CHAPTER VII

CONCLUSIONS AND POLICY IMPLICATIONS
CHAPTER VII
CONCLUSIONS AND POLICY IMPLICATIONS

In our study we have examined the various aspects related with India’s foreign trade and economic growth and Malaysia’s foreign trade and economic growth such as trends in composition and direction of exports and imports. We have also analyzed the causal relationship between exports, imports and economic growth (GDP). We have also tried to make a comparative study of India and Malaysia regarding changes in foreign trade and its impact on economic growth. The objective of present chapter is to discuss some of the major and significant conclusions. The chapter has been divided into two parts (7.1&7.2). First part 7.1 deal with some of the main conclusions of the study, while Second part 7.2 has been devoted to the suggestions and policy implications.

7.1 CONCLUSIONS

In this section, we highlight some of the important conclusions which emerged from the study. The main findings/ conclusions are as follows:

1. The study shows that India’s share in world merchandise exports has shown a rising trend. Its share was only 0.44 percent in 1980. During the period from 1991 to 1997, its share continuously rose from 0.51 percent to 0.63 percent. This rise in India’s exports share in world’s exports implies the gain of export competitiveness. The share has started rising rapidly since 2007 albeit a very slow 0.1 percentage point so as to reach 1.21 percent in 2008 and 1.82 percent in 2012. This was mainly due to the relatively slow rise or greater fall in world export growth than India’s. On the other hand, Malaysia's share of exports in world's exports was only 0.67 percent in 1980 which increased to 1 percent in 1991 and further to 1.37 percent in 2005 and 1.28 percent in 2012. In 2009 both the countries have captured equal share of world exports i.e. 1.25 percent. Further India’s share in world exports is increasing as compared to Malaysia after 2009.
Similarly, India's share in world's imports has increased from 0.73 percent in 1980 to 2.74 percent in 2012. India's share in world merchandise imports has started rising rapidly since 2004 mainly because of rising domestic demand and acceleration in industrial growth. On the other hand Malaysia's share in world's imports was merely 0.54 percent in 1980 which increased to 1.08 percent in 2005 and further increased to 1.12 percent in 2012. It shows that Malaysia registered high share in world imports as compared to India from 1991 to 2004 but thereafter India experienced high share in world imports as compared to Malaysia.

The study reveals that Malaysia experienced trade surplus for the period 1980 and 1981. But the ratio was found to be negative in 1982. The trade surplus ratio was found to be positive continuously since 1998-2012. In contrast, India produced increasingly large trade deficits throughout the period 1980-2012, resulting in trade deficit ratio which that was less than 1 percent in 1994 increasing eleven fold to -8.35 in 2012. However, trade surplus ratio of India has remained negative throughout the period under study i.e. 1980-2012 but Malaysia has shown better performance comparatively India.

The study reveals that compound rate of growth for India's exports is found to be 7.1% during the pre-reform period but it is found to be almost double (14.91%) during the post-reform period. Same in case of Malaysia it is 6.07 percent during the pre-reform period and almost double (10.40 percent) during the post-reform period. This implies that exports exhibited a sharp turnaround during the post-reform era in both the economies. A stable domestic macroeconomic environment including low inflation and a relatively stable exchange rate in real effective terms may be contributed most to this shift in Indian exports. And in case of Malaysia the gradual move away from a heavy concentration in electrical and electronics (E&E) exports, towards non-E&E manufactured products and commodities may be the main cause.
5. The study further reveals that the compound growth rate of India's unit value indices of exports is found to be 2.81 percent during the pre-reform period but it is found to be slightly greater i.e. 3.45 percent in post-reform period but it remains almost the same around 1 percent in case of Malaysia. It implies competitiveness of Indian industry has decreased in post-reform period whereas Malaysia has maintained its competitiveness in world market.

6. The study indicates that the composition and direction of exports of both the economies have undergone significant structural changes. The share of manufactured goods as well as the proportion of high value and differential products has increased in both the countries basket reflecting diversification from non-traditional items of exports is gaining importance. During post-reform period India's merchandise exports are predominated by the manufacturing sector which accounted for more than three-fourth of its total exports. During post-reform period not only the composition of India's foreign trade has undergone substantial changes, there has also been marked change in the relative share of our exports and imports to various countries signifying the emerging new economic relationships. Whereas in case of Malaysia petroleum products were playing major role during pre reform period but machinery and electrical products have taken place instead of petroleum products during post reform period. The most remarkable change in the direction of both India's and Malaysia's export during post-reform era has been the increasing share of developing countries and industrial economies.

7. The composition of India's imports has also registered structural changes since economic reforms necessitated large imports of machinery, capital goods, transport equipment and raw material. For instance, within the petroleum products, there has been a shift from import of petroleum products towards crude imports following a large scale increase of refinery capacity over time. Whereas machine and
transport equipment has occupied a prominent place in Malaysian imports both in pre and post reform period. And direction of both India’s and Malaysia’s imports during post-reform era has been the increasing share of developing countries and industrial economies.

8. The trade openness index of Malaysia is found to much greater as compared to India during the period under study i.e. 1980-2012. This may be the result of more comprehensive liberalization process of Malaysian economy as compared to Indian economy.

9. The study shows that import penetration index of India was found to be 8.30 percent in 1980 which declined to 7.37 percent in 1991. But after the introduction of economic reforms in India since 1991 the index again rose to 22.54 percent in 2008 but again declined to 15.23 percent in 2010 due to global recession. This implies that imports satisfied 15 percent of the aggregate demand in Indian economy in 2010, with the remaining 85 percent satisfied by domestic production. The Index again rose to 23.04 percent in 2012 due to global recovery. On the other hand, import penetration index of Malaysia was found to be only 48.36 percent in 1980. However, the import penetration index of Malaysia is found to be highest as compared to India during the period under study i.e. 1980-2012.

10. The study reveals that Export propensity index of India was merely 5.00 percent in 1980 which increased to 7.21 percent in 1992 and almost doubled i.e. 16.28 percent in 2011. On the other hand, export propensity index of Malaysia was 52.94 percent in 1980. This implies that relative share of Malaysia’s exports in GDP has risen at a faster rate as compared to India throughout the period under study i.e. 1980-2012. The reason may be attributed to high export growth of Malaysia as compared to India and the high export growth of Malaysia is attributed to the presence of certain industry/product when it outperformed its counterpart at the national scale.
11. The study reveals that the two mechanisms of export-led growth i.e. economies of scale (via manufactured exports) and balance of payment effect on investment (export-investment Link) have shown mixed effects for both the countries i.e. India and Malaysia. The mechanism of economies of scale has been proved statistically significant in India in the pre reform period as well as in the post-reform period and in case of Malaysia for whole period 1980-2012 and also for the post-reform period i.e. 1986-2012. We accept the existence of Export-Led Growth Hypothesis (ELGH) in India during the whole period under study i.e. 1980-2012 and in case of Malaysia during the pre-reform period i.e. 1980-1985. The mechanism of balance of payment effect on investment has been proved statistically significant in case of Malaysia during the whole period under study i.e. 1980-2012 and in post-reform period 1986-2012. Whereas the mechanism is found to be absent in case of India during the whole period i.e. 1980-2012 and also for pre-reform and post-reform period.

12. The empirical results show that there is a two-way causality between GDP and exports in case of India for the period 1980-2012 i.e. Exports Granger causes economic growth (GDP) and economic growth Granger causes Exports while in case of Malaysia one way causality is found between GDP and exports. The results further implies that two way causality is also present between GDP and Imports in case of India whereas no casual relation is found between GDP and imports in case of Malaysia for the period 1980-2012. One way causality is found between imports and exports in case of both India and Malaysia for the period 1980-2012.

In the light of above conclusions we can summarized that both the economies India and Malaysia has shown remarkable growth pattern during the period under study especially after the introduction of trade reforms. But Malaysia has shown more steady performance as compared to India. Being a small economy in comparison to India, its trade policy measures are more effective. However, both the economies still have long path to go.
7.2 POLICY IMPLICATIONS

In the present section, we have highlighted some of the important suggestions to further expand India and Malaysia’s foreign trade which can have a greater impact on economic growth of both the economies in future:

1. For India to become a leading exporter in the world trade it will have to achieve at-least 2 percent share of world exports by the year 2020. Based on the past trends in world trade and new developments in global economic scenario envisaged over the next few years, aggregate world exports are likely to cross 25,000 billion dollars by 2020. India’s exports should, therefore, exceed 500 billion dollars to accomplish this vision. However, there seems to be a controversy between economists and policy-makers. For one group of economists this target might appear to be too ambitious to achieve and one might dismiss it as an exercise in wishful thinking. We feel that this target can be achieved provided global environment in external trade becomes favorable.

2. The experience of post-1991 economic reforms shows that India has been overcautious in the introduction and implementation of economic reforms especially after 1991. The second generation of reforms in India could not be initiated in time. As a consequence of this, external sector has been affected. India needs to continue to further opening up its economy and further intensification of trade reforms in particular and economic reforms in general. This approach will help India to achieve and sustain higher growth of its exports in the future.

3. We feel that an aggressive and refurbished “Look East” trade policy will enable India to actually achieve its realistic positioning in the competitive and dynamic world economy. India needs to reorient the pattern of its exports to switch to more skill-intensive and more knowledge-intensive goods and services of competitive international quality. Further, diversification of exports and the development of new export markets should be viewed as part of a wider effort to enlarge
the country’s foreign trade and expand commercial and economic relations with other countries.

4. The study suggests that future road map for high-value agriculture development should focus on investment in technology development and dissemination, basic infrastructure, improve the technical capacity of producers and other players in the value chain, institutional support in core functions of production, logistics and marketing through concerted public sector support and active public-private partnerships, and provision of inputs, in particular planting materials for fruits and seeds for vegetables.

5. The Government should make special efforts to increase the High Technology exports such as aerospace, computers-office machine, scientific instruments, electrical machinery, pharmacy etc. as India’s performance on high tech manufacturing trade front is not at par with other leading exporters of high technology products.

6. Deepening of reforms into specific export sectors would stimulate India’s exports; result compositional and geographical diversification; help to remove supply bottlenecks operating in the economy and help in improving export competitiveness. More emphasis on rapidly increasing markets in the context of the behavior of price and income elasticity’s would positively affect the demand for export, and further would eliminate the negative market distribution and commodity composition effects.

7. Malaysia like any other developing country, which relies on export, can benefit from international economic integration if integration policies and the creation of an environment of equal competition for all forms of Malaysian enterprise are implemented in a sound manner. The cost and benefit will largely depend on the competitiveness of the Malaysian industries. Effort to increase the competitiveness should indeed be focused and reoriented towards those industries mentioned earlier in the study. In addition creating a favorable incentive based
environment for export of the dynamic industries should obviously be the first priority of the government.

8. The study suggests that regional cooperation to strengthen supply chain could benefit by enabling Malaysia to take maximum advantage of preferential market access. Further policy improvements as suggested in the research are essential in maintaining the survival of the exporting industries especially concerning the high technology industries.

9. In order to achieve sustained growth Malaysia need to diversify its exports composition to meet increased uncertainty on the global regarding world demand. In addition, with emergence of new large economies particularly in Asia global markets have increased. Therefore, to get the benefit of the expansion of these markets Malaysia has to move up to higher value added activities.

10. Malaysia needs to reform some institutional aspects of the economy that impact on its trade policy. This is an important exercise as it will attract new foreign investors in Malaysia as Malaysia is unduly dependent on developed economies as destination for its exports and source of FDI.

11. The structure of Malaysia’s exports clearly indicates that Malaysia’s manufacturing sector is largely export-oriented. Therefore, the country needs to adopt policies that will encourage the growth of export-oriented industries. In that respect, there is a need of microeconomic reforms that stresses competition, efficiency and productivity.

12. Lastly, As the Malaysian economy seems to be very vulnerable to external shocks, so it should be mindful of its domestic policy space. To be more competitive at international market in the coming future the Malaysian economy should be more liberalized and transparent.