IMPACT OF TRADE LIBERALIZATION ON INDIAN EXPORTS

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Abstract: International trade is exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries. Export is indispensible for the growth of economy as it leads to the earning of valuable foreign exchange which helps in the growth of the economy. The present study seeks to analyze the growth performance of India's exports during 1991-92 to 2016-17. To examine the impact of trade liberalization of India's exports. The study is based on secondary data obtained from reports of United Nations Trade Data, Commodity Trade Statistics, World Trade Organization, Trade Statistics, World Bank, Hand Book of statistics on Indian Economy, Reserve Bank of India (RBI). The analysis was done by the use of SPSS and Excel. The study used multiple regression models mainly for examining the determinants of India's exports in the reform period.

Index terms- Trade Liberalization, India's Exports, Commodities:

INTRODUCTION

International trade is an essential sector of a country's national economy. It contributes substantially to the economic welfare of the people and the development of resources. This is important to increase economic welfare in terms of increase in income and employment of the trading countries. It helps the countries to benefit from economic transactions due to territorial division of labour. Economic development is one of the main objectives of every society in the world. There are several economic and non-economic factors affecting economic growth and development of foreign trade and all these play an important role. Trade serves as an important engine of economic growth and can be a high way of learning new ideas and creativity relating to foreign trade. Further, Foreign trade is important to the economy because of a country's need to import a variety of goods and services. India's post-independence development strategy was one of national self-sufficiency, and stressed the importance of government regulation of the economy. In particular, with high nominal tariffs and extensive non-tariff barriers, India's trade regime was among the most restrictive in Asia. The regime included a complex import licensing system, an actual user policy that restricted imports by intermediaries, restrictions of certain exports and imports to the public sector, phased manufacturing programs that mandated progressive import substitution, and government purchase preferences for domestic producers. During the 1980s, India embarked on market reforms to ease import and industrial licenses. However, during this period, trade policy remained restrictive. By the end of the 1980s, only 12 percent of manufactured products could be imported under an open general license and the average tariff was still among the highest in Asia at more than 90 percent. However, concurrent to the gradual liberalization of the late 1980s was a rise in Macro economic imbalances namely fiscal and balance of payments deficits which increased

India's vulnerability to shocks. As a result, the sudden increase in oil prices due to the Gulf War in 1990, the drop in remittances from Indian workers in the Middle East, slackened demand of important trading partners, and political uncertainty all served to undermine investor confidence and resulted in large capital outflows. To deal with its external payments problems, the government of India requested a Stand-By Arrangement from the IMF in August 1991. The IMF support was conditional on Macroeconomic stabilization policies and structural reforms, and trade policy was an important component of these reforms.

Foreign trade occupies an important place in any economy and its role in the world economy has increased over the past 68 years. Trade has grown much faster than world output and some of the countries have achieved the fastest economic growth by rapidly increasing their role in world trade. So as to increase their share in world trade different, countries adopted various trade policies in different times. Developed countries mainly followed export promotion measures but developing countries adopted import substitution policies in 1950s, 1960s and 1970s. But the experiences showed that import substitution policies widely used by the developing countries were less successful than the export oriented policies used in East Asia’s high growth economics. As a result, the policy makers in many developing economics began adopting policies for more open trade during the 1980s. By the late 1980s nearly all of the centrally planned regimes that had followed restricted trade relations with other countries had introduced reform, which gave foreign trade and investment a prominent place in their development programme. These reforms led to dramatic changes in developing economics involvement in international trade. Trade liberalization is one of the prominent components of globalization. Perhaps the most important aim of globalization is the rapid integration of goods and financial markets, that is, promotion of trade and investment are the Prime driving forces behind globalization.(Paul Krugman, 1999) .

SIGNIFICANCE OF THE STUDY

International Trade is the engine of economic growth in any Country. Following the liberalization of Indian economy in 1991, exports and imports of India have been growing tremendously. But the value of imports is still larger than the value of exports Thus there is a need to boost the growth rate of India. The impact of trade reforms on exports enhances the level of exports of India. In 1991, Export performance is one of the key objectives of liberalization reforms in India. At present, global trade is a vital part of development approach and it can be valuable instrument of poverty reduction create more employment, increases output, earns foreign currency, financial development, and mobilizes of domestic resources and saving optimally so that the economic benefits reach to the wider group of people.

OBJECTIVE OF THE STUDY

The main objective of the present study is to make a comprehensive analysis of India’s exports growth in the post-liberalization period.

1. To analyze the growth performance of India’s exports during 1991-92 to 2016-17.

2. To examine the impact of trade liberalization of India’s exports

RESEARCH METHODOLOGY

The present study is based on secondary data. The study focuses on the impact of trade liberalization on Indian exports. The data for this study have been collected from secondary sources of information mainly from the journals, international trade data source such as United Nations Trade Data, Commodity Trade Statistics, World Trade Organization Trade Statistics, World Bank, Hand Book of statistics on Indian Economy, Reserve Bank of India (RBI). The analysis was done by the use of SPSS and Excel. The study used multiple regression models mainly for examining the determinants of exports in the reform period and for assessing the impact of the trade reform on the Indian total exports. The multiple regression model used for the present analysis are specified as follows

$$\log Y = b_0 + b_1 \log X_1 + + b_2 \log X_{2+} \, b_3 \log X_3 + \varepsilon_t$$

Where Y is the dependent variable selected for the analysis and X_{its} are the explanatory variables selected and εt is the error term.

LIMITATIONS OF THE STUDY

- The main limitation of this study is that the analysis will be on the basis of the secondary data only.
- The analyze of the study is confined after Trade Liberalization.
- The accuracy and reliability of data collected – across different sources may vary slightly.

TRADE POST LIBERALIZATION AND ITS IMPACT ON INDIA’S EXPORTS

The present study to analyze the growth performance of India’s exports during 1991-92 to 2016-17. To examines the impact of trade reform on Indian’s exports in 1991-92 to 2016-17. Trade liberalization measures has introduced in India 1991 as part of the globalization subtlety, so as to advance the performance and also to integrate the exterior sector of the country with the world. Share of India’s Export and Asian Export in World exports are presented in table.1.1

TABLE NO.1.1

SHARE OF INDIA'S EXPORT IN WORLD AND ASIAN EXPORT

Year	World Exports	Asian Exports	Indian Exports	share of India in world export	share of India in Asian export
1991-92	3511359	885931	17865	0.5	2.0
1992-93	3779172	980874	18537	0.5	1.9
1993-94	3794694	1065350	22238	0.6	2.1
1994-95	4328264	1228655	26330	0.6	2.1
1995-96	5167620	1447224	31797	0.6	2.2
1996-97	5406052	1465412	33470	0.6	2.3
1997-98	5592319	1547232	35006	0.6	2.3
1998-99	5503135	1450981	33218	0.6	2.3
1999-00	5719381	1548438	37599	0.7	2.4
2000-01	6457615	1835555	44076	0.7	2.4
2001-02	6194859	1673859	43827	0.7	2.6
2002-03	6499451	1807732	52718	0.8	2.9
2003-04	7589577	2138336	63843	0.8	3.0
2004-05	9223297	2653366	80540	0.9	3.0
2005-06	10509146	3060839	103092	1.0	3.4
2006-07	12130534	3576140	126361	1.0	3.5
2007-08	14023294	4141180	162904	1.2	3.9
2008-09	16160364	4724686	185295	1.1	3.9
2009-10	12554999	3890700	178751	1.4	4.6
2010-11	15301115	5076344	251136	1.6	4.9
2011-12	18338014	5975096	304624	1.7	5.1
2012-13	18496283	6120021	300401	1.6	4.9
2013-14	18952269	6293215	314405	1.7	5.0
2014-15	19004933	6438931	310352	1.6	4.8
2015-16	16489349	5959999	262290	1.6	4.4
2016-17	15955402	5753223	276280	1.7	4.8

Source: Hand Book of statistics on Indian Economy (RBI) and World Trade Organization 2017

It could be seen from the table.1.1 that the export performance in India was the highest in 2013-14 and the lowest in 1991-92. The total export has gone up from US $17865 million dollar in 1991-92 to US$ 276547 million dollar in 2016-17.Similarly, its share in world total export also increased from 0.5 per cent to 1.7 per cent during the study period. Till the year 2006 -07, the share of India in world export was improved 1.0 percent. It was reached 1.7 percent in 2011-2012 and 2016-17, the highest share. The share is continuing in the 1.7 percent in 2016-17. The Asian export was the highest in 2014 and the lowest in 1991. The Asian export has gone up from US $8, 85,931 million dollar in the year 1991 to US $57, 53,223 million dollar in the year 2016. Similarly, its share in world total exports also incessantly increased from 2.0 per cent to 4.8 per cent during the corresponding period.

TABLE NO.1.2

SHARE OF AGRICULTURAL AND ALLIED, ORES AND MINERALS, MANUFACTURING AND PETROLEUM EXPORTS IN INDIA'S TOTAL EXPORTS

Year	Agricultural &Allied	Ores and minerals	Manufactured	Petroleum
1991-92	18.7	4.6	74.2	2.3
1992-93	17.6	3.4	76.1	2.6
1993-94	18.7	3.4	75.6	1.8
1994-95	16.6	3.1	78.2	1.6
1995-96	19.9	2.9	75.4	1.4
1996-97	20.4	2.7	74.5	1.4
1997-98	19.5	2.4	76.7	1.0
1998-99	18.7	2.0	78.6	0.3
1999-00	15.4	1.9	79.2	0.1
2000-01	14.0	2.0	79.0	4.2
2001-02	14.0	2.3	77.1	4.8
2002-03	13.2	3.0	77.9	4.9
2003-04	12.4	3.9	76.9	5.6
2004-05	10.1	6.0	71.0	8.4
2005-06	10.2	5.2	72.0	11.3
2006-07	10.3	4.8	68.6	14.7
2007-08	11.6	5.0	64.4	17.4
2008-09	9.1	4.2	66.4	14.9
2009-10	10.0	4.9	67.2	15.8
2010-11	9.7	3.4	69.0	16.5
2011-12	12.3	2.8	65.8	18.3
2012-13	13.7	1.9	63.3	20.3
2013-14	13.7	1.8	63.5	20.1
2014-15	12.7	1.5	66.7	18.3
2015-16	12.6	1.6	72.9	11.6
2016-17	12.3	1.9	73.5	11.4

Source: Hand Book of statistics on Indian Economy (RBI)

The table 1.2 explains the export of principal commodities includes export of agricultural exports, ores and Minerals exports, manufactured exports and petroleum Exports in the post reform period, Agricultural and allied export was the highest in 1996-97 and the lowest in 2008-09. Agricultural and allied export has increased from US $3,338 million dollar in 1991-92 to US $33,994 million dollar in 2016-17. While, share in Indian total exports fall down from 18.7 per cent to 12.3 per cent. The Ores and minerals export was the highest share in 2004-05 and the lowest share in 2014-15. Ores and minerals export has increased from US $823 million dollar in 1991-92 to US $5,360 million dollar in 2016-17. While, share in Indian total exports decelerated from 4.6 per cent to 1.9 per cent. The manufactured export was the highest share in 1999-00 and the lowest share in 2012-13. A manufactured export was gradually increased from US $ 13,262 million dollar in 1991-92 to US $2, 03,255 million dollar in 2016-17. While, its share in Indian total exports also incessantly enlarged from 74.2 per cent to 73.5 per cent. The Petroleum export was the highest share in 2012-13 and the lowest share in 1999-00. Petroleum exports was manufactured exports was increased from US $ 415 million dollar in 1991-92 to US $31,622 million dollar in 2016-17. Therefore, its share in Indian total exports also enlarged from 2.3 per cent to11.4 per cent during the corresponding period.

Figure.1.1

SHARE OF AGRICULTURAL AND ALLIED, ORES AND MINERALS, MANUFACTURING AND PETROLEUM EXPORTS IN INDIA'S TOTAL EXPORTS

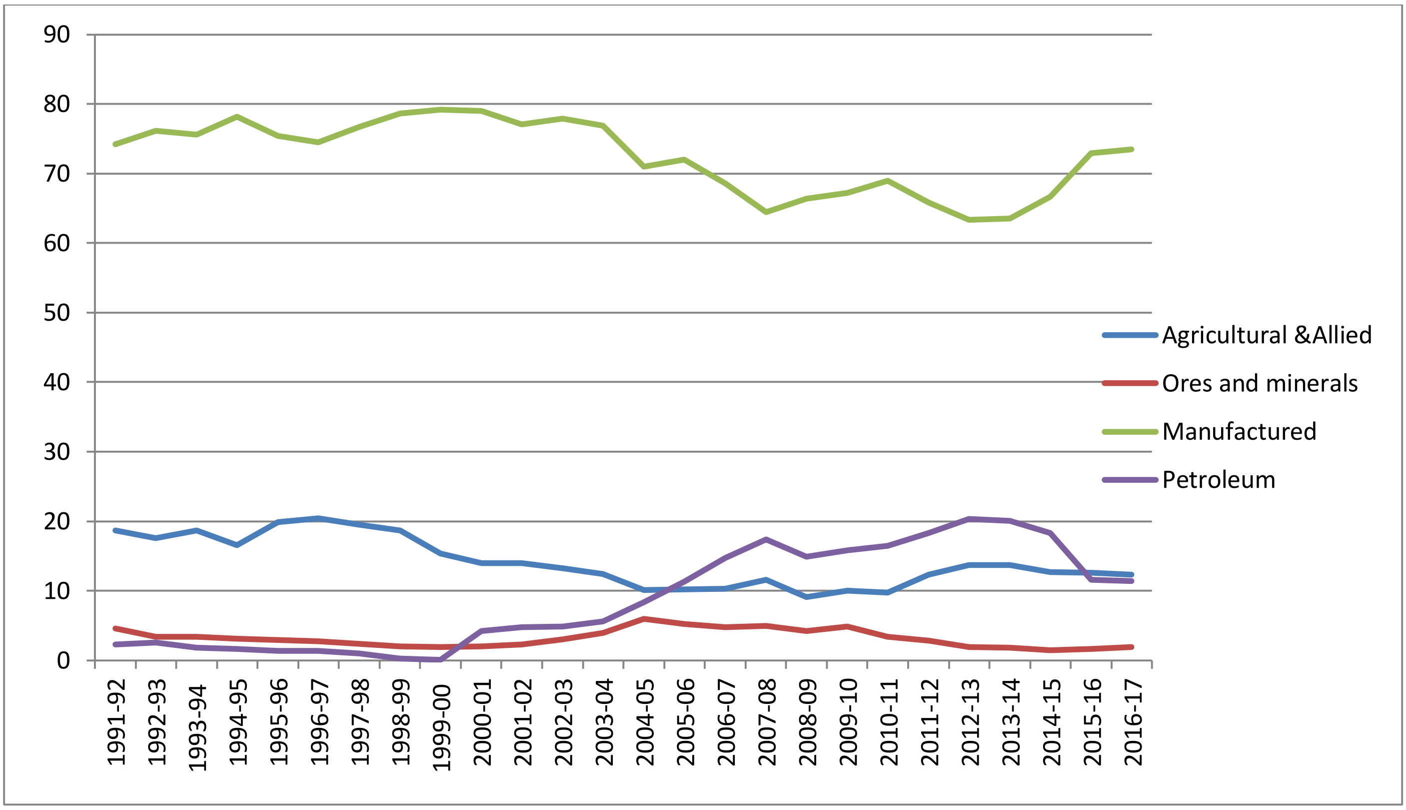

Figure.1.1 presents a study of India's share of export commodities includes agricultural exports, ores and Minerals exports, manufactured exports and petroleum Exports is showing significantly a rising trend.

DETERMINANTS OF INDIAN TOTAL EXPORTS

The demand and supply factors identified to analyze the determinants of Indian exports along with the trade policy indicators such as openness index and tariff rate and both variables are explained in this study. The variables are used in logarithmic form. The demand side main variables selected are Real Effective Exchange rate (REER) and World Demand (World GDP). The supply side main variables selected are Relative price (RP), capability to export, domestic demand and foreign direct investment (FDI). The multiple regression result for the determining of total exports was shown. With demand factors Table No. 1.3.

TABLE NO.1.3

MULTIPLE REGRESSION RESULTS FOR DETERMINANTS OF INDIAN TOTAL EXPORTS WITH DEMAND FACTORS (1991-2016)

Models	Constant	REER	World Demand	Openness	Tariff	R-Square
Model 1	11.052 (13.646)	-0.145 (4.281)	0.080 (21.288)	0.389 (3.546)	-	0.953
Model 2	14.028 (13.667)	0.190 (1.306)	0.425 (17.821)	-	-0.018 (3.231)	0.979
Model 3	11.473 (10.393)	-0.127 (3.063)	0.935 (15.508)	0.394 (3.526)	-0.037 (2.572)	0.997

Source: Calculated by the researcher

(Figures in bracket indicate t values)

It is found from the Table No.1.3 that the multiple regression analysis for the total exports with demand side factors. The three models are theoretically expected sign in all the variables. Openness seems the all value of positive significant in all models. All three models have in the positive relationship in world demand from in this study period. REER and tariff rate have expected negative influence in three models. The R^2 value for model (Model 1) has fitted at the point 0.953 it reveals that the model was 95% per cent have Satisfactory. The model 2 (Model 2) R^2 values has fitted at the point 0.979 it reveals that the model was 97% percent have Satisfactory. The R^2 value for model 3 (Model 3) has fitted at the point 0.997 it revealed that the model was 99% percent have Satisfactory.

TABLE NO.1.4

MULTIPLE REGRESSION RESULTS FOR DETERMINANTS OF INDIAN TOTAL EXPORTS WITH SUPPLY FACTORS (1991-2016)

Models	Intercept	Relative Price	GDP	FDI	Domestic Demand	Openness	Tariff	R-square
Model 1	-0.034 (-0.206)	0.015 (2.473)	0.098 (7.588)	0.012 (2.621)	-1.162 (-4.080)	0.889 (20.163)		0.989
Model 2	-1.401 (-1.420	0.065 (2.385)	0.881 (2.821)	0.054 (4.708)	-1.946 (-1.850)		-0.223 (-2.788)	0.992
Model 3	0.065 (0.265)	-0.028 (3.701)	0.840 (6.789)	0.012 (4.618)	-1.118 (-3.722)	0.880 (18.329)	-0.001 (-3.552)	0.971

Source: Calculated by the researcher

(Figures in bracket indicate t values)

The Table No.1.4 revealed that the multiple regression analysis with supply side factor. All variables are the theoretically expected sign in three models. Relative price has expected positive relation. Capability to export

(Measured by Gross domestic product) shows positive significant impact of total exports. Foreign Direct Investment has positive relation in three models. Domestic demand shows the expected negative impact during the study period. Openness shoes positive and significant impact in three models. The tariff rate has increased India's export in both models, which is not significant. The R^2 value for model (Model 1) has fitted at the point 0.989 it reveals that the model was 98% per cent have Satisfactory. The model 2 (Model 2) R^2 values has fitted at the point 0.992 it reveals that the model was 99% percent have Satisfactory. The R^2 value for model 3 (Model 3) has fitted at the point 0.971 it revealed that the model was 97% percent have Satisfactory.

CONCLUSION

International trade occupies an important place in the economic development of any country. Thus countries achieving favorable fastest economic growth increasing their share of trade in world trade by adopting trade policy measures. The analysis of export performance and impact of trade reform at total exports. The export share of India in world exports increased from 0.54 percent 1991-92 to 1.7 per cent in 2016-17. This analysis the trends in India's export performance in terms of commodity composition of exports is made manufacturing export have the major share in total exports from India. The share shows an increasing trend in the case of manufacturing exports whereas primary products shows decreasing trend. The structural change in favor of India's total commodity exports. The analysis concludes that the manufactured exports of India show a better performance for most of the commodities exported and in terms of diversification of exports during the post reform period. The impact of trade liberlaization on india's exports anaylsis are done for the post reform period the long run impact of the trade policy is also examined. The analysis of the factors that determine the export peformance dring the post reform period shows that world demand has postiive impact on the total manufacturing exports. Real effective exchange rate the theorietically expected sign in almost all models. Openness is one of the measures of the trade policy shows postive impact in almost all models. Capability of export (measured by GDP)and domestic demand have theexpetcted relation on both total and manufactured export. Foreign Direct Investment has positive impact in total exports during the post reform period.

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