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Performance of Foreign Trade in India in the Post Liberalisation Era

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Abstract: *Foreign trade makes a significant contribution to the economy growth of a country. The policy regime in India with regard to liberalization of the external sector has brought tremendous changes in India's foreign trade. So, the present study attempts to analyse the trend and composition of foreign trade since 1991 and also to analyse the impact of trade on the economic growth of India. The study reveals that though the total exports and imports both have increased but the growth rate of imports is more than the growth rate of exports. It is also found that manufactured goods compose major portion of the export goods while petroleum and crude products contribute major portion of the imported goods. The study also reveals that import has a negative influence on economic growth while export and economic openness are positively related with the economic growth of India.*

Keywords: *Export, Import, Economic Openness, Economic Growth and Growth Rate JEL Code:* F_0

1. Introduction

Foreign Trade is very crucial for a country's economic development as it has made an increasingly significant contribution to economic growth and substantially to the economic welfare of the people. The foreign trade of a country consists of inward and outward movement of goods and services, which results into outflow and inflow of foreign exchange from one country to another country. No country in the world possesses the adequate facilities for economical production of all the goods and services that are consumed by its people. This implies that no country is self-sufficient in the sense that no country can produce all the goods that it needs. Hence, the need to trade with each other arises. Economies of scale and international specialisation which is also the fruits of scientific and technological progress in the world would become more easily accessible through foreign trade (Agarwal, 1975). Developing countries need more goods to feed a rapidly growing population. Exports can be a leading sector in growth. It clearly implies that increased earnings from higher marketability of a country's commodities in the international market would stimulate the indigenous industrial activity within the country. This in turn brings many distinct benefits, viz., greater utilisation of resources, larger employment opportunities, more foreign exchange, etc. It was thus considered that foreign trade would make an impressive contribution to a country's development; hence it is considered to be not simply a device for achieving productive efficiency; but also an engine of growth. International trade has now become a vital part of development strategy and it can be an effective instrument of economic growth, employment generation and poverty alleviation in an economy.

2. Necessity of the Study

As a result of long term poor economic performance under protectionist policies, many developing countries including India started removing their barriers to international trade in late 1980s with an aim to improve economic development of the country. During the time of independence, the foreign trade of India was typical of that of a colonial and agricultural economy and the trade relations were mainly confined to Britain and other commonwealth countries. During the period 1950 -1990, foreign trade of India suffered from strict bureaucratic and discretionary controls. Although the Indian foreign liberalisation era started in 1970's but only in the late 1980's and early 1990's, drastic changes have started taking place as far as Indian foreign trade is concerned. In 1991, the Government of India introduced series of economic reforms to liberalize and globalize Indian economy. Since the initiation of economic reforms, India's outward orientation has started increasing. The Indian trade policy experienced various changes time to time after its initiation and the major changes included simplification of procedures, removal of quantitative restrictions and substantial reduction in the tariff rates. The policy regime in India with regard to liberalization of the external sector has brought tremendous changes in Indians foreign trade. Thus, it is in this connection that the present study aims to analyse the trend and composition of the foreign trade since 1991.

3. OBJECTIVES

The study aims to achieve the following specified objectives:

- To analyse the trend and composition of foreign trade in India since 1991.
- To examine the role of foreign trade in economic growth of India.

4. METHODOLOGY OF THE STUDY

The study is based on secondary data collected from Statistical Handbook published by RBI. To examine the trend and composition of foreign trade in India after New Economic Policy of 1991 simple statistical tools like growth rate, percentage share calculations and simple diagrams have been used. The growth rates of exports (ΔX/ X), Import (ΔI /I) and GDP (ΔI /Y) are obtained by using the following formula:

$$Gr_t = \frac{Y_t - Y_{t-1}}{Y_{t-1}} \times 100$$

where, Gr_t is the growth rate of variable Y for t^{th} time period compared to its previous year and it is represented as percentages.

To examine the role of foreign trade in economic growth of India, linear regression model has been used where Gross Domestic Product (GDP) at factor cost at constant price is taken as a measure of economic growth; and volume of export, import and economic openness in monetary terms are taken as variables of the study. Before applying Ordinary Least Squares (OLS) method, the stationary of the concerned variables are tested using Augmented Dickey Fuller (ADF) Test.

The following model is applied here examine the impact of trade on economic growth

$$Y_t = \alpha + \beta_1 X_t + \beta_2 M_t + \beta_3 O_t + u_t \ , \qquad t= 1,2,3,............................., 22.$$

where, α and βs are the co-efficients and u_t is the error term which follows normal distribution with mean zero and variance σ^2.

Y_t is the Gross Domestic Product in period t, X_t is the export in time t. Krueger (1997) finds a strong association between export and economic growth. M_t is the import in time t. Ahmed et.al (2013) finds a negative impact of imports on GDP. Li et. al (2003) from their study suggest that imports of services have a significant positive impact on economic growth in developed countries and a negative impact in developing countries. O_t is the economic openness in time t. The openness variable is measured as exports plus imports divided by GDP [O = (X + M)/GDP]. It is expected to have a positive effect on growth as drawn from various works that have been reviewed(Grossman and Helpman, 1992, Chen and Gupta, 2006).

5. RESULTS AND DISCUSSION

The findings of the study are divided into two sub sections according to the objectives of the study.

5.1 Trends and Composition of India's Foreign Trade

The impact of trade reforms is apparent from the changing structure of India's Foreign Trade in terms of trend and diversity of market and products. Figure1 presents the growth rates of GDP, total exports and total imports measured over the period 1991-92 to 2012-13. Growth rates referred to in the context are in Rupees Billion terms. During the 1990s, Indian exports have performed well in certain years, and not so well in some other years. The growth rate was high in 1993-94 and 1995-96 at 29.9 per cent and 28.6 per cent respectively, but declined sharply in 1996-97 to 11.7 per cent, and continuously till 1998-99 on account of the South East Asian crisis and worldwide recession. It again recovered to 14.2 per cent in 1999-2000, and reached the highest growth rate for the decade at 27.6 per cent in 2000-01. However, the global economic slowdown and the events of September 11, 2001 led to a steep fall in the rate of growth of exports during 2001-02 (2.7 per cent). The period since 2002-03 has recorded a steady export growth rate upto 2008-09 (28.8 per cent). India's exports reached Rs. 8407.00 billion in 2008-09. But in 2009-10 exports increased upto Rs.8455.00 billion only (Table 1). Thus, the growth of exports declined to 0.6 per cent in 2009-10 in view of the global meltdown. But in 2010-11, exports made a huge jump up to Rs. 11429.00 Billion and thus the growth rate of export recorded the highest of 35.2 per cent.

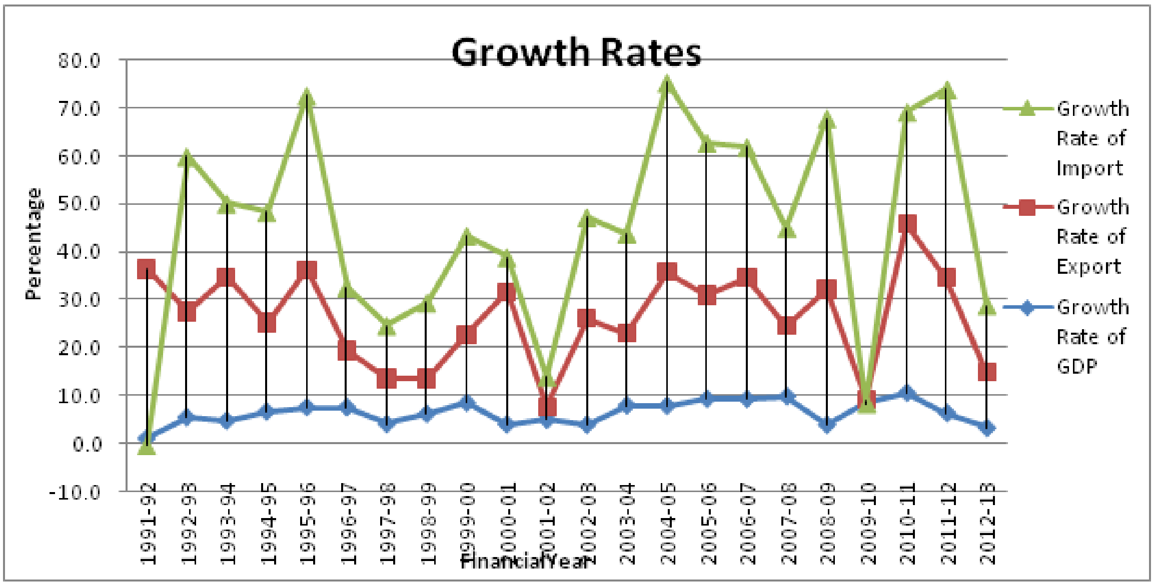

Figure 1. *Growth rates of Imports, Exports and GDP*

Imports crossed Rs. 1000.00 billion for the first time in 1995-96 and then it declined steeply. The growth rate of imports was very low in 2001-02(6.2 per cent). It regained in 2002-03, and has grown steadily thereafter and touched 39.5 per cent in 2004-05 and then declined up to 20.4 per cent in 2007-08. In 2008-09, the growth rate again touched 35.8 per cent. But deceleration started from October 2008, and led to negative growth rate of -0.8 per cent in 2009-10. It regained in the consecutive year and reached the maximum of 39.3 per cent in 2011-12.Thus, imports in the same year was Rs. 23454.00 Billion. The net exports have also been rising consecutively during the whole study period (Table 1).

Table 1. *Exports, Imports and Net Export in India since 1991 (in Rupees Billion)*

Year	Exports	Imports	Net Export
1991-92	440.42	478.51	-38.09
1992-93	536.88	633.75	-96.86
1993-94	697.51	731.01	-33.50
1994-95	826.74	899.71	-72.97
1995-96	1063.53	1226.78	-163.25
1996-97	1188.17	1389.20	-201.03
1997-98	1301.01	1541.76	-240.76
1998-99	1397.53	1783.32	-385.79
1999-00	1595.61	2152.37	-556.75
2000-01	2035.71	2308.73	-273.02
2001-02	2090.18	2452.00	-361.82
2002-03	2551.37	2972.06	-420.69

2003-04	2933.67	3591.08	-657.41
2004-05	3753.40	5010.65	-1257.25
2005-06	4564.18	6604.09	-2039.91
2006-07	5717.79	8405.06	-2687.27
2007-08	6558.64	10123.12	-3564.48
2008-09	8407.55	13744.36	-5336.81
2009-10	8455.34	13637.36	-5182.02
2010-11	11429.22	16834.67	-5405.45
2011-12	14659.59	23454.63	-8795.04
2012-13	16352.61	26731.13	-10378.52

Source: Calculated on the basis of Statistical Handbook on Indian statistics 2012-13, Data For 2012-13 are provincial.

The growth rate of GDP has been lower than both the growth rates of export and import throughout the study period. The growth rate of GDP was very low in 1991-92 (1.1 per cent) and then it rose slowly up to 7.6 per cent in 1995-96. During the whole study period, the highest growth rate was 10.5 per cent in the year 2010-11 and it was only during the same year that the growth rate of export is more than the growth rate of import (Figure 1).

Liberalisation and trade reforms have also led to a number of changes in the composition of India's foreign trade. The composition of foreign trade implies the composition of exports and imports of a country. Exports bring out the fact about the goods that a country has and how much of these it can and is willing to sell and import indicate what types of goods a country lacks and how much of them it is able to get. The composition of foreign trade related to exports and imports of different commercial products are shown in Figure 2 and Figure 3.

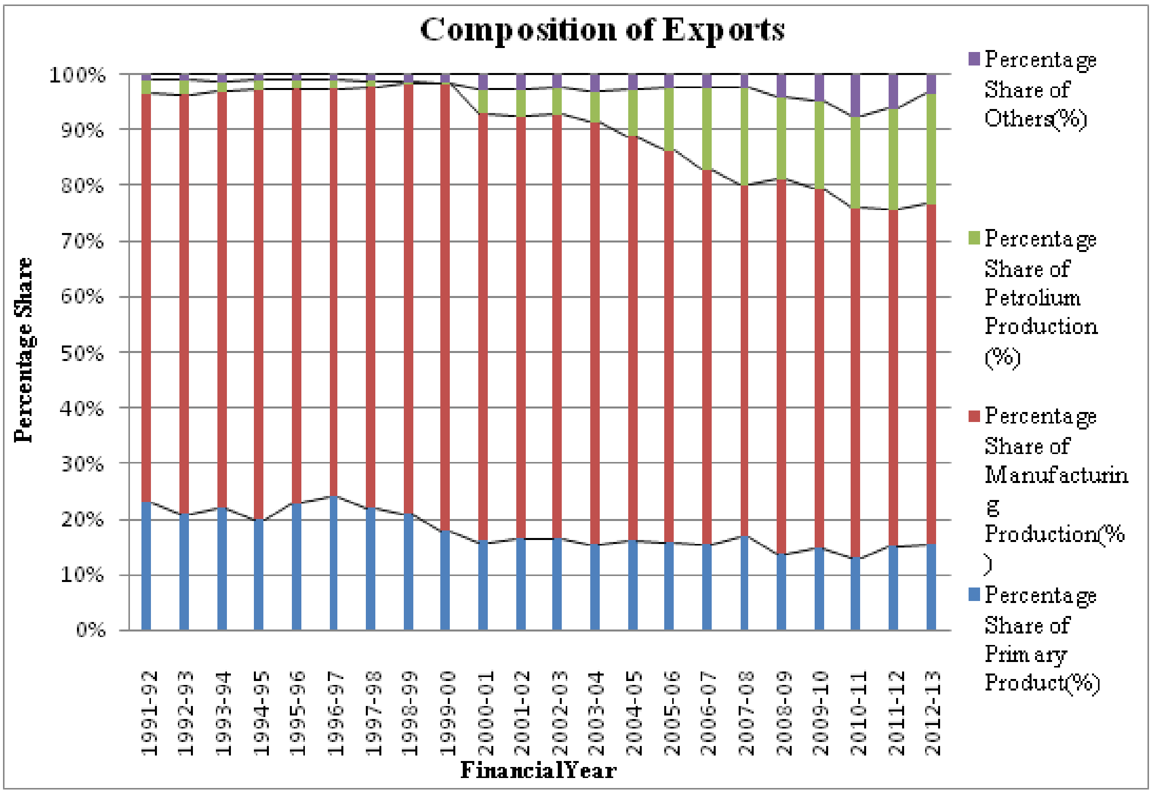

Figure 2. *Percentage share of Principal Commodities to Total Export over the years*

The highest share in total export is of manufactured goods followed by primary goods. But it is also observed that from 2000-01, share of manufactured goods is continuously falling. On the other hand, from the same year the percentage share of petroleum products to total export is increasing continuously. It is also seen that over the periods 1991-92 to 2012-13, primary products experience fluctuations in its share to total export and the percentage of other exported goods constitutes a small share to the total export The primary products are composed of agriculture and allied products and ores and minerals while the manufactured goods are composed of leather and manufactures, chemicals and related products, engineering goods, gems and jewellery, handicrafts, textile and textile products and other manufactured goods(Figure 2).

Total bulk imports are composed of petroleum, crude and products, bulk consumption goods which includes cereals and cereal preparations, edible oils, pulses etc. and other bulk imported items while the non-bulk imports are composed of capital goods, export related items which includes pearls and precious stones, organic and inorganic chemicals, textile yarn, fabrics, made ups etc., and sugar, and finally other imported non-bulk items. It is observed from figure 3 that the share of non-bulk imports to total import is higher than the share of bulk imports to total imports. Under bulk imports share of petroleum, crude and products is the highest followed by other bulk items. The share of bulk consumption goods to total bulk imports is the lowest. It is also seen that under non-bulk imports, the share of capital goods is the highest followed by share of other items. Share of export related goods and other non-bulk imports experience fluctuations in its share to total non-bulk imports. Bulk consumption goods capture the lowest share in total imports (Figure 3).

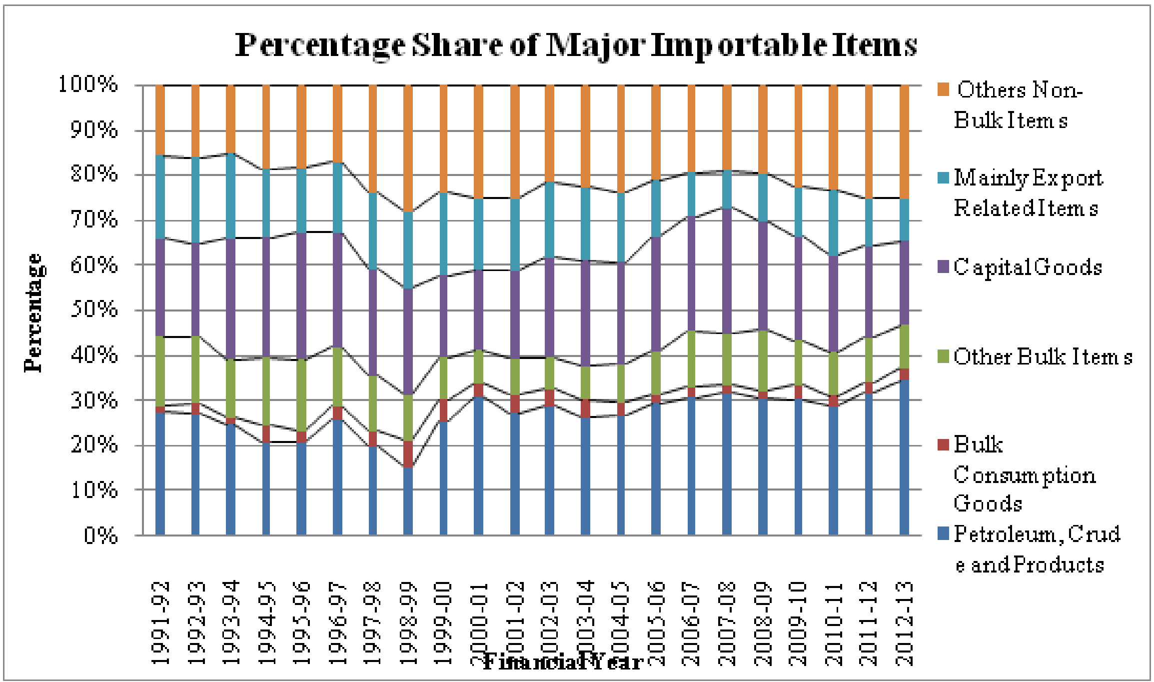

Figure 3. *Percentage share of Principal Commodities to Total Imports over the years*

5.2 Impact of Trade on Economic Growth

Using non-stationary variables in the model might lead to spurious regression which cannot be used for precise prediction (Gujarati, 2003). Hence, our first step is to determine whether the variables have unit roots, that is, whether it is stationary and the order of integration. In order to identify the stationary of the variables under study Augmented Dickey-Fuller (ADF) test is applied. Table 2 shows the result of unit root test and the order of integration. It is seen that all the variables are stationary.

Table 2. *Unit Root Test Summary Statistics (Augmented Dickey Fuller)*

Variables	ADF Test Statistics	Critical Values			Order of Integration
		1 %	5 %	10 %	
GDP	4.439	-3.750	-3.000	-2.630	I(0)
Export	5.155	-3.750	-3.000	-2.630	I(0)
Import	5.004	-3.750	-3.000	-2.630	I(0)
Economic Openness	2.666	-3.750	-3.000	-2.630	I(0)

Calculated on the basis of Statistical Handbook on Indian Statistics 2012-13, Data For 2012-13 are provincial.

Table 3 presents the result of the regression analysis depicting the impact of foreign trade on economic growth. The value of R^2 in the model is 0.99 which shows that 99 per cent of the variation in the dependent variable is explained by the independent variables of the model. The one per cent variation in the dependent variable remains unexplained by independent variables of the study.

Table 3. *Impact of Trade on Economic Growth (GDP)*

Variables	Co-efficient	*t*-values	Prob. value	ANOVA
Intercept	8505.06*	6.619472	0.00000	R^2= 0.987
Export	4.396539*	2.961271	0.00836	Adj. R^2= 0.985
Import	-3.45091*	-4.23555	0.000497	F Stat.= 460.549*
Economic Openness	96288.33*	7.340794	0.00000	

Source: Calculated on the basis of Statistical Handbook on Indian statistics 2012-13, Data For 2012-13 are provincial.

Note: denotes parameters are significant at less than one per cent.*

The adjusted R^2 shows that asymptotically the variables can explain approximately 98 per cent of total variation. The implication is that the model has goodness of fit. F-statistic tests the overall significance of the model under study. The value for the F-statistic is 460.54 and is significant. The result of regression analysis shows that export and economic openness have significant positive impact on GDP while import has a negative impact on GDP. The results confirm the importance of foreign trade on expansion and growth of Indian economy. Although import is negatively related with GDP, overall impact of trade on economic growth represented by economic openness is positive and highly significant (Table 3).

6. CONCLUSION

Over the study period it has been observed that total exports of India has increased after the adoption of New Economic policy in India. Although India is facing continuous deficit in its balance of payment but the overall prosperity is unbounded. Inspite of fluctuations in GDP growth rate, the volume of trade is increasing day by day. The composition of India's exports has grown up significantly. The export of petroleum has shown a considerable increasing trend. Major portion of Indian exports is in manufactured goods. The composition of India's imports has also grown up significantly. It has also shown a positive and increasing trend during the period under study. The share of imports of petroleum and crude products and other non-bulk items have increased significantly while the imports of food grains and export related items have declined. The study also indicates that post liberalization era has certainly helped India in achieving high growth in the economy as there has been a rapid growth of imports of capital goods and technical raw materials to meet the requirement of industrialization and growing imports of petroleum products for meeting industrial and consumption requirement. It is also found that though import has a negative influence on economic growth ,the volume of trade reflected by economic openness have a positive impact on the economic growth of India and its magnitude is increasing continuously.

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