

India's Foreign Trade in Post Reform Period

Trends in the Volume

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ABSTRACT

Globalisation has become a ubiquitous term in international economy over the past two decades. Economic liberalization, reforms, restructuring and globalisation have paved the way for a new wave in the Indian economy. In modern times faster growth and development has been one of the most important phenomena and ambition of almost all the nations. Moreover, there is greater awareness of global partnership among the developing and developed nations for sustainable development today. More and more emphasis is being laid on globalisation and openness. Trade policy reforms are a step in the right direction of making the foreign trade regime in India, free from an over regulated trade policy. As far as expansion in foreign trade is concerned, the most significant year in the entire period of reforms has been the year 2004-05. In this year exports increased by 27.9 percent over the previous year while imports increased by 39.5 percent over the previous year. Thus, 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.

1. INTRODUCTION

Foreign trade has a significant role to play in the economic development of a nation. Being an engine of growth, it breaks the boundaries of nations as well as enjoins them. It provides opportunity for specialisation and brings in benefits of technical efficiency. It induces factors of production to move. The factors seek their optimum combinations which establish equality in factor prices. Globalisation has become a ubiquitous term in international economy over the past two decades. Economic liberalization, reforms, restructuring and globalisation have paved the way for a new wave in the Indian economy. In modern times faster growth and development has been one of the most important phenomena and ambition of almost all the nations. Moreover, there is greater awareness of global partnership among the developing and developed nations for sustainable development today. More and more emphasis is being laid on globalisation and openness.

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right direction of making the foreign trade regime in India, free from an over regulated trade policy. The new approach attempts to establish a market oriented linkage between exports and imports, with progressively lesser role for licensing and regulation. The Import-Export policies announced during 1990s and thereafter have practically done away with almost all import licensing, other regulatory measures like canalization and has drastically pruned the restricted or negative list of imports. In fact, the trade policy reforms initiated in 1991 have drastically changed the scenario and have resulted in a shift from the inward-oriented policy of the past to an outward-oriented policy.

The basic objective of trade policy reforms announced in 1991 was to open up the economy to foreign trade and to integrate the Indian economy with global economy in new international economic order. These major trade policy reforms since 1991 have been undertaken to achieve objectives like rapid increase in exports, raise Indian's share in world exports, an engine of growth, promote investment for increased

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production, increase international competitiveness, quality and technological upgradation and to solve adverse balance of payments situation. These internal and external trade policy changes have far reaching impacts on volume, commodity composition and direction of trade and balance of payments of the country. Therefore, an attempt has been made in the present paper to analyse the trends in the volume of India's foreign trade during the reforms period. The paper is entirely based on secondary data and literature. Various issues of Economic Survey, Handbook of Industrial Policy and Statistics, C.M.I.E. Reports, other published reports, Five-year Plans of Government of India and various articles related to the study appeared in leading research journals have been reviewed and acknowledged for preparing the paper.

2. TRENDS IN THE VOLUME OF INDIA'S FOREIGN TRADE

In the pre-independence period, the volume, composition and direction of India's foreign trade was determined not according to the comparative cost advantages of India but by the colonial relations between India and Britain. In other words, it was Britain, that decided from which countries India could import its requirements and to which countries it could export its products. Naturally, a major part of India's trade was either directly with Britain or its colonies or allies. This pattern continued for some years after independence also since India had not till then explored the possibilities of developing trade relation with other countries of the world. For example, the combined share of the U.K. and the U.S.A. in India's export earnings was 42% in 1950-51. Their share in India's import expenditure was as much as 39.1% in the same year. With other capitalist countries like France, Germany, Italy, Japan etc. India either did not have trade relations at all or they were very insignificant. As political

and diplomatic contacts developed with other countries, economic relations also made a headway. Thus, new vistas for developing trade relations with other countries opened up. The situation has changed very much ever since the very inception of planning in the country and now after five decades of Indian planning, the trading relations exhibit marked changes. The diversification in trade relation has reduced the vulnerability of the economy to outside political pressures.

India's foreign trade has increased significantly in the post-reform period. There has been a substantial increase in the volume of imports and exports. The growth of foreign trade as a ratio of G.D.P. is analysed in table No. 1

The table no. 1 shows that as ratio of G.D.P., the export at current price increased from 6.37 percent in 1990-91 to 14.04 percent in 2005-06, while at constant prices they increased from 4.70 percent in 1990-91 to 17.52 percent in 2005-06. But during the same period, imports as percentage of G.D.P. increased from 8.45 percent at current prices in 1990-91 to 20.31 percent in 2005-06. While at constant prices it was 6.23 percent in 1990-91 which increased to 25.36 percent in 2005-06. Due to this substantial increase in imports the trade deficit in the post-reform period has increased.

The table no. 2 shows volume of India's foreign trade during reforms period. Analysis based on data given in table No. 2 leads to following conclusion:

- I. The total volume of India's foreign trade (including Imports and Exports) have increased from Rs. 75,751 crores in 1990-91 to Rs. 11,16,827 crores in 2005-06. The increase has been almost 15 times over 1990-91.
- II. The volume of India's imports has increased from Rs. 43,198 crores in 1990-

Table-1

Exports and Imports as Percentage of Gross Domestic Product (1993-94=100)

Years	Exports		Imports	
	At Current Price	At Constant Price	At Current Price	At Constant Price
1990-91	6.37	4.70	8.45	6.23
1991-92	7.47	6.27	8.12	6.81
1993-94	8.92	8.92	9.35	9.35
1995-96	9.91	11.82	11.43	13.63
1996-97	9.55	12.55	11.17	14.32
1997-98	9.35	12.80	11.09	15.17
1998-99	8.74	12.91	11.15	16.47
1999-00	9.09	13.89	12.25	18.74
2000-01	10.73	17.05	12.18	19.33
2001-02	9.98	16.51	11.70	19.37
2002-03	11.26	12.46	13.12	14.51
2003-04	11.51	13.20	14.08	16.16
2004-05	13.14	15.71	17.54	20.97
2005-06	14.04	17.52	20.31	25.36

Source : Compiled from data in Economic Survey, 2006-07, p. S-1.

Table-2

Volume of India's Foreign Trade(Rs. in Crores)

Year	Exports	Imports	Trade Balance	Total	Rate of Change		Export Import Ratio (%)	Indian's Share in World Export
					Export	Import		
1990-91	32,553	43,198	-10,645	75,751	17.7	22.3	75.35	0.53
1991-92	44,041	47,851	-3,810	91,892	35.3	10.8	92.04	0.53
1992-93	53,688	63,375	-9,687	1,17,063	21.9	32.4	84.71	0.52
1993-94	69,751	73,101	-3,350	1,42,852	29.9	15.3	95.42	0.57
1994-95	82,674	89,971	-7,297	1,72,645	18.5	23.1	91.89	0.59
1995-96	1,06,353	1,22,678	-16,325	2,29,031	28.6	36.4	86.69	0.60
1996-97	1,18,817	1,38,920	-20,103	2,57,737	11.7	13.2	85.53	0.62
1997-98	1,30,100	1,54,176	-24,076	2,84,276	9.5	11.0	84.38	0.62
1998-99	1,39,752	1,78,332	-38,580	3,18,084	7.4	15.7	78.37	0.62
1999-00	1,59,561	2,15,236	-55,675	3,74,794	14.2	20.7	74.13	0.64
2000-01	2,03,571	2,30,873	-27,302	4,34,444	27.6	7.3	88.17	0.67
2001-02	2,09,018	2,45,200	-36,182	4,54,218	2.7	6.2	85.24	0.66
2002-03	2,55,137	2,97,206	-42,069	5,52,343	22.1	21.2	85.84	0.86
2003-04	2,93,367	3,59,108	-65,741	6,52,475	15.0	20.8	81.69	0.90
2004-05	3,75,340	5,01,065	-1,25,725	8,76,405	27.9	39.5	74.91	-
2005-06	4,56,418	6,60,409	-2,03,991	11,16,827	21.6	31.8	69.11	-

Source : Economic Survey, Government of India, 2006-07, S-78.

91 to Rs. 6,60,409 crores in 2005-06, thus registering about 15 times increase over 1990-91.

III. The volume of India's exports, which was Rs. 32,553 crores in 1990-91, increased to Rs. 4,56,418 crores in 2005-06. The volume of exports increased by 14 times over 1990-91.

IV. A study of foreign trade data also reveals that trade balance was positive in only two years during the entire period 1949-50 to 2005-06. These were the years of 1972-73 and 1976-77 when the country recorded small trade surpluses of Rs. 104 crores and Rs. 68 crores respectively. In all other years, deficits in balance of trade were recorded. What is a matter for concern is the fact that the trade deficit has increased significantly over the years. The table further reveals that trade deficit declined substantially in 1991-92 to Rs. 3,810 crores from Rs. 10,645 crores in 1990-91. However, it reversed to Rs. 9,687 crores in 1992-93. The year of 1993-94 was of improvement but thereafter it has been increasing continuously and reached to the record level of Rs. 55,675 crores in 1999-2000. It improved significantly in 2000-01 and came down to Rs. 27,302 crores in 2000-01, but again rose to Rs. 36,181 crores in 2001-02. The trade deficit touched the staggering figure of Rs. 2,03,991 crores in 2005-06. This increase in trade deficit is mainly because of following reasons :

- Liberal Import Policies and subsequent substantial increase in imports.
- Indian manufacturers introduced advanced technology to meet international competition and for this new technology was imported from advanced economics.
- The inflow of foreign direct investment rose. When joint venture companies are set up they are apt to import capital goods from their own countries.
- Import duties were reduced and regulations on imports of capital goods were relaxed.

V. The table indicates that we have yet not achieved the level of export growth which was expected and hoped from new economic reforms rather we find that rate of growth of imports is greater than exports. It was only in the years 1991-92, 1993-94, 2000-01 and 2002-03 that exports grew at a higher rate in comparison to imports.

VI. India's export-import trade gathered a significant momentum since economic reforms started in July 1991 when foreign trade shifted from control to open market. This, in fact, facilitated structural change in export trade. In 1990-91, the ratio of export to import was 75.35 percent. In other words, only 75 percent import payments were met through export earnings. But after the decontrol of foreign trade in 1991-92 the import-export ratio increased to 92.04 percent in 1991-92 and further to 95.42 percent in 1993-94. However, it stood at 69.11 percent in 2005-06. In other words, more than 69 percent of import payments are earned through exports.

3. CONCLUSION

The above analysis indicates that Indian's trade has increased significantly in the post-reform period. In absolute terms, the trade volume increased from Rs. 75,751 crores (exports and imports combined) in 1990-91 to Rs. 11,16,827 crores in the year 2005-06. However, since 1992-93 the rate of increase of imports has been consistently higher than the rate of increase of exports excepting 1993-94, 2000-01 and 2002-03. As a result, trade deficit has increased substantially during the reforms period. India's trade G.DP ratio has shown substantial improvements during the 1990s as compared with the earlier decades. The overall trade G.DP ratio increased from 9.8 percent in 1970s to 11.8 percent in 1980s and further to 17.1 percent in 1990s. Likewise, both export growth and import growth rates have registered an increase in the post reform

period. As far as expansion in foreign trade is concerned, the most significant year in the entire period of reforms has been the year 2004-05. In this year exports increased by 27.9 percent over the previous year while imports increased by 39.5 percent over the

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