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A Comparative Study of Performance of India's Trade in Pre and Post Liberalisation Period

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Abstract

The objective of the paper is to examine the India's foreign trade before and after liberalization in India. The study is based on secondary data collected from Statistical Handbook published by RBI, World bank development indicators and various reports. Simple statistical tools like growth rate, percentage, simple diagrams, line arregression and t tests are used the study. Significant acceleration in export growth rate was recorded in mid-1980s.The growth rate was high in 1993-94 and 1995-96 at 29.9 percent and 28.6 percent respectively, but declined sharply in 1996-97 to11.72 percent, and continuously till 1998-99 on account of the South East Asian crisis and worldwide recession. It again recovered to13.84 percent in 1999-2000, and reached the highest growth rate for the decade at 27.68 percent in 2011-12. Thetotal trade after liberalization has been significantly higher than the total trade before liberalization. Even TheIndia's Exportsince 1992(i.e.after liberalization) is significantly higher than the Exports before liberalization. The foreign trade of India during postliberalization period was also fluctuating and the imports were more than the exports in all the years.Thus the liberalization period is effective insignificantly increasing the Export of the India. It is suggested that import restriction is necessary on non-essential items to narrow down the trade deficit.

Keywords: Export, Growth, Import, Liberalisation, Trade

Introduction

Foreign trade is exchange of capital, goods, and services across international borders or territories. All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the foreign trade system. Increasing foreign trade is crucial to the continuance of globalization. Without foreign trade, nations would be limited to the goods and services produced within their own borders. Foreign trade is recognized as the most significant determinants of economic development of a country, all over the world. The foreign trade of a country consists of inward (import) and outward (export) movement of goods and services, which results into. Outflow and inflow of foreign exchange. For providing, regulating and creating necessary environment for its orderly growth, several Acts have been put in place. The foreign trade of India is governed by the Foreign Trade (Development & Regulation) Act, 1992.and the rules and orders issued there under. Payments for import and export transactions are governed by Foreign Exchange Management Act, 1999. Customs Act, 1962 governs the physical movement of goods and services through various modes of transportation.

Prior to independence, India's foreign trade was typical of a colonial and agricultural economy. Exports consisted mainly of raw materials and plantation crops, while imports composed of light consumer goods and other manufactures. The structure of India's foreign trade reflected the systematic exploitation of the country by the foreign rulers. The raw materials were exported from India and finished products imported from the U.K. The productions of final products were discouraged. Over the last six decades, India's foreign trade has undergone a complete transformation in terms of composition of commodities. The exports cover a wide range of traditional and non-traditional products while imports mainly consist of capital goods petroleum products, raw materials, intermediates, And chemicals to meet the ever increasing industrial demands.

Composition of exports means goods that one country is selling to other countries. At the time of Independence, our exports consisted mainly of agricultural product like tea, spices, tobacco and other raw materials etc. India was also exporting cotton textiles and jute products in large quantities. With the industrialisation of the economy, composition of exports have undergone a change. The proportion of raw materials in our export has declined that of manufactured goods has increased. Efforts were made to diversify and expand our exports such as machinery and transport equipment, chemicals and allied products, handicrafts, fish and marine products. However, export of items such as cotton fabric, tea, jute manufactures, spices etc also continues. Now exports of India's are broadly classified into categories such as (i) Agricultural & Allied products (ii) Ores & Minerals (iii) Manufactured items (iv) Fuel and Lubrications (v) Engineering Goods (vi) Gems and Jewellery (vii) Chemical and Related products

In this context the aim of the study is to examine the India’s foreign trade before and after liberalization period. The study is based on secondary data collected from Statistical Hand book published by RBI. To examine the trend of foreign trade in India after New Economic Policy of 1991 simple Statistical tool slike growth rate, percentage share calculations and simple diagrams have beenused.

To examine the role off oreign trade in economic growth of India, line arregression mode has been used where Gross Domestic Product (GDP) at constant price is taken as a measure of economic growth; and volume of export, import in monetary term sare taken as variables of the study. To study the impact of the India’s Foreign Trade before and after the liberalization of the Indian economy, paired test has been taken.

Literature Review

Kuldeep Singh (2015) explained about Indian foreign trade has come a long way in value terms from the time of gaining independence in 1947. The total value of India’s merchandise exports increased from in 1950-51 to in 2014-15. After liberalization of 1991, Indian trade growth has picked up the pace. In the last decade and at present, the composition of trade is dominated by manufactured goods and services. The share of exports of Indian service sector in global exports is more than double of that of Indian manufacturing exports.

Babasaheb R Jadhav and Ms. Anita S Satpute (2014) evaluated India’s direction and composition of foreign trade. Foreign trade plays crucial role in every nation’s economic growth. India accepted globalization in the year 1991, since then India’s foreign trade has undergone substantial changes. India’s major exports include manufacturing and engineering goods. This research paper provides the information of India’s foreign trade from 2003-04 to 2012-13.

Byram Anand and P.Varalaxmi (2011) examined the India’s overall trade during the period between 2005 to 2010. They identified the exports and imports of principal commodities only. B.K.Shinde (2009) examined the Trends in the India’s Foreign Trade policy from the planning period to till the financial year 2004. For this purpose he collected the (Secondary Data) pertaining to the India’s foreign trade selecting a period from 1950 to 2004.Jeevan Kumar Khundrakpam (2009) investigated the exchange rate pass-through to domestic prices in India during the post-economic reform period, and found fairly robust evidence of a rise in pass-through until recent years. This is in contrast to a decline in pass-through observed in several countries since the 1990s.

J.S.Sodhi (2008) analysed India’s development before and after globalization since Independence. It is seen that while India did lay the foundation of growth in the fifties and sixties, it was limited to certain sectors. An important feature of the early seventies was a greater control and involvement of the government where banks were nationalized, the public sector was given a major role and a large number of direct programmes were launched for the development of the poor and other weaker sections of the society. However,the overall growth rate remained modest. NeenaMalhotra (2008) explained that the ratio of exports to imports, has improved over time, and the fear that liberalisation will adversely affect agriculture, doesn't seem to be valid. Rather immense export opportunities are opened by export market, and our farmers are also taking advantage of these opportunities. The structure of imports shows that major categories of import are of edible oils, fertilizers, and fertiliser manufacture.

Aim of the Study

The aim of the study is to compare performance of India’s foreign trade in pre liberalisation period from 1971 to 1990 and post liberalisation period from 1991 to 2013.The study highlights changes in import and export, net export, growth of trade and their variation through descriptive statistics, t test, and line graphs. The secondary data on export and import of India after 2013 could not be included in the analysis because new principal commodity code has been introducedfrom April, 2014. Hence secondary data after 2013 are strictly not comparable with trade data prior to 2014.

Hypothesis

The study proposes to test the hypothesis that liberalization of trade has no significant effect on India’s foreign trade.

Foreign Trade before and after liberalisation

The fundamental features of the New Economic Policy are that it provides freedom to the entrepreneurs to establish any industry or trade or business venture. The entrepreneurs are not required to get prior approval (i.e. liberalization) for starting any new ventures. What they need is that they have to fulfill certain conditions to get into a line of one's choice. Another feature of the new economic policy is the extension in the scope of privatization. Now, majority of the economic activities will be conducted by the private sector. Moreover, Govt. has also

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privatized the ownership of some of the public sector undertakings bywayof selling the capital of some of the selected enterprises to the private sector. The field of privatizationhasfurther been extended by offering greateropportunities for investment to the foreignprivateinvestors. Economic Policy seeks to accord priority to the private sector. The table 3.4 shows the India's trade during pre-liberalisation period that is from 1971 to 1991. In alltheyears, the exports as well as the imports are increasing.

Table-1
India's Trade during Pre- Liberalization Period

Year	Export	% of Change in Export	Imports	% of Change in Imports	Total Trade	% of Change in Trade
1971	1535	_	1634	-	3196	-
1972	1608	4.76	1825	11.69	3433	8.33
1973	1971	22.57	1867	2.30	3838	11.80
1974	2523	28.01	2955	58.28	5478	42.73
1975	3329	31.95	4519	52.93	7848	43.26
1976	4036	21.24	5265	16.51	9301	18.51
1977	5142	27.40	5074	-3.63	10216	9.84
1978	5408	5.17	6020	18.64	11428	11.86
1979	5726	5.88	6811	13.14	12537	9.70
1980	6418	12.09	9143	34.24	15561	24.12
1981	6711	4.57	12549	37.25	19260	23.77
1982	7806	16.32	13608	8.44	21414	11.18
1983	8803	12.77	14293	5.03	23096	7.85
1984	9771	11.00	15831	10.76	25602	10.85
1985	11744	20.19	17134	8.23	28878	12.80
1986	10895	-7.23	19658	14.73	30553	5.80
1987	12452	14.29	20096	2.23	32548	6.53
1988	15674	25.88	22244	10.69	37918	16.50
1989	20231	29.07	28235	26.93	48466	27.82
1990	27658	36.71	35328	25.12	62986	29.96
1991	32558	17.20	42095	19.15	74653	18.52
CAGR	14.84	--	16.89	--	15.97	--

Source: Ministry ofCommerce, Governmentof India.

Because of this the percentage change in the total trade over the previous years has been fluctuating between 5.80 percent in the year 1986 to 43.26 percent in the year 1975.

Table- 2 Descriptive Statistics

Statistical Measure	Export	Import	Trade
Mean	9619	13627.81	23248.1
Standard Error	1825.59	2464.87	4273.78
Median	6711	12549	19260
S.D	8365.90	11295.4	19584.94
Kurtosis	2.21	0.75	1.38
Skewness	1.58	1.09	1.31
Range	31023	40461	71457
Minimum	1535	1634.00	3196
Maximum	32558	42095	74653
Sum	201999	286184	488210
Count	21	21	21

Source- Computed by the Author

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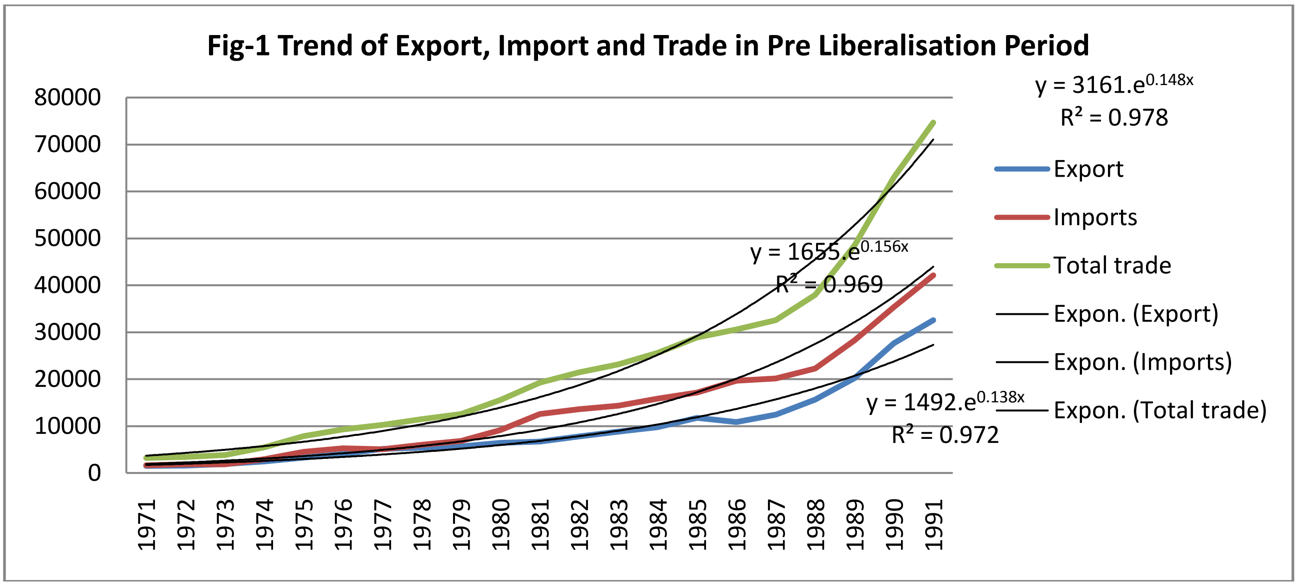

Figure -1 shows the trend line of percentage change in export and import during pre-liberalisation period. It shows that the percentage change in imports was negative in1977 and percentage change in exports was negative in1986. The trends in the volume of export trade during the post liberalization period also has been analysed to prove the positive benefits in table-3.

Table-3 India's Trade During Post-Liberalisation Period

Year	Export	% Change in Export	Import	% Change in Import	Total trade	%change
1992	4402	35.27	47841	13.65	91883	23.08
1993	53688	21.90	63375	32.47	117063	27.40
1994	69749	29.92	73177	15.47	142926	22.09
1995	82673	18.53	89971	22.95	172644	20.79
1996	106352	28.64	122678	36.35	229030	32.66
1997	118817	11.72	138920	13.24	257737	12.53
1998	130101	9.50	154176	10.98	284277	10.30
1999	139752	7.42	178332	15.67	318084	11.89
2000	159095	13.84	215529	20.86	374624	17.78
2001	201356	26.56	228307	5.93	429663	14.69
2002	209018	3.81	245200	7.40	454218	5.71
2003	255137	22.06	297206	21.21	552343	21.60
2004	293367	14.98	359108	20.83	652475	18.13
2005	375340	27.94	501065	39.53	876405	34.32
2006	456418	21.60	660409	31.80	1116527	27.43
2007	571779	25.28	838048	26.90	1409827	26.24
2008	655864	14.71	1005159	19.94	1661023	17.82
2009	840755	28.19	1374436	36.74	2215191	33.36
2010	845534	0.57	1363736	-0.78	2209270	-0.27
2011	1142922	35.17	1683467	23.45	2826389	27.93
2012	1459281	27.68	2345973	39.35	3805254	34.63
2013	16343	11.48	26691	13.8	-----	

Source: Ministry of Commerce, Government of India

As was during the pre- liberalization period, the foreign trade of India during post liberalization period was also fluctuating and the imports were more than the exports in all the years.Table-2 and figure-2 shows that the percentage change in imports was negative in 2010 and percentage change in exports was also lowest in 2010.

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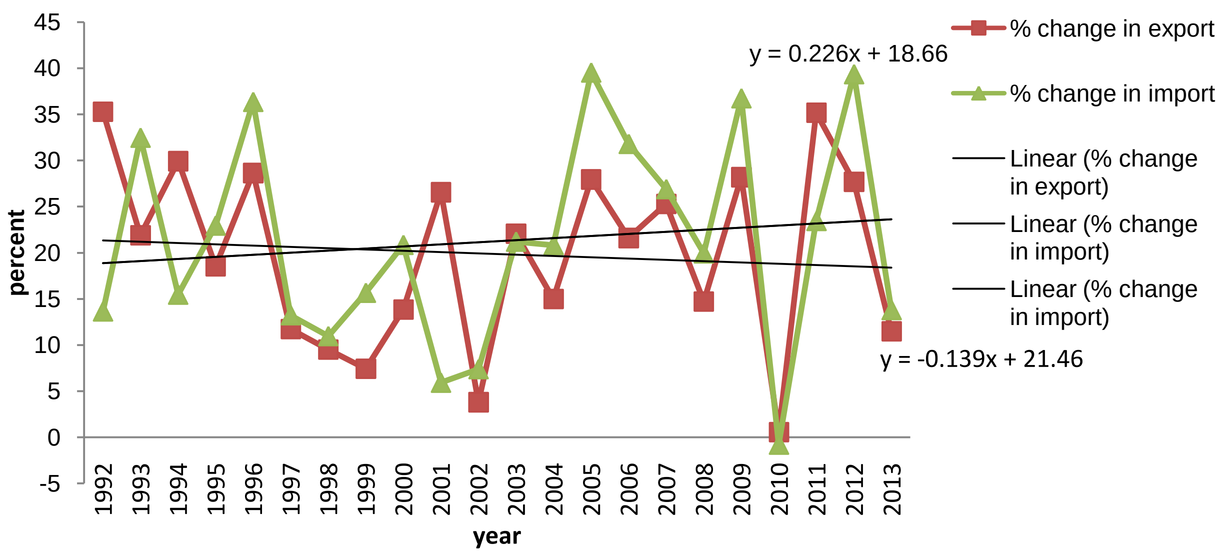

Comparison in Pre and Post Liberalisation Period

To find out the differences in the changes during the pre- liberalization period and during post liberalization period, paired't' isused. A comparison has taken between the pre liberalization total trade with the post liberalization period trade by using a statistical tool like paired 't' test as shown in table-4.

Table-4 Paired Samples 'T' Test for Total Trade before and After Liberalization

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Total 1	23246.8095	21	19586.32469	4274.08645
	Total 2	961769.1905	21	1030259.77434	224821.11435

Paired Samples Test

Mean	Std. Deviation	Std. Error Mean	t	df	Sig.(2 tailed)
-938522.38095	1011076.87942	220635.06349	-4.254	20	.000

Source- Computed by the Author using SPSS

The probability value is 0.000 ($p<0.01$), and hence the null hypothes is is rejected leading to the conclusion that the total trade after liberalization has been significantly higher than the total trade before liberalization. Thus the liberalization (New Economic Policy-1991) is effective in significantly in creasing the total trade of the India. As the trade was compared between the pre and post liberalization periods an attempt is also made to find out the effects of changes in the New Economic Policy in the form of increased exports. For this purpose the Paired "t" test isused for measuring the positive effects of New Economic Policy in increasing the exports. An attemptis alsomade to measure the impact of India's foreign trade making a comparison between the pre liberalization exports trade with the post liberalization period exports by using a statistical tool like paired 't' test. (Table-5)

Table- 5 Paired Samples 'T' Test for Exports before and After Liberalisation

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Export 1	9619.0000	21	8365.90425	1825.58998
	Export 2	391001.9048	21	393219.56471	85807.54381

Paired Samples Test

Mean	Std. Deviation	Std. Error Mean	t	df	Sig.(2-tailed)
-381382.90476	384984.35220	84010.47311	-4.540	20	.000

Source- Computed by the author using SPSS

Since the probability value is 0.000($p<0.01$), the null hypothesis is rejected leading to the conclusion that the India's Export since1992 (i.e.after liberalization) is significantly higher than the Exports before liberalization. Thus the liberalization period is effective insignificantly increasing the Export of the India. With the Liberalization, Privatization and Globalization of the Indian economy and following liberal foreign trade, there had been changes in the business environment. With the development of science and technology there is a change in the nature of the Indian economy. There had been increase inthetradevolumeintheIndia'sforeign trade and the exports from India also have increased.

Trends of India's Foreign Trade

The impact of trade reforms is apparent from the changing structure of India'sForeign

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Tradein terms of trend and diversity of market and products. Table-6 presents the total exports and total imports measured over the period 1991-92 to 2012-13.The net exports have also been rising consecutively during the whole study period.

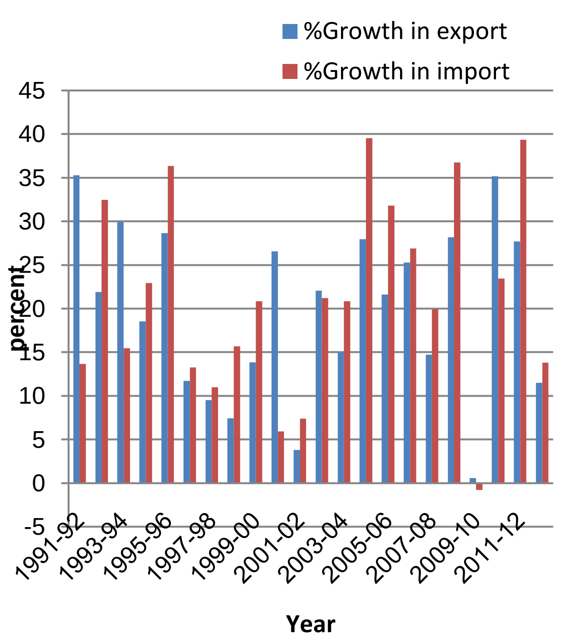
Table-6 Exports, Imports and Net Export in India Since 1991 (in Rupees Billion)

Year	Exports	Imports	%Growth in export	%Growth in import	Net Export
1991-92	440.42	478.51	35.27	13.65	-38.09
1992-93	536.88	633.75	21.9	32.47	-96.86
1993-94	697.51	731.01	29.92	15.47	-33.50
1994-95	826.74	899.71	18.53	22.95	-72.97
1995-96	1063.53	1226.78	28.64	36.35	-163.25
1996-97	1188.17	1389.2	11.72	13.24	-201.03
1997-98	1301.01	1541.76	9.5	10.98	-240.76
1998-99	1397.53	1783.32	7.42	15.67	-385.79
1999-00	1595.61	2152.37	13.84	20.86	-556.75
2000-01	2035.71	2308.73	26.56	5.93	-273.02
2001-02	2090.18	2452	3.81	7.4	-361.82
2002-03	2551.37	2972.06	22.06	21.21	-420.69
2003-04	2933.67	3591.08	14.98	20.83	-657.41
2004-05	3753.4	5010.65	27.94	39.53	-1257.25
2005-06	4564.18	6604.09	21.6	31.8	-2039.91
2006-07	5717.79	8405.06	25.28	26.9	-2687.27
2007-08	6558.64	10123.12	14.71	19.94	-3564.48
2008-09	8407.55	13744.36	28.19	36.74	-5336.81
2009-10	8455.34	13637.36	0.57	-0.78	-5182.02
2010-11	11429.22	16834.67	35.17	23.45	-5405.45
2011-12	14659.59	23454.63	27.68	39.35	-8795.04
2012-13	16352.61	26731.13	11.48	13.8	-10378.52

Source: Calculated on the basis of Statistical Handbook on Indian statistics 2012-13

Growth rates referred to in the context are in Rupees Billion terms. During the1990s, Indian exports have performed well in certain years and not so well in some other years. The growth rate was high in 1993-94 and 1995-96 at 29.9 percent and 28.6 percent respectively, butdeclinedsharplyin 1996-97to11.72percent and continuously till 1998-99 on account of the South East Asian crisis and worldwide recession. It again recovered to13.84 percent in1999-2000,and reached the highest growth rate for the decade at 27.68 percentin2011-12.However,the global economic slowdown and the events of September 11, 2001 led to a steep fall in the rate of growth of exports during 2001-02 (3.81percent). The period since 2002-03 has recorded as teady export growth rate upto 2008-09 (28.19percent). India's exports reached Rs. 8407.00 billion in 2008-09. But in 2009- 10 exports increased upto Rs.8455.00 billion only. Thus, the growth of exports declined to 0.57 percent in 2009-10 in view of the global meltdown. But in 2010-11, exports made a huge jump upto Rs.11429.00 Billion and thus the growth rate of export recorded the highest of 27.68 percent.

Fig-3 % Growth in export and import



Suggestions

The Government of India initiated the trade liberalization in mid-eighties. However, massive scales of trade reform measures were adopted in 1990s. While analyzing the performance of export and import sectors in the post-reform era, it is noticed certain key issues. These key issues would certainly provide a great deal of dynamics for healthy growth of foreign trade and narrow down the trade deficit.Following are some of the important measures suggested in this regard.

1. In the name of trade liberalization, a large number of companies/importing houses were allowed to import huge quantities of non-essential goods. However, no attention was paid while allowing them to import such quantum of non-essential goods vis-à-vis domestic requirement. Hence, import restriction is necessary on non-essential items. This would help in narrowing down the trade deficit.
2. It is noticed that every year our import bill is getting higher due to heavy import of petroleum oil and lubricants (POL) items. Now the time has come to see alternative sources of cheap energy so that it can bring down the import of POL items and save scarce foreign resources and at the same time help in bridging the gap between exports and imports.
3. Industries maintaining international standard on quality are to be encouraged and given all necessary inputs and incentives to produce more for export purpose. Of course, Government has been doing commendable job in this regard. Here the EXIM Bank can help in locating the foreign market for such industries in providing financial and technical assistance.
4. The Government should put conditions to the multi-national companies at the entry level to earmark certain percentage of their produce for export purpose so that the export sector can grow further. A close monitoring in this regard is necessary, otherwise it will adversely affect the trade.
5. No doubt, the Government has made all efforts to promote exports by setting up trading houses, SEZs, EOUs, EPZs etc., but proper monitoring and review is necessary whether business units operating in the above stated zones do fulfill the objectives set by the Government. In order to boost the export sector more Free Trade Zones, Export Processing Zones etc. are to be created with adequate infrastructure facilities and these are to be located in nearby ports so that the goods can be exported to international market at cost-effective/competitive price.
6. In order to attain economic self-sufficiency, it is imperative to ensure balance of payment sustainability and avoidance of excessive external debt. Besides sound and prudent macroeconomic policies, it is essential that exports must grow at a higher rate than imports in dollar terms. This would be possible only when the share of exports in incremental output of manufacturing sector will rise from the present level of 20% to at least 40% in the coming decade and also when domestic savings targets shall be fully attained.
7. To increase the share of heavy manufacturers in the total exports in future, there is need to develop and use indigenous technology. While it is desirable to have the best and most appropriate technologies from wherever available, in the long run it is necessary that domestic capacity as developed in respect of heavy manufacturing sector. Since much of Indian industry in the manufacturing area has become out of date of obsolete, there should a shake out.

Conclusion

As the trade was compared between the pre and postliberalizationperiodsanattemptisalso made tofindouttheeffects of changes in the New Economic Policy in the form of increased exports.Forth is purpose the Paired “t” test isused for measuring the positive effects of New Economic Policy in increasing the exports. The probability valueis 0.000($p<0.01$), and hence the null hypothesis is rejected leading to the conclusion that the total trade after liberalization has been significantly higher than the total trade before liberalization. Thus the liberalization is effective in significantly increasing the total trade of the India. The netexports have also been rising consecutively during the whole study period. There is need of improving foreign trade of India through more liberalization, incentive for exports and concessions.

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