Policy 1997-2002 serving as the basis for such concessions. (**Pratiyogita Darpan Indian Economy)**

1.3 Terms of (Foreign) Trade in Pre-Reforms Period

The way to analyse the situation of foreign trade for India is with the help of the concept of Terms of Trade (TOT) with different specifications. In general, the conditions of Terms of Trade may either be favourable or unfavourable ones. The favourable TOT may simply be defined as the case when the exports are greater than imports. This can also be interpreted as the case when total values of imports are less than the total value of exports of the country. If conditions stated above are different, the TOT may simply be defined as unfavourable to the economy. The different specifications of TOT used here are Gross Terms of Trade, Net Terms of Trade and Income Terms of Trade as per the availability of the relevant estimates in this context.

During pre-reforms period terms of trade remained unfavourable because the quantity of imports was higher than the quantity of exports. The prices of imported goods also remained higher than the prices of exported goods especially after late seventies.

Table:1.1: Terms of (Foreign) Trade in Pre- Reforms Period

(Base Year: 1978-79 = 100)

Years	Unit of Value Index		Quantum Index		Terms of Trade		
	Exports	Imports	Exports	Imports	Gross	Net	Income
1970-71	45.0	35.3	59.0	67.2	113.9	127.5	75.2
1991-72	46.0	32.8	59.2	80.6	136.1	140.2	83.0
1972-73	51.2	34.2	66.5	76.7	115.3	149.7	99.6
1973-74	62.2	48.9	69.5	87.2	125.5	127.2	88.4
1974-75	78.0	84.5	73.7	77.2	104.7	92.3	68.0
1975-76	83.9	99.1	81.7	76.0	93.0	84.7	69.2

1976-77	89.4	96.3	96.8	76.1	78.6	92.8	89.9
1977-78	100.3	88.0	93.2	100.0	107.3	114.0	106.2
1978-79	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1979-80	105.4	114.1	106.2	116.4	109.6	92.4	98.1
1980-81	108.5	134.2	108.1	137.9	127.6	80.8	87.4
1981-82	124.1	133.1	110.1	150.6	136.8	93.2	102.7
1982-83	132.0	136.3	116.7	154.6	132.5	96.8	113.0
1983-84	151.0	125.8	113.0	185.4	164.1	120.0	135.6
1984-85	169.8	161.7	120.8	156.1	129.2	105.0	126.9
1985-86	170.8	158.8	111.3	182.3	163.8	107.6	119.7
1986-87	179.4	139.4	121.3	212.3	175.0	128.7	156.1
1987-88	195.4	160.0	140.0	204.8	146.3	122.1	171.0
1988-89	232.3	185.5	152.1	224.2	147.4	125.2	190.4
1989-90	276.6	228.4	174.9	227.8	130.2	121.1	211.8

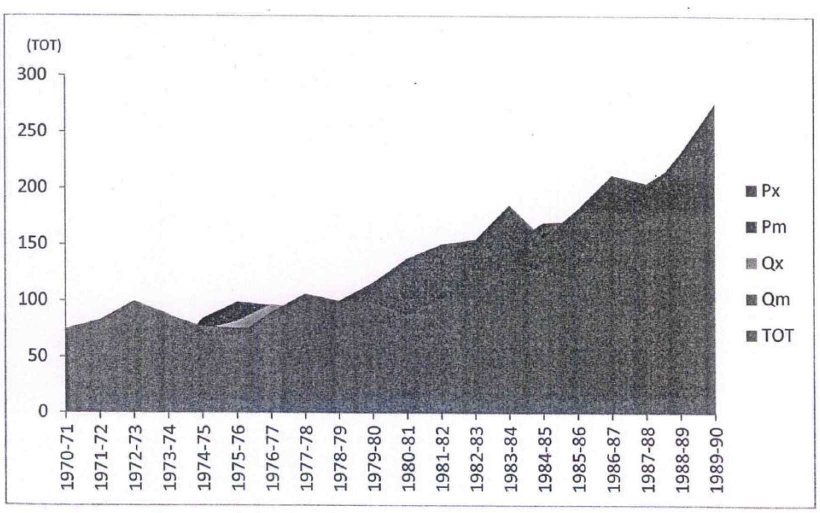
Source: Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce, Kolkata

Note: i Gross terms of trade imply volume index of imports expressed as percentage of Volume index of exports.
ii Net terms of trade imply unit value index of exports expressed as percentage of unit value index of imports.
iii Income terms of trade imply the product of net terms of trade and volume index of exports expressed as a percentage.

Table 1.1 incorporates the estimates of Index Number and Terms of Trade of foreign trade for Indian economy taking 1978-79 as the base year (1978-79=100) for the year 1970-71 to 1989-90. Estimates of index number of exports and imports are reported here across Unit value index and Quantum Index. The table shows Gross/Net/Income Terms of Trade of India since 1970-71 to 1989-90. The TOT improved from 1970-71 to 1972-73 significantly and thereafter TOT started turning unfavourable/ hostile for the next three years because not only the prices of imported items increased but also the quantity of imports during these years. Thereafter TOT improved for two yearsbecause exports exceeded imports. In the year 1976-77, the prices of imports were higher than those of exports but despite that TOT improved because of higher exports. In the very next year TOT again improved but this year the prices of exports were higher than the prices of imports. In the year 1979-80 and 1980-81 TOT became unfavourable because both the prices of imports and the quantity of imports were higher than before. After that there was slight improvement in the TOT from 1981-82 to 1983-84. There after TOT deteriorated for two years. During these years although prices of exported goods were higher than the prices of imported goods but the size of imports was higher than the exports. After 1986-87 TOT kept increasing upto 1989-90. During this period in spite of the size of imports which was high, the prices of exported goods kept increasing.

The graph 1.1 verifies the facts stated vide table 1.1. The terms of trade are not smooth in the pre-reforms period. The ups and downs are an indicator of unstable TOT during this period. The quantum index of imports has remained higher than the quantum index of imports. The higher quantity of imports is visible in the graph represented by navy blue colour.

Graph: 1.1: Terms of (Foreign) Trade in Pre-reforms Period



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1.4 Terms of (Foreign) Trade in Post-Reforms Period

After the economic reforms were introduced in the Indian economy the terms of trade improved from 1990-91 to 1995-96. During this period although imports were higher than the exports yet due to better export prices TOT kept improving. In the year 1996-97 TOT became unfavourable because the size of imports was much higher than the exports. From 1997-98 to 2010-11 TOT kept improving but after that TOT again became unfavourabe in the year 2011-12. From the very next year TOT started improving. By and large, it can be said that economic reforms have improved Terms of Trade.

Table:1.2: Terms of (Foreign) Trade in Post- Reforms Period

(Base Year: 1978-79 = 100)

Years	Unit of Value Index		Quantum index		Terms of Trade		
	Exports	Imports	Exports	Imports	Gross	Net	Income
1990-91	**292.5**	**267.7**	**194.1**	**237.7**	**122.5**	**109.3**	**212.1**
1991-92	369.5	309.1	208.6	228.0	109.3	119.5	249.4
1992-93	421.5	331.0	222.9	282.0	126.5	127.3	283.8
1993-94	474.1	327.2	257.5	329.1	127.8	144.9	373.1
1994-95	494.6	324.6	292.7	408.3	139.5	152.4	446.0
1995-96	484.2	351.0	384.3	514.8	134.0	137.9	530.1
1996-97	504.7	399.8	411.8	511.8	124.3	126.2	519.8
1997-98	589.4	404.2	386.0	562.1	145.6	145.8	562.9
1998-99	611.7	407.8	399.0	644.0	161.4	150.0	598.5
1999-00	604.0	450.0	461.0	705.0	152.9	134.2	618.8
2000-01	624.0	487.0	571.0	698.0	122.2	128.1	731.6
2001-02	618.0	493.0	593.0	733.0	123.6	125.4	743.4
2002-03	620.0	546.0	722.0	802.0	111.0	114.0	819.9
2003-04	672.0	545.0	765.0	970.0	126.8	123.3	943.3
2004-05	732.0	663.0	899.0	1113.0	123.8	110.4	992.6
2005-06	798.0	592.0	1005.0	1649.0	164.1	134.8	1354.7
2006-07	863.0	608.0	1164.0 I	2047.0	175.9	141.9	1652.2
2007-08	939.0	575.0	1227.0	2603.0	212.1	163.3	2003.7
1999-00	100	100	100	100	100	100	100
2000-01	102	109	125	99	79	94	117
2001-02	103	112	126	103	82	92	115.9
2002-03	106	128	150	109	73	83	124.2
2003-04	114	132	161	128	80	86	139.0
2004-05	131	157	179	150	84	83	149.4
2005-06	139	179	206	174	84	78	160.0
2006-07	158	206	227	191	84	77	174.1
2007-08	166	210	245	218	89	79	193.7
2008-09	194	239	267	262	98	81	216.7
2009-10	196	215	264	288	109	91	240.7
2010-11	223	243	304	311	102	92	279.0
2011-12	268	425	331	246	74	63	208.7
2012-13	284	459	357	261	73.1	62	220.9
2013-14	312	518	378	233	61.6	60.2	227.7
2014-15	300	518	397	235	59.2	57.9	229.9

Source: Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce, Kolkata

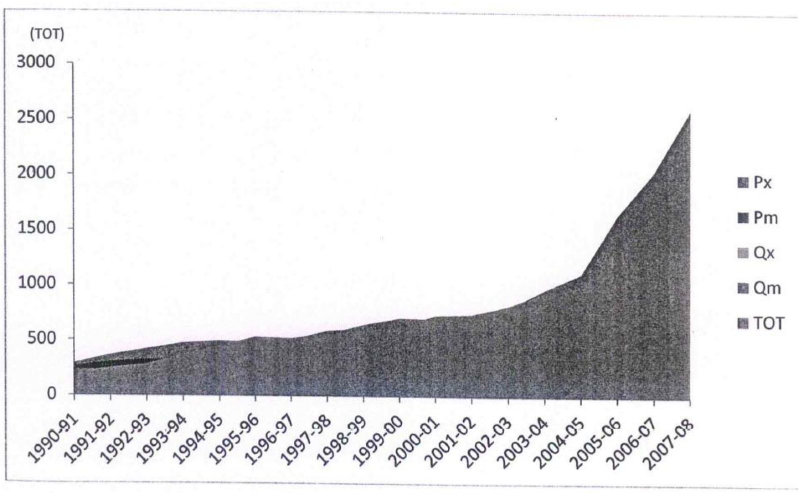
Note: I Gross terms of trade imply volume index of imports expressed as percentage of Volume index ofexports.
ii Net terms of trade imply unit value index of exports expressed as percentage of unit value index of imports.
iii Income terms of trade imply the product of net terms of trade and volume index of exports expressed as a percentage.

The table 1.2 incorporates the estimates of Index Number and Terms of Trade of foreign trade for Indian economy taking 1978-79 as the base year (1978-79=100) for the year 1990-91 to 2007-08 and also from 2000-01 to 2014-15 taking 1999-2000 as the base year (1999-00= 100). Estimates of index number of exports and imports are reported here across Unit value index and Quantum Index. A look at the estimates of the table reveals the fact in terms of value-index, both the estimates of exports as well as of the imports register a general rise from 1990-91 to 2014-15 except negligible minor variations. However, both these estimates seem to rise in general year over year basis from 1990-91 to 2014-15.

It is pertinent to note that the value-index of exports is always estimated over the value-index of imports from 1990-91 to 2007-08. Contrary to it, the estimates of quantum-index of imports seem to exceed always the quantum-index estimates of exports between 1990-91 and 2007-08. But the situation reversed when the base year was changed from 1999-2000.

A further look at the estimates of Gross Terms of Trade (TOT) of the table reveals the fact that these are observed as marginally changing on higher side indicating the fact of gains from the trade to the domestic economy during 1990-91 to 2007-08. These are estimated between 122.5 and 212.1. Similar facts are evidenced from the estimates of Net TOT and Income TOT from 1990-91 to 2007-08 of gains from trade to some extent in the economy. But after the world wide recession in the year 2009 the Gross and Net Terms of Trade started declining. The data also reveals that the Income terms of trade improved throughout the post-reforms period with minor fluctuations.

Graph:1.2: Terms of (Foreign) Trade in Post-Reforms Period



The Graph: 1.2 also shows the improving tendency of TOT in the postreforms period. The TOT is increasing throughout in the graph whereas in Graph:6.l there are ups and downs becauseTOT were not stable throughout in the pre-reforms period. Basically, the higher ratios of different specifications of terms of trade across gross, net and income TOT are considered favourable to the economy as per the established theories in international economics. Thus the estimates of terms of trade show some comfortable picture of the impact of Economic-reforms on the foreign trade in India.

Latest India's Foreign Trade: 2017

Exports (including re-exports)

Exports have been depicts lower growth for the last years. In continuation withgrowth indicated by exports since September 2016, exports during May 2017have shown growth of 8.32per cent in dollar terms valued at US$ 24014.62million as compared to US$ 22170.62 million during May 2016. In Rupee terms, duringMay 2017 exports were valued at Rs. 154713.69crore as compared to Rs. 148336.31crore during May,2016, registering a positive growth of 4.30 per cent.

During May 2017, Major commodity groups of export having a share of 72.09% in total export basket which have shown positive growth over the corresponding month of last year are Engineering Goods (8.25%), Gems & Jewellery (6%), Petroleum Products (24.92%), RMG of all Textiles (8.06%), Organic & Inorganic Chemicals (15.34%),Rice (27.08%), Marine Products (44.58%) and Electronic Goods (8.57%).

registering a positive growth of 13.83 per cent in Dollar terms and 10.02 per cent in Rupee terms over the same period last year. Non-petroleum and Non Gems &Jewellery exports in May 2017 were valued at US$ 17514.36million against US$ 16404.31million in May 2016, an increase of 6.77 %. Non-petroleum and Non Gems and Jewellery exports during April -May 2017-18 were valued at US$ 35233.23 million as compared to US$ 31540.72 million for the corresponding period in 2016-17, an increase of 11.71%.

Imports

Imports to India jumped 21 percent from the previous year to USD 35.46 billion in August 2017, as purchases increased mainly for petroleum, crude and products (14.2 percent); electronic goods (27.4 percent); machinery, electrical and non-electrical (18.4 percent); pearls, precious and semiprecious stones (30.9 percent); and gold (68.9 percent). Considering April-August 2017-18, imports climbed 26.6 percent to USD 181.72 billion over the same period of 2016. Imports in India averaged 7207.27 USD Million from 1957 until 2017, reaching an all time high of 45281.90 USD Million in May of 2011 and a record low of 117.40 USD Million in August of 1958. India is heavily dependent on crude oil imports, with petroleum crude accounting for about 34 percent of the total inward shipments. The country also imports: gold and silver (12 percent of the total imports), machinery (10 percent), electronic goods (7 percent) and pearls, precious and semi-precious stones (5 percent). India's main import partners are China (10.7 percent of the total shipments), United Arab Emirates (8 percent), Saudi Arabia (7 percent), Switzerland (7 percent) and the United States (5 percent). This page provides the latest reported value for - India Imports - plus previous releases, historical high and low, short-term forecast and long-term prediction, economic calendar, survey consensus and news. India Imports - actual data, historical chart and calendar of releases - was last updated on October of 2017.

Conclusions

In nutshell, it can be concluded that terms of trade of India's foreign trade were unfavourable during pre-reforms period because India was exporting mainly primary and agricultural commodities during that time period. The experience shows that TOT of these products remained unfavourable most of the time as the quantity of imports was always higher than the quantity of exports. Most of the time prices of imported goods were also higher than the prices of exported goods. But after economic reforms TOT have improved. This improvement is because of improvement in the quality of the product and diversification of exports i.e. exports of non-traditional products and manufacturing commodities. In the post-reforms period quantity of exported goods has increased and the prices of those goods have also improved. This gives some comfortable picture of the economy.

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