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TRENDS IN INDIA'S FOREIGN TRADE: EXPERIENCE OF THREE DECADES OF POST LIBERALISATION

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ABSTRACT

The pattern of India's foreign trade has changed during the last three decades. India's imports, however, have expended faster than the exports, therefore, Balance of Payment problems may make the economy vulnerable. The pattern of India's foreign trade has changed considerably since the early 1990s. From the financial year 1990-91 to 2019-20 the total value of goods exports increased more than 18 times, from $ 18 billion to over $314 billion. During the same time span, goods imports increased almost 20 times, from $ 24 billion to more than $467 billion. India's share in global exports have moved up from mere 0.6 per cent in early nineties to 1.6 per cent currently likewise, India's share in global imports has increased from around 0.6 per cent during early nineties to 2.6 per cent currently. To become a $5 trillion economy, India must increase its share in global trade to 8-10 per cent. This chapter seeks to examine the export, import and trade balance structure of India in the past three decades. Accordingly, the chapter has been divided into three sections. Section I deals with the Introduction as well as Trends of export, import and trade balance structure with rate of change during last three decades. Section II examines the share and percentage change of major exports and imports in three decades, while conclusions and suggestions have been given in section III.

KEYWORDS: foreign trade, balance of payment, exports and imports, trade balance

JEL CLASSIFICATION: F10, F13, F17, F60

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1. INTRODUCTION

After the independence, Indian economy achieves a remarkable success in economic development. The economy's unprecedented growth especially in the second half of past decade, build the confidence amongst the economist in India. Liberalisation, growing economies of scale of Indian enterprises, increased access to advance technology and growth in FDI has now become the important driver for economic growth. The private sector also played an important role in India's progress on the high growth trajectory during past decades.

Most developing countries are now closely linked to the global economy by trade, development and FDI flows. Globalization process integrated the Indian economy with the economies of the world, which enabled India to move on to a higher growth path and reduce poverty. International trade serves an engine of growth and helps in a substantial way to fight poverty and raise living standards.

Foreign trade plays a vital role in economic development. From 1947 to early 1990s, India was a closed economy and governed by socialistic pattern. Foreign trade of India suffered from strict bureaucratic and discretionary controls. Liberalisation began in the early 1990s. In the beginning of 1991, the Government of India introduced a series of reforms to liberalise and globalise Indian economy. The Major trade policy started in the post reform included import liberalisation and export liberalisation. Import liberalisation included Import of capital goods, import of raw material, Import policy for registered exports, policy for export/trading houses and policy for import of technology. Export liberalisation included rupee depreciation and convertibility, partial convertibility of rupee, full convertibility on trade account, full convertibility on current account, decanalisation, duty exemption scheme enlarged more facilities to export houses and trading houses, export scheme for the service sector and focus on service exports. Liberalisation programme has also resulted in the creation of a new business framework. Today, India has trade relations with all the major trading partner countries. India is now a major player in global trading system and all the major sectors of Indian economy are linked to world outside either directly or indirectly through foreign trade.

The pattern of India's foreign trade has changed considerably since early 1990s. From the financial year 1990-91 to 2019-20 the total value of goods exports increased more than 18 times, from $ 18 billion to over $314 billion. During the same time span, goods imports increased almost 20 times, from $ 24 billion to more than $467 billion. India's share in global exports have moved up from mere 0.6 per cent in early nineties to 1.6 per cent currently likewise, India's share in global imports has increased from around 0.6 per cent during early nineties to 2.6 per cent currently.

2. LITERATURE REVIEW

There are enormous literatures on India's Foreign Trade during the period of post liberalisation. Krueger (1978), in his study on trade liberalisation and economic growth observed that trade liberalization improves and enhances productivity in the long run. Tayler (1981), in their study on OPEC and middle-income countries that improvement in the manufacturing export induces technological progress and economic growth. Nishimizu and Robinson (1984), in their study observed that increase in export leads to improve factor

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productivity, economic efficiency and economic growth. Bhagwati (1978) observed that trade openness boosts domestic industries and enhances productivity in long run.

(Henry, 2008) pointed out that Indian's international trade policy has been a picture of the contradiction. India's economic policy, itself is an expression of the living political situation in New Delhi. The author opines that Indian trade turns up to less receptive and less liberalized than the number of its economic and trade agreement just preferential tariff agreements; subsequently they admit only positive lists of items.

Grossman and Helpman (1990); Rivera-Batiz and Romar (1991); Barro and Sala-i-Martin (1997), have observed that trade liberalization enables a country to access know-how and high-tech machinery. They observed that trade openness have a positive impact on economic growth in the long run. Almeida and Fernandes (2008), indicates that trade liberalization induces inflow of foreign capital and are an important means of acquiring foreign technology. Redding (1999), observed that trade liberalisation are not favorable to economic growth due to competitive inefficiency. Villanueva (1994) observed that human capital formation improves the positive effects of trade liberalisation on economic growth.

3. DISCUSSION

For the study of trends of India's foreign trade during last past three decades, Table 1 presents information on the exports, imports and trade balance in India over the period of post liberalisation in terms of US dollars. As is clear from this table 1, the value of India's exports and imports has increased considerably over the period of 30 years. From $ 18143 million in 1990-91, exports rose to $ 44076 million in 2000-01 and further to $ 314310 million in 2019-20. Imports during this period rose from $ 24075 million in 1990-91 to $ 49975 million in 2000-01 and further to $ 467190 million in 2019-20. It can also be noted that the India has faced continuous trade deficit during the entire period of post liberalisation. In fact, a study of foreign trade data reveals that trade balance was positive in only two years during the entire period 1949-50 to 2019-20. These were the years of 1972-73 and 1976-77 when the country recorded small trade surpluses of $134 million and $77 million respectively. In all other years, deficits in balance of trade were recorded.

Table 1: Exports, Imports and Trade Balance

Year	Exports (including re-exports) (US $ millions)	Imports (US $ millions)	Trade Balance (US $ millions)	Rate of Change (Per cent)	
				Export	Import
1990-91	18143	24075	-5932	9.2	13.5
1991-92	17865	19411	-1546	-1.5	-19.4
1992-93	18537	21882	-3345	3.8	12.7
1993-94	22238	23306	-1068	20.0	6.5
1994-95	26330	28654	-2324	18.4	22.9
1995-96	31797	36678	-4881	20.8	28.0
1996-97	33470	39133	-5663	5.3	6.7

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1997-98	35006	41484	-6478	4.6	6.0
1998-99	33218	42389	-9171	-5.1	2.2
1999-2000	36715	49738	-13023	10.5	17.3
2000-01	44076	49975	-5899	20.0	0.5
2001-02	43827	51413	-7587	-0.6	2.9
2002-03	52719	61412	-8693	20.3	19.4
2003-04	63843	78149	-14307	21.1	27.3
2004-05	83536	111517	-27981	30.8	42.7
2005-06	103091	149166	-46075	23.4	33.8
2006-07	126414	185735	-59321	22.6	24.5
2007-08	163132	251654	-88522	29.0	35.5
2008-09	185295	303696	-118401	13.6	20.7
2009-10	178751	288373	-109621	-3.5	-5.0
2010-11	249816	369769	-119954	39.8	28.2
2011-12	305964	489319	-183356	22.5	32.3
2012-13	300401	490737	-190336	-1.8	0.3
2013-14	314405	450200	-135794	4.7	-8.3
2014-15	310338	448033	-137695	-1.3	-0.5
2015-16	262291	381008	-118717	-15.5	-15.0
2016-17	275852	384357	-108505	5.2	0.9
2017-18	303526	465581	-162055	10.0	21.1
2018-19	330078	514078	-184000	8.7	10.4
2019-20 P	314310	467190	-152880	-2.0	-8.9

Source: Economic Survey 2019-20, and P: Provisional

It is the fact that the trade deficit has increased significantly over the last thirty years in India. The year 1990-91 saw a trade deficit of $ -5932 million as imports rose by 13.5 per cent against a rise of 9.2 per cent registered by exports over the year. However strict import restrictions were imposed in 1991-92 which led to a 19.4 per cent reduction in the value of imports and trade deficit declined to $1546 million. As can be seen from table 1, the next three years (1993-94 to 1995-96) saw a strong resurgence in export earnings. Although imports also increased yet the overall situation was better. Two years in the first decade of liberalisation, 1991-92 and 1998-99 registered negative export growth rates while year 1991-92 registered negative imports in 1999-2000 and 2000-01 is the Asian Crisis and the adoption of various export facilitating measures. The first year and last year in the second decade of liberalisation, 2001-02 and 2009-10 were bad for exports as they registered a decline by 0.6 per cent and -3.5 per cent. In 2001-02 due to weakening of global demand, poor supply response of exports due to various domestic impediments to export growth, appreciation of rupee etc. The last year of second decade of liberalization 2009-10 registered negative exports growth by -3.5 per cent due to global recession of 2008-09. However, the period 2002-03 to 2007-08 was marked by considerable revival of foreign trade. The rate of growth of exports in this period was consistently above 20 per cent per annum with the rate of growth touching 30.8 per cent in 2004-05 which was highest since 1975-76. Both external and domestic factors contributed to

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this satisfactory performance. Improved global growth and recovery in world trade aided the strengthening of Indian exports. Merchandise imports also increased considerably during this period. The main reasons were high international prices of crude oil, lower import tariffs and a buoyant domestic economy. During this period, imports increased by three times from $61412 million in 2002-03 to $ 251654 million in 2007-08. Because of substantial increase in imports, the trade deficit rose considerably. The main reason for this was the substantial increase in oil imports. The year 2008-09 was the year of global recession. However, despite this, exports managed to increase at a reasonable rate of 13.6 per cent in this year. However, trade deficit in 2008-09 touched the highest ever level of $ 118.4 billion recorded in post-independence period. In 2009-10, export growth was negative at -3.5 per cent, partly reflecting the effect of global exports. This year import growth was also negative -5.0 per cent. When we look at the last decade of liberalization (2010-11 to 2019-20), four years 2012-13, 2014-15, 2015-16, and 2019-20 registered negative export growth rates while year 2013-14, 2014-05, 2015-16 and 2019-20 registered negative import growth rate. Exports growth remains subdued with external demand weakened by slowdown in global investment, output and heightened trade tensions, notwithstanding resilient service exports.

Table 2: Principle Exports (in US $ million)

Quantity	**1990-91**	**2000-01**	**2010-11**	**2019-20 (Apr-Sep) P**	**Percentage Share**			
					1990-91	**2000-01**	**2010-11**	**2019-20**
Agriculture and allied products	3521	6256	24448	16875	19.6	14.2	9.8	10.7
Ores and minerals (excl. coal)	834	906	8581	3526	4.6	2.0	3.5	2.5
Manufacturing Goods	13229	35181	173263	113989	72.9	79.4	69.7	72.8
Mineral fuels and lubricants (incl. coal)	528	1931	42280	22115	2.9	4.4	17.0	14.0
Total Exports	18143	44274	248572	156505	100	100	100	100

Source: Computed from the secondary data obtained from Economic Survey 2019-20 and P: Provisional

Principle exports and percentage share of principle commodities is presented in Table 2. A clear trend over the years has been a declined in the importance of agriculture and allied products and a substantial increase in the importance of manufacturing products. For instance, the share of agriculture and allied products in total exports declined considerably from 19.6 per cent in 1990-91 to 10.7 per cent in 2019-20. While that of manufacturing products

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increased from 72.9 per cent in 1990-91 to 79.4 per cent in 2000-01 and 72.8 per cent in 2019-20. A declined trend in ores and minerals from 4.6 per cent in 1990-91 to 2.5 per cent in 2019-20. While increasing trends in minerals fuels and lubricants from 2.9 per cent to 14.0 per cent over the same period.

Table 3: Principle Imports (in US $ million)

Quantity	**1990-91**	**2000-01**	**2010-11**	**2019-20 (Apr-Sep)**	**Percentage share**			
					1990-91	**2000-01**	**2010-11**	**2019-20**
Food and live animals chiefly for food (excl. cashew raw)	102	20	119	150	0.4	.03	.03	.06
Raw materials and intermediate manufactures	18140	45859	318743	212388	75.3	89.2	86.2	86.0
Capital goods	5833	5534	50907	34393	24.3	10.7	13.7	13.9
Total Imports	24075	51413	369769	246931	100	100	100	100

Source: Computed from the secondary data obtained from Economic Survey 2019-20 and P: Provisional

Table 3 presents the principle imports and percentage share of principle imports of Indian economy in the last three decades of liberalisation. There has been a substantial rise in the import of raw materials and intermediate manufacturing. For examples, it accounted 75.3 per cent share of imports in 1990-91 to 86.0 per cent in 2019-20. Food and live animals chiefly for food recorded from 0.4 per cent to 0.6 per cent over the same period. While decreasing trend in imports of capital goods from 24.3 per cent in 1990-91 to 13.9 per cent in 2019-20.

4. CONCLUSION

Over the last 73 years, India's foreign trade has undergone a complete change. The destination pattern of Indian foreign trade i.e. Exports and Imports has remarkable changed in the sense that the importance of developing countries as foreign trade has considerably increased. After independence, especially from 1990-91 to 2019-20, significant changes have witnessed which table number 1, 2, 3 already showed. Hence, it may be also concluded that India's foreign trade has become much more diversified and excessive. Sometimes drastic decline in foreign trade was primarily due to structural constraints and global recession in international trade and economy. This recessionary and decline tendencies across the world affected the foreign trade. Such slow down and contraction of foreign trade also resulted in emergence of protectionist policies by India in some foreign trade sector in the form of barriers of technological, social and environmental standards affecting market access and disrupting exports from India. But it is true that India may have been slow to embark on export led growth, but its growth rate of exports is among the highest among major Asian countries. So, that there is continuous need for India to move up strengthen of high-quality infrastructure and exploration of new markets and working out more adequate and comprehensive EXIM policy and foreign trade policy and working strongly on export promotion, gives the potential for improvement trades. The Indian Government is trying to transform the economy into a vibrant outward looking; liberalised market economy driven by the forces of competition, productivity and efficiency by the various economic reforms but the country has not been able to fully utilize its potential in foreign trade.

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