CHAPTER - 1

Introduction
This chapter presents the concepts, importance of Export-Imports in our economy. It also gives an analysis of historical perspective and background of Indo-African countries trade and economic relations, relevance of the study in the present global scenario have also been analyzed.

1.1 Introduction of International Trade

The main thought of the international trade hardly need no emphasis for any nation to afford remain as a closed economy these days from a country point of view both the import and export are must for the benefits of geographical differences and division of labour for making the imports more beneficial on a large scales and decreasing the deficiency of domestic demand (to made ensure the export of a country rise fast in relation of its imports).

Prof. Bertil Ohlin described the value of trade. According to Prof. Ohlin “Trade changes the quality of the people teaches them to consume new things and to use old things in new ways. Technical knowledge is largely the result of specialization which trade has made possible. The character, not only technical labour but also of skilled and unskilled labour is affected.” In general word trade brings the changes in the quality of people and teaches them how they use the old things is a new ways and to consume the new things. Trade also increase the
technical knowledge which results is not only the specialization but also is the technical labour and affected the skill and unskilled labour.

In Ellsworth words, “International trade permits more people to live, to gratify more varied tastes and to enjoy a higher standard of living that would be possible in its absence.” It means international trade makes possible to create a higher standard of living and gratify the more varied tastes to more people to live which is not possible in the absence of international trade.

On the other hand economist Irving Kravis realized that international trade based on availability and non-availability factors. In Irving Karvis word “International trade arises as a result of availability an non-availability factors.”

Many economist give different definition of international trade. Some economist thinks that international trade beneficial for people on the other hand some economist thinks that international trade harmful for human being.

1.2 Concepts of Foreign Trade

The concepts to be used in the research work are as follows:

International Economics: International economics is concerned with the effect upon economic activity of international differences and the institution that affect them. It seeks to explain the patterns and consequences of transactions and interactions between the inhabitants of different countries including trade and investment, economies of scale are benefits from bulk buying.

Globalization: Globalization is the process where whole world is a single market. This means that goods and services, capital and labour are traded on a
worldwide basis, and information and the result of research flow rapidly between countries. The rise of cheap sea transport in 19th century, cheap air travel, telephone, computer together the rising importance of multinational companies general relaxation of control of trade and international investment continued the process in the 20th century. In particular, international mobility of labour is tightly restricted, and poor transport and communications is too poor in developed countries mean that only the economies of the richer and more advantage countries are at all seriously globalized.

**Economic Co-operation** : Agreement by two or more individual firms or governments to work together, co-operation as a method of co-ordinating economic activity is contrasted with competition, where individuals, firms or governments operated independently and sometimes in opposition of each other. All economic system uses some mixture of both mechanisms, the optional division of functions between them is a matter of controversy. In many cases firms or countries co-operate at the level of industrial standards. While competing in other activities, especially current scale.

**Bilateral Trade** : It is a situation where trade between any two countries has to balance, or any imbalance has to be financed by credit arranged between the two countries. This is contracted with multi lateral trade which requires only that trade with all other countries combined should either balance, or to be financed by overall credit from countries. Bilateral trade has the disadvantages able to finance any overall surplus or deficit with loans to any other country. For a country with a convertible currency or capital account are of one importance. Only overall or multi
lateral balances matter, Bilateral trade can be defended only as a second-best arrangement that is better than no trade at all in situations where the institutions that make multi lateral trade possible have broken down.

**Multilateral Trade**: The trade between a group of countries where no need for the trade between any pair of countries to balance. This follows naturally if all countries in the group have convertible currencies.

**Liberalization**: Liberalization has many meaning. In its widest sense it stands for a virtual withdrawal of the state from economic activities. Reduction of direct control on both internal and international transactions, less use of made of licences, permit and prices to clear markets. It also involves a shift away from exchange controls and multiple exchange rates, towards a convertible currency. The extent to which an economy is controlled can vary greatly, liberalization is a matter of degree, and does not imply a shift to total laissez fair.

**Trade Liberalization**: The removal or reduction or barriers on the free exchange of goods between nations. This includes the removal or reduction of both tariff duties and non-tariff obstacles (like licensing rules, quotas and other requirements). The easing or eradication of these restrictions is often referred to as promoting “Free trade.”

**Liberal Trade Policy**: A trade policy aimed at allowing a country’s resident to take part in international trade with the minimum of interference. This involves the reduction of tariffs, the relaxation or removal of quantitative trade controls, and replacement of discretionary controls by rules and of quantitative controls by tariffs.
It also involves the replacement of exchange control by sufficient devaluation to allow a satisfactory balance of payments without controls.

**Export**: A function of international trade whereby goods produced in one country are shipped to another country for future sale or trade. The sale of such goods adds to the producing nation’s gross output. If used for trade, exports are exchanged for other products or services. Exports are one of the oldest forms of economic transfer and occur on a large scale between nations that have fewer restrictions on trade, such as tariffs or subsidies.

**Export Subsidy**: A subsidy to exporters, so that the price per unit received by the producers of exports is higher than the price charged to foreign customers. Direct export subsidies are prohibited by international agreement, but other government measures with similar effects are not uncommon. Exporters may be allowed refunds on tariffs on their inputs, subsidized credit, preferential access to ordinary credit in an economy, or assistance with their capital cost or trading cost. In economies with either currency or direct controls on imports, exporters can be allowed priority in the allocation of scarce materials or foreign currency. Firms competing with imports which they claim have received export subsidies may be able to obtain countervailing import duties to offset the effect of these subsidies.

**Export Promotion**: Government activities to help sell export by providing export incentives at home, and various forms of practical assistance for exporters abroad. These include advice on local trading laws and practices, the provision of export credit or guarantee on favourable terms, aid for export sales. Export promotion is a strategy to promote export and also developed countries.
**Export Concentration**: Concentration of export on a narrow range of categories of goods and services, or a narrow range of countries. The higher degree of export concentration, the more liable are a country’s balance of trade and national income to disruption by fluctuations in the sectors of the world economy in which it is concentrated. More widely dispersed markets give a lower degree of risk. Export concentration is generally highest in some of the oil exporting.

**Import**: Commodity / goods or services bought by one country but provided by other countries called import. For example - Egypt bought organic chemicals from India, the goods which is brought by Egypt called “Import of Egypt.”

**Import Quota**: Imposed limit upon the quantity of a good that may be brought into a country or economy over a period of time. Quotas may be imposed by government, foreign governments, or producers themselves.

**Import Control**: Administrative restriction and allocation of imports. This may be imposed for balance of payments reasons, to reduce spending or imports or for industrial policy reasons to protect domestic producers of import substitutes. Administrative import controls reduce competition in the economy, and provide opportunities of economic liberalization generally include the abolition of import controls, or their replacement by tariffs.

**Trade Promotion**: Marketing techniques used to build demand at the middlemen level as part of the trade marketing mix. Trade promotions include special pricing and sales incentives, discounted or free display fixtures, trade shows, demonstrations, and no-obligation gifts such as tickets to sporting events or novelties (like pens, paper weights etc.)
Trade Agreement: Any contractual arrangement between states concerning their trade relations. Trade agreements may be bilateral or multilateral, that is, between two state or countries. For most countries international trade is regulated by unilateral barriers, including tariffs, non tariff barriers, and government prohibitions. Trade agreements to reduce such barriers and thus provide all parties with the benefits of increased trade. Reciprocity is a necessary feature of trade agreements, since neither state will be willing to sign the agreement unless it expects to gain as much as it losses. Another common feature is a most-favoured nation clause, which provides against the possibility that one of the parties to the current agreement will later offer low tariffs to another country. Agreements often include clauses providing for “national treatment of non-tariff restrictions” means that both states promise not to duplicate the properties of tariffs non-tariff restrictions such as discriminatory regulations, quotas, excise taxes, licensing requirements. The most important modern multilateral trade agreement was the General Agreement on Tariff on Trade (GATT) which reduced world tariff level and expanded world trade. Such agreements continue under the agency of the World Trade Organization (WTO) which replaced GATT in 1995.

Trade Credit: Trade Credit is an open account arrangements with suppliers of goods and services and a firm’s record of payment with the suppliers. Trade liabilities comprise a company’s accounts payable. Dun and bradstreet is the largest compiler of trade credit information, rating commercial firms and supplying published reports. Trade credit data is also processed by mercantile agencies specializing in different industries.
**Trade Deficit**: Excess of imports over exports or exports over imports, resulting in a negative or positive balance of trade. The balance of trade is made up of transactions in merchandise and other movable goods and is only one factor comprising the larger current account in the overall balance of payments. Factors influencing a country’s balance of trade include the strength or weakness of currency in relation to those of the countries with which it trade, or domestic economy of a trading country where production may or may not be meeting demand.

**Trade Barrier**: Any form of governmental or operational activity that renders importation of some goods into a country difficult or impossible. Tariffs are an example, so is the plethora of regulations and inspections that importation of automobiles into Japan.

**Terms of Trade**: Relationship between the prices at which a country sells its exports and the prices paid for its imports. If a country’s export prices rise relative to import prices, its terms of trade are said to have moved in a favourable direction, means it effects in a right way to receives more imports for each unit of goods exported. The term of trade, which depend on the world supply and demand for the goods involved, indicate how the gains from international trade will be distributed among trading countries. An abrupt change in a country’s term of trade (e.g. a drastic fall in the price of its main export) can cause serious problems in its balance of payments.

**Non-Tariff Barrier**: Non tariff barriers are another way for an economy to control the amount of trade that it conducts with another economy, either for selfish or altruistic purposes. Any barrier to trade will create an economic loss, as it does
not allow markets to functions properly. The loss revenues resulting from the barrier to trade can be called an economic loss.

**Tariffs:** A tariff is a tax or duty imposed by one nation on the imported goods or services of another nation. Tariffs have been used throughout history to control the amount of imports that flow into a country and to determine which nations will be granted the most favourable trading conditions. High tariffs create protectionism, shielding a domestic industry’s products against foreign competition. High tariffs usually ensure that a given product will not be imported into a country because the high tariff would lead to a high price for the customers of that product be the other businesses or consumers.

**Anti-Dumping:** Dumping is said to occur when the goods are exported by a country to another country at a price lower than its normal value. This is an unfair trade practice which can have a distortive effect on international trade. Anti dumping is a measure to rectify the situation arising out of the dumping of goods and its trade distortive effect. Thus, the purpose of anti dumping duty is to rectify the trade distortive effect of dumping and re-establish fair trade. The use of anti dumping measure as an instrument of fair competition is permitted by the WTO. In fact, anti dumping is an instrument for ensuring fair trade and is not a measure of protection per se for the domestic industry. It provides relief to the domestic industry against the injury caused by dumping.

**Strategic Trade Policy:** If an acquired advantage can give a country a competitive advantage in trade, it is natural that governments would be interested in developing acquired advantages in their country. How can governments help create
successful industries within their borders? Two approaches are: 1) Alter conditions that will effect industry in general and 2) alter conditions that will affect a targeted industry.

**Balance of Payments**: The balance of payments is the method countries use to monitor all international monetary transactions at a specific period of time. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP in order to determine how much money is earned or spent in a country. If a country has received money, this is known as a credit, if a country has paid or given money, the transaction is counted as a debit. Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance. But in practice this is rarely the case and, thus, the BOP can tell the observer if a country has a deficit or a surplus and from which part of the economy the discrepancies or stemming countries and some of the world’s smaller primary commodity exporters. It is generally low in industrial countries.

**The Balance of Payments Divided**: The Balance of payment is divided into three main categories: the current account, the capital account and the financial account, within these three categories are sub-divisions, each of which account for a different type of international monetary transaction.

**Current Account**: The current account is used to mark the inflow and outflow of goods and services into a country. Earning on investments, both public and private, are also put into the current account.
Within the current account are credits and debits on the trade of merchandise, which includes goods such as raw materials and manufactured goods that are bought, sold or given away. Services refer to receipts from tourism, transportation, engineering, business service fees and royalties from patents and copyrights. Receipts from income generating assets such as stocks also recorded in the current account. The last component of the current account is unilateral transfers. These are credits that are mostly workers remittances, which are salaries sent back into the home country of a national working abroad as well as foreign aid that is directly received.

**Capital Account**: The capital account is where all international capital transfers are recorded. This refers to the acquisition of non-financial assets (physical and land assets) and non-produced assets, which are needed for production but have not been produced like a mine used for the extraction of diamonds.

**The Financial Account**: In the financial account, international monetary flows related to investment in business, real estate, bonds and stocks are documented.

The government-owned assets are also included such as foreign reserves, gold, special drawing rights (SDRs) held with the International Monetary Fund, private assets held abroad, and foreign direct investment. Assets owned by foreigners, private and official, are also recorded in the financial account.

**The Balancing Act**: The current account should be balanced against the combined-capital and financial accounts. However, as mentioned above, this rarely happens. We should also note that with fluctuating exchange rates, the change in the
value of money can add to Balance of Payment discrepancies, when there is a deficit in the current account, which is a balance of trade deficit, the difference can be borrowed or funded by the capital account. If a country has a fixed asset abroad, this borrowed amount is marked as a capital account outflow. However, the sale of that fixed assets would be considered a current account inflow. The current account deficit would thus be funded.

When a country has a current account deficit that is financed by the capital account, the country is actually foregoing capital assets for more goods and services. If a country is borrowing money to fund its current account deficit, this would appear as an inflow of foreign capital in the balance of payment.

**Liberalizing the Accounts**: The rise of global financial transactions and trade in the late 20th century spurred balance of payment and macroeconomic liberalization in many developing nations. With the advent of the emerging market economic boom in which capital flows into these markets tripled from US $ 30 million to US $ 150 million from the late 1980s until the Asian crisis – developing countries were urged to lift restrictions on capital and financial account transactions in order to take advantage of these capital inflows. Many of these countries had restrictive macroeconomic policies, by which regulations also limited the transfer of funds abroad. But with capital and financial account liberalization, capital markets began to grow, not only allowing a more transparent and sophisticated market for investors, but also giving rise to foreign direct investment.
**Exchange Rate**: The price of one country’s currency expressed in another country’s currency. In other words, the rate at which one currency can be exchanged for another.

**Effective Exchange Rate**: A method used for calculating the impact of changes in currency values of one country by taking into account the relative importance of the trade flows and weighting any changes accordingly. Sometimes called currency index.

**Net Foreign Assets**: The total of assets owned by residents of a country, but situated abroad, less assets located within the country but owned by non-residents. A country’s overseas assets include both foreign direct investment and holdings of foreign securities, and foreign holding of domestic assets include both inward foreign direct investment and foreign holding of domestic securities. Net foreign assets can thus be either positive or negative.

**International Payment**: Payment made between countries, whether in settlement of a trade debt, as a unilateral transfer of funds, for capital investment, or for some other purpose. The reasons for such payments and the methods of making them and accounting for them are matter of concern to economists and national governments. International debts are settled either from accumulated balance of foreign currency or claims on foreign currency, or by loans from creditor to debtor, or by drawing on the International Monetary Fund or by movement of gold. How a country balance its international accounts is one of the most important decisions for its balance of payments.
**Newly Industrialized Country**: A term used by political scientists and economists to describe a country whose level of economic development ranks it between the developing and first world classifications. These countries have moved away from an agriculture-based economy and into a more industrialized, urban economy. Also known as “newly industrializing economies” or “advanced developing countries.”

**Trade Credit Insurance (Export Credit Insurance)**: This is an insurance policy and a risk management product offered by private insurance companies and governmental export credit agencies to business entities wishing to protect their balance sheet asset, account receivable, from loss due to credit risks such as protracted default, insolvency, bankruptcy etc. This insurance product, commonly referred to as credit insurance, is a type of property and casualty insurance and should not be confused with such products as credit life, which the insured obtains to protect against the risk of loss of income needed to pay debts. Trade credit insurance can include a component of political risk insurance which is offered by the some insurers to insure the risk of non-payment by foreign buyers due to currency issues, political unrest, expropriation, etc. This indicates the major role of trade credit insurance in facilitating international trade. Trade credit is offered by vendors to their customers as an alternative to pre-payment or cash on delivery terms, providing time for the customer to generate income from sales to pay for the product or service. This requires the vendor to assume non-payment risk. In a local or domestic situation as well as in an export, transaction, the risk increases when laws, customs communications and customer’s reputation are not fully understood. In
addition to increased the risks of non-payment, international trade presents the problem of the time, between product shipment and its availability for sale. The account receivable is like a loan and represents capital, invested and often borrowed, by the vendor. But this is not a secure asset until it is paid. If the customer’s debt is credit insured the large risky asset becomes more secure, like an insured building. This asset may then be viewed as collateral by lending institutions and a loan based upon it used to defray the expenses of the transaction and to produce more product. Trade credit insurance is, therefore, a trade finance tool.

**International Monetary Fund**: Specialized agency of the United Nations system. It was conceived at the Bretton Woods Conference (1944) and officially founded in 1945 as a voluntary cooperative institution to help ensure the smooth international buying and selling of currency. More than 180 countries are members of the IMF. Its principal functions are stabilizing currency-exchanges rates, financing the short-term balance of payments deficits of member countries, and providing advance and technical assistance to borrowing countries. Members contribute operating funds and receive voting rights according to their volume of International trade, national income and international reserve holdings.

**General Agreement on Tariffs and Trade (GATT)**: Set of multilateral trade agreements aimed at the abolition of quotas and the reduction of tariff duties among the signing nations. Originally signed by nations, 23 countries at Geneva in 1947, GATT became the most effective instrument in the massive expansion of world trade in the later 20th century. By 1995, when GATT was replaced by the World Trade Organization (WTO), 125 nation had signed its agreements, which governed 90% of
World Trade. GATT’s most important principle was trade without discrimination, in which member nations opened their markets equally to one another. Once a country and its largest trading partners agreed to reduce a tariff, that tariff cut was automatically extended to all GATT members. GATT also established uniform customs regulations and sought to eliminate import quotas. It sponsored many treaties that reduced tariffs, the last of which, signed in Uruguay in 1994, established the WTO.

1.3 Importance of Import-Export

Foreign trade includes two factors first is import and second is export. Both factors are important for foreign trade. The importance of import and export are as follows:

(a) Importance of Import

As we know India is a developing country so that Indian government enable to fulfill all demands of Indian people, for proper supply of goods / commodities, India need to import goods / commodities. In India imports are great importance in the following ways.

- The country like India there are some area which are not developed because of lack of machinery and equipments. Industrial development depends upon infrastructural facilities like power transports etc. India do not have sufficient resources for production of these goods. These deficiency removed by imports of these goods.
In India domestic demand is greater than domestic supply. To maintain the difference between demand and supply India need to supply of essential goods like food, oil, machinery etc. These supply provided by other countries called import.

In developing country like India is not be producing non-essential or luxury and semi-luxury items such as Home Theatre, costly luxury car, Automatic machinery etc. The rising income levels of Indian peoples create demands for such goods. These items imported by other countries.

Some time imported goods may help to improve the quality of domestic products like before 2007, Indian company Maruti made Maruti car but for the better quality company import Maruti car from a U.S. company. On the other hand, when domestic company faced competition with foreign goods, the domestic company try to improve the quality of their products. The domestic company producers effectively competition with foreign company producers. For example, imports of Engineering goods, technology goods into India has contributed a lot of improving the quality of similar Indian goods.

(b) Importance of Export

Exports help in the economy in the following ways:

- In India, export help to selling surplus production. For example, In India, demand for tea is less than its potential production, if we had not been exporting tea, our total production of tea, would have been smaller. Thus export to European - Markets has helped us to expand our tea production.
• In India, export increase the size of market and this encourage more production larger production involves greater use of man power. Thus more people get jobs and greater employment.

• In India, exports generate more income and employment in the economy. In India expansion of income leads to greater purchasing power in hands of people who in turn spent his income on goods produced in the economy. This increase in demand in the cause on increased in production, income and employment. In this way the growth of the economy takes place.

• In India export is the best way to utilize natural resource. For example, in India there are many type of Ayurvedic Medicine resources which is not utilize for exporting to Unani countries or Germany. Than all Ayurvedic Medicine tree exported to west countries because India enable to utilized these resources.

• In developing countries exports increase the scale of production and thus help in the use of modern technology. This results in better use of resources which in turn leads to more production with same resources and lower cost.

1.4 History of Indo-African Countries Trade and Economic Relations

India and Africa ties can be traced back to the 18th century. Trade and economic relations between Africa and India existed long before colonialism. The Indian connection of business contacts with East Africans was intensively utilized by these traders. The connection between India and Africa consisted of imports, exports
and shipping. Until the 1920s, Indian interests in Africa had centered on the position of Indian shelters in southern and eastern Africa. After the abolition of slavery in the 19th century, tens of thousands of Indians were recruited to work under semi-slave conditions as indentured labourers in plantations, mines and railways in South Africa. Africans and Indians shared a history of oppression by the end of the century. However, some of the Indians labourers, who had completed their indenture and the traders who followed them, had advanced economically. European shelters in South Africa enacted a series of measures designed to disposes and deport the Indians. In reaction to colonialism, political issues came to the fore, as anti-colonial activists from the two continents began establishing contacts with each other in the early decades of the 20th century.

Jawaharlal Nehru, India’s first Prime Minister laid the foundation for India’s Africa policy. His policy towards Africa consisted of two major strands. The first was the support for the struggle against colonization and racial discrimination in South Africa. With regard to these issues India played a very active role at the UN. The second was related to the people of Indian origin settled in Africa. After Nehru, India-Africa relations dipped to a low. Few African nations gave diplomatic support to India in multi-lateral force such as the Non-aligned movement. This was due to a number of factors. India’s defeat in the Sino-Indian War in 1962 caused a setback to the image of India as a leader of the developing world. Second, India’s hesitation in fixing a date for the end of colonialism in Africa at the Belgrade NAM Summit in 1961 made it look soft towards the colonial powers. Third, its insistence on African liberation movements to adopt peaceful means as opposed to China’s overt gestures
towards arms assistance was not appreciated. Fourth, immediately after the 1962 war, India was busy countering China in every multi lateral forum.

However, by the mid 1960s India undertook a serious reassessment of its Africa ties and adopted some fresh initiatives. These developments had an impact at three levels. First there was realization that the Indian government’s support to the African liberation movements was not reciprocated by the Africans in terms of giving protection to the people of Indian origin. Second, the government of India reverted back to the policy of disengagement with the people of Indian origin. Subsequent governments till the late 1990s continued this policy. Third, the government of India’s hesitation in welcoming the expelled Indians back into its fold. In turn, made them realize the limits of the policy towards them and the fact that they had been left to their own fate in their adopted countries.

Another aspect of India’s reassessment of its Africa’s policy was the launching of a policy of economic diplomacy in the 60s. This commenced with the launch of the Indian Technical and Economic Cooperation (ITEC) Programme in 1964, primarily to counter China’s aid diplomacy by the 1970s, India’s stature had risen in African eyes.

In the 1970s and 1980s India continued to support liberation struggles in Africa. It worked closely with the Africans in the fight against apartheid in South Africa and Namibia not just at the UN but also at other multilateral for a such as NAM, and the commonwealth. India had accorded diplomatic status to the African National Congress in 1967 and South West African People’s Organization in 1985. Apart from diplomatic support, India also provided financial and material aid to the
liberation struggles in Africa, not directly but through multilateral institutions like the organization for Africa Union. The Africa fund was established by NAM under Prime Minister Rajiv Gandhi’s leadership in 1986 to assist frontline states and liberation movement in South Africa and Namibia. In the 70s India contributed to the Africa Fund which included private and individual contributions. In the 90s, a number of initiatives were launched to promote trade with Africa. Apart from the government the private sector also pitched into explore the African markets of production use of modern technology. This results in better use of resources which in turn lead to more production with same resources and lower cost of production. Use of modern technology also helps in improving the quality of goods. For example, Indian product “Sonalika” tractor at lower cost in compression with Japan. So Japan imported 50,000 of Sonalika tractor per year because of lower cost and better quality.

1.5 Relevance of the Present Research Study

The significance of international trade hardly needs any emphasis, with the growing internationalization, the traditional old linkages between India and Africa are gradually emerging as a dynamic and vibrant trade and investment partnership, benefiting all the partner economies. The present study will bring out the political area where export and import among India and Africa is expected to be increased. It will also bring out the area where economic co-operation among India and African countries may be enhanced. The outcomes of this study will also help to identify the problems and prospects of trade and economic relation.
This study will be useful for the Economist, policy maker, researchers, teachers, student of social science for understanding trade and economic relation and co-operation between India and African countries.

References