A STUDY ON FOREIGN TRADE AND ECONOMIC DEVELOPMENT OF INDIA

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Abstract

In the late 1970s and early 1980s, the trade regime was based on a complex system of licensing. India's trade policy heavily relied on quotas rather than on tariff. Imports were regulated through a licensing system without any policy prescriptions. Imports, in terms of both magnitude and composition were permitted only if the firm in question certified to the government that they were 'essential' (as inputs or equipment for production). Almost all imports were subject to discretionary import licensing or were 'canalized' by the government monopoly trading organizations. The Foreign Trade Policy is built around two major objectives- to double our percentage share of global merchandise trade within the next five years and to act as an effective instrument of economic growth by giving a thrust to employment generation.

Introduction

In the late 1970s and early 1980s, the trade regime was based on a complex system of licensing. India's trade policy heavily relied on quotas rather than on tariff. Imports were regulated through a licensing system without any policy prescriptions. Imports, in terms of both magnitude and composition were permitted only if the firm in question certified to the government that they were 'essential' (as inputs or equipment for production). Almost all imports were subject to discretionary import licensing or were 'canalized' by the government monopoly trading organizations. Significant acceleration in export growth rate was recorded in mid-1980's.However exports grew relatively slower than imports. As a result, the balance of payments crunch remained with a different magnitude. The modernization of industrial technology was becoming imperative. The import control stiffened the manufacturing sector. The necessity for economic reform emerged from this backdrop. The process of liberalization that began in mid-1980s was slow and fragmented. Many export incentives were introduced and imports were tied to exports.

Foreign trade has worked as an engine of growth in the past (witness Great Britain in the 19th century and Japan in the 20th besides others), and even in more recent times the "outward-oriented growth strategy" adopted by the newly Industrializing Economies of Asia, viz., Hong Kong (previously part of China), Singapore, Taiwan, Malaysia, Thailand and South Korea, has enabled them to overcome the constraints of small resource-poor underdeveloped economies.

Review of Literature

Several studies have indicated that globalization and trade liberalization has brought far-reaching changes in the commodity structure of India's foreign trade which reflects in the national income of the country. It is visible that the inward oriented and heavy industrialization strategy followed for quite a longtime has resulted in a large and diverse industrial sector.

Balasubramanyam, V. N. (1995)[1], the extent of reforms adopted by the country's policy makers. These reforms are adjudged as credible and extensive although they have not been developed in-depth. Reforms are in the areas of exchange rates, tariffs and investment. India is perceived to be veering away from reliance on foreign aid and seeking to integrate itself in the liberal market-based economies of most Western countries.

In addition, the recent review, available on international studies, is by **dwards's(1993)**[2] and for India by **Srinivasan (1994)**[3] .For instance, Edwards focuses, among others, on evolution of general trade policy in terms of competing strategies between import-led industrialization and export-led growth; review of various inter-related concepts, such as, trade liberalization, trade orientation, trade reforms, outward-orientation, free trade, openness etc, with emphasis on measurement issues in terms of constructing subjective and objective indices of trade liberalisation; analysis of different stages of trade liberalisation; theoretical and empirical studies (i.e. statistical and econometric) on the impact of trade liberalization on growth, exports and employment etc.

On the other hand, Srinivasan T N. (1994) analyses India's development strategy since independence in terms of objectives (e.g. growth, self-reliance and social justice) and policy initiatives(e.g. licensing)under the five-year plan as well as a dominant role for the state (e.g. public sector) in the development process. On the other hand, Srinivasan analyses India's development strategy since independence in terms of objectives (e.g. growth, self-reliance and social justice) and policy initiatives(e.g. licensing)under the five-year plan as well as a dominant role for the state (e.g. public sector) in the development process. In addition, the distinct analytical phases and changes overtime in the foreign trade regime in India are presented.

Krueger (1998)4, attempts to answer questions, such as, why liberalization is good for growth? Why is growth so rapid with outward oriented trade strategies? Do countries with outward oriented strategies grow faster? And, what are the advantages of liberalizing trade? The reason for outward orientation leads to rapid grows this that, period of time; import substitution becomes a failed strategy

Mehta (1997)[5] conducted a study about The share of manufactured sector too has remained more or less the same. Among manufactured goods, the share of three commodity groups, namely, gems and jewelry, textile and readymade garments, accounted for 56 per cent of manufacture goods in 1995-96 and it was around 50 % in 1990-91.

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Kundra (2000)[7] evaluates the export promotion policy of India through export zones. Export zones are set up in India as a location policy for promotion of manufacturing industries and attraction of domestic and private investment in export related activities.
To facilitate smooth inflow of foreign investment, among others, automatic approval of projects and licensing are accorded for these units. Further the author compares the policy of export zones is compared between India and China for the purpose of drawing lessons for India from the Chinese experiences. This evidence is shown to have important lessons for current and future policy for strengthening of the export zones in India.

The negative relation between exchange rate volatility and export demand is established on the argument that, a higher volatility creates higher uncertainty about future profit from export trade and vice versa. In short run the uncertainty can be reduced by using the forward market. An indirect effect on trade can come out by influencing the investment decisions of the firm. A good lot of literature in this context takes up risk bearing nature of the exporter to be the factor that determines the effect of volatility. The intuition is clear; under the risky environment risk adverse exporters generally prefer to hold back their exports so as to avoid unexpected loss and thereby tend to depress the trade.

Konandreas et.al. (1978)[8], examined the impact of income, price and non-price variables (exchange rate) on U.S. wheat export demand. For the analysis annual data covering the period 1954 to 1972 was taken. They came up with the conclusion that U.S. export demand for wheat is negatively responsive to exchange rate changes and price with exception of Asia.

From the exhaustive review of literature presented above, it is proposed to examine the role of foreign trade in economic development of India over the period 1970 to 2019.This exercise is sharply focused in analyzing the external trade between pre-liberalization and post liberalization era in India and also makes an attempt to study the short-run and long-run relationship between exports and economic growth.

Importance of the study

The focus of the study is to establish a quantitative relationship between exports and economic growth and to find out the existence of a long-run equilibrium relationship between exports and economic growth. The importance of exports can be studied with reference to commodities, composition, direction and degree of foreign trade, application of appropriate models estimates the relationship between the variables which helps to solve several problems of our economies.

So far, quite a number of studies were under taken to analyze the external sector. Many of them basically deal with export performance in terms of growth, instability and commodity concentration and total exports or agricultural exports. There are also studies dealing with balance of payments and trade policies. This study tries to analyze important external variables for a longer period and interconnecting them with different ratios to study the influence of foreign trade in shaping the economic environment.

During the process of industrialization export to import ratio will be less than unity. It is possible that faster growing economies have a more dynamic export sector. Henceforth there is a two-way relationship between export growth and GNP growth. So far most developing countries have been facing a seducement of real economic growth. Many studies have proved that foreign trade is a predominant factor for a countries economic growth.

OBJECTIVES OF THE STUDY

1. To map out the significance of foreign trade for economic growth.
2. To analyze India's aggregate exports and imports and its contribution towards development.
3. To show long-run equilibrium relationship between the countries exports, imports.

METHODOLOGY

The study is based on secondary data collected from Economic Surveys, Government of India publications specifically RBI Bulletin and published statistical data from websites. The data covered the period from 2013 to 2019 in comparison between Pre & Post-liberalization era.

Data analysis and interpretation

Table-1 : TRENDS IN INDIA'S EXPORTS AND IMPORTS: 2012-13 TO 2018-19

YEAR	EXPORTS (Rs in crore)	IMPORTS (Rs in crore)	EXPORTS As a percentage of GDP	IMPORTS As a percentage of GDP	INDIAN EXPORTS As a percentage of WORLD EXPORTS
2012 – 13	456417.9	660408.9	13	19.5	0.92
2013 – 14	571779.4	840506.4	16.7	20.1	1.1
2014- 15	655863.6	1012312	16.6	21	1.1
2015-16	840755.1	1374436	17.7	25.5	1.3
2016-17	845534.1	1363736	16.9	22.9	1.4
2017-18	1142649	1683467.3	15	22.5	1.6
2018-2019	14592813	2345973.4	18.6	26.8	1.8

Source: Directorate General of Commercial Intelligence & Statistics (DGCI&S), Kolkata a Growth rate on provisional over revised basis, Economic Survey 2018-19,PP A 80

Table 5.1. Explains the volume of trade and trends of India's Exports and Imports during the years form 2012-13 to 2018-19.It indicates that India's exports as compared to the world exports, have been slow in growth rate. Consequently, India's shares in the world exports fell to a low of 0.92 percent in 2012-16.

The growth of India's exports at world level rose to 1.8 percent in 2018-19. In the year 2018-19, the Export to GDP ratio and Import to GDP ratio improved at 18.6 percent and 26.8 percent respectively.

Further, India's total exports have increased remarkably during the last few decades, from 1024707crore in 2018-19.

TABLE -.3.

CORRELATION COEFFICIENT BETWEEN EXPORTS AND INDIA'S TRADE BALANCE

Variables	Correlation Coefficient	P value
Export and Trade balance	-0.985	<0.001**

Correlation coefficient between exports and trade balance is -0.985 which shows the relationship between export and trade balance is significant at 1 percent level. This inverse relationship between the growth of exports and trade balance is that the imports has also increased both for oil and non-oil after liberalization. Specially from 2012-13 onwards.

TABLE - 4.: EXPORTS OF PRINCIPAL COMMODITIES

Year	Primary Products	Manufactured Goods	Petroleum Products	Others	Total Exports	Difference in Export	Percentage changes
2012-13	72508.5	321260.9	51532.9	11117.9	456417.9	81078.5	21.70
2013-14	89078.0	384261.5	84520.1	13919.8	571779.4	115361.5	25.38
2014-15	110926.0	414599.4	114191.8	16146.7	655863.6	84084.3	18.17
2015-16	116525.9	566402.3	123397.9	34428.9	840755.1	184892.3	28.30
2016-17	119865.9	565201.9	125675.4	34782.4	845525.3	4770.1	00.67
2017-18	128569.5	675651.5	288764.9	49936.5	1142922.1	297396.9	35.17

2018-19	**192894.4**	**724641.6**	**393769.5**	**147976.1**	**1459281.4**	**316359.3**	**27.78**

During the last forty years, the exports of manufactured products have increased very largely from 2013-2019. At present engineering goods among the manufactured products plays an important role in India's export.

TABLE – 4. ANALYSIS OF VARIANCE –PRINCIPAL COMMODITIES (1970-71 to 2018-'12)

Exports of Principal Commodities	Pre-Liberalisation		Post liberalisation		Calculated Value	Existing Value
	Mean	Std. Deviation	Mean	Std. Deviation		
Primary Products	2046.01	1525.52	56330.3991	49334.95	4.913	<0.001**
Manufactured Goods	4116.1390	5066.00	243746.3016	218817.57902	4.991	<0.001**
Petroleum Products	187.4815	242.04870	57766.6891	102453.65452	2.610	<0.016*
Others	248.9075	162.15917	16151.7405	32304.15222	2.199	<0.034*
Total Exports	8472.1460	6677.85380	374830.8091	391219.07564	4.183	<0.001**

Both during the pre liberalization and post liberalization periods the exports of the principal commodities taken in this study i.e., the primary products manufactured goods, petroleum products showed remarkable changes in the volume of exports.

The P value is less than 0.01, the null hypothesis is rejected at 1percent level significant with regards to primary products ,manufactured goods implies that the volume of exports has increased for both these commodities after the liberalization period only.

Since the p value is less than 0.05, the null hypothesis is rejected at 5 percent level of significance with regard to the petroleum products which has shown that there a significant difference between the volume of exports from the pre and post liberalization period **Table 4**.

This clearly reveals that the productive exports of the primary products and manufactured goods increased. The petroleum product export has also increased India's export earnings

TABLE- 5: DIRECTION OF FOREIGN TRADE IN INDIA (2012-13 to 2018-'19) & (Rupees in Crore)

Year	Exports and Imports	Group/ Countries					Total Trade
		OECD Countries	OPEC	Eastern Europe	Developing Countries	Others/ Unspecified	
2012-13	Imports	179680.6	45032.5	11296.6	128523.1	136532.0	501064.6
	Exports	202935.9	67482.9	8767.9	175927.0	1304.6	456417.9
2013-14	Imports	229322.6	49458.5	16796.8	167754.5	197076.9	660408.9
	Exports	240080.3	94812.0	7032.5	228135.7	1719.0	571779.4
2014-15	Imports	296110.3	255093.6	17749.9	267829.9	3723.0	840506.4
	Exports	258763.7	108662.3	7394.9	278487.5	2555.7	655863.6
2015-16	Exports	314834.6	178788.9	9256.5	315265.5	22610.0	840755.1
	Imports	443317.6	448379.1	30410.3	445484.6	6846.5	1374435.7
2016-	Exports	327872.5	186751.9	11871.4	316753.9	2284.7	845534.1

17	Imports	442167.9	456754.8	10765.3	451785.9	2262.9	1363736.6
2017 - 18	Exports	424838.4	197808.3	11956.6	315265.9	22610.0	1142922.1
	Imports	698317.8	568389.5	80930.8	318975	16856.5	1683467.3
2018 - 19	Exports	634539.9	219870.7	13785.9	558953.5	29810.0	1456959.9
	Imports	974328.9	658590.6	167893.9	532803.5	11846.9	2345463.4

This Table Indicates the direction of India's foreign trade from 2012-13 to 2018-19. After liberalization, The Economic Survey of Government of India indicates that there had been tremendous increase in the exports to East Asian Countries. The major export destinations had been Hong-Kong, Singapore and Thailand. Thus nearly one-tenth of India's exports earnings were obtained from these three countries

CONCLUSION

Foreign Trade plays a unique role, as it is considered to be the core component for the process of country's growth and employment generation. Therefore it becomes a matter of paramount importance to study the various options for improving the foreign trade relationship with various countries and developing countries in particular. The focus of the thesis is to establish a quantitative relationship between exports and economic growth and to find out the existence of a long-run equilibrium relationship between exports and economic growth.

Trade statistics reveal that India depends more on the developed countries for its major proportion of exports as well as imports. India's exports and imports from developing countries do not grow at a significant rate. Further, while trading with developed countries, India's terms of trade are mostly unfavorable.

Hence, India is rather a losing partner in its trade with developed countries. As such, larger trade with developed countries would mean more exploitation or resource drain and this cannot be an engine of growth. In fact, developing countries do possess problems like non-tariff barriers, inadequate tariff-concessions and with a strong political will for economic integration. India can succeed in developing good trade relations with developing countries of the south and neighbouring areas. The positive earnings from invisibles covered a substantial part of trade deficit and current account deficit reduced significantly.

The external commercial borrowings were extensively used to finance the current account deficit. The net non resident deposits were positive throughout the ten year period. There has been a growing strength in India's balance of payment position in the post reform period in spite of growing trade deficit and current account deficit.

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