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Foreign trade commodity structure, the case study of India

Bachelor Thesis

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Raj Agarwai, Indian foreign trade, Excel books, 2002, ISBN 8174461671
Mahesh Prasad, India's Foreign Trade: From Antiquity to Date, Gyan Publishing House, 2011, ISBN 9788178359076

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Declaration

I hereby declare that I have worked on my bachelor thesis titled *“Foreign trade commodity structure, the case study of India”* completely on my own and that I have marked all quotations in the text and I have also mentioned all sources I have used in the Bibliography at the end of the thesis.

In Prague on March 17th 2014 Signature……………………….

Sumudu Namali Gouri Boyinová

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Foreign trade commodity structure, the case study of India

Komoditní struktura zahraničního obchodu, případová studie Indie

Summary:

The main goal of this bachelor thesis is to analyze foreign trade commodity structure of India in 2000 - 2013. Defined period of time guarantee that analysis of foreign trade is entirely current. The first part of this bachelor thesis is theoretical, and it briefly describes selected theories of international trade and defines basic ways of the trade policy. The theoretical part continues with history of Indian foreign trade for better understanding of the concept. The second part which is practical analyze data of foreign trade, particularly commodity trade.

Keywords: import, export, India, foreign trade

Souhrn:

Hlavním cílem této bakalářské práce je analýza komoditní struktury zahraničního obchodu Indie v letech 2000 - 2013. Stanovená doba zaručuje, že analýza zahraničního obchodu je zcela aktuální. První část této bakalářské práce je teoretická, jsou zde stručně popsány vybrané teorie mezinárodního obchodu a vymezeny základní směry obchodní politiky. Teoretická část pokračuje historií indického zahraničního obchodu pro lepší pochopení konceptu. Druhá část, která je praktická analyzuje data zahraničního obchodu, zejména obchodu s komoditami.

Klíčová slova: import, export, Indie, zahraniční obchod

Table of contents:

1. Introduction

The Republic of India is among the countries that essentially affect the global economic developments in 21st century. The population of the Republic of India is growing dynamically and currently is the second most populous country in the world after China. However, India should surpass China in the middle of this century, according to the demographic forecasts.[1] Therefore, we can certainly say that it is an important market with enormous purchasing power. India had undergone a remarkable evolution. From one of the world's poorest countries through a relative period to the present, in where is India among the fastest growing economies of the world. This country shifted during the past few decades from strongly agrarian economy to a service oriented economy.[2] Service sector share in GDP is increasing from year to year at the expense of the agricultural sector. This country has the potential to operate on the world market, because of its huge workforce reservoir.

Foreign trade as a major element of the world economy is constantly evolving and changing. India's foreign trade in recent years, very significantly increased. India's foreign trade in terms of the commodity structure reflected over the last decade major changes in exports, caused mainly by changing international demand. Involvement in external economic relations undoubtedly brings countless benefits to all participating countries. Foreign trade significantly affects the economy of each country, and it is related to the growth of economic maturity. In the sphere of external economic relations India tries to improve its position, in particular in the area of imports where is evident

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[1] "World Population To Increase To 9.7B By 2050; India Will ..." *www.ibtimes.com*. N.p.,02,100 2013 . Web. 16 Mar. 2014 <http://www.ibtimes.com/world-population-increase-97b-2050-india-will-overtake-china-most-populous-nation-new-study-1413620>.

[2] "The World Factbook - Central Intelligence Agency." *https://www.cia.gov/index.html*. N.p., n.d. Web. 16 Mar. 2014 <https://www.cia.gov/library/publications/the-world-factbook//geos/in.html>.

effort to liberalize access to the domestic market. India has opened up to foreign investment and has tried to attract investors to both unsophisticated as well as the relatively sophisticated areas in recent years. According to the CIA Factbook-The World in 2013 was the size of the GDP of India (measured in purchasing power parities) around the value of 4.962 trillion dollars. Therefore, India took fourth place in the global economic rankings.[3] The clear objective of India is to become the fastest growing economy in the world and thus surpass its biggest rival China. India has the ability to change the order of the economic ladder. Since India is not yet fully integrated into the world economy, its economic growth is not so much dependent on developments in the rest of the world. This may be one of the benefits in the case of the slowdown in the rest of the world, and in particular in the case of the weakening of the investment activities.

2. Objectives and Methodology

2.1 Objectives

The main goal of this bachelor thesis is to analyze and characterize foreign trade commodity structure of India. As a key objective this work studies the volume and structure of commodity foreign trade and its development over the years from 2000 to 2013

2.2 Methodology

As a methodology, initial point was to investigate the secondary data collected in mentioned literature, articles, reports and internet resources. Then they were divided in separate capitols important for understanding theory of foreign trade and its influencing factors. Literature overview analyses theories and factors affecting commodity structure and volume of foreign trade of India. Theoretical part is used as a background for later

[3] "The World Factbook - Central Intelligence Agency." *https://www.cia.gov/index.html*. N.p., n.d. Web. 16 Mar. 2014 <https://www.cia.gov/library/publications/the-world-factbook//geos/in.html>.

analyses and on its basis is possible to process analogy. Theoretical part create logical framework of given topic based on these knowledge. It involves mainly statistical approach where collected data were divided and used for analysis and defining of Indian foreign trade development. For better visualisation and clarity were created charts and tables (using of Microsoft Excel).

3. Literature Review

3.1 Theories of Foreign Trade

One of the main concepts of this work is the international trade. The term is used exclusively for the ongoing exchange between the entities. Such a definition implies that even the smaller details can predetermine what is and is not to be considered in international trade.[4] International trade can be defined as the exchange of goods or services of various subjects of a particular state in the context of the entire world economy. International trade terms are understood by the cross-border national economies. Bodies of international trade are individual producers, manufacturers and consumers, seeking to maximize its profits and consumers to maximize their benefits. International trade is a business like any other. The theory of international trade often divides economic entities into groups according to the sector of production or consumption. In the theory of international trade are macroeconomic variables, such as the domestic product, the country's export performance and the skills of labour and capital.

[4] Šťastný, D. Mezinárodní obchod: teorie a politika. Praha: Oeconomica, 2004, p. 11.

3.2 Mercantilism

Mercantilism as the first modern economic doctrine arises in the period of the primitive accumulation, i.e. 15.-17th century. The main representative of business wealth was capital. The mercantilism thrived mostly in England. However, mercantilism gradually spread into France, Germany, Austria, Czech lands and Czarism Russia. This political economic movement passed through two stages of development.[5]

The period of the early mercantilism (15th- mid 16th century), also called the monetary system, or bullionismus. Money is primarily considered as a means of hoarding of treasure. Therefore, the export of precious metals is strictly prohibited. Also all imports and exports of goods were literally tied by the most diverse range of prohibitions and restrictions. Such an economic policy had eventually got into conflict not only with the needs of international trade, but also with the economic development at all. [6]

The period of developed mercantilism (16th -mid 18th century) instinctively understood money as a capital, which multiplies if it keeps coming back into circulation. This developed mercantilism understands close connection between the successful foreign trade and the development of a national production and transportation. Regulations on the export of precious metals were gradually moderated and measures in favour of the production of goods were increasing. Sufficient guarantee and scale of growth of the country's wealth used in the period of developed mercantilism was the surplus of exports over the imports, which foreign countries balanced in the precious metals. Economic policy of mercantilism is essentially a summary of the various practical measures whose aim is to ensure the growth of the country's wealth. The difference between early and developed mercantilism reflected in the choice of means used to achieve this goal. Mercantilists consider precious metals as the only real wealth. As a source of social

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[5,6]. Holman, Robert. *Dějiny ekonomického myšlení´*, 3. vydání, Praha, C.H. Beck., 2005.

wealth is considered the circulation of goods (foreign trade); productive work in the sphere of circulation (buy cheap and sell expensive); all resources that encourages the inflow and restrict the outflow of precious metals from the country (particularly state interventions into the economy). The theoretical foundations of mercantilism are views about the balance of foreign trade. The status and development is for all mercantilists the most accurate indicator of growth or decline in national wealth. Representatives of the monetary system are proponents of the theory of active balance of money. These representatives observe the inflow, maintenance and accumulation of precious metals (money) in the country. In contrast, developed mercantilism highlights the theory of active balance of trade. Developed mercantilism considers active balance of trade as the overall picture of all economic activity, resulting in the predominance of the inflow of precious metals (money) to the country over their outflow. [7]

3.3 Formation of classical political economy

Material conditions for the formation of classical economics were created by the development of capitalist production of goods and the gradual penetration of capitalism into agriculture. The influence of business capital was significantly weakened. According to mercantilists, the huge inflow of precious metals from America and India (in the 16th and 17th century) had impact on the growth of wealth, but also on the increasing of general prices. The focus of economists ceases to be the exploration of sources of wealth of society as a whole, and it becomes an analysis of the goods, in particular the analysis of the value and price of the goods. As a result, the theoretical examination begins to move from the sphere of circulation to the sphere of production. [8]

3.4 Classical political economy

Classical political economy refers to economic thinking from the period of developed production in manufacture production to mass machine production. The main representatives of classical economy are considered Adam Smith, David Ricardo, Thomas Robert Malthus, Jean-Baptiste Say, Nessau W. Senior and John Stuart Mill. Classical economic theory is essentially related to the issues of growth and development. The main interest is to focus on the nature and causes of the wealth of nations, on the distribution of the national product between the factors of production on the background of a growing population, limited resources and free competition in the private property economy. Emphasis was placed on the accumulation of capital, expansion of markets and the division of labour. Classical economics was also heavily focused on recommendations for policy-making. Its most famous representatives are Adam Smith and David Ricardo.[9]

3.5 Theory of money

David Hume was able to add several other own ideas to the qualitative theory of money, which has been developed by Cantillon and Locke. The increase in the quantity of money in circulation is reflected by the growth of prices, according to him. So it does not matter which way the money is introduced into circulation, as deemed by Cantillon. Hume though did not reject completely Cantillon effect. Hume only partially modified this theory. The increased amount of money in circulation in some cases reflected only with a certain time delay (creeping inflation), according to Hume. It may increase the real business profits in the short run. However in the long term, this is offset by the rapid growth of the salaries. This follows from Hume's knowledge about the neutrality of money.[10]

3.6 Theory of absolute advantage

Scottish economist and philosopher Adam Smith is considered to be the author of the theory of absolute advantage. He stated in his theory that the mystery of the well-being of the world lies in the fact that each state focuses on those products that are most natural for him. Adam Smith was a big critic of mercantilists and unlike them, he understood the essence of the international division of labour and understood that trade is not a zero-sum game. Adam Smith also refuted the assertion that in international trade may benefit only the country that export. Like most of the theories, this theory is also based on simplistic assumptions. These include considering only one factor of production, the labor theory of value, the existence of perfect competition and the absence of transport costs.[11]

The theory of absolute advantage the country should specialize in the production of those products, that is able to produce cheaply (using a less labor work) than other countries. These products will be exported to countries where production is more expensive, and vice versa to import products that are produced cheaply in these countries.

3.7 Theory of Comparative Advantage

The theory of absolute advantage however does not address the situation where the country is not able to produce any product cheaper that other countries. David Ricardo in his theory of comparative advantage shows that even in such a case, it pays off to participate in the international division of labour. Each country has to focus on the production, which is relatively efficient for them and they profit from specialization. [12]

The theory of comparative advantage: The comparative advantage can be defined as the relatively largest absolute advantage, if a country has an absolute advantage in the

[11] ,[12] Holman, Robert. *Dějiny ekonomického myšlení´*, 3. vydání, Praha, C.H. Beck., 2005.

production of both commodities. Or on the contrary as a relatively smallest absolute disadvantage in the case that the country has absolute disadvantage in the production of bothcommoditie

3.8 International Exchange Value

John Stuart Mill followed up on the Ricardo's theory of comparative advantage and began in his book Principles of Political Economy (1848) to explore how to create international value (rate ratio) of the two goods. It has made a major discovery. He found that the international value of the goods moving within the borders designated by the national labour costs and specific (numeric) value of the goods is given by mutual demand of the offered good in both countries . Mill discovered that (International) value of the goods is determined by the cost (offer) and demand. The country´s foreign trade profit is dependent on elasticity of demanded goods. Size of reciprocal demand for import is dependent on the size its economic maturity and the size of country.[13]

3.9 Neoclassical Economic Theory

Neoclassical economics, which appeared in the end of 19th century brought enhancing the involvement of a mathematical tools used in economic research and a new perspective on international trade. Followers of neoclassical economic theory followed up on their predecessors and expanded the idea about production with another production factor: the capital. The capital was neglected by classics; since its primary source is eventually work, because it did not previously play important role in the economy. Anyway, the involvement of capital opens up other explanation possibilities and also the complex phenomenon which undoubtedly international trade is.[14]

3.10 kscher-Ohlin model

Heckscher-Ohlin model is based on the comparative advantage of the different factors of production of individual countries. The authors of this theory are the Swedish

[13, 14] Holman, Robert. *Dějiny ekonomického myšlení´*, 3. vydání, Praha, C.H. Beck., 2005

economists Eli Heckscher and Bertil Ohlin. Unlike the classical theories that worked only with one production factor- work and capital. Their theory is based on the fact that countries are variously equipped with each of the factors of production (labour, land, capital), and therefore the price of the factor, which has the country enough, will be low and the price of the factor, which is in short supply in the country, will be high. It results that the countries have a comparative advantage in the specializing in the production of commodities, production of which is difficult to factor, which these countries are relatively better equipped.[15]

Heckscher-Ohlin model: In a country that is relatively abundantly equipped with capital, will the capital be relatively cheaper, because the price of factors of production in the country are dependent on their relative offer/ demand according to neo-classicists. This country should focus on the capital-intensive products. The country, which is on the contrary relatively better equipped with work, should focus on the production of labour-intensive products.

[15] Holman, Robert. *Dějiny ekonomického myšlení´*, 3. vydání, Praha, C.H. Beck., 2005

3.11 iberalism

By the concept of liberalism in terms of the international economic and trade relations, we understand removal of trade obstacles (i.e. the classical tariff and non-tariff trade barriers). It means opening to all sectors of the internal market to foreign competition and the complete removal of direct and indirect government support in all sectors of the economy. [16]

Entry of foreign competition on the domestic economy results in changes in product structure. Further, the competition sharpens on the domestic market, which usually leads to a reduction in consumer prices. The country may specialize in most efficient industries using the comparative advantages. It is also eliminated by inflation and the price stability to a certain extent. However, it is possible that the decline in wages and the increase in unemployment will occur.

3.12 Protectionism

Protectionism in international trade relations denotes the direction of protecting the domestic economy from external influences.[17]Stereotypes in the production and the product structure remain unchanged as a result of protectionist measures, and thus accrued protection of the national economy from foreign competition. Economy is experiencing slow growth, innovation, and lag behind in technical industry because of the lower competition inside the protected. Weak competition has also a negative effect on the consumer who is forced to pay higher prices. The country will further impoverish the profit from the comparative advantages of exchange goods and services with foreign countries.If the country has established a trade policy that would prohibit any export or import, we talk about autarchy. This would naturally exclude countries from the international division of labour. The country would gain economic selsufficiency, but it

[16,17],Kalinská, E., et al. Mezinárodní obchod v 21. Století. Praha: VŠE, 2007, p. 46.

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could not draw the aforementioned comparative advantages. It would likely cause only deepening of poverty and backwardness.

Although all the theory clearly demonstrates the benefits of international trade, protectionist measures are still being used. So the question is, for what reason?! The main argument is often to protect some parts of the domestic economy, which would not pass muster in the fight with foreign competitors. There is also a children's sector theory, which says that new disciplines need initial protection. It could not compete with the already-developed foreign businesses in the phase of its development. The question remains, when to stop the "protection". Especially for the less developed countries, which have administrative problems with the choice of taxes, customs duties imposed on imports as financial income to the state treasure. The aim of the introducing protectionist measures is also an effort to keep domestic jobs or maintain a specific sector, which is considered the national wealth. Dealing with problems relating to balance of payments or improving the terms of trade can become the policy of protectionism.

In general, we cannot refer to the increase or decrease of the currency as bad. It is the mechanism that brings the economy of the country into balance. The sizes of economy and population growth are the other factors that significantly affect the foreign trade. Generally, the larger the economy is and has more inhabitants, the rate of the economy on foreign trade becomes smaller. Scientific and technical progress has a considerable influence on the development of the world economy and international trade. The result of this process is the faster development of the world's commodity trade in comparison with internal markets of most of the countries. New technologies are nuclear power engineering, microelectronics, computer science, robotics, genetics affect the biosynthesis of structural changes in the world economy, which is reflected in the international division of labour and international trade.

3.13 ternational trade policy

International trade policy can be understood as a set of trade policies of the world. Currently the form and direction of international trade policies are mostly shaped by the rules laid down by the WTO, whose membership consists of 153 countries in the world.[18]GATT (General Agreement on tariffs and trade) has played in the period after World War II, a significant role. Since 1948 was applied as temporary legislation of the multilateral payment system. Its aim was to remove tariff barriers. Its principles began to apply. Preferences of some countries are clearly ruled out in the MFN clause. The clause stipulated that the other members shall be treated as if it was their most important trading partner. In the parity clause is told that the imported goods shall not directly or indirectly subject to measures that would be stricter than the same measures for domestic products. Members implement trade barriers is not prohibited, but it is necessary to adopt the same measures that are applied against imports, also on domestic production. The principles of the GATT were taken over by which was created on the basis of the negotiations of The Uruguay Round of the GATT. The WTO plays legislative role, not only in case of goods and services trade, but also, for example, for a business associated with aspects of intellectual property rights (TRIPS) and investment measures.

Among the basic principles of the trading system on the basis of WTO belong:[19]

1) "Non-discrimination": Within the WTO member countries cannot be provided inter-country different treatment in the area of trade policy and have to apply the same measures on its market to foreign and domestic products, services or persons.

2) "Liberalization" in the context of multilateral trade negotiations, which is the core area of activity of the WTO.

[18] Kalinská, E., et al. Mezinárodní obchod v 21. Století. Praha: VŠE, 2007, p. 46.

[19] "WTO | Understanding the WTO - principles of the trading system." *http://www.wto.org*/N.p., n.d. Web. 16 Mar. 2014 <http://www.wto.int/english/thewto_e/whatis_e/tif_e/fact2_e.htm>

3) "Predictability" – Regular review of the trade policies of WTO members, and also respect for schedules (e.g. bound tariff rates).

4) "Competition"- To combat unfair commercial practices

5) "More favourable treatment for less developed or developing countries."- These countries are unilaterally granted trade preferences in the form of obstacles and longer time-limits for the implementation of the trade liberalization.

3.14 dian Foreign Trade Policy

Indian foreign trade has been always regulated by the government. This policy was earlier known as Export Import (EXIM) Policy. Foreign trade Policy needs every five years amendments, aims in developing and improving export potential and performance and reaching more favourable balance of payments situation. The foreign trade policy was slow down in 2009 due to world economic crisis. WTO stated a decline of world exports to 9%, India struggled with building a highly ambitious policy. Government pursued a mix of policy measures in order to meet these objectives, which were fiscal incentives, institutional changes, procedural rationalization, and enhanced market access across the world with diversification of export markets. India focuses on increasing its export value by providing financial assistance to traders, duty free schemes, promotional schemes, etc. For India is important to diversify export market improve trade relation, by diversifying products and markets. Indian Foreign Trade Policies are supportive for its traders and are complying with the international trade system. On 27th August 2009 the Ministry of Commerce and Industry announced Foreign Trade Policy for the period 2009-2014. The short term objective was to cease declining trend of exports. And provide support to sectors which were badly influenced by recession. The long term objective is to double India's share in global trade by 2020. The Ministry of Commerce and Industry has initiated the process of formulating the country's foreign trade policy (FTP) for the period 2014-2019 which will be released in April.[20]

3.14.1 The Balance of Payments

The balance of payments reflects all economic transactions that implement entities of the country to foreign countries during the period. The balance of payments is an indicator of external economic balance of the country, which represents a systematic overview of all economic transactions between the entities of the country and the entities of other countries for a certain period. It is formally constructed using the double entry accounting record. In the credit and debit entries are expressed movements of reimbursement and funds, payables and receivables, as well as substantive movement of products and services. Summaries of the balance of payments items are possible to express as a so-called balance of payments accounts:[21]

The current account includes the accounts of goods and services, i.e. exports and imports of goods and services, including the expenditure and income from tourism, the net revenue (interest, dividends, and profits) of foreign capital, etc. Furthermore, the current account includes; unilateral transfers account (transferred payments) as gifts, reparations, fees, money, wages, etc. The capital account covers exports and imports of short-term and long-term capital (bank and trade credit purchase and sale of stocks, bonds, etc.). Another part of the balance of payments is a statistical discrepancy (errors and errors), resulting in particular in response to widely differing information. The exchange account expresses the change in the foreign-exchange reserves (including gold, etc.) As part of the cumulative balance of the previous three parts.

[20] "Foreign Trade Policy for 2014-19 to be announced by new ..." *http://economictimes.indiatimes.com*/New Delhi, 14.02.2014. <http://articles.economictimes.indiatimes.com/2014-02-13/news/47305124_1_five-year-ftp-trade-deficit-foreign-trade-policy>.

[21] Rusmichová, L., Soukup, J., et al.Makroekonomie základní kurs. Slaný: Melandrium, 2002, p. 23-24.

3.15 ness of the economy

Today's appearance of the external economic environment is the result of previous processes of interaction. The individual national economies are mutually connected. Part of their output to foreign markets and vice versa consumption of the final product in other economies. According to the degree of involvement in international economical relations, we can speak of a closed or open economy. Closed economy is a country that has no economic ties with other economies. An open economy is a country that has economic relations with neighboring countries. The openness of the economy serves as an indicator of economic involvement in international trade. The degree of openness of the economy of the country is usually expressed in terms of the ratio of exports of goods and services to GDP. The higher the ratio, the greater openness of the economy. Another internationally used indicator of the intensity of foreign trade export volume (foreign trade turnover) per capita. Low degree of openness the of the economy mainly occurs in less developed economies, but also may occur in the case of developed countries such as the USA. n this case, because of the large internal market and purchasing power.The high degree of openness of the economy occur in developed countries with a high share of exports and a small internal market (small open economy), in less developed countries due to the narrow specialization of production conditioned by natural conditions (monoculture economy. Generally, the degree of openness of economies depends on the following aspects: geographic location, political organization, ownership of natural resources, the size of internal market, etc. The openness of the economy brings with it many advantages but also inevitable disadvantages. Among its advantages is inherently comparative advantage of international exchange, efficient allocation of factors of production and increase of productivity, increase of market size and foreign demand, the importation of new products and technologies, as well as higher excise options. Among the disadvantages that a high degree of openness of the economy brings, are dependence on the economic cycle's main trading partners, import inflation through imports from partners with higher growth in the price level and decreasing autonomy of policy of the country.

3.16 Foreign exchange rate

The supply of foreign exchange collisions with the demand for foreign exchange on the foreign exchange market and the result is a currency rate. For example the price of a particular national currency units is expressed in a national currency unit. The exchange rate strongly influences the international exchange of goods and services, but also the movement of capital between countries. We distinguish between direct exchange rate record, and indirect exchange record. The direct exchange rate is expressed as a number of domestic monetary units per unit of foreign currency. The indirect exchange record is expressed as a certain amount of foreign currency units that drive the domestic currency. [22]

3.16.1 Factors affecting the level of the exchange rate

Most important factor is the development of foreign trade of the country. Important role to plays development of real interest rates, more precisely, their different amount in different countries. The money that are looking for locations in countries with high interest rates, we call "hot money". This money represents the demand for the currency of a country with a higher interest rate. Since both of these factors are reflected the in balance of payments of the country. When the asset is acitve, currency appreciates. Vice versa when depreciates, the currency is passive. Some importance may have the development of exchange rates inflationary devaluation. Currency of a country with faster inflation does not invite other countries.[23]

[22] Rusmichová, L., Soukup, J., et al.Makroekonomie základní kurs. Slány: Melandrium, 2002, p. 42

[23] Rusmichová, L., Soukup, J., et al.Makroekonomie základní kurs. Slany: Melandrium, 2002, p. 43-44

3.16.2 Purchasing Power Parity

The determination of the exchange rate based on purchasing power of currencies expressed in exchange rate theory by purchasing power parity. Purchasing power parity has two versions-the absolute and relative.

The absolute version of the purchasing power parity says that nominal exchange rate is determined by share price levels in the two countries. The relative version of purchasing power parity does not determine value of the nominal exchange rate, but the change of it. This is due to differential rates of inflation in the two countries. [24]

3.16.3 Systems of exchange rates

Freely floating exchange rate means the rate determined only on the basis of supply and demand for that currency. Fixed exchange rate means that the central bank determines the rate and with subsequent interventions in currency markets maintain this rate. [25]

3.17 Historical economic development of India

In 15th August 1947, India became an independent country and got rid of the British colonial rule that lasted for one hundred and fifty years. However after 44 years was India perceived by world as before independence and has remained synonymous for poverty and economic stagnation. Previous executive administration was destroyed by the socialist experiments and corruption veined bureaucracy. As a result of a policy of self-sufficiency India naturally excluded from the international division of labour. For the protection of the Indian economy have served a variety of licences and, above all, high import duties, which reached up to 300%. At the time of independence, India accounted for 2.5% of world trade. As a result of its policy of self-sufficiency, this market share decreased to just 0.4%. Today's share is approximately doubled. Economic growth, which is hovering around 3.5% per year, was not sufficient for a country whose population grew at breakneck speed. Increased grain production has turned India from

[24] Pavelka, T. Makroekonomie základní kurs. Slaný: Melandrium, 2007, p. 167
[25] Pavelka, T. Makroekonomie základní kurs. Slaný: Melandrium, 2007, p173

catastrophic famines, but failed to resolve the poverty of the countryside, where is about 70% of the Indian population. Moreover, the adverse effect from the structural crisis appeared in the 70's.

In 1981, the Indian Prime Minister Indira Gandhi initiated the course of pro-market reforms, which allowed the introduction of market mechanisms in the centrally planned economy. It was mainly about trade liberalization, reduction of government regulation, the fight against corruption and to allow for the influx of foreign investment. As a result of the reforms, the pace of economic growth has increased to an average of 5.7% per year. The government's attempt to restore a lost control of the Indian economy, the problems both export and the balance of payments and the country's inability to meet its debt obligations caused that India in 1991 found itself on the brink of bankruptcy. Under the leadership of the then Finance Minister and now Prime Minister Manmohan Singh started a radical reform of the controlled World Bank and International Monetary Fund. India began to remove the state planning and promote the competitiveness of companies. India liberalized foreign trade particularly through the cancellation of the licences and the worst of the import duties. There was also extensive privatization of state assets. India has launched the path of a market-oriented economy through these steps. The Indian economy has developed favourably in recent years. According to a study of investment bank Goldman Sachs, should be together with China among the strongest in the world economy by the year 2050.[26]

3.18 Standard International Trade Classification

The SITC is an abbreviation of the Standard International Trade Classification. It is maintained and used by United Nations to classify the exports and imports of a country.[27] Recording of commodities that are traded is pivotal for country's trade

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[26] Cihelková, E. Světová Ekonomika. Praha:C.H. Beck, p. 220-222.

[27] **"Standard International Trade Classification (SITC) | Joinup https://joinup.ec.europa.eu. N.p., n.d. Web. 13 Mar. 2014 <https://joinup.ec.europa.eu/catalogue/asset_release/standard-international-trade-classification-sitc>.**

performance characterization. SITC is recommended for analytical purposes, and it is not as detailed as Harmonized System. Two statistical systems are used in present day. The first one is Harmonized Commodity Description and Coding System (HS) and The Standard International Trade Classification (SITC).

Table no. 1: The hierarchical structure of the classification comprises

Sections	one-digit code
Divisions	two-digit codes
Groups	three-digit codes
Subgroups	four-digit codes
Items	five-digit codes

Source "Commodity Classification Systems for Trade Statistics. Available from: <http://www.ier.hit-u.ac.jp/COE/Japanese/Newsletter/No.6.english/gaku.html>.

Table no.2: Sections of SITC

SITC 0	Food and live animals
SITC 1	Beverages and tobacco
SITC 2	Crude materials, inedible, except duele
SITC 3	Mineral fuels, lubricants and related materiále
SITC 4	Animal and vegetable oils, fats and Wales
SITC 5	Chemicals and related products, n.e.s.
SITC 6	Manufactured goods classified chiefly by material
SITC 7	Machinery and Transport Equipment
SITC 8	Miscellaneous manufactured articles
SITC 9	Commodities and transactions not classified elseqhere in SITC

Source: Available from <http://comtrade.un.org/pb/CommodityPagesNew.aspx?y=2008&v=true>., own processing

3.18.1 Indian Trade Classification System

Indian Trade Classification established on Harmonized System of Coding was accepted in India in 1987. ITS- HS customs use eight digit codes. Eight digit ITS- HS code is used to satisfy the national trade requirements.

ITC-HS codes are split up into two schedules. The first is ITC (HS) Import Schedule I. This schedule describes the guidelines and rules connected to import policies. It is divided into 21 sections. Total number of chapters in Schedule I. is 98. Schedule II describe the rules and regulation connected to export policies. Schedule II of the ITC-HS code includes 97 chapters.

3 Case study of India

4.1 Analysis of the openness of the Indian economy

The structure of Indian economy has undergone changes during this period 2004-2013 in terms of openness.

The usual view that India is a closed economy has been disproved by the fact that openness of Indian economy is rapidly increasing. Exports and imports of goods and services had increased more than twice from 23 per cent of GDP in the 1990s to 47 per cent in the recent period of 2004-2013. If the trade flows are considered in common with capital flows, an increase in openness (measured as current receipts and payments plus capital receipts and payments) was more drastic (from 42 per cent of GDP in the 1990s to 107 per cent in the recent period) . [28]

Table no. 3: Exports and Imports of goods and services (% of GDP)

Years	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exports and Imports of goods and services (% of GDP)	37	41	45	44	53	45	48	48	56

Source: Indian Economy: Progress and prospects, available from <http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=603#T4>

This proves the increase in openness of the Indian economy. Foreign trade and industrial cycles are getting more synchronized with the global business cycle.

The growth phase in 2004-08 was accompanied by sharp increase in exports and imports as well as capital inflows. The openness of the Indian economy has been improved in India's external position.

[28] "Indian Economy – Progress and Prospects." *http://taxguru.in/*. Boston., 27.11.2011. Web. 16 Mar. 2014 <http://taxguru.in/rbi/indian-economy-progress-prospects.html>.

Table no. 4: Current plus capital receipts and payments

Years	Current plus capital receipts and payments
2004-2008	83,5
2009-2011	106,5

Source: Indian Economy: Progress and prospects, available from <http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=603#T4>

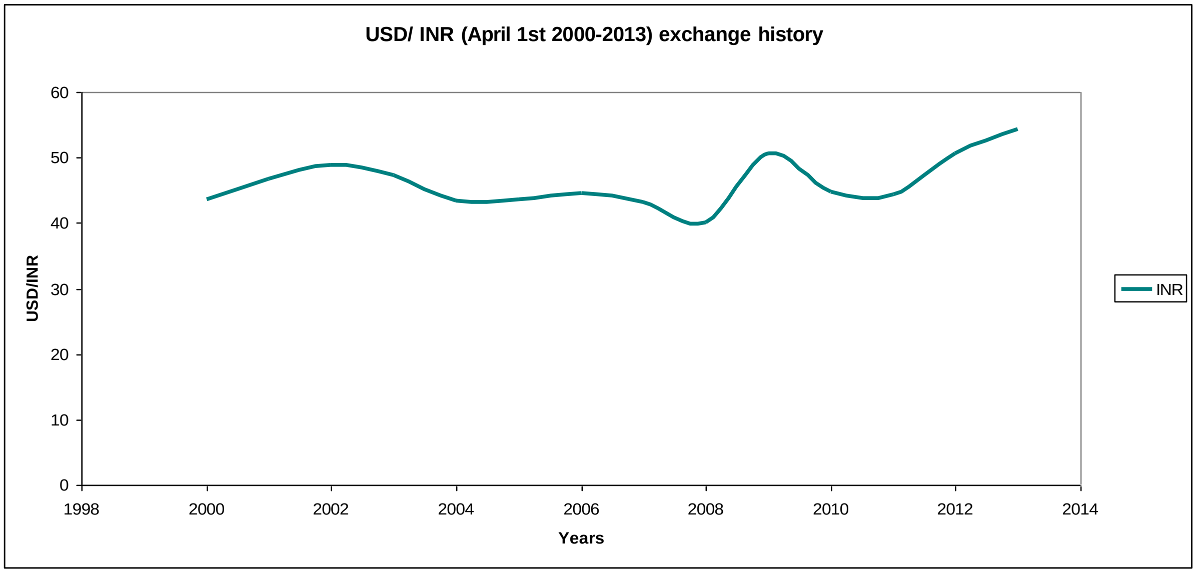
4.2 Analysis of exchange rate of India

The tenacious decrease in rupee is a foundation of deprivation to Indian government. Depreciation of rupee leads to imports becoming more expensive. India meets most of its oil demand through imports therefore it becomes a concern. Along side with oil import, prices of other imported commodities increase too. This leads to higher overall inflation. Exchange rate affects the view of foreign investors on the market and therefore, local currency ultimately depreciates. To control the rupee vacillations is important for emerging economies like India. On August 28, 2013, Indian rupee reached in whole history low of Rs 68.85 against the US dollar. Since January 2013, the rupee has lost more than 20 percent of its value, which can be seen as the biggest loser among the Asian currencies [29]

[29] Singh, K. "Collapsing Asian Currencies: Why is the Indian Rupee Depreciating" *http://www.globalresearch.ca,* 16.09.2013. Web. 16 Mar. 2014 < http://www.globalresearch.ca/collapsing-asian-currencies-why-is-the-indian-rupee-depreciating/5350017>.

Following graph (Figure 1) shows the movement in rupee value against US dollar since 2000.

Figure 1: USD/INR



Source: http://www.freecurrencyrates.com/exchange-rate-history/INR-USD/2013, own processing

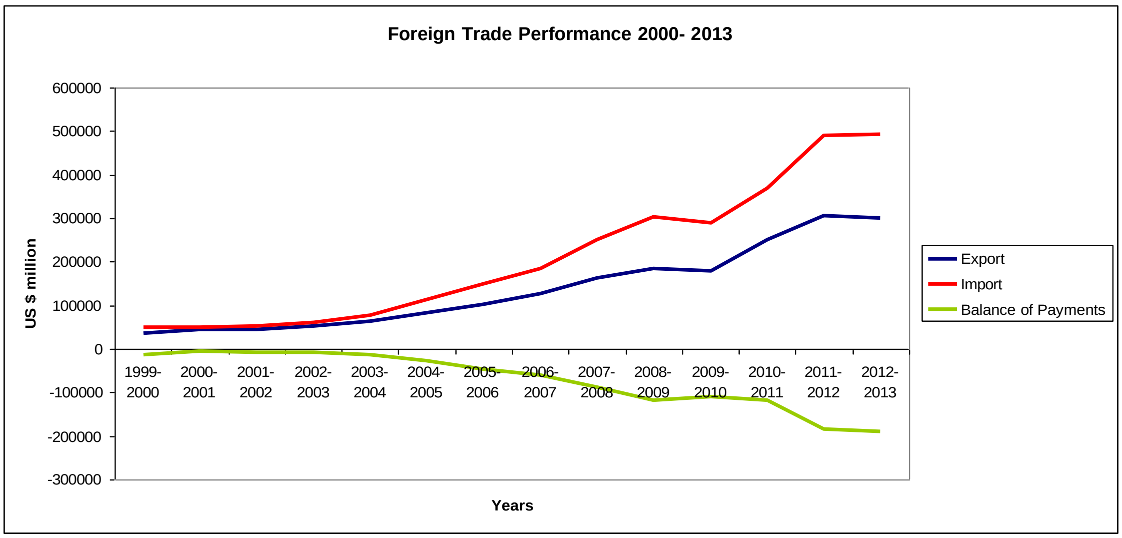
4.3 Foreign commodity structure of India

This chapter examines the foreign trade of India from the perspective of the commodity structure. Export goods are divided into primary products, manufactured goods, petroleum products and other products. Indian Central Bank divides import on bulk and non-bulk import.

I will describe in the following lines, items that Indian Central Bank classifies into bulk and non-bulk import. Under the bulk, import is classified: crude oil, petroleum products, foodstuffs, fertilizers, non-ferrous metals, paper, cardboard, raw rubber, ores, metals, iron, steel, etc. Into non-bulk import are sorted means of production (metal products, machine tools, machinery, electrical machinery, electronics, computers, transportation equipment, etc.), pearls, jewelry, organic and inorganic chemicals, yarns, fabrics, cashew nuts, gold, silver, artificial resins, plastic, professional tools, coal, coke, briquettes, medicines, pharmaceutical products, chemical products, non-metallic mineral products, etc.

In the graph below (Figure 2.) we can see the evolution of India's foreign trade during the period 2000- 2013.

Figure 2: Foreign Trade Performance

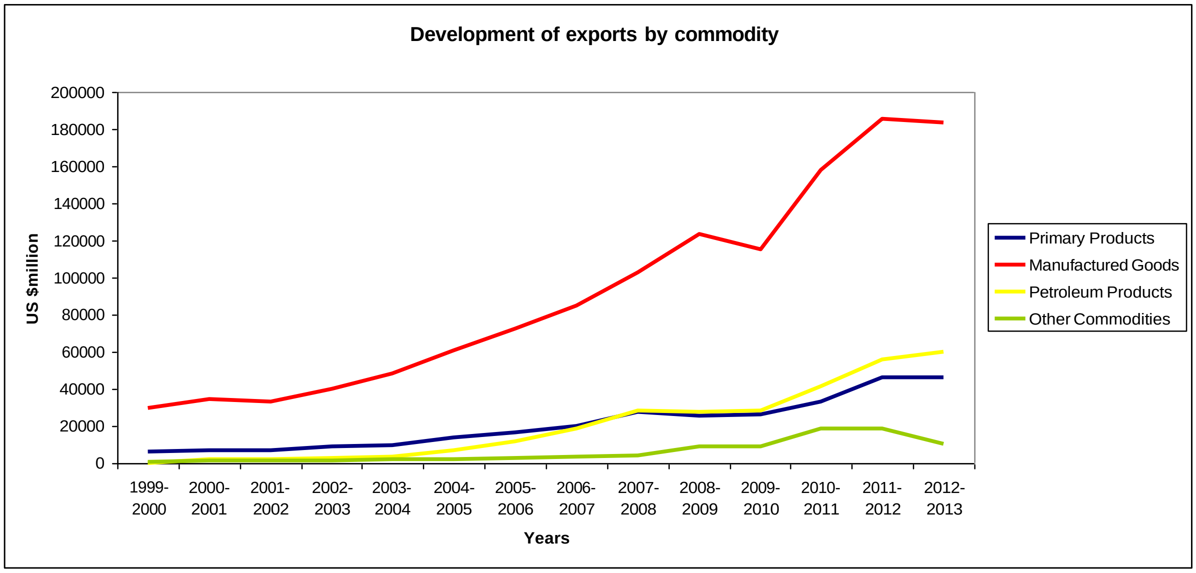


Source: (Hanbook of statistics on Indian Economy), own processing

4.3.1 Export

The graph (Figure 3.) shows the evolution of the Indian exports of individual commodity groups and share of these commodities on Indian exports. The chart shows that the crisis was most affected by the export of manufactured goods whose value declined in fiscal year 2009 - 2010 by nearly 8 million USD compared to the previous fiscal year. This category was the most affected export machinery and transport equipment. Despite this blip, of which India recovered quickly, are industrial goods the most important part of Indian exports. For fiscal year 2012 - 2013 the export of manufactured goods maximized its value, which amounted to 183718,8 million USD. The value of exports of petroleum products has soared to 60290,7 million USD, and the value of other products on the 10361 million USD in 2012- 2013.

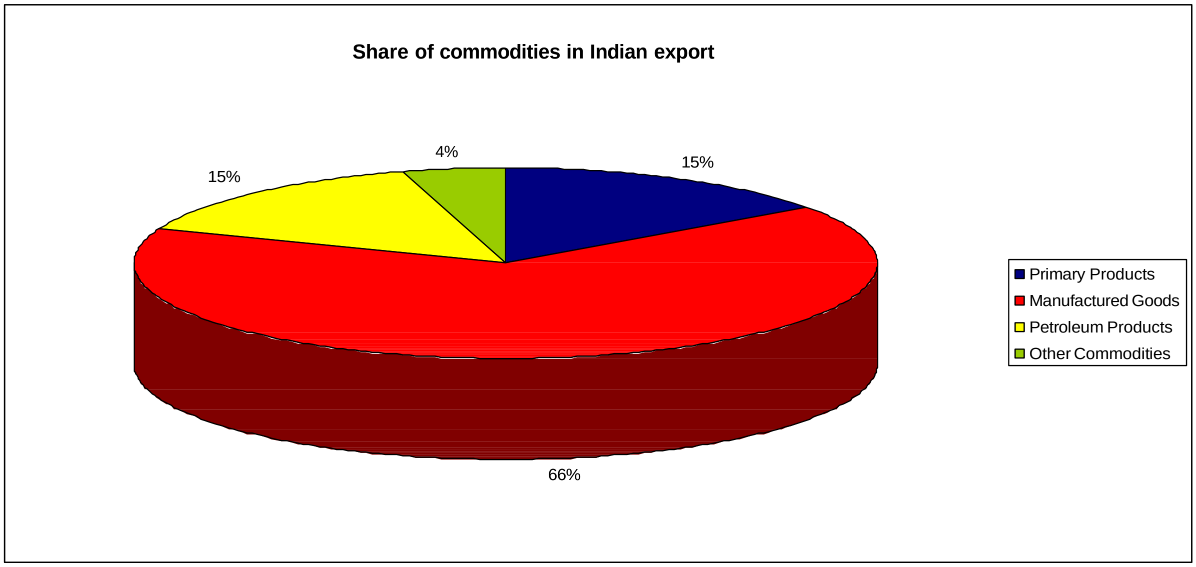
Figure 3: Development of exports by commodity



Source: (Hanbook of statistics on Indian Economy), own processing

Graph below describes (Figure 4.) exports of the top five commodity groups during the period 2000-2013 registered a share of 66 % in US $ of manufactured goods, 15 % of primary goods, 15% and 4% of petroleum goods..

Figure 4: Share of commodities in Indian export

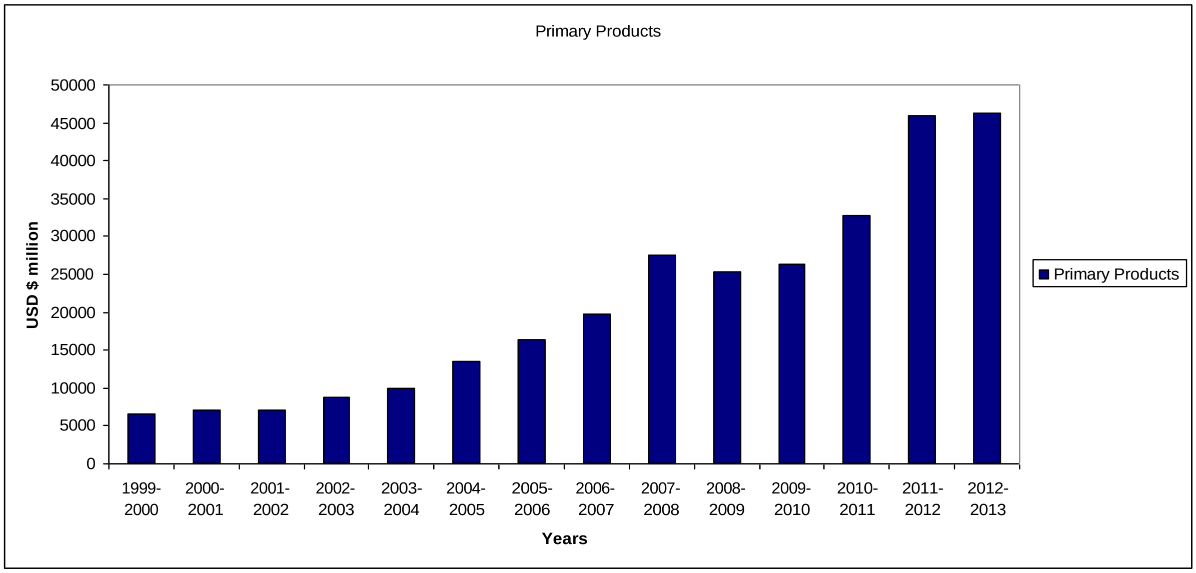


Source: (Hanbook of statistics on Indian Economy), own processing

4.3.1.1 Primary products

India is an important exporter of perishable fresh food items, marine products and dairy products. This sphere experienced phenomenal growth in recent years. But the growth is much below the potential of India. The export value of agricultural and alied products in fiscal year 2012 - 2013 was nearly 40631,5 million USD as we can see in the graph (Figure 5.).

Figure 5: Primary Products



Source: (Hanbook of statistics on Indian Economy), own processing

Export of these products, is however Is very dependent on the crop, because during the reporting period export commodity rather fluctuated. India grows in sphere of fresh fruits and vegetables. In fresh fruits are the major export products are grapes, mangoes, guava, papaya apple and pineapples. India also become one of the largest producers of milk and value-added milk products. This sector is one of the most promising in the future.

Export of agricultural and allied products during 2012-13 decreased by 9.95 per cent in US $ terms in comparison with the2011- 2012. Agriculture and allied products include fresh fruit and vegetables, animal products, marine products, dairy and poultry products, floriculture, processed food, squashes and juices, cereals and pulses, rice, wheat, spices, beverages, sugar, cashew and groundnut, vegetable oil and castor oil. During 2012-13 exports of commodities registered a growth of 27.57 per cent with the value of exports increasing from US $ 21353.59 million in the previous year to US $ 27240.35 million during the period 2012- 2013.

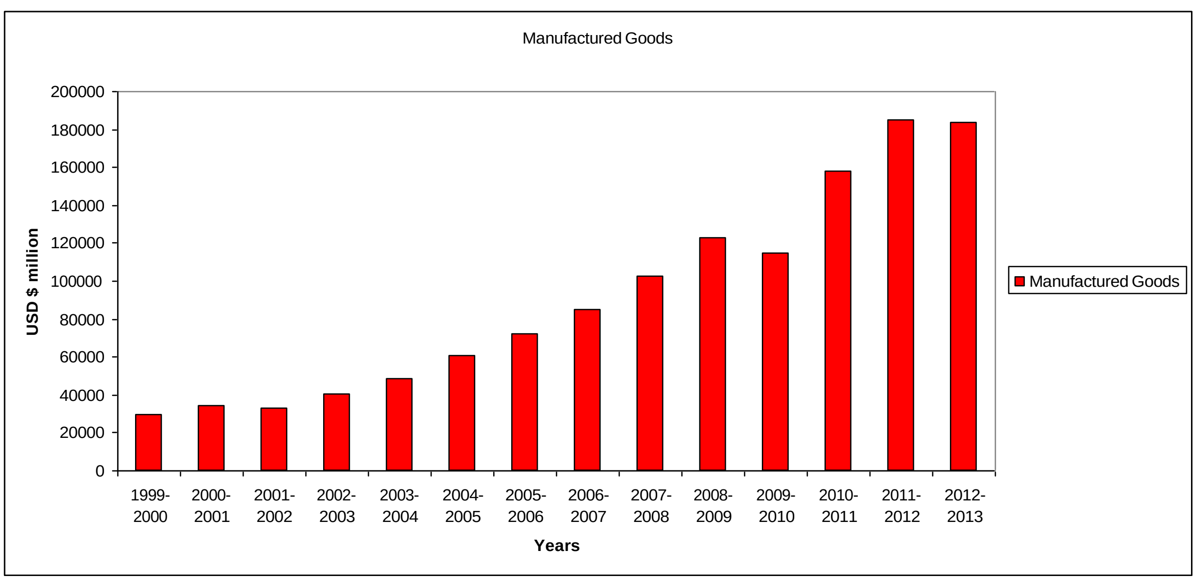
Exports of Ores and Minerals were estimated at US $ 4389.03 million during 2012-13. Sub groups viz. Iron Ore, Mica, Other ores & minerals and Coal have recorded a negative growth of 64.99 per cent, 0.80 per cent, 9.46 per cent and 5.24 percent respectively. Processed minerals registered a growth of 12.14 per cent.

More than half of exports of ores and minerals formed over the entire period ferrous ore.

4.3.1.2 Manufactured Goods

To the group of manufactured goods belong tobacco, gems and jewelry, gold and silver, leather, drugs and pharmaceuticals, cosmetics and toiletries, engineering goods, textiles, handicrafts and carpets, etc. The graph (Figure 6.) shows that in fiscal year 2012 - 2013 were the export of manufactured goods at it's maximum. From the previous fiscal year, has the engineering goods taken a leadership position of export. Second place in the export of manufactured goods occupied the export of gems and jewels.

Figure 6: Manufactured goods



Source: (Hanbook of statistics on Indian Economy), own processing

Important export item among manufacture products were also fabric. For fiscal year 2012 - 2013 was exported textile worth over 27343 million USD. In the textile group clearly dominated the export clothing, which accounted for more than half of exports from this group. The attractiveness of this sector is due to the comparative advantages of India, that through comes from cheap labor. Furthermore, among the fabrics excelled export of carpets, whose export value amounted to the last period of almost 985.4 million USD. In fiscal year 2012 - 2013 was exported jute and jute manufactures worth 387.2 million USD, natural silk yarn and fabrics in the value 167.7 million USD and woolen yarn and fabrics suitable 121.1 million USD.

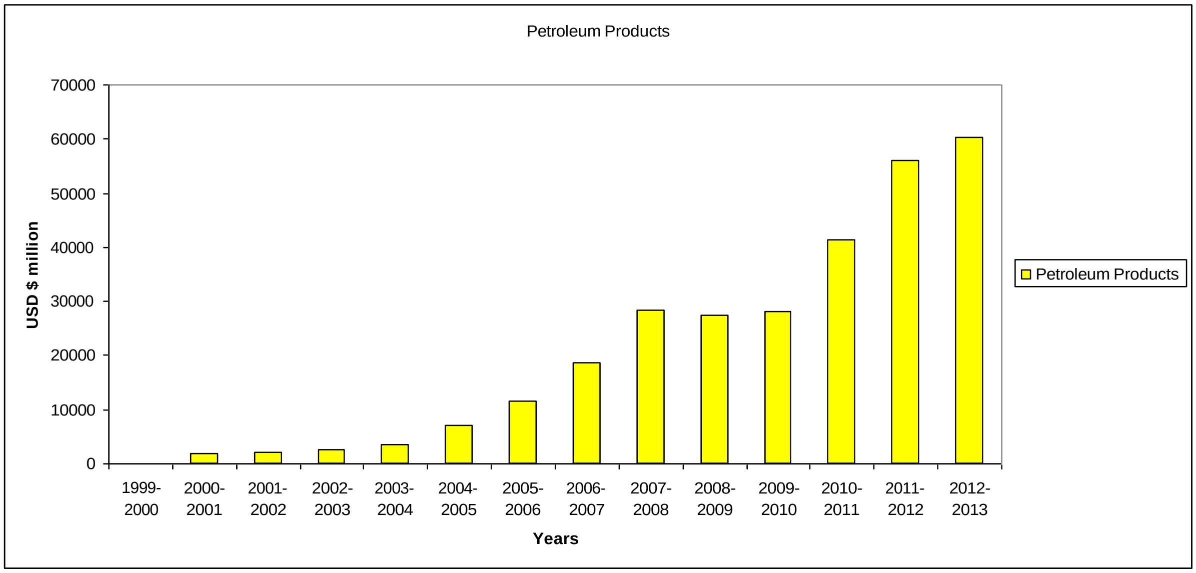
Export of chemicals and related products over the period climbed to 39929.7 million USD (fiscal year 2012-2013). Furthermore, were exported plastic and linoleum products worth 6311.1 million USD, products of the shoot, glass, etc. for 5075.0 million USD and other chemicals and allied products at 1500.2 million USD.

The last significant export of industrial products group was leather and leather products. These products were exported for almost 4870.2 million USD for the fiscal year 2012 - 2013.

4.3.1.3 Petroleum Products

Export of Petroleum Products increased from 46489.12 million USD to 48613.38 million USD during 2012-13 as the graph (Figure 7.) shows, and recorde a growth of 4.57 per cent.

Figure 7: Petroleum Products



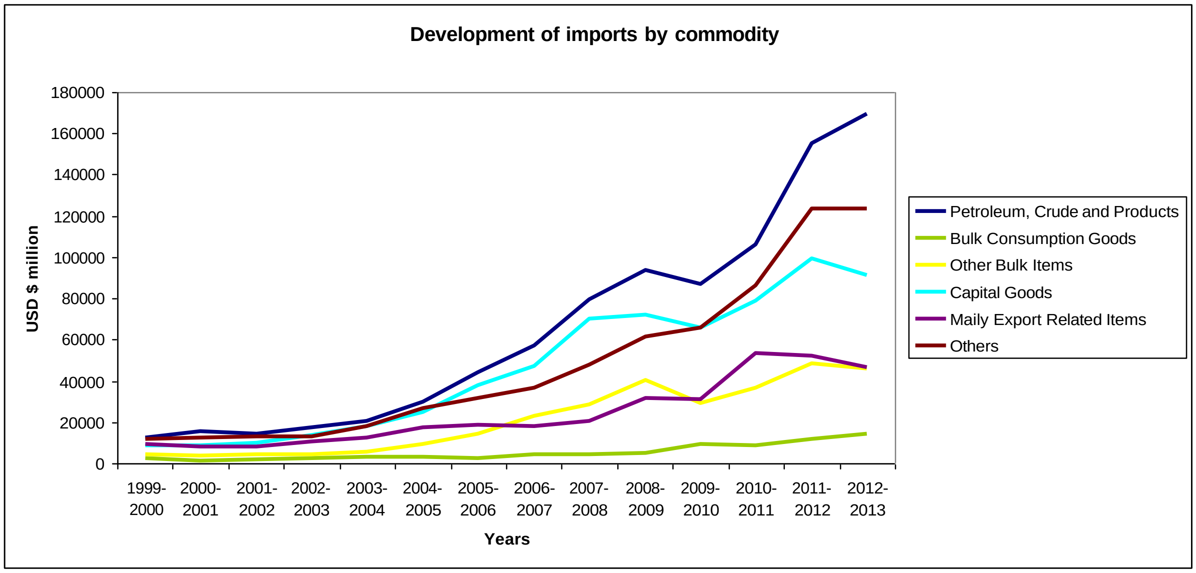
Source: (Hanbook of statistics on Indian Economy), own processing

4.3.2 Import

The graph (Figure 8.) shows the evolution of the Indian import of the commodity structure in 2000 - 2013. Throughout the period, the Indian import positively developed. The exception was primarily in fiscal year 2009 – 2010 due to recession.

From the graph (Figure 8.), is evident that the largest part represents petroleum, crude and products of the bulk import. For the fiscal year 2012-2013, India imported goods from bulk import that are worth over 229573 million USD. It is the most important imported goods for India. Petroleum, crude and products are the priority items of Indian import because of its energy dependence. The Import of crude oil and petroleum products reached maximum values in fiscal year 2012-2013.

Figure 8: Development of imports by commodity



Source: (Hanbook of statistics on Indian Economy), own processing

Further imported bulk imports were bulk consumption goods, particularly edible oils which reached 11230.8 million USD in fiscal year 2012- 2013. Bulk consumption goods accounted for 3%. Since food can be difficult to exclude from daily life, world crisis did not recorded on this group. Most in this category, India imported account of oil and pulses, cereal and sugar. Import of other bulk import, specifically ores, metals and scrap metal also reached its peak in the last fiscal year, and it's worth 14982.2 million USD. Next other bulk imports are iron and steel achieved in fiscal year 2012 - 2013 the value of 10944.6 million USD.

An important import item is also non-ferrous metals, which in fiscal year 2012-2013 imported 5123.8 million USD. In addition, imported paper, paperboard and products made of them, raw, paper pulp and paper waste achieved 5897 million USD.

From the imported non- bulk imports, is obvious the greatest growth gold, silver, pearls, precious and semi-precious stones. Gold and silver were in the fiscal year 2012-2013 imported in 55674.1 million USD. 53694 million USD was the gold and 1980.0 million

USD silver. Together with coke and briquettes it was imported in the fiscal year in the amount of 15438.1 million USD. Significant was also the import of synthetic resin, plastic and similar products. Other items are imported professional, scientific, and managerial tools, yarn, fabrics, medicines and pharmaceutical products, non-metallic products and cashew nuts.

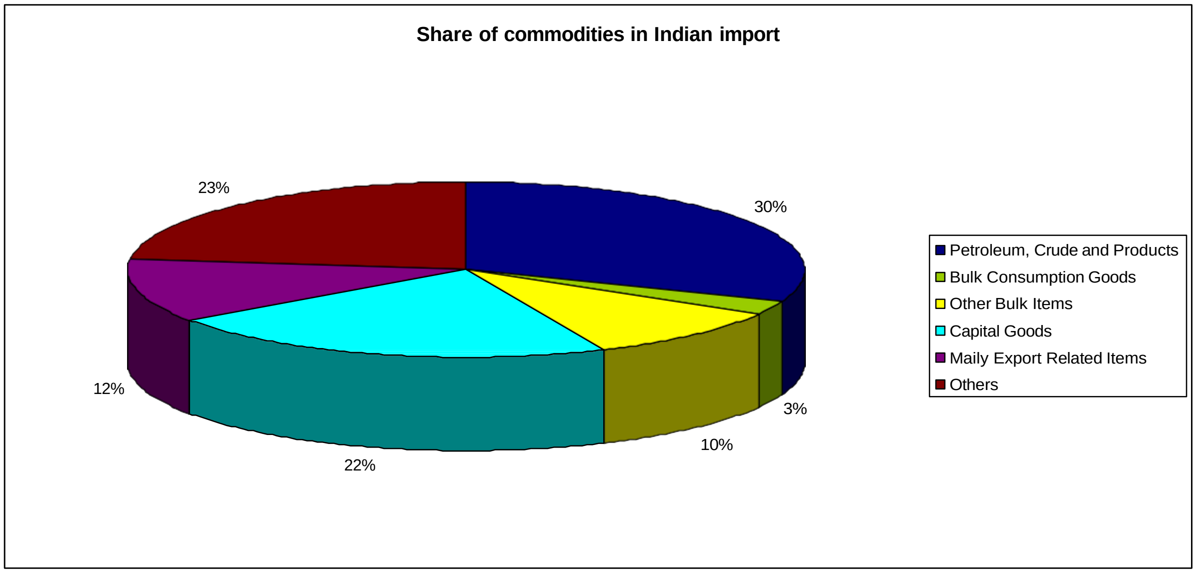
The second most important import from non- bulk imports are electronic goods of capital goods group. The electronics in the last fiscal year were worth 31457.4 million USD. Other important commodities were machinery except electrical and electronic which was in the fiscal year worth 27642.8 million UDS.

The next coming item in this category in this group of mainly exported related items. Pearls, precious and semi-precious stones were imported in the amount of 22619.2 million USD. The organic and inorganic chemicals, which have been sighted in the last fiscal year, were worth 19256.7 million USD.

The other major import group is the project goods, the value climbed in the last year of the amount of 6557.6 million USD. Transport equipment reached its peak in fiscal year 2007-2008 in the amount of 20111.6 million USD. Since then, however, the import of transport equipment declined rapidly. In fiscal year 2012-2013 is diminished to a mere 13713.3 USD.

The graph (Figure 9.) shows, how the individual commodity groups are involved in the import of India in the years 2000-2013. As already mentioned the largest share on import was petroleum, crude and products of bulk imports and during the reporting period accounted for 30%. Others of Non- bulk imports created 23% of Indian import, capital goods 23% of the import, mainly export related items 12%, other bulk items 10% and 3% of bulk consumption goods.

Figure 9: Share of commodities in Indian import



Source: (Hanbook of statistics on Indian Economy), own processing

4 The Conclusion

Previous analysis of foreign trade commodity structure of India during the period 2000-2013 was based on the evaluation of the commodity structure of India's exports and imports. India has showed since the beginning of the period until 2013 dynamic growth. Exports of commodities were divided to the primary products, manufactured goods, petroleum products and other commodities. From the previous fiscal year, has the engineering goods taken a leadership position of export. Second place in the export of manufactured goods occupied the export of gems and jewels. The commodities of bulk and non- bulk imports were divided into smaller groups, namely crude oil and petroleum products, manufacturing equipment, bulk consumption goods and other items of bulk and non- bulk import. Statistics shows that the largest portion of the Indian import consisted of crude oil and petroleum products and production. Above all, is the obvious decline of share in traditional exports of textiles and agricultural products in total exports in favor of increasing share of exports of ore, minerals and petroleum products. Another dominant trend detectable by the Indian Trade Classification, ITC was the change in the share of textiles in total Indian exports than growth in exports of engineering goods , when at the beginning of the reporting period was the most important item of Indian exports textiles.

The Republic of India is in transition from one of the world's poorest countries to one of the fastest growing economies. At its current position and with current reputation is India certainly one of the major expanding economy forces. In relatively short time has India become one of advanced economies of 21st century.

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