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IMPACT OF LIBERALISATION ON FOREIGN TRADE OF INDIA

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Abstract
Export plays a significant role in the development of market economy and the developmental efforts of any country in the world. Therefore, in order to accelerate higher economic growth it is essential to expand export capacities. India is a developing country and need to expand export capacity to accelerate higher rate of economic growth not only in the short run but also in the long run. After analysing the foreign trade of India pre and post liberalisation it can be concluded that exports of India in global market were very limited during eighties. The trends of relative share of India's exports in terms of world's exports by and large have shown steady growth in post reform period than pre-reform period. The imports have been faced a sharp increase during eighties due to internal and external factors such as the rise of the prices of imported articles and sharp increase in the price by the organisation of the petroleum exporting countries . Due to hikes in oil prices at the beginning of eighties, in 1992-93 and in 1995-96, the imports expenditure on petroleum products increased. With the liberalization of the imports of gold and silver, their imports have been considerably increased. A massive weakening of imports was witnessed in the case of crude oil, capital goods, and gold and silver. In this research paper an attempt has been made to study the impact of liberalisation on foreign trade of India. The study is focussed on thirty years period from 1980-81 to 2010-11.

Keywords: *Development, import, export, liberalisation, simplification, merchandise.*

Objectives

1. To study the impact of policy reforms on foreign trade.
2. To draw conclusion and make suggestion.

Research Methodology

Data required for the analysis of different periods was collected from Secondary sources such as books, articles, Annual reports and monthly report, RBI, World Bank and Economic survey-ministry of finance government of India. The study is focussed on thirty years period from 1980-81 to 2010-11 to study the impact of policy reforms on foreign trade of India.

Review of Literature

Pitre (1981) examined the trends in India's imports and concluded that the growth of imports is marked by some fluctuations, imports under food and live animals recorded more than 100% increase between 1960-61 and 1966-67, after this import started falling steeply. Imports under manufactured goods accounted for about 30% of the total import bill. Till 1970-71, a trend of general decline is observed.

Donnenfeld, Waber and Benzion (1985) analysed the case where quality controls were imposed by the government upon an industry and focused on the situation where consumers have full information about the quality of domestic goods but only partial information about quality of imported goods. The study concluded that setting minimum quality standards on imports yields negative protection. It is also analysed that the market share is sufficiently large and when monopolist's choice of quality is not too susceptible to competing imported qualities.

Bhattacharya (1989) study the import intensity of exports of Indian economy for the period 1973-74 to 1979-80 and concluded that direct plus indirect import content per unit of output has increased in almost all the sectors, except in few sectors. The study also concluded that export linked import liberalization followed in India led to increase in sectoral import content in large number of sectors.

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Kathuria (1996) Concluded there have been dramatic changes in the trade policy regime in India. The dominant results are that relative to export profitability in the pre-July 1991 period, EP declined in the dual exchange rate regime (March 1992-February 1993) for most export sectors. The gap between domestic and export profitability also increased in this period, meaning that domestic sales became even more attractive relative to export sales than they already were. This adverse movement in export incentives was reversed with the unification of the exchange rate in March 1993.

Kumar (2000) examined that immediately after exports annual growth rate was 20 percent in US dollar but it came down to 5.3 percent in 1996-97 and 3.9 percent in 1998-99 and further observed that recent decline in growth rate of exports is because of decline in world trade since 1996 and East-Asian crisis have also put a strain on India's exports. Finally, India's competitiveness has also been adversely affected by the failure to diversify composition of her exports.

Goldar and Anita (2003) evaluated that impact of import liberalization on productivity growth in India. This study incorporates two more variables in the regression equation, i.e., rate of change in capacity utilization and rate of change in man days per employee. It was found that there is strong positive relation between capacity utilization and productivity. On the other hand coefficient of rate of change in man days per employee is not statistically significant.

Tendulkar and Bhavani (2007) have suggested exchange rate adjustment as a better option than import controls to manage balance of payments deficits. Yet exchange rate adjustment was never used as an instrument to manage the repeated balance of payment crisis under the presumed non-responsiveness of exports to prices. The exchange rate therefore, remained overvalued for most part of pre-reform period. An overvalued rupee made imports cheaper and exports unprofitable and further contributed to current account imbalances.

Pillania (2008) concluded that India services exports share in global exports is more than double of that of Indian manufacturing exports. In terms of direction, it is now more distributed around the world and the share of East Asian countries his on rise in overall trade. Looking at the large size of the economy, the high growth rates and small share in world trade; with the help of economic theories, and there is huge untapped potential for Indian foreign trade in years to come.

Kaundal, K. and Sharma, M. (2010) concluded that primary products growth rate was higher than the manufactured products exports. The study suggested that prospect of future growth in the export of agricultural commodities lies in the commodities with high growth and low instability.

Lenti & Bretta (2012) observed that China and India have enjoyed unprecedented economic growth in the past decade and expansion of bilateral trade has been associated with this growth. It was concluded that whi1e India has a strong service sector; China has a dominant industrial sector. Inputs of raw materials for this sector, supplied by India, are therefore very important. The two countries can exchange valuable experience and learning with each other.

Introduction

Export plays a significant role in the development of market economy of any country in the world. In the developmental effort of any country, export constitute key factor and it is necessary to built export surplus. India is a developing country and it is essential to expand export capacity to accelerate higher rate of economic growth not only in the short run but also in the long span of time .Therefore in the long run growth of export is essential to sustain and accelerate the rate of growth . The major concern of Indian governments before liberalising Indian economy in 1991 was to impose restrictions on imports through imposing restriction on imports of many items by licensing, high import duties and foreign exchange restrictions. During pre-reform period, India's imports and exports Policy was guided by the import and export act of 1947. During seventies, two additional orders i.e. import Control Act and export control orders were introduced. Long term trade policy was also announced.

Within the framework of economic reforms two major policy reforms were introduced by Indian government and these policy reforms were new import and export policy and handbook of procedures.

Discussion and conclusion

While analysing the impact of policy reforms on export, it can inferred from the table 1.1 that India's value of exports and of world exports over the years from 1980-81 to 2010-11 shows that India's exports in global market were very limited during eighties. The trends of relative share of India's exports in terms of world's exports has been very trivial but by and large have shown steady growth in post reform period than pre-reform period. In 1980-81, the exports of India was approx. 8.58 billion US $ which has multiplied by more than two times in 1991-92 to become 17.6 billion US $ of total exports from the country and has further increased to 216.20 billion US $ in 2010-11 of total exports to the country. The share of the India's exports has also shown very significant growth from 0.45 percent in 1980-81 which has increased to 1.25 percent in 2009-10 and 1.46 percent in 2010-11 which is phenomenal growth for India's exports as compared to world's exports . According to the CMIE database, the top 100 importing companies accounted for about half of the manufacturing exports in the late 1990s. By 2008, these companies accounted for 80 per cent of manufacturing exports. The imports intensity of these firms, as percentage to sales, almost doubled during 1999 to 2008 and further to 2010-11.

The imports have been faced a sharp increase during eighties due to internal and external factors such as the rise of the prices of imported articles and sharp increase in the price by the organisation of petroleum exporting countries. During eighties, several factors were responsible for the rise of imports from 14.86 billian US Dollars in 1980-81, as a result of continuous pressure on oil prices, total imports rose to20.4 billion US dollar in 1991-92. In absolute terms Imports have been increasing slowly. The total imports in the year 1981-82 was 15.41billian US dollars which rose to 16.07 billion US dollar in 1985-86and again rose to 16.72billian US $ dollar in 1987-88. In 1989-90 it increased to 20.53 billion US dollar which rose to 23.29 billion US dollar in 1990-91.

The growth rate of Imports was fluctuating during eighties. Table 1.1 indicates that in 1980-81 it was 40.52 percent which steadily come down and became negative during 1981-82 and 1982-83. The import growth rate during 1983-84 was 3.42 percent. In 1984-85 it come down to -6.82 percent. Import growth rate of 10.3 0percent during 1985-86 which rose to 12.01 percent in 1988-89 followed by 13.45 percent in 1990-91. Import growth rate was highest in 1980-81 by 40.52 percent and was lowest in 1983-84 by -2.16 percent.

Due to hikes in oil prices at the beginning of eighties, in 1992-93 and in 1995-96, the imports expenditure on petroleum products increased, further with the liberalization of the imports of gold and silver, their imports have been considerably increased. Merchandise imports also caught the global downswings in the second half of 2008-09, offsetting part of the adverse impact of contracting exports. The growth in India's imports plunged sharply during the third quarter of 2008-09, and subsequently contracted from 2008-09 to 2009-10.

A massive weakening of imports was witnessed in the case of crude oil, capital goods, and gold and silver. Imports, especially those of capital goods, are often considered a leading indicator of industrial activity and the near-term investment climate. A sizeable portion of imports gets channelized as inputs for industrial production. A definite relationship between imports and industrial production, however, may be difficult to establish as imported commodities could be either complements or substitutes to domestic industry. As a result, an empirical test of these relations remains largely country-specific. In the Indian case, however, non-oil imports have been mostly in the form of capital goods, raw materials and intermediate goods, which complement industrial production. An analysis of imports elasticity of output in India suggests that imports have grown at a much faster rate with respect to GDP in the 1990s compared to the 1980s, which is consistent with the liberalization of external trade. The vital importance of imports for the producing sector was evident from the firm-level evidence.
While analysing the growth of the imports and impact on balance of trade for the period from 1991-92 to 2010-11 indicates that absolute imports during 1991-92 were 20.40billian US $ which increased to 34.5 billion US $ in 1995-96, further increase to 216.6 billion US $ in 2007-08 and in 2009-10 imports increased to 245.6 billion US $ in the country which further increase to 323.50billianUS $ in 2010-11 by multiplying 15.85 times over 1991-

92 recorded a phenomenal increase in the imports of the country. In the year 1991-92, import growth rate was negative by 19.4 percent, but after this period, it increased to 12.7 percent due to sudden increase in oil prices of imports. During 1994-95 it rose to 22.9 percent and 28.0 percent in 1995-96 there after it falls down to 1.72 percent in 2000-01 and remained constant 1.71 percent in 2001-02 periods. There was drastic increase in import growth rate from 2002-03 to 2010-11. It was highest in 2004-05 by 42.7 percent and was lowest in 2001-02 and 2002-03 by 1.71 percent in both years. It was negative in 2009-10 by 5.31 percent and 1.94 percent in 1991-92.

While analysing impact of trade reforms on import is The table 1.1 shows that the trend of relative's share of India's imports in terms of world's trade have been very fluctuating but has shown steady growth in post reform period than pre-reform period. In 1980-81, the imports of India was approx. 14.86 billion US $ which increased to 16.07 US $ billion in 1985-86 to 23.99 US $ billion in 1990-91 and has further increased to 245.6 billion US in 2009-10 and increased to 323.50 in 2010-11 The share of the India's in world's share imports has also shown very significant growth from 0.76percent in 1980-81 which has increased to 0.85 percent in 1985-86 followed by 1.54 percent in 2007-08 and 2.15 percent in 2010-11 which is phenomenal growth of imports for the country .

Conclusion

After analysing the foreign trade of India pre and post liberalisation it can be concluded that exports of India in global market were very limited during eighties. The trends of relative share of India's exports in terms of world's exports by and large have shown steady growth in post reform period than pre-reform period. A definite relationship between imports and industrial production may be difficult to establish as imported commodities could be either complements or substitutes to domestic industry. However, non-oil imports have been mostly in the form of capital goods, raw materials and intermediate goods, which complement industrial production. Imports elasticity of output in India suggests that imports have grown at a much faster rate with respect to GDP in the 1990s compared to the 1980s, which is consistent with the liberalization of external trade. The imports have been faced a sharp increase during eighties due to internal and external factors such as the rise of the prices of imported articles and sharp increase in the price by the OPEC. Due to hikes in oil prices at the beginning of eighties, in 1992-93 and in 1995-96, the imports expenditure on Petroleum products increased, further with the liberalization of the imports of gold and silver, their imports have been considerably increased. A massive weakening of imports was witnessed in the case of crude oil, capital goods, and gold and silver.

Table-1.1,Relative Share of India's Exports and imports in World's Exports (1980-2011)(Billion US$)

Year	World's Exports	India's Exports	Percent Change Over Preceding Year	India's Percent Share In World's Exports	Growth Rate	World's Imports.	India's Imports	Percent Change Over Preceding	Growth Rate	India's Percent Share In world's Imports	Balance of Trade
1980-81	1897.6	8.58	-	0.45	7.04	1945.1	14.86	--	40.52	0.76	-6.28
1981-82	1865.1	8.29	-3.37	0.44	2.58	1930	15.41	0.51	-4.57	0.79	-7.12
1982-83	1733.5	9.35	12.79	0.54	4.43	1803.4	14.78	23.29	-2.61	0.81	-5.43
1983-84	1681.9	9.14	-2.24	0.54	3.62	1748.3	14.06	20.4	3.42	0.80	-4.92
1984-85	1783.5	9.91	8.42	0.55	4.34	1862.8	14.36	23.5	-6.23	0.77	-4.45
1985-86	1808.1	9.21	-7.06	0.51	-10.93	1878.3	16.07	22.7	10.30	0.85	-6.86
1986-87	1990.6	9.49	3.04	0.48	8.62	2056.1	15.4	26.8	-2.16	0.75	-5.91

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a1987-88	2342.1	11.37	19.81	0.48	19.39	2408	16.72	34.5	8.33	0.75	-5.35
1988-89	2694.1	13.31	17.06	0.49	13.47	2787.3	19.16	37.3	12.01	0.69	-5.85
1989-90	3037.5	19.5	46.50	0.64	15.90	3154.3	20.53	41.4	8.12	0.69	-1.03
1990-91	3434.7	21.3	9.23	0.62	8.45	3563.3	23.29	43	13.45	0.65	-1.99
1991-92	3478.1	17.6	-17.37	0.51	-1.57	3540.4	20.4	-12.41	-19.4	0.65	-2.80
1992-93	3728.5	19.6	11.36	0.53	3.62	3763.5	23.5	15.19	12.7	0.58	-3.90
1993-94	3724.1	21.5	9.69	0.57	16.64	3973.6	22.7	-3.4	6.11	0.57	-1.20
1994-95	4236.8	25	16.27	0.59	15.54	4430.3	26.8	18.06	22.9	0.6	-1.80
1995-96	5089.5	30.6	22.4	0.60	17.19	5267.4	34.5	28.73	28.0	0.65	-3.90
1996-97	5327.5	33.1	8.16	0.62	5.00	5532.1	37.3	8.11	6.28	0.67	-4.20
1997-98	5505.7	35	5.74	0.64	4.39	5654.6	41.4	10.99	5.67	0.73	-6.40
1998-99	5426	33.4	-4.57	0.62	-5.38	5586.7	43	3.86	2.13	0.77	-9.60
1999-2000	5657.9	35.6	6.58	0.63	9.79	5810.8	47	9.3	17.2	0.81	-11.40
2000-01	6373.1	42.3	18.82	0.66	17.37	6584.2	51.5	9.57	1.71	0.78	-9.30
2001-02	6124.2	43.4	2.60	0.71	-1.67	6340.9	50.4	-2.14	1.71	0.79	-7.00
2002-03	6435.5	50.4	15.43	0.78	16.87	6577.2	56.5	12.1	19.4	0.86	-6.10
2003-04	7474.6	59	-21.95	0.79	17.42	7654.6	71.2	26.01	27.3	0.93	-12.20
2004-05	9086.5	75.6	28.13	0.83	23.57	9365.9	99.8	40.16	42.7	1.07	-24.20
2005-06	10240.2	59.2	-21.69	0.58	18.97	10638.9	142.8	43.08	33.8	1.34	-83.60
2006-07	11523.4	124	109.45	1.08	18.45	122081	172.8	21.1	24.5	0.14	-48.80
2007-08	13774.2	150	20.96	1.09	22.40	14057.5	216.3	25.17	35.1	1.54	-66.30
2008-09	15987.6	194.5	29.66	1.22	12.08	16211.1	291.7	34.85	20.7	1.8	-97.20
2009-10	12562.8	157.2	-19.17	1.25	-3.66	12384.9	245.6	-15.8	-5.31	1.98	-88.40
2010-11	14855.5	216.2		1.46	28.82	15050.2	323.5	31.73	28.2	2.15	-107.30

Source: Government of India, Directorate General of Commercial Intelligence and Statistics, 1993-94.
Source: Government of India, Directorate General of Commercial Intelligence and Statistics, 2011-12.
Source: Government of India, Directorate General of Commercial Intelligence and Statistics, 2015-16

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