IMPACT OF LIBERALISATION ON INDIA'S EXPORTS

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NARINDER KAUR*

The early 1990s witnessed the onset of several unprecedented events both in the domestic and the global economy. India's balance of payments situation was critical with foreign exchange reserves dipping to the lowest level ever. There was a major slow down in export growth during 1990-91 signalling a reversal of the buoyancy witnessed in earlier years. The tight balance of payment and liquidity situation compelled the Government to resort to a policy of severe compression of imports through various non-discretionary fiscal and monetary measures. Simultaneously the Government took certain concerted steps for globalisation and restructuring of the Indian economy in order to boost the exports. These measures and their impact on foreign exchange reserves and exports have been elaborated in this write up.

The only dependable source of foreign exchange for a developing country like ours appears to be export earnings. In the context of the need to strive for economic development, development of export trade and expansion of export earnings assumes strategic importance. It is this crucial role of exports that calls for formulating an appropriate strategy.

Further improvement in the export performance would, therefore, require major changes in the pattern of goods that India has to offer in the international markets. In recent years, the share of traditional goods in the country's exports has declined steadily and manufactured goods today account for nearly two-thirds of the total exports. The fact remains, however, that this trend needs to be strengthened to remedy the deteriorating balance of trade position. The several measures that have been introduced as incentives to boost the export effort will clearly take some more time to create their full impact, in the meantime it is necessary that the hindrances that still remain in the form of procedures and rules inhibiting a faster pace of modernisation must be removed. The wholesome effects and beneficial impact of such effective export measures will be reflected in the late 90's.

India's viability on external trade account becomes a living reality only if we are able to finance our imports through our own foreign exchange earnings. Increased production at home is an important aspect of any strategy to make our economy self-reliant. Hence expansion of production leads us to the larger and much debated question of import substitution. For accelerating the pace of economic development, easy access to technology is of special importance. This is a problem which is being faced by the developing countries. In 90's and at the beginning of the 21st century, India's export will have to face many new challenges.

* Dr. Narinder Kaur is a faculty member in the Department of Economics, P.G. Govt. College (Punjabi University) Nabha, Patiala

Objectives of the Study

The purpose of this paper is to examine the recent trends in liberalisation and its implication for India's exports.

Recent Trends Toward Liberalisation

In recent years the Government of India has taken a number of measures to improve export performance of the Indian corporate sector. These measures have been divided into two categories : some measures are taken to improve the competitive edge and some other measures are designed to improve access to technology, capital goods and raw materials. In the first category fall the provision for flexibility in regard to the replenishment licences, easing of foreign collaboration norms, relaxation of debt-equity norms of thrust industries and the rules relating to broadbanding of production. Measures included in the second category are the duty exemption scheme for obtaining necessary inputs for export production, liberal import of machinery and component for industry, creation of the technical development fund to promote technological upgradation and modernisation with advance technical know how etc. Besides these measures, various other fiscal and monetary policies devised to improve the export performance of the production units include the MODVAT schemes, interest concession, Exim Bank's credit support, blanket exchange, permit scheme liberalisation, full remission of excise duties and domestic taxes on export goods, establishment of productivity fund etc.

Convertibility of rupee, amendments in foreign exchange regulation, permission of gold import to non-migrant Indians and Indians coming from abroad, large-scale reduction in import duty on capital goods and reduction in excise and custom duties are the major liberal steps to encourage and enhance Indian foreign trade. The rupee was made partially convertible (i.e. 40%). Import of gold was allowed upto the limit of 5 kg., each Indian or non-migrant Indian coming from abroad. Maximum limits of import duty reduced to 110% from 150%. To make Indian industries competitive, 20 to 25% reduction in custom duty was given. These liberal steps were launched in 1992-93 budget. Now, we would like to see the impact of these liberal steps on Indian foreign trade.

Recent Trends in Exports

Various economic and other factors combined to keep export growth down to 3.8 per cent during 1992-93. This was achieved despite a 62 per cent decline in exports to the Rupee Payment Area (mainly markets of erstwhile Soviet Union) which followed upon a decline of 42 per cent in 1991-92. The collapse of India's exports to Russia and East European countries is best revealed by noting that monthly exports to these markets were on an average about \$ 56 million (Rs. 162 crore) during 1992-93 as compared to \$255 million (Rs. 458 crore) per month during 1990-91.

Exports to the General Currency Area (GCA) increased by 10.8 per cent in dollar terms during 1992-93 which was a distinct improvement over a 6.3 per cent growth in 1991-92. Excluding the two months of December 1992, and January 1993, during which exports were adversely affected by post-Ayodhya developments, exports to GCA recorded an average growth of 13.1 per cent during 1992-93.

Manufactures accounted for 74.6 per cent of total exports in 1991-92. Their share increased to 76.3 per cent in 1992-93. Share of agricultural and agro-processed products declined from 17.9 per cent in 1991-92 to 16.4 per cent in 1992-93. Agricultural exports increased by 38 per cent while manufactured exports grew by 19 per cent during first half of 1993-94. Within manufactures, the highest growth was recorded by plastic and linoleum products (119 per cent) followed by gems and jewellery (37 per cent) and metal manufacturers (30 per cent). A uniform incentive structure, comprising a favourable exchange rate and income tax exemption for all export earnings, provides greater incentives for promoting exports which have a high proportion of domestic value addition. This is a positive trend which needs to be strengthened. It generates backward linkages within the domestic economy and stimulates growth. This incentive structure may be expected to boost exports of agro-processed and labour intensive and light engineering products, sectors in which the country has a distinct natural comparative and competitive advantage.

Direction of India's foreign trade has undergone a significant change with the collapse of Russian and some of the East European trading arrangements. Exports to Russia (former Soviet Union) accounted for as much 16.1 per cent of India's total exports in 1990-91. This came down to 9.2 per cent in 1991-92 and further to 3.2 per cent in 1992-93. This decline continued during the first half of 1993-94 with exports to Russia now constituting only 2.4 per cent of total exports. The collapse of the Russian market has been a major shock to our export effort. However, exporters have demonstrated creditable flexibility and competitiveness in successfully switching exports to the General Currency Area and preventing the decline in exports to Russia from affecting the overall export performance. It is expected that as the Russian economy recovers and the working of the Indo-Russian Agreement is streamlined, exports to Russia will pick up.

The data for the 1993-94 indicate an increase in the share of developing countries, including OPEC, in India's exports. Their share increased to 35 per cent from 29 per cent in the first half of 1992-93 (see Table I). The table reveals a substantial growth in dollar terms in India's exports to OPEC (34 per cent) and non-OPEC developing countries (54 per cent) during the first half of 1993-94. It may also be noted that exports to selected East Asian countries (Indonesia, Malaysia, Hongkong, South Korea, Singapore, Thailand and Chinese Tapei) have boomed, increasing on the average by 61 per cent in dollar terms during the first six months of 1993-944. The percentage export growth to these countries is about three times the overall export growth.

TABLE I : Direction of India's Exports

(Percentage share)

Country	Exports			
	1991-92 (Apr-Mar)	92-93	92-93 (Apr-Sep)	93-94
1.	2.	3.	4.	5.
U.K.	6.4	6.5	7.4	6.3
Germany	7.1	7.7	7.5	6.9
Other EC Countries	13.5	14.0	13.4	12.1
U.S.A.	16.4	18.8	19.5	18.6
Japan	9.2	7.7	7.7	7.7
Russia#	9.2	3.2	3.6	2.4
Other East Europe	1.8	1.1	1.3	0.9
OPEC	8.7	9.6	9.4	10.4
Other LDCs	17.5	20.3	19.4	24.3
Others	10.2	11.0	10.9	10.4
Total	100.0	100.0	100.0	100.0

\# Former Soviet Union for 1991-92.
Source : DGCI&S, Calcutta

Changes in Exchange Rate

Although the rupee depreciated marginally against the dollar during the April-December 1993 period by 19%. Its depreciation in the month of December 1993.compared to its December 1992 value, was little over 2%. The stability in the dollar value of the rupee in the April-December 1993 period is due to the Reserve Bank's active intervention in the foreign exchange market. During the same period the RBI purchased 6.6 billion dollars on a net basis having effected the purchase of 8 billion dollars. Without this intervention of the RBI the market forces would have led to an appreciation of the rupee causing adverse effects on the balance of payments position. The exchange rate for the pound sterling shows a positive trend during April-November 1993 as the rupee appreciated against it by 4%. However, from November 1992 to November 1993 period, the rupee depreciated against the sterling by 1.1%

The year 1993-94 started on a high note with the announcement of the unification of the exchange rate and the floating of the rupee. The exchange rate was henceforth to be determined by demand for and supply of foreign exchange in the market. This marked the culmination of a policy sequence which had started with the two-step downward adjustment of the exchange rate and the introduction of "exim scrips" in July 1991. It included a year-long experience with the dual exchange rate regime under the Liberalised Exchange Rate Management System (LERMS). The exchange rate unification and floating of the rupee provide the basis for a phased shift to full convertibility of the rupee. This can be achieved once the remaining controls and restrictions on the current account transactions have been eliminated and the crucial macro-economic parameters like the fiscal deficit, the growth of money supply and inflation rate are firmly under control.

After February-April 1993 the normal effective exchange rate for the rupee (NEER) held steady. As a result of this stability in the nominal exchange rate, the real effective exchange rate (REER) has tended to appreciate since May 1993. The index for 36 country REER for 1993-94 has recorded an appreciation till December 1993. It will be important to maintain a stable REER so as to prevent an erosion in incentives available to our exporters.

As per Table II foreign exchange reserve which was Rs. 5544.44 crores in 1980-81 increased to Rs. 11416.40 crores in 1990-91. As a result of policy change reserve increased to Rs. 23850.12 crore in 1991-92, Rs. 30144.73 crores in 1992-93 and Rs. 60420.35 crore in 1993-94. Increase in foreign exchange reserve is on account of economic policy changes resulting in better exports and import management.

The EXIM Policy (1992-97) was modified in March 1993, giving a new thrust to exports for agricultural and allied sectors and services in which the country has comparative advantage. The Budget for 1993-94 made substantial reduction in customs duties on capital goods, ferrous & non-ferrous metals and chemicals. Import duties on specified capital goods for export thrust areas such as textiles, leather, marine products, gems & jewellery, food processing, horticulture and floriculture industries were reduced. The Budget also announced a reduction in maximum import duties to 85 per cent and a cut in the duties on personal baggage to 150 per cent from 255 per cent. Tariffs applicable to personal baggage were lowered again in June 1993 to 100 per cent.

The policy changes, admittedly incremental in nature have helped to maintain the momentum of trade policy reforms. Our trade reforms received across-the-board recognition from GATT contracting parties at the first trade policy review for India which was completed by GATT in September 1993. Yet, there is substantial ground still to be covered. Our agricultural and allied exports continue to be severely constrained by policy-imposed restrictions.

TABLE II : Foreign Exchange Reserves

(*Rs. Crore*)

In million of US$	Year	(SDR's + Gold + Foreign Currency)
6823	1980-81	5544.44
4390	1981-82	4023.56
4896	1982-83	4781.51
5649	1983-84	5971.67
5652	1984-85	7243.06
6520	1985-86	7820.03
6574	1986-87	8151.21
6223	1987-88	7686.67
4802	1988-89	1039.65
3962	1989-90	6251.39
5834	1990-91	11416.40
9220	1991-92	23950.12
9832	1992-93	30144.73
10254	1993-94	60420.35
20884	Jun. 94	63491.37

Source : RBI Bulletin, June 1994.

Analysis and Discussion

In the entire analysis in this paper it is observed that the Government is making special efforts to sustain the export growth in the coming years i.e. 90's, keeping in view the fact that export growth had been constrained in the past by a difficult international trading environment, quota restrictions on products of vital interest to the developing countries and growing domestic demand cutting into export surpluses. Meanwhile such thrust areas as engineering goods, chemicals and related products, leather manufacturers, gems and jewellery etc. have already been identified to give a big boost to exports. Efforts at the same time are not being spread to contain imports. The balance of payments position too is critical.

India's viability on external trade account would become a living reality only if we are able to finance our imports through our own foreign exchange earnings. Increased production at home is an important aspect of any strategy to make our economy self-reliant. Expansion of production leads us to the larger and much debated question of import substitution. For accelerating the pace of economic development, easy access to technology is of special importance. This is a problem which is being faced by the developing countries.

The emphasis of the strategy to cope with this situation will have to be on curtailment of domestic demand for such bulk items of imports an edible oils, sugar and fertilisers. Efficient management of the domestic demand for petroleum products has become a vital necessity. Simultaneously, measures have to be taken to ensure a sustained acceleration in commodity exports as well as earnings from invisibles. Strong and sustained growth of exports coupled with efficient import-substitution in respect of important bulk import items held the key to a viable balance of payments. Emergence of protectionist tendencies and other uncertainties in the world market are no doubt a serious impediment, but the fact that India's exports constitute less than half a per cent of the world exports suggests that the possibilities of growth in exports exist and need to be exploited urgently. This is largely dependent upon the emergence of an efficient industrial production system in the economy. Import-substitution has to be accelerated which again calls for a healthy environment for investment in the industrial sector.

It is important to focus attention on the infrastructural requirements for export expansion. Exports reached a level of Rs. 65000 crores in mid in 1994. Facilitating a further expansion by 15-20 per cent in dollar terms in 1994-95 onwards will expectedly put a severe strain on country's infrastructural facilities. It will also require that internationally competitive infrastructural services, in terms of both prices and quality, are available for exporters.

Conclusion

The success of the reform measures to liberalise India's external sector and investment regime depends, in part, on the availability of adequate external finances. Against this backdrop, export augmentation and import management acquire the status of highest national priority, as the country could not depend on foreign borrowings and assistance for extended periods of time. The framework for the future would be to build a strong and internationally competitive Indian economy which alone is capable of contributing to the success of the "export-oriented import-liberalised" strategy of sustained growth over a long period of time.

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