Post Reforms Growth of India's Foreign Trade

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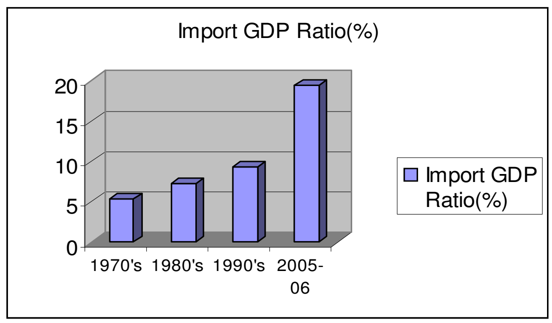
ABSTRACT

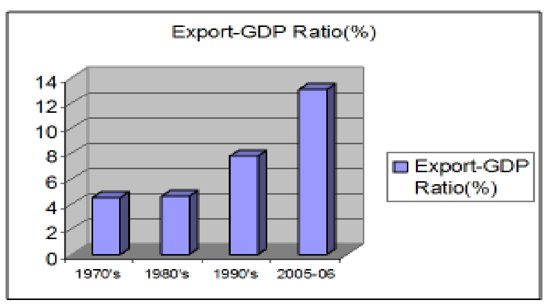
This paper is based on the growth and structure of India's foreign trade since 1991. India's trade has increased significantly in the post reform period. In absolute terms, the trade volume rose from US $ 42.2 billion ($ 18.1 billion exports and $24.1 billion imports) in 1990-91 to US $ 391.42 billion 155.51 billion exports and $ 235.91 billion imports)2007-08. Exports are the major focus of India's trade policy. The incentives offered by the export promotion package are comparable to that of any other country. The exports cover a wide range of traditional and non-traditional items while imports consists mainly of capital goods, petroleum products, raw material and chemicals to meet the ever-increasing needs of a developing and diversifying economy.

1. PERFORMANCE

Reflecting the liberalization of trade regime and the increasing external openness of the economy, India's trade GDP ratio showed substantial improvements during 1990s as compared with the earlier decades. The export GDP ratio rose from 4.5 per cent in 1970s (1970-71 to 1979-80) and 4.6 per cent in l980s (1980-81 to 1989-90) to 7.8 per cent in 1990s (1990-91 to 1999-2000). It rose further to 13.1 per cent in 2005-06. The import-GDP ratio also rose from 5.3 in l970s to 7.2 per cent in l980s and further to 9.3 per cent in 1990s. In 2005-06, the import GDP ratio was 19.5 per cent. The overall trade-GDP ratio increased from 9.8 per cent in l970s to 11.8 percent l980s and further to 17.1 percent in 1990s. These data indicate an increasing openness of the Indian economy in 1990s and given India's own economic past "represents a significant change in its relationship with the world economy."

The export-import ratio (which indicates the proportion of imports that can be financed from export earnings) increased substantially from 64.0 per cent dun 1980s to 84.9 per cent during 1990s and stood at 81.7 per cent in 2003-04. However, it deteriorated thereafter and fell to 75 per cent in 2004-05 and 68 per cent in 2006-07. Both export





growth and import growth rates registered an increase in the post reform period vis-à-vis1980s. For instance, the average annual export growth rate rose from 8.1 percent in 1980s to 8.6 per cent in 1990s while the average annual import growth rate rose from 7.2 percent to 9.6 per cent over the same period. However, a little calculation on the rates of grow in 1990s shows that the performance in the second half 1990s deteriorated considerably as compared with the first half of I 990s. For instance, on an average annual basis export growth during the first half of 1990s (1992-93 to 1995-96) was 15.7 percent which fell considerably to only 3.9 per cent in the second half of 1990s (1996-97 to 1999-2000). Similarly, on an average annual basis, import growth fell from 17.5 percent in the first half of I990s to 8.0 percent during the second half of 1990s. The year 2001-02 was bad as exports declined by 1.6 percent. Imports, on the other hand, rose marginally. How ever, both exports and imports rose significantly in the later years. As far as expansion in foreign trade is concerned, the most significant year in the entire period of planning has been the year 2004-05.In this year exports increased by 30.8 percent over the previous year while imports increased by 42.7 percent over the previous year.

2. CHANGES IN EXPORTS

The share of agriculture and allied products in total exports was 19.4 per cent (i.e. one-fifth) in 1990-91. This fell to 10.3 per cent (i.e. one-tenth) in 2006-07. Manufactured products account for a major share of the increase in aggregate exports over the period 1990- 91 to 2006-07. Gems and jewellery was the most important export item in 1990-91 with its share in total export earnings being 16.1 per cent. It consistently maintained its share at about 15 -17 per cent for most of the post-reform period but its share fell to 12.6 per cent in 2006-07.The second most important export item in 1990-91 was readymade garments with their share in export earnings being 12.8 per cent. However, it was soon pushed down to third place by engineering goods. In 2006-07, the share of readymade garments in export earnings was 7.0 per cent. Engineering goods occupied the third place in India's export earnings in 1990-91 with a share of 11.9 per cent. In 2006-07 they occupied the first place with a share of 23.3 per cent. Thus, engineering goods now contribute a little less than one-fourth of total export earnings. Their share in incremental export earnings over the period 1990- 91 to 2006-07 is as high as 25.2 per cent ($ 27,271 million out of $ 1,08,217 million).Exports of chemicals and allied products which F were $1,176 million in 1990-91 rose to $ 14,211 million in 2006-07. As a result, the percentage share of chemicals and 'allied products increased from 6.5 per cent in 1990-91 to11.2 per cent in 2006-07. An important reason for this improved performance has been an increase in the exports of drugs, pharmaceuticals and fine chemicals. The share of leather and leather manufactures in export earnings declined steeply from 8 per cent in 1990-91 to 3.4 percent in 2003-04 and further to 2.4 per cent in 2006-07. Because of the rising demand for iron ore by Chinese iron and steel industry, the exports of iron ore from India have suddenly shot up. While iron ore worth $1,126 million was exported in 2003-04, in a year's time (i.e. in 2004-05) the exports of iron ore jumped to $ 3,277 million. They rose further to $ 3,902 million in 2006-07. The changes in the structure of India's exports during the post-reform period are more noticeable at the disaggregated level. In certain years during this period, exports of rice, tobacco, spices, sugar and molasses, and works of art (excluding floor coverings) increased significantly. India's manufacturing exports are showing ten dencies of shifting away from traditional exports towards relatively manufactured products. An encouraging trend from the point of view of future growth is that in recent years, exports of electronic goods and computer goods have shown good performance. In addition to changes in the composition of merchandise exports, it is also necessary to emphasize the sharp rise in service exports since 1991 and changes in the composition of service exports. Between 1992 and 2006-07, India's exports of services increased from $4.9 billion to $ 76.2 billion. As far as composition of service exports is concerned, the relative share of travel and transportation in India's exports which was as high as 64 per cent in 1995-96 fell to 22.6 per cent in 2006-07 while that of software services rose from 10 per cent to 41.1 per cent over the period. IT exports (including hardware exports) touched the level of $ 31.9 billion in financial year 2007 and are expected to increase further to $ 40.8 billion in financial year 2008 (28 per centgrowth).

3. CHANGES IN IMPORTS

The most important import Item in terms of expenditure is POL (petroleum, oil and lubricants). The share of POL in total import expenditure was 25.0 per cent in 1990-91 and 30.8 per cent in 2006-07. In fact, for most of the post-reform period POL imports have accounted for one-fourth (or more than one-fourth) of total import expenditure. A point that needs to be noted here is the compositional shifts within the broad level of aggregation during the last decade. For instance, within the petroleum imports, there has been a shift from import of petroleum products towards crude imports following a large scale increase of refinery capacity over time. Furthermore, India transformed itself from a net importer of finished petroleum products to net exporter of the same in 200l-02. To meet the requirements of the gems and jewellery industry (which is an important export industry of the country) pearls and precious and semi-precious stones are imported in large quantities. These imports amounted to $ 2,083 million in 1990-91 and $ 7,488 million in 2006-07. In percentage terms, however, the share of pearls and precious and semi-precious stones has remained almost constant at 8-9 per cent of total import expenditure all through the post-reform period. (However, in 2006-07, it fell to 4.0 per cent). As a result of liberalisation of trade policy in the post-reform period and changing consumer tastes, imports of electronic goods and computer goods have increased substantially during the recent years. During 1993-94, imports of electronic goods and computer goods were worth $ 930.4 million which was just 4 per cent of total import expenditure. In 2000-01, their imports had risen to $ 3,694.5 million which was 7.3 per cent of total import expenditure. In 2006-07, imports of electronic goods and computer goods rose further to $ 16,887 million which was 8.9 per cent of total import expenditure. There has been a steep fall in the imports of project goods during recent period. The share of import of project goods in total import expenditure was 6.3 per cent in 1998-99 which fell drastically to only 0.9 per cent in 2006-07. The share of fertilisers in import expenditure fell from 4. 1 per cent in 1990-91 to only 1.6 per cent in 2006-07.Over the same period the share of iron and steel in import expenditure fell from 4.9 per cent to 3.5 per cent. The share of chemical elements and compounds in total import expenditure remained stable at 5-6 per cent all through the period 1990-91 to 2005-06 but fell to only 0.7 per cent in 2006-07. Data on imports of gold and silver since 1999-2000 are now available (the reason is that these imports are now channelised through the official routes). These data show that gold and silver imports were of S 4,706 million in 1999-2000 and these rose to $ 11,189.4 million ‘in 2005-06. Percentage share of gold and silver in total import expenditure was 8 per cent in 2005-06. The last few years have seen considerable in crease in imports of coal, coke and briquettes etc. (in absolute terms). From $ 440 million in 1990-91 these imports rose to $ 1,103 million in 2000-01 and further to $ 2,802 million in 2004-05.

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