CHAPTER - 1

INTRODUCTION

Trade policy reforms in India, initiated in 1991, drastically changed the foreign trade scenario and have resulted in the shift from ‘inward-oriented’ to ‘outward-oriented’ strategy. With the sweeping liberalization process that is currently under way in the foreign trade sector, the level of protection to Indian Industry has declined significantly. This step was the beginning of the globalization process in Indian economy. The globalization process taken the pace with the establishment of World Trade Organization (WTO) in 1995. This new trading arrangement calls for massive cutting down of import tariffs and allowing more liberal imports of a number of goods whose imports were earlier either totally banned or severely restricted. For Indian Government, being a founder member of WTO, it was under an obligation to strike down all quantitative restrictions on imports and reduce import tariffs so as to ‘open up’ the economy to world.

What would be the effect of the globalization process on the economy of under developing countries has been the most discussed issue during the past two decade. The proponents exaggerate the financial statement at the profit of WTO and give the notion that by doing this
International Trading Arrangement, global per capita would increase, globalization process will get pace and, more importantly, exporting opportunity would increase. The opponents, on the other hand, argue that developed countries (specially U.S.A) have been dominant in Uruguay round talk and whatever pact had been done they all were in favour of developed nation and disfavour to under developing countries.

World Bank, OECD and the GATT secretariat estimated the income effects of the implementation of the Uruguay round package and estimated that it would add between $ 213 to $ 274 billion annually to world total income. The GATT secretariat’s estimate of the overall trade impact was that the level of Merchandise trade in goods would be higher by $ 745 billion in the year 2005, than it would otherwise have been. The GATT secretariat further projected that the largest increases would be in the areas of clothing (60%) agriculture forestry and fishery products (20%) and processed food & beverages (19%). According to the government of India, since our country exists and potential export competitiveness lies in these product groups, it was logical to believe that India would obtain large gains in these sectors. Assuming that India’s market share in the world exports improves from 0.5% to 1% and that we are able to take advantage of the opportunities thus created, the government believes that the trade gains may conservatively be placed at
$2.7$ billion extra exports per year. A more generous estimate would range from $3.5$ to $7$ billion per year. Muchkund Dubey, contrary to the above estimates, argued that the GATT estimate of increase in the world trade is itself of dubious value. In the face of a trend till recently of a decline in the India’s share of the exports, it is unrealistic to assume that this share would go up from $0.5\%$ to $1\%$. Increase in world trade depends not only on trade liberalization but a number of other factors like quality consciousness, proper infrastructure for export production, assured supply of export products level of technology etc. India suffers from a relative disadvantage vis-à-vis the developed countries in the most of these factors. Not only this, indulging in projection in a world full of economic and political uncertainties is a risky game, so if the intention is, “To mask reality and indulge in half truths”. In the context of the above description, present study makes an attempt to examine that whether India’s foreign trade has grown up or not in reality during the globalization era.

**Literature review**

In the context of topic of the study, the existing literature considered composition of India’s export as a part of the study of composition and direction of foreign trade. There are few existing
literature which focused on detailed and comprehensive ways to study on the structural changes in composition of India’s export of goods and services. The study found that there has been considerable change in composition as well as direction of export of goods and services since integration of Indian economy with the world under new trade policy 1991. This chapter presents a brief review of the existing literature as below.

Mathur and Sagar (2015) found that exports are increasing at a decreasing rate but the imports are increasing at an increasing rate. Trade deficit increased very sharply from 2005-06 to 2009-10. The composition of India’s foreign trade has undergone substantial changes, particularly, after the liberalization and globalization. Major exports include manufacturing goods such as engineering goods, petroleum products, gem and jewelries, textiles, electronic goods etc. It is remarkable achievement that country has transformed from a predominantly primary goods exporting country in to a non-primary goods exporting country. In the recent years India has become the largest exporter of services.

Singh (2014) investigated the major source of India’s export performance during the post-liberalization period (1991-2011). The study found that India’s exports have managed to grow due to their
competitive strengths. India’s exports registered a quite satisfactory and accelerated performance, having influenced by combination of internal and external factors during 1991-2011. The analysis revealed that export performance was mainly attributed to their competitive strengths in the global market. However world demand for exports also proved as its important source.

Sahni (2014) found that though the exports have improved to great deal after the reforms took place but the share of India in the world export is not up to the expectations. The most remarkable change in the direction of India’s exports during post reform era has been the increasing share of developing countries. The study suggested that government should make necessary efforts to ensure competitiveness and to promote the exports of technical equipments such as scientific instruments, electrical machinery etc.

S.Tiwari (2012) in his study found that, to increase the portion of world trade, government should come up with policies and budgetary provisions to boost export in potential areas in services, making the SEZs more viable, provide incentives to MSME with better training and skills imparted to them by way of providing R & D to make the products globally competitive.
H.R. Uma (2012) in his study found that recent years have witnessed the increasing importance of intra south trade, which has increased more than three folds from US$ 915 billion in 2001 to surpass US$ 3 trillion in 2007. South trade has accounted for around 22 percent of global trade and almost 50 percent of developing countries total merchandise trade. India has emerged as a vibrant economy fuelled by robust growth in the international trade and investments.

Singh and Singla (2012) analyzed the performance of Indian exports in the post-liberalization period 1991-2006. The study concluded that India’s export performance was outstanding during the post liberalization period. India has a competitive advantage in a broader range of export commodities. The commodities such as rice, organic chemicals, synthetic organic, dyestuffs, natural industries, textile yarn and thread, cement & fabric, building materials, jewellery and gold/silver have emerged as leading exports sectors as export growth of these commodities remained very high and level of instability is very low. The study also found that the crucial role played by the Special Economic Zones towards the growth of exports.

The study (IMF, 2012) showed that the growth rate of world merchandise exports would slow down considerably from about 20% in 2011 to 7% in 2012. At this stage, it can be said with reasonable
certainty that India’s exports growth rate will moderate considerably in the immediate future.

Bhat (2011) found that the post reform period in India has witnessed significant changes in the trend, pattern and structure of external trade. Share of manufacturing export in GDP has fallen significantly. Growth of services was more pronounced in GDP growth and it reflected in the increasing share of service exports. Share of primary products has fallen in export and that of petroleum products has increased.

The study of Vinod H.Mane (2011) showed that, since the adoption of liberalization policy in the year 1991, India's foreign trade has undergone substantial changes. India's major exports include manufacturing and engineering goods. Economic development required setting up of new industries, modernization of agriculture and industry. For this, capital goods like machinery, transport, equipment, and raw materials, chemicals and fertilizers petroleum products etc. were imported. Due to increasing home production of food grains, there has been a rapid decline in their imports and now country is self-sufficient in food grains. Our major imports now consists of capital goods, metals and minerals, chemicals and fertilizers, petroleum, oil and lubricants.
etc., which are required to meet the developmental needs for country.

Nilanjan Banik (2010) in his study observed the increasing trend of India’s export during post liberalization period. The study found that the increase in Indian exports were predominantly services driven and were attributed to an increase in factor productivity, growth in world trade, an increase in intra-industry trade and external sector reforms. The study suggested that although demand-side factors look favorable, there is a need to address supply-side bottlenecks that may prevent growth in India’s exports in a sustained way.

According to RBI annual report (2009-10), India’s exports and imports contracted by 3.6% and 5.6%, respectively during 2009-10 as against a growth of 13.7% in exports, and 20.8% in imports in the previous years. Decline in imports was steeper than decline in exports. On balance of payments basis trade deficit as a percentage of GDP was reduced from 9.8% in 2008-09 to 8.9% in 2009-10.

Panagariya (2008) found, that since liberalization, value of India’s international trade has increased sharply, with the contribution of total trade in goods and services to the GDP rising from 16% in 1990-91 to 47% in 2008-09.
Shinde, B.K., (2010) found that in the globalization era, India’s trade has increased significantly. Another study, conducted by IDEAS (2009), found that one of most striking aspect of India’s trade is that its share in the global trade has expanded significantly during the globalization era.

The study Rudra P. Pradhan (2008) showed that India’s trade performance in the globalization era is quite impressive. Both exports as well as imports had registered an encouraging trend. But increase of imports is much higher in the contrast to increase in exports and hence, trade deficit has been increasing.

Shinoj and Mathur, (2008), in their study identified that the recent developments in the international trade scenario and corresponding alterations in India’s foreign trade policies has depicted far reaching implications for India’s agricultural sector in general and agricultural exports in particular. The study also revealed that India had been able to maintain its comparative advantage. But several other commodities such as tea, coffee, spices, etc., had been negatively affected by trade openness policy.

Pillania (2008) in his study conducted that Indian economy and foreign trade are on a growth trajectory. Indian exports have come a
long way in value terms from the time of gaining independence in 1947. Total value of India’s merchandise exports increased from US $ 1.3 billion in 1950-51 to US $ 63.8 billion in 2003-04 showing a compound rate of 7.6 percent. Growth in trade has picked up during post liberalization period. The composition of trade is now dominated by manufactured goods and services. India service exports share in global exports is more than double that of Indian manufacturing exports. East Asian countries, particularly China have become a major trading block. There is a huge untapped potential for Indian foreign trade in years to come.

Wong, (2006) in his study proclaimed that the existence of a positive and significant effect of trade openness on the productivity of manufacturing industries in export-oriented India.

Rajesh K.Pillania (2002) in his study found that Indian economy and foreign trade have shown progress during post liberalization period. The study found that India’s share in world exports increased, from 0.5% in 1985 to 0.8% in 2002, whereas share of import in world imports has increased marginally from 0.8% in1985 to 0.9% in 2002.

Saxena (1990) in his study concluded that impressive growth rate, diversified product profile and broad-based destination
pattern are positive features of India’s exports. Exports of low value commodities or semi-manufactures are being replaced by high value or new and non-traditional products like, gems and jewelry, engineering goods, readymade garments, leather and leather manufactures, marine products and chemicals and allied products have a significant share in foreign exchange earnings. Destination-wise exports are more or less evenly spread out in terms of different regions. The leading individual markets for our exports are USA, Japan, USSR and UK.

Dattatreyulu (1990) in his study concluded that the versions measures like removal of restrictions on exports, encouragement to production of high quality teas, joining international tea producers association, pressing for removal of tariff and non-tariff barriers, higher incentives for export of value-added teas and strengthening the marketing infrastructure would go a long way to boost the exports of tea.

Jaikumar (1990) studied exports of electronics and computer software. The study suggested that buying up of firms, tie-up with US trade partners and joint ventures for boosting electronics exports. In order to improve competitiveness of computer software sector labor productivity, research and development, product quality and performance, and marketing should be strengthened.
Objective of the study:-

The objectives of the present study are:

- To take a review of India’s trade policy.
- To examine the trends in the volume of India’s trade during the globalization era.
- To examine the composition of India’s foreign trade during the globalization era.
- To examine the direction of India’s foreign trade during the globalization era.

Data and Methodology of the study:-

Present study is based on secondary data covering the period from 1991 to 2014-15. The required data were collected from various sources such, Monthly Statistic on India’s Foreign Trade, published by the Directorate General of Commercial Intelligence and Statistics Kolkkata, Indian Institute of Foreign Trade (IIFT) New Delhi and Trade Development Authority New Delhi. Besides, some other publications such as various issues of Economic Survey, Foreign Trade Review, Indian Institute of Management, Ahmadabad, International Financial
Statistics Yearbook, International Monetary Fund, Handbook of Statistics on Indian Economy, Delhi School of Economics, Aligarh Muslim University, Aligarh, Jawaharlal Nehru University, Delhi were also used for collecting the date. Data were analyzed by computing ratios and some statistical diagramme, such as, bar diagramme and pie diagramme.

**Chapter Plan of the Study:**

Present study comprised of total seven chapters as below:-

1. Introduction
2. Theoretical Perspective
3. Overview of India’s Trade Policy
4. Trends in the Volume of India’s Trade
5. Analysis of Composition of India’s foreign trade
6. Analysis of Direction of India’s foreign trade
7. Summary of Conclusions, Findings and Suggestions.

First chapter is introductory one which presents the research problem, literature review, objectives and methodology of the study.
Second chapter presents the theoretical perspective of trade and third chapter presents an overview of Indian trade policy. Fourth chapter presents the analysis of Indian Foreign Trade during globalization era. Fifth and sixth chapter presents the analysis of composition and direction of Indian foreign trade respectively. The seventh chapter presents the summary of findings and conclusion of the study.