CHAPTER-VIII
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The ultimate goal of economic development is to raise the level of living of the large majority. The major challenge of development is to improve the quality of life. Especially in the world’s poor countries, a better quality of life generally calls for higher incomes- but it involves much more. It encompass as ends in themselves, better education, higher standard of health and nutrition, lower level of poverty, a cleaner environment, more equality of opportunity, greater individual freedom and a richer cultural life (World Development Report, 1991).

However, a debate is going on among the economists and the policy makers, regarding the choice of strategy of development for a country. According to one school of thought, all countries are dependent on each other. All the countries must accept the fact that they are part of world economy. The growth in International business has forged a network of global linkages around the world that binds all countries, institutions and individuals-much closer than ever before (Czinkota et al. 1994). Moreover, it is difficult for a country to survive without trade with other countries due to the unequal distribution of natural resources. Large share of basic needs of human beings depend upon the trade in the contemporary world. Therefore, trade must be promoted for steady and sustainable economic growth in the world economy.

The various theories of International Trade like Absolute Advantage Theory, Comparative Advantage Theory, Heckscher and Ohlin Theory and Porter’s Competitive Advantage of Nations etc. advocates that trade is good for the global economy. Trade appears to be one of the most distinctive and fundamental activity of human societies. The diversity in the geographical distribution of wealth and natural resources compel humankind to obtain those commodities from remote areas, which cannot be generated within his own locality. The differences of human wants account for an extensive system of exchange between the inhabitants of different places and nations (Arora, 2007). International trade also strengthened foreign exchange reserves and accelerate the supply of imports of capital goods in a country, which results in enhanced productive capacity at
domestic level and improved situation of balance of payments of an economy of each country.

The above discussion leads us to the conclusion that External sector is very significant for a country to achieve growth at domestic and international level. The performance of exports of any country is a hallmark of its competitive status at global level and performance of imports are recognized as an indicator of high standard of living of people of a country.

There is another school of thought, which argues that developing and economically weak countries should go for the Import Substitution Policy (Inward-looking Development Strategy), by producing those products which a country used to import from the other countries. By doing so a country may reduce its import bill and improve its balance of payments situation. The argument is that a country should take measures to become self-reliant rather than dependent on other countries over the period of time. To achieve the goal of self reliance, more and more countries across the world adopted the import substitution policy approach during the first half of the 20th century. However, the increasing marketisation of the production processes mainly controlled by developed world led by the Multinational Corporations (MNCs)/ Transnational Corporations (TNCs) have created an environment in which the developing and least developed countries have been compelled to open-up their economies for the products of developed world. The formation of WTO has further activated the process of liberalization and globalization.

The World Trade Organization (WTO), which established on 1st January 1995, replaced the General Agreement on Tariffs and Trade (GATT). WTO is a Multilateral Trade body, which provides a comprehensive regulatory framework for the promotion of global trade. It has 159 members on March, 2013, which represent more than 97 per cent of total World Trade.

Prior to the formation of WTO, India had largely been remained insulated from the world trading system for more than four decades since independence. It has been argued that decades of pursuit of an inward-looking development strategy, almost hostile attitude towards foreign trade, technology and investment and by pessimism about export markets, inevitably led India to become marginalized in world trade (Srinivasan, 2001).
In the light of above situation, Indian policy makers introduced large scale reforms after 1991.

The Government of India took a number of initiatives in the foreign trade policy like simplification of Import-Export procedure, reduction in Tariffs and Non-Tariffs barriers, Foreign Currency reforms, Liberal Credit, setting up of Export Promotion Zones, incentives for the Foreign Companies and Joint Ventures etc. As a result of these reforms, the commodity structure and geographical pattern of exports of India has changed under the WTO regime. The total value of India’s international trade has gone up during the post reforms period. However, In spite of the remarkable growth in Indian trade, its share in world trade was only 0.66 percent in 2001, which was less than that of small countries like Taiwan and Singapore. In 1980-81, exports as percentage of GDP were only 5.5 per cent, which marginally increased to 5.8 per cent in 1990-91 but substantially improved to 11.7 per cent in 2003-04. This shows the growing importance of exports for the Indian economy (Datt, 2006).

A liberal trade policy was expected to positively influence the performance of Indian trade as it happened in some other countries, namely, East Asian countries (Malaysia, Korea and Philippines), China and Mexico etc. These reforms were concerned with adoption of policies that encourage private domestic and foreign investments; reduction of the government interventions in the economy; and the other policies, which are intended to enhance efficiency and better allocation of resources. These reforms have put a great impact on external sector policy of India which primarily focused on promotion and development of foreign trade instead of control and regulation over trade.

The main motive behind all these changes in foreign trade policy has been to achieve higher level of economic growth and employment generation in the economy. Therefore, the present study is an attempt to analyze the importance of all these changes to achieve the said goals as well as its implications for the Indian economy in general and different sections of the society in particular. The study is definitely to bridge gap in research and will also positively contributes to further strengthening of the foreign trade policy in India to face the challenges of World Trade Organization. The study has been designed to analyze the performance of India’s foreign trade during the post-WTO period.
8.1 OBJECTIVES OF THE STUDY

The present study has been planned to analyze the impact of World Trade Organization’s policies on Indian foreign trade. The study is a modest attempt to achieve the following objectives:

• To analyze the Indian Foreign Trade Policy reforms during the Post-WTO period;
• To study the changes in the Commodity Composition of Indian Exports and Imports during the Post-WTO period;
• To study the changes in the Direction of Indian Exports and Imports during the Post-WTO period;
• To study the relationship between trade openness, exports and economic growth during the Post-WTO period;
• To study the impact of Indian Foreign Trade reforms on Balance of trade and Balance of Payments (BOPs) during the period under study; and
• To suggest suitable recommendations for the policy makers to take remedial measures for necessary corrections.

8.2 DATABASE AND RESEARCH METHODOLOGY

8.2A DATABASE

The secondary data have been used to analyze the performance of external sector of India. The secondary data have been taken from various sources, which include various issues of Handbook of Statistics of Indian Economy, Reserve Bank of India (RBI) and various issues of Economic Survey of India. The data have also been taken from the Reports of Centre for Monitoring of Indian economy (CMIE), and Official Websites of the Government of India. The present study covers a comprehensive period of 17 years from 1994-95 to 2010-11 to evaluate the performance of Indian foreign trade with special focus on its composition and direction.

The value of balance of trade has been generated by taking the difference of exports and imports. The analysis of pre-WTO period has also been carried-out to compare the performance of pre and post-WTO periods. For the analysis of composition of Indian foreign trade, we have taken the principal items of Indian merchandise export.
goods and import goods, which includes, namely, agricultural & allied products; ores and minerals; leather & manufacturing; chemicals & allied products; engineering goods; gems & jewellery; handicrafts; petroleum; and others. The data on direction of Indian foreign trade included all the imperative destinations of Indian foreign trade, namely, OECD (Organization for Economic Cooperation and Development), OPEC (Organization of Petroleum Exporting Countries), Eastern Europe and Developing countries.

8.2B STATISTICAL TOOLS APPLIED FOR THE ANALYSIS OF DATA

In order to achieve the objectives of the present study, descriptive statistical techniques such as percentages and averages have been used. The Compound Growth Rate and Regression technique have been applied for the scientific analysis of the study. Advanced Time Series Analytical Techniques such as Granger-Causality test in a multivariate Vector Auto-regression (VAR) framework, Phillips Perron (PP) Test, Johansen Co-integration Test and Block Exogeneity Wald Test have been applied to find the relationship between trade openness, exports growth and economic growth. Eviews, SPSS Package and MS-Excel software have been used for the analysis of data.

8.3 HYPOTHESES OF THE STUDY

In the course of our investigation the following hypotheses have been framed to test on the basis of the findings of the present study:

H1: The composition of Indian Exports and Imports has changed during the post-WTO period;
H2: The direction of Indian Exports and Imports of goods has changed during the post-WTO period;
H3: The Liberalization of trade policy led to higher volume of exports;
H4: Export growth is positively related to the growth of GDP;
H5: The share of merchandised exports as percentage of GDP has increased during the post-WTO period;
H6: Foreign trade reform measures have succeeded to reduce trade deficit or balance of trade; and
H7: Foreign trade reforms have a positive impact on the Balance of payments.
8.4 MAJOR FINDINGS OF THE STUDY

8.4A FINDINGS RELATING TO COMMODITY COMPOSITION OF INDIAN EXPORTS AND IMPORTS

- The share of agricultural & allied products was 16.05 per cent in 1994-95 which increased to 19.13 per cent in 1995-96 and 20.50 per cent in 1996-97. However, it declined to 13.40 per cent in 2000-01 which further declined to 9.91 per cent in 2005-06 and reached to 9.72 per cent in 2010-11. The study found that the share of agricultural commodities has declined during the post WTO period. The analysis of data reveals that the average compound growth rate of agricultural and allied products export remained 11.94 per cent during the post-WTO period. The same has been found statistically significant at 1 per cent probability level on the basis of the value of t-statistics.

- The analysis of data reveals that the percentage share of Ore and Minerals in the total Indian exports continuously declined during the first five years of post WTO period. The annual growth rate of ore and minerals was 3.75 per cent in 1994-95, which declined to 2.49 per cent in 1999-2000. It declined to 5.97 per cent and 5.54 per cent in 2005-06 and 2006-07 respectively. The share of Ore and Minerals slightly improved to 5.59 per cent in the recession year of 2007-08, which further declined to 4.19 per cent in 2010-11. The average compound growth rate of Ore and Minerals is 21.9 per cent under the study period, which has been found statistically significant at 1 per cent probability level.

- The annual average percentage share of Manufactured Goods in Indian exports was 77.49 per cent in 1994-95, which declined to 73.54 per cent in 1996-97. However, it improved during the next three consecutive years but declined for next two consecutive years. In 2002-03, it slightly increased to 76.33 per cent. The share of Manufactured Goods again declined for all the years and reached to the level of 63.19 per cent in 2007-08. From the analysis of data, the study found that the annual average share of Manufactured Goods was 77.49 per cent in 1994-95, which declined to 66.16 per cent in 2010-11 during the post WTO period. The compound growth rate of Manufactured Goods is 16.14 per cent during the study
period, which has been found statistically significant at 1 per cent significance level.

- The analysis reveals that share of Leather and Leather Manufactures in the total exports was 6.12 per cent in 1994-95, which declined to 1.49 per cent in 2010-11. However, the compound growth rate of Leather and Leather Manufactures is 8.14 per cent and found significant at 1 per cent level of significance during the post-WTO regime.
- The share of Chemicals and Allied Products in the total exports was 11.65 per cent in 1994-95, which slightly declined to 11.41 per cent in 2010-11. The compound growth rate of Chemicals and Allied Products is 18.13 per cent and found significant at 1 per cent level of significance during the study period.
- The data on Engineering Goods reveals that the share of Engineering Goods to total exports has increased to 27.08 per cent in 2010-11 from 13.32 per cent in 1994-95. The compound growth rate of Engineering Goods is 23.03 per cent and found significant at 1 per cent level of significance during the study period.
- The annual average share of Textile and Textile Products was 27.03 per cent in 1994-95, which sharply declined to 9.18 per cent in 2010-11. The compound growth rate of Textile and Textile Products is 9.65 per cent under study period and found significant at 1 per cent level during the study period.
- The share of Gems and Jewellery products to total exports was 17.09 per cent in 1994-95, which slightly declined to 16.05 per cent in 2010-11. The compound growth rate of Gems and Jewellery is 16.41 per cent and found significant at 1 per cent level of significance during the WTO regime.
- The annual average share of Handicrafts (excluding Handmade Carpets) was 1.47 per cent in 1994-95, which declined to 0.09 per cent in 2010-11. In case of Other Products, the annual average share was 0.81 per cent in 1994-95, which slightly improved to 0.87 per cent in 2010-11. The compound growth rate of Handicrafts was found negative -1.83 and, of other products was 18.48 per cent and found significant at 1 per cent level of significance during the study period.
- The analysis reveals that the share of Petroleum Products in the total exports was 1.58 per cent in 1994-95, which rose to 16.48 per cent in 2010-11. The analysis
reveals that the share of petroleum products has shown a declining trend during the period from 1994-95 to 1999-00. The share of petroleum products was increased from 4.19 per cent in 2000-01 to 17.41 per cent in 2007-08, which declined to 14.67 per cent in post-recession year of 2008-09. Its share was slightly improved from 15.17 per cent in 2009-10 to 16.48 per cent in 2010-11. The compound growth rate of Petroleum Products came 48.25 per cent and found significant 1 per cent level of significance.

• Bulk Imports category includes Petroleum; Bulk Consumption Goods; and Other Bulk goods. The data on Bulk Imports reveals that it contributes nearly 50 per cent of total imports of India. The compound annual growth rate of Bulk Items of Indian imports is 21.34 per cent during the post-WTO period, which has been found statistically significant at 1 per cent probability level. The annual average percentage share of Bulk Imports to total imports was 39.51 per cent in 1994-95, which rose to 42.68 per cent in 2010-11. There is also considerable variation in the annual growth rate of Bulk Imports of India during the post-WTO period. The annual percentage changes in Bulk Imports varied from a low level of 31.21 per cent in 1998-99 to a high of 45.65 per cent in 2008-09.

• The data reveals that the share of Petroleum, Crude and Products imported in total imports of India in 1994-95 was 20.69 per cent, which rose to 30.07 per cent in 2010-11. The data reveals that it contributes in the range of 20-30 per cent of total imports. The compound annual growth rate of Petroleum Products is 23.59 per cent and found significant at 1 per cent level of significance during the post-WTO period.

• The data reveals that the annual average percentage share of Consumption Goods to total imports was 3.99 per cent in 1994-95, which declined to 2.48 per cent in 2010-11. The compound annual growth rate of Bulk Consumption Goods of Indian imports is 15.35 per cent and found significant at 1 per cent level of significance during the post-WTO period. The data reveals that there has been considerable variation in the annual average growth rate of Bulk Consumption products. The annual percentage changes in Bulk Consumption Goods varied from a high level of 5.95 per cent in 1998-99 to a low level of 1.66 per cent in 2008-09.
• The study found that the annual average percentage shares of Other Bulk Items to total imports was 14.83 per cent in 1994-95, which has declined to 10.13 per cent in 2010-11. The compound annual growth rate of Other Bulk Items of Indian imports is 18.48 per cent and found significant at 1 per cent level of significance during the post-WTO period.

• Non-Bulk Imports of India includes Capital Goods, Mainly Export Related Items and Others. The annual average percentage share of Non-Bulk Imports to total imports was 60.49 per cent in 1994-95, which declined to 57.32 per cent in 2010-11. The compound annual growth rate of Non-Bulk Items of Indian imports is 19.12 per cent and found significant at 1 per cent level of significance during the post-WTO period.

• The study found that the annual average percentage share of Capital Goods to total imports was 26.66 per cent in 1994-95, which has declined to 20.33 per cent in 2010-11. The annual percentage changes in Capital Goods varied from a high level of 28.17 per cent in 1995-96 to a low level of 17.69 per cent in 2000-01. The compound annual growth rate of Capital Goods of Indian imports is 19.67 per cent and found significant at 1 per cent level of significance under the reference period.

• The annual average percentage share of Mainly Export Related Items to total imports was 15.06 per cent in 1994-95, which has declined to 14.09 per cent in 2010-11. The compound annual growth rate of Mainly Export Related Items of Indian imports is 16.68 per cent and found significant at 1 per cent level of significance during the post-WTO period.

• Other items of imports includes Gold and Silver; Artificial Resins and Plastic Materials, etc.; Professional, Scientific Controlling Instruments, Photographic Optical Goods; Coal, Coke and Briquettes, etc.; Medicinal and Pharmaceutical Products; Chemical Materials and Products; Non-Metallic Mineral Manufactures; and Others. The share of other items of imports to total imports was 18.77 per cent in 1994-95, which sharply increased to 22.9 per cent in 2010-11, mainly due to a sharp increase in imports of gold and silver. The compound annual growth
rate of other items of imports of Indian imports is 20.23 per cent and found significant at 1 per cent level of significance during the period under study.

8.4B FINDINGS RELATING TO DIRECTION OF INDIAN EXPORTS AND IMPORTS

- The analysis reveals that the annual average share of OECD countries has sharply declined from 58.65 per cent in 1994-95 to 33.30 per cent in 2010-11. The share of OECD countries in India’s total exports has shown a declining trend except the years of 1997-98, 1998-99 and 2002-03 respectively. The compound annual growth rate of OECD Countries is 13.5 per cent during the post-WTO period and found significant at 1 per cent level of significance.

- The share of European Union’s in India’s total exports was Rs. 22075 crore in 1994-95, which increased to Rs. 213313 crore in 2010-11. The annual average share of European Union (EU) in India’s total exports has shown a declining trend and its share decreased from 26.70 per cent in 1994-95 to 18.43 per cent in 2010-11. The compound annual growth rate of European Union is 14.82 per cent and found significant at 1 per cent level of significance during the post-WTO period.

- The amount of North America’s share in India’s total exports was Rs. 16602 crore in 1994-95, which increased to Rs. 122785 crore in 2010-11. The annual average share of North America in India’s total exports has also declined from 20.08 per cent in 1994-95 to 11.55 per cent in 2010-11. The compound annual growth rate of North America is 12.72 per cent and found significant at 1 per cent level of significance under the study period.

- The share of Asia & Oceania’s in India’s total exports was Rs.7623 crore in 1994-95, which increased to Rs. 32442 crore in 2010-11. Similarly EU and North America, its annual average share has also declined from 20.08 per cent and 9.22 per cent in 1994-95 and 2.94 per cent in 2010-11 respectively. The compound annual growth rate of Asia & Oceania is 8.64 per cent and found significant at 1 per cent level of significance during the period under study.

- The share of OPEC countries in India’s total exports was Rs.7626 crore in 1994-95, which increased to Rs. 249375 crore in 2010-11. The annual average share of
OPEC countries in India’s total exports has shown an upward trend and has increased from 9.22 in 1994-95 to 21.54 per cent in 2010-11. The compound annual growth rate of the share of OPEC Countries in India’s exports has 24.45 per cent and found significant at 1 per cent level of significance during the post-WTO period. This is a major development in the destination pattern of Indian exports during the Post-WTO period.

- The amount of Eastern Europe’s share in India’s total exports was Rs.3319 crore in 1994-95, which increased to Rs. 13547 crore in 2010-11. The annual average share of Eastern Europe in Indian exports has sharply declined from 4.01 per cent in 1994-95 to 1.17 per cent in 2010-11. However, the compound annual growth rate of Eastern Europe in Indian exports is 6.91 per cent and found significant at 1 per cent level of significance during the period under study.

- An attempt has also made to check the trend in regard to the developing countries’ share. The share of developing countries in India’s total exports was Rs.21883 crore in 1994-95, which increased to Rs. 481566 crore in 2010-11. The annual average share of developing countries in Indian exports as a group has increased from 26.47 per cent in 1994-95 to 41.60 per cent in 2010-11. The compound annual growth rate of developing countries is 21.06 per cent and found significant at 1 per cent level of significance during the period under study. The increase in share of developing countries in Indian exports is another major development during the post-WTO phase.

- The amount of Asia’s share in India’s total exports was Rs.1791 crore in 1994-95, which increased to Rs. 357873 crore in 2010-11. The annual average share of Asia in India’s total exports has increased from 21.67 per cent in 1994-95 to 30.92 per cent in 2010-11. The compound annual growth rate of Asia is 20.5 per cent and found significant at 1 per cent level under study period.

- The amount of Africa’s share in India’s total exports was Rs.2755 crore in 1994-95, which increased to Rs. 75797 crore in 2010-11. The annual average share of Africa in India’s total exports has increased from 3.33 per cent in 1994-95 to 6.55 per cent in 2010-11. The compound annual growth rate of Asia is 21.62 per cent
and found significant at 1 per cent level of significance under the post-WTO period.

- The amount of Latin America’s share in India’s total exports was Rs.1207 crore in 1994-95, which increased to Rs. 47896 crore in 2010-11. The annual average share of Latin American countries in India’s total exports has also increased from 1.46 per cent in 1994-95 to 4.14 per cent in 2010-11. The compound annual growth rate of Asia is 25.6 per cent and was found significant at 1 per cent level under the post-WTO period.

- The amount of OECD’s share in India’s total imports was Rs. 46256 crore in 1994-95, which increased to Rs. 479785 crore in 2010-11. The annual average share of OECD countries has sharply declined from 51.41 per cent in 1994-95 to 29.89 per cent in 2010-11. The share of OECD countries in Indian imports has shown a declining trend during the period under study. During the post-WTO period, the compound annual growth rate of OECD Countries in India’s imports is 15.88 per cent and found significant at 1 per cent level of significance.

- The share of European Union in India’s total imports was Rs. 22339 crore in 1994-95, which increased to Rs. 193228 crore in 2010-11. The annual average share of EU in India’s total imports has declined from 24.83 per cent in 1994-95 to 12.04 per cent in 2010-11 except 1995-96 and 1997-98. This is a major development in the direction of India’s imports during the post-WTO period. The compound annual growth rate of EU Countries is 14.02 per cent and found significant at 1 per cent level of significance during the post-WTO period.

- The amount of North America’s share in India’s total imports was Rs. 9957 crore in 1994-95, which increased to Rs. 93233 crore in 2010-11. The annual average share of North America in India’s total imports has declined from 11.07 per cent in 1994-95 to 5.81 per cent in 2010-11. The compound annual growth rate of North America is 16.14 per cent and found significant at 1 per cent level of significance during the study period.

- The share of Asia & Oceania in India’s total imports was Rs. 9517 crore in 1994-95, which increased to Rs.86632 crore in 2010-11. The annual average share of Asia & Oceania in India’s total imports has declined from 10.58 per cent in 1994-
95 to 5.4 per cent in 2010-11. The compound annual growth rate of Asia & Oceania has 15.88 per cent and found significant at 1 per cent level of significance during the post-WTO period.

- The amount of OPEC’s share in India’s total imports was Rs. 18996 crore in 1994-95, which increased to Rs. 542729 crore in 2010-11. The annual average share of OPEC countries to India’s total imports has shown a fluctuating trend and has increased from 21.11 per cent in 1994-95 to 33.81 per cent in 2010-11. During the period under study, its share varied from as low as 5.32 per cent in 2000-01 to as high as 33.81 per cent in 2010-11. It is a major development in the destination pattern of Indian imports during the Post-WTO period.

- The share of Eastern Europe in India’s total imports was Rs. 3038 crore in 1994-95, which increased to Rs. 25546 crore in 2010-11. The annual average share of EE in India’s total imports has sharply declined from 3.38 per cent in 1994-95 to 1.59 per cent in 2010-11. However, the compound annual growth rate of Eastern Europe in Indian imports is 15.88 per cent and found significant at 1 per cent level of significance during the period under study.

- The share of developing countries in India’s total imports was Rs.21673 crore in 1994-95, which increased to Rs. 525059 crore in 2010-11. Its annual average share in India’s total imports as a group has increased from 24.09 per cent in 1994-95 to 32.71 per cent in 2010-11. The compound annual growth rate of developing countries is 23.03 per cent and found significant at 1 per cent level of significance under the study period. The increase in share of developing countries in India’s total imports is a significant development during the WTO phase.

- The amount of Asia’s share in India’s total imports was Rs. 15987 crore in 1994-95, which increased to Rs. 429141 crore in 2010-11. The annual average share of Asia in India’s total imports has increased from 17.77 per cent in 1994-95 to 26.73 per cent in 2010-11. The compound annual growth rate of Asia is 23.59 per cent and found significant at 1 per cent level of significance under study period.

- The share of African countries in India’s total imports was Rs. 3261 crore in 1994-95, which increased to Rs. 56958 crore in 2010-11. The annual average share of African Countries in India’s total imports has declined from 3.62 per cent in 1994-95 to 3.55 per cent in 2010-11. The compound annual growth rate of
African Countries is 19.4 per cent and found significant at 1 per cent level of significance under study period.

- The amount of Latin American Country’s share in India’s total imports was Rs. 2424 crore in 1994-95, which increased to Rs. 38961 crore in 2010-11. The annual average share of LACs in India’s total imports has declined from 2.69 per cent in 1994-95 to 2.43 per cent in 2010-11. The compound annual growth rate of LACs is 22.74 per cent and found significant at 1 per cent level of significance during the post-WTO period.

- The share of Others Countries in India’s total imports was just only Rs. 8.1 crore in 1994-95; it has sharply increased to Rs. 32195 crore in 2010-11. The annual average share of Others Countries in India’s total imports had negligible share in 1994-95, just 0.01 per cent which increased to 2.01 per cent in 2010-11. The compound annual growth rate of these countries is 75.39 per cent and found significant at 1 per cent level of significance during the post-WTO period.

### 8.4C FINDINGS RELATING TO RELATIONSHIP BETWEEN REAL EXPORTS, REAL GDP AND TRADE OPENNESS

- On the basis of the results of the Phillips Perron Test, the study found that all variables, namely, real exports; real GDP; and trade openness are stationary at first difference and have the same order of integration, i.e. I(1).

- The results of the statistics of the Johansen’s $\lambda_{\text{trace}}$ and $\lambda_{\text{max}}$ in Table 6.4 support the existence of one co-integrated vector which exhibits a stable long-run relationship among these three variables. It implies that a long-run relationship exist among the variables like real exports, real GDP and trade openness in India during the Post-WTO reforms.

- On the basis of the VECM results, the uni-directional causality has been observed among trade openness and economic growth (GDP), which is running from trade openness to GDP. The lagged coefficient of $\Delta TO_{t-2}$ is positive and found statistically significant, which implies that higher trade openness has a positive impact on the GDP.
The lagged coefficient of $\Delta X_{t-2}$ and $\Delta X_{t-3}$ are negative and found statistically significant at 1 per cent level of significance, which implies that uni-directional causality running from exports to GDP. The estimate of ECT$_{t-3}$ is positive and found statistically significant at 5 per cent level of significance, which implies that error term contributes in explaining the GDP changes and a long-term relationship exists between independent variables and the GDP.

The study found that there is bi-directional causality running from GDP to export growth and vice versa for India. The ELG and GLE hypothesis is valid for India and empirical evidence supports the existence of long-run equilibrium relationship between export growth and economic growth. In the light of above findings, the present study supports the hypothesis that a positive correlation exist between export growth and economic growth during the post reforms in India.

### 8.4D FINDINGS RELATING TO MERCHANDISED EXPORTS AND IMPORTS AS PERCENTAGE OF GDP

The analysis of data under column X$_6$ and X$_7$ of table 7.1A reveals that both exports and imports as a percentage of GDP has increased, however, the increase in imports remained higher than the exports which led to trade deficit in Indian foreign trade during the entire pre- and post-WTO period under study.

The analysis of data under column X$_6$ and X$_7$ of table 7.1B reveals that the value of exports as a percentage of volume of imports has also increased during the post-WTO period with fluctuations.

The detail analysis of data for the pre-WTO period and the post-WTO period reveals that the growth rate of exports remained higher than growth rate of imports from 1980-81 to 1989-90 which is considered as pre-reforms period. However, the rate of growth of exports declined in 1990-91, while imports grown at higher rate as compared to exports in 1990-91. The balance of trade remained on deficit side with some variations during the entire period of pre-reforms. The exports as a percentage of imports increased continuously during this period.
except the year 1984-85. However, the exports as a percentage of imports increased at higher rate during the first part of economic reforms i.e. before the implementation of WTO provisions.

8.4E FINDINGS RELATING TO THE PERFORMANCE OF BALANCE OF TRADE AND BALANCE OF PAYMENTS

• The compound growth rate for the entire period from 1980-81 to 1993-94 has been found statistically significant at 1 per cent level of significance. The analysis of the performance of Indian exports and imports during the post WTO period (1994-95 to 2010-11) reveals that both exports and imports has been increased in value terms, however, the rate of growth of imports has been increased at higher rate as compare to the rate of growth of exports during this period. The compound growth rate for this period for exports and imports have been found significant 1 per cent level of significance. However, at the same time, the trade deficit has widened during this period, though both exports and imports as a percentage GDP has increased during this period.

• Another development is that the export as a percentage of import has declined during this period which is the reverse of pre-WTO period when exports increased continuously as percentage of imports. It implies that the capacity of exports to finance imports has declined during this period which contributed to the higher level of trade deficit.

• Furthermore, the analysis of balance of payments situation during the post reforms period reveals that the performance of invisibles transactions improved after 1990-91 during the entire period of post-WTO. However, the improvement on account of the trade of invisibles could not improve the current account situation during the entire period of post reforms period which continuously led to the higher level of deficit during this period. However, there is some improvements in terms of performance of capital account transactions during this period which continuously increased and remained positive. However, in spite of these positive developments, the overall balance of payments situation turned negative from 1990-91 to 1995-96 and in the year 2008-09 during the post-WTO period.
So the foregoing analysis leads us to the conclusion that overall balance of trade remained deficit during both pre and post-WTO periods. The trade of invisibles transactions have improved during this period but the capacity of Indian exports to finance the increasing requirements of the Indian imports could not improve during this period. So these developments have led to a continuous pressure on the Indian balance of payments situation which resulted to high rate of inflation, depreciation of Indian rupee during the recent times.

8.5 TESTING OF HYPOTHESES

An attempt has been made to test the hypothesis on the basis of the empirical analysis of the performance of Indian Foreign trade under WTO regime:

- The first hypothesis that, “the composition of Indian Exports and Imports has changed during the post-WTO period” has been accepted as the commodity composition of the Indian exports and imports has undergone a major change during the post-WTO period.

- On the basis of the findings of the study, the second hypothesis that, “The direction of Indian Exports and Imports of goods has changed during the post-WTO period” has been accepted as the destination pattern of Indian exports and imports has substantially changed during the Post-WTO period.

- The third hypothesis that, “The higher level of trade Liberalization led to higher volume of exports” has been accepted as India’s exports have increased during the Post-WTO period but it is pertinent to note that the imports have increased at a higher rate as compared to exports which led to higher trade deficit in India during the study period.

- The fourth hypothesis that, “export growth is positively related to the growth of GDP” has also been accepted as there is a bi-directional causality running from GDP to export growth and vice versa for India. The ELG and GLE hypothesis is valid for India and empirical evidence supports the existence of long-run equilibrium relationship between exports growth and economic growth.

- The fifth hypothesis that, “The share of merchandised exports as percentage of GDP has increased during the post-WTO period” has been accepted on the basis
of the facts that both exports and imports as a percentage of GDP has increased during the pre- and post-WTO period.

- The sixth hypothesis that, “Foreign trade reforms measures have succeeded to reduce trade deficit or balance of trade” has been rejected on the basis of the analysis of data that the imports have increased at a higher rate as compared to exports which led to higher trade deficit in India during the post-WTO period. It implies that the capacity of exports to finance imports has declined during this period which contributed to the higher level of trade deficit. The table 8.1 is presented the summarized form of the results of the hypotheses of the study.

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Accept/Reject</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1  The composition of Indian Exports and Imports has changed during the post-WTO period</td>
<td>Accepted</td>
</tr>
<tr>
<td>H2  The direction of Indian Exports and Imports of goods has changed during the post-WTO period</td>
<td>Accepted</td>
</tr>
<tr>
<td>H3  The Liberalization of trade policies led to higher volume of exports</td>
<td>Accepted</td>
</tr>
<tr>
<td>H4  Export growth is positively related to the growth of GDP</td>
<td>Accepted</td>
</tr>
<tr>
<td>H5  The share of merchandised export as percentage of GDP has increased during the post-WTO period</td>
<td>Accepted</td>
</tr>
<tr>
<td>H6  Foreign trade reform measures have succeeded to reduce trade deficit or balance of trade</td>
<td>Rejected</td>
</tr>
<tr>
<td>H7  Foreign trade reforms have a positive impact on the Balance of payments</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

8.6 CONCLUSIONS

Over the last two decades, the main purpose of foreign trade reforms was creating an environment for achieving a rapid increase in exports, raising India’s share in world exports and making exports as an engine for achieving higher economic growth. Number of measures has been introduced during the Post-WTO
Era, namely, simplification of Import-Export procedure, reduction in Tariffs and Non-Tariffs barriers, Foreign Currency reforms, Liberal Credit, setting up of Export Promotion Zones, incentives for the Foreign Companies and Joint Ventures etc. The formation of WTO, growth and improvement in infrastructure (i.e. roads, railways and ports etc), both in terms of quantity and quality, are considered as the positive developments. The reduction in tariff rates and removal of non-tariff barriers as per the provisions of WTO compliance has also contributed to the higher growth in exports.

The study found that the trade reforms introduced during the ‘1990’s could not narrow down the trade deficit which was one of the main objectives of new economic policy. The study also found that the share of both export and import of goods has increased during the post reform period but higher increase in imports has further widened the trade deficit. There can be few reasons of this outcome: the import bill started jacking up when the business houses took full advantage of the liberalization policy of government and imported all kinds of items from abroad; imports of a large number of goods were brought under the Open General Licence (OGL) which led to increase in imports; a number of foreign collaborations were approved which led to increase in import of capital goods and foreign technology. The findings of the present study create doubts about the efficacy of the export led growth strategy as a plausible substitute of import substitution strategy of growth.

The analysis of exports and imports as a percentage of Gross Domestic Product (GDP) shows the impact of liberal policies on the Indian economy. The study found that though the share of both exports and imports as a percentage of GDP has increased during the period under study, the increase has been much higher in case of imports, which has further widened the trade deficit. Moreover, the higher share of Indian GDP has been eaten by the increasing liabilities on account of import payments, as it happened in Mexico after trade liberalization. The pro export-led growth model school of thought suggests that the surplus generated from the exports contribute to the development of the developing countries, but it could not happen in case of India.
With the introduction of New Economic Policy in 1991 and the formation of WTO (with effect from January 1, 1995), significant changes have been taken place in the geographical pattern of India’s foreign trade and it has made new strides in different directions. India developed more trade relations with Africa, South America, and Middle-East Asian Countries as these countries had offered huge markets for India’s exports. The analysis of direction of Indian exports reveals that the geographic base of Indian exports has changed during the period under study. The share of Indian exports to OPEC countries and the developing countries has increased during the post WTO period. On the other hand, the share of Eastern Europe has sharply declined during this period. So the study concludes that Indian exports have reached to new areas of international market. Under the WTO phase, India’s import requirements have also changed along with the structural changes and have grown in volume too with different phases of import liberalization. The growing protectionist strategies of both developed and developing world has adversely affected the growth of India’s exports.

On the basis of empirical evidences, the present study found that there exist a significant long-term bidirectional causation between the determinants i.e. export causes economic growth and economic growth has also influenced export growth during the post WTO period. Based on the Vector Error Correction Model results, the evidence suggests that both the variables exports and economic growth are related with past deviations and higher export growth have a positive impact on the economic growth in both short-run and long-run. Our study reveals that the exports have positively contributed to accelerate the economic growth of India during the post liberalization period.

The study also found the Uni-directional causality among the trade openness and GDP of India. The analysis of data reveals that higher trade openness has a positive impact on the GDP of India during the Post-WTO period. It is clear from the empirical evidences that globalization and liberal trade regime have helped to create a more open trade environment which led to positive spillover effects on the economic growth of the country.
The empirical findings of our study are in consonance with number of studies, namely, Oskooee (1993), Doraisami (1996), Ghali (2000), Summer (2004), Dawson (2005), Musonda (2007), Noman (2007), Husein (2009), Bhattacharya et al. (2009) and Gazda (2010). The implementation of Economic reforms in regard to trade liberalization during the Post-WTO period has led to a favorable foreign trade policy during this period. The liberalization in imports has also contributed to the growth of exports which has led to higher import intensity in Indian Exports, which has resulted into negative impact on the balance of trade during the period under study.

The findings of the study support the outward looking policies (Trade Openness) and Exports expansion approach. Export expansion has contributed to the economic growth of India during the Post-WTO period which has become an integral part of economic development strategy. At the same time, the finding of our study does not undermine the contribution of other factors that are indispensable for economic growth.

The study found that the growth rate of exports remained lower as compared to growth rate of imports during the post-WTO period. This development is the consequence of repeated devaluation of Indian rupee and increasing import intensity of both production and consumption goods during the post-reforms period. In other words, each unit of domestic production in the economy has thus turned out, on an average to be more import-intensive. It implies that the increase in the volume of Indian merchandise exports during the post-reforms period was not adequate to pay for the increased demand for the imports and the loss resulted on account of devaluation/ depreciation of Indian Rupee during the ‘1990’s and afterwards.

It is pertinent to mention that the performance of the traditional goods of exports, namely, the textile and textile products; leather and leather manufacturers; and the handicrafts had been very poor during the post-WTO period. These are the sectors which have potential to absorb more labour being labour intensive sectors. However, these sectors could not even maintain its share in the world market which they have during the pre-reforms period. This has resulted into the displacement of
workers from the exiting factories and led to mass poverty and unemployment in the country.

8.7 **RECOMMENDATIONS**

From the foregoing analysis, the following recommendations are proposed.

- The study recommends that in order to make Indian exports more competitive in the international market, and to improve level of productivity of Indian export sector, a number of measures, including, the diversification of export commodities, infrastructure development, further reduction in tariff barriers and quantitative restrictions, increase in the incentives and for research and development instead of subsidies to exporters and operationalization of Export Processing Zones (EPZs) are required.

- The desire for rapid industrialization has led considerable expansion in the imports of petroleum, capital goods, pearls and precious stones, iron and steel, gold and silver, chemicals and edible oils, but due to the higher increase in the gap between India’s exports and imports under study period, there is need to screen and regulate imports and adjust them according to the requirements of the economy.

- In order to facilitate the promotion of exports, there is a need to give more impetus to major foreign exchange earning sectors, namely, cottage and handicrafts, gems and jewellery, electronic and the computer software, engineering and consultancy.

- The study found that Indian exports have reached to new areas of international market, as a result of which geographic base has expanded during the period under study, but it has remained under pressure. India must concentrate on the markets like Germany, Italy, U.K, Spain, and Netherlands where intra union imports are relatively of lesser magnitude. In order to improve our trade with EU, the study suggested that there is need to promote co-operation on standards, encouragement to technology transfer, absorption and undertaking aggressive marketing should be adopted by Indian industries to enhance their exports to the European Union. Such steps are required due to the fact that India has been facing
increasing difficulty in gaining market access due to the protectionist policies of the European Union in areas like Clothing, where India has comparative advantage.

- In view of the continuous BOPs problems in India, there is need to emphasize on domestic market which is being capturized by the exports from China
- There is need of Export promotion measures by the Indian government for making their export products more competitive at global market. The quality of the products must be improved.
- Marketing Information System (MIS) should be improved to compete at global level.
- The simplification of exports procedure is required to promote Export Oriented units (EOUs) in the light of WTO agreement.
- Indian should take lead to promote trade among the SAARC countries which could not implement the provisions of SAFTA till-date. India’s share in SAARC countries as percentage of world trade is less than 5 per cent. So there is lot of scope for future trade with SAARC countries.
- There is need to strengthen the other bilateral trade agreements which are already in existence.
- The study strongly recommends for the review of foreign trade policy, which could strengthened the domestic base of the Indian economy for sustainable development and could positively contribute to reduce the increasing pressure on the Balance of Trade and Balance of Payments and generate employment for millions of unemployed to boost the domestic demand.

8.8 LIMITATIONS OF THE STUDY

Just like any other research project, the present study also has certain limitations, some of which are listed below:

- The present study is based on secondary data, therefore, it carries all the limitations of a secondary data based studies;
- The present study could not research the impact of export-led economic growth model on the transfer of technology, level of unemployment, level of competition
and reduction of poverty in India during the post-WTO period which are the key problems being faced by the Indian economy;

- Moreover, the present study could not differentiate the recession period from the normal period, which might have affected the results of the study;
- Some advanced statistical tools have been applied for the analysis of data. Therefore, all the limitations of such techniques might have affect on the results of the present study;
- The study is based on secondary data, therefore, the problems being faced by exporters and importers are missing in India could not be included in the study; and
- The present study has focused on the merchandised exports and imports, therefore, the contribution of invisibles exports and imports has not included in the study.

8.9 SCOPE FOR FURTHER RESEARCH

- There is a scope for further research to investigate the impact of export-led economic growth model on the transfer of technology, level of competition and reduction of poverty in India during the post-WTO period.
- It is pertinent to mention that in spite of existence of the positive relationship between the GDP, export growth and trade openness, there is question mark how this development has contributed to the level of income inequalities, impact on poverty reduction and generation of employment in India.
- There is further scope for research in the performance of the invisibles transactions during the post-WTO period.
- Research can be carried out to measures the impact of WTO provisions on the different sectors and the stakeholders during the post-WTO.
- The interstate comparison could be made in regard to the performance of exports as many studies have pointed out that only few states have contributed more to the total volume of exports during the post-WTO period.