

## IMPACT OF TRADE LIBERALIZATION ON INDIA'S BALANCE OF TRADE: A CRITICAL EVALUATION

Rajwant Kaur<sup>1</sup> and Amarjit Singh Sidhu<sup>2</sup>

*Foreign trade is an engine of growth, as is widely known to us. But the changes taking place in the world economy have a major influence on the foreign trade of all countries particularly developing countries like India. So the present paper has been planned to examine the impact of Economic reforms, Stabilization and Structural Adjustment Programmes (SAP) initiated by India in 1991 through the New Economic Policy on India's exports, imports and balance of trade. The study is based upon time series data and covering the period from 1980-81 to 2010-11. The study found that the share of both exports and imports has been increased during the post reform period but higher increase in imports has further widened the trade deficits, which was one of the main objectives of new economic policy. The present study creates doubts about the efficacy of the export led growth strategy as a plausible substitute of import substitution strategy of growth. Therefore, the study strongly recommends that there is a need to review the foreign trade liberalization 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.*

**Keywords:** Trade Liberalization, Balance of Trade, Exports, Imports

### Introduction

Globalization is a more idealistic word indicating the desire to integrate nation-states within the overall framework of the WTO, is nothing but a modern version of 'Theory of Comparative Costs Advantage' which was propagated by the classical economists to provide the theoretical foundations of unrestricted flow of goods from Great Britain to other less developed countries-at the time of colonies (Mathur, 2003). Most of the developing countries had adopted the structural adjustment programme (SAP) with the purpose of liberalizing their economies particularly the external sector. The main

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<sup>1</sup>Senior Research Fellow, Department of Commerce and Business Management, Guru Nanak Dev University, Amritsar (Punjab). Email: raj.2064@gmail.com.

<sup>2</sup>Professor, Department of Commerce and Business Management, Guru Nanak Dev University, Amritsar (Punjab). Email: sidhu\_amarjit@yahoo.com.

rationale behind trade liberalization process was to promote economic growth by capturing the static and dynamic gains from trade through a more efficient allocation of resources; greater competition; an increase in the flow of knowledge and investment and, ultimately, a faster rate of capital accumulation and technical progress (Babatunde, 2009).

As a new participant in the globalization wave, India went through several structural and policy changes in the 1990s. Neo-liberal economists version of economic 'reforms' – liberalization, privatization, and globalization- brought about since 1991 has succeeded to provide freedom to Indian entrepreneurs from bureaucratic interference, enabled them to expand their business rapidly. This development has led to unprecedented growth which is measured in terms of gross domestic product (GDP). Therefore, the entire debate in India has focused for the sustainability of this growth in future to enable Indian economy to become a super power at the global level. This school of thought is boosting the success of these reforms, which will lead to the reduction in poverty in the long run.

Another school of thought argued that average annual growth rate of Gross Domestic product (GDP) had hit the 5.6 per cent mark in the 1980s, well before the launch of the July 1991 reforms. Moreover, growth rate in the 1990s was not much higher (Panagariya, 2004). Therefore, liberalization cannot be credited with having made a significant difference to growth in India'. The key contribution expressing this skepticism has come from economic historian J. Bradford DeLong (2001, pp. 5-6) who writes in an article on growth in India:

“What are the sources of India's recent acceleration in economic growth? Conventional wisdom traces them to policy reforms at the start of the 1990s... Yet the aggregate growth data tells us that the acceleration of economic growth began earlier, in the early or mid-1980s, long before the exchange crisis of 1991 and the shift of the government of Narasimha Rao and Manmohan Singh toward neo-liberal economic reforms” (ibid).

The policy of trade liberalization initiated in 1992 is essentially an integral part of economic reforms which has marked a transition to a market economy from the earlier Nehruvian model of a controlled and regulated system<sup>1</sup>. The process of liberalization and changes in India's trade and other policies has led to considerable changes in external sector front. The NEP was designed to reduce administrative controls and barriers, which acted as hindrances to the free flow of exports and imports. Thus, the New Economic



Policy of India emphasized on liberalization of imports by cutting down the import duties drastically, rather than putting a limit on imports and encouraging exports.

In the light of above discussions, this paper is an attempt to examine the impact of the New Economic Policy (NEP), Stabilization and Structural Adjustment Programmes (SAP) on the three very important aspects of Indian economy i.e. exports, imports and balance of trade. For the purpose of the analysis, this paper is organized as follows: the review of literature; objectives; and data and methodology are discussed in Section-II. Section-III deals with Trade Policy Reforms in India during the Post-Liberalization Period. The analysis of data, conclusions and policy implications are presented in Section-IV.

## Section-II

### I. Review of Literature

In past two decades, various schemes have been proposed as the key to promoting economic growth and development. This period provides a testing ground for answering the question-How has openness to trade affected economic growth, poverty reduction, income inequality? And under which set of trade policies of countries have performed best? Over the past two decades, several studies have conducted to examine the link between openness and trade performance. The facts strongly advocate that more open countries, and countries choosing to liberalize their trade policies, reap tangible economic benefits.

The focus of trade policy reforms have been on liberalization, openness, transparency, and globalization with a basic thrust on outward orientation focusing on export promotion activity, moving away from quantitative restrictions and improving competitiveness of Indian industry to meet global market requirements. These reforms have led to substantial changes in external sector of India. In case of India, One school of thought favour trade liberalization policy while other opposes it, this is discussed in the above sub-sections.

#### A. Arguments against Trade Liberalization

Bhagwati, Jagdish N. and Srinivasan, T. N. (1975) found that the wasteful allocation of resources among inter-industrial and inter-firm and the foreign trade policy changes led to negative impact on the economy's growth, saving, research and development (i.e. domestic policies).

Jenkins (1996) analyzed the impact of trade liberalization on export growth of Bolivian through three means (i) removal of bias against exports; (ii) access to imported inputs; and (iii) more competitive and stable real effective exchange rate. The study found that better export performance has been associated with more competitive and stable real effective exchange rate and trade liberalization has not had a major direct impact on manufactured exports.

Anand, P.B. (1999) analyzed India's economic policy reforms of 1991 by reviewing two books relating to India Development Report 1997 and a set of reports from the World Bank. In this study, the researcher presented a picture of various subjects relating to economic policy, agriculture, industry and infrastructure and evaluated the effect of economic policy reforms on poverty and human development. The study found that the reforms of economic policy in 1991 were not enough to improve human development.

De long (2001) found that since the shift in the growth rate took place during 1980s while the reforms began in 1991, reforms cannot be credited with the shift. Kusi (2002) found that trade liberalization could not produce expected gains to export performance and clear relationship between trade reforms and improved export performance was lacking.

Sidhu et al. (2004) covered a period of 20 years i.e. 1980-81 to 1999-2000 and used time series data to analyze the significant changes in commodity composition and the direction of Indian merchandise exports and imports. The study found that foreign trade reforms could not contribute positively to reduce balance of payment deficit due to the reason that the percentage increase in exports was less than percentage increase in imports. Pacheco-Lopez (2004) found that trade reforms of Mexico during the mid 1980s had a significant impact on trade, exports and imports but the propensity to import has exceeded the propensity to export which worsened the balance of trade.

## **B. Arguments in Favour of Trade Liberalization**

On the other hand, Feder (1982) and Marin (1992) found that countries exporting a major part of their production seem to grow faster than others. The growth in exports results from reduced protectionism and it has a stimulating influence across the economy as a whole in the form of technological spillovers and other externalities. Gupta (1985) found that there is positive relationship between GNP (Gross National Product) Growth and export growth on Israel and South Africa.



Roarty, M.J. (1993) examined the impact of protectionism on developing countries specially exporters of manufactured goods and found that New protectionism has provided aid in economic recovery because it has supported the export-led-growth approach, restore healthy trade balance and has positively contributed in maintaining the stability in exchange rate. Jeffrey Sachs and Andrew Warner (1995) found that per capita income in open economies grew, on average, over 2 percentage points more rapidly than in closed economies between 1970 and 1989. This is a superbly large figure, and suggests that the gains from more open policies are epic.

Pillay, Thanu A. (1996) examined the India's economic reforms and analyzed its impact on Indian economy in general and specifically on the foreign trade and foreign direct investment (FDI) of India covering the period 1965-95. The researcher examined the effect of outward-oriented strategy on the economic growth of India. Based on empirical evidence, the study found a positive relationship between export growth and economic growth i.e. GDP (Gross Domestic Product). The study further found that liberal strategy of trade combined with a reduction of control on industry and trade encouraged foreign investment. The study suggested that the Government of India should build up a transparent and consistent policy of trade and investment, simplified procedure to conduct trade, encourage disinvestment of public sector and must expand the role of private sector in the major areas (like infrastructure, power sector, railways etc).

Chadha, R. et al. (1997) found that economic reforms of India has put positive impact on Productivity, Efficiency, International Competitiveness and Gross Domestic Product during the study period i.e. six years after implementation of economic reforms. Krueger (1998) found that outer oriented strategies led more growth in the developing economies and, also recommended the policymakers to adopt pure outward oriented strategies because trade liberalization enabled a country to achieve a higher rate of growth. Similarly, Kalirajan, K. (2001) found that trade policy reforms has contributed positively to Gross Domestic Product (GDP), protected the interest of consumers, and benefited to the economy as a whole.

According to Thirlwall (2000), trade liberalization and export performance is positively correlated but it depends upon the production and demand characteristics of the goods produced and exported. Kambhampati (2003) analyzed the trade reforms and its impact on the efficiency of Indian manufacturing industry with special reference to Cotton Textiles industry during pre and post reforms period. The study found that the efficiency of Cotton Textile industry has increased after reforms because trade reforms positively

influenced the factors like capital-labor ratio, market-share of exports-imports.

Panagariya, A. (2004) used General Equilibrium Model to analyze the impact of External Sector Policy Reforms on the trade flows, growth and efficiency of the Indian economy during the period 1991. The study found that the trade liberalization played a significant role in improvement of quality and availability of goods and services in the Indian market. The study further stressed on the comparison of China and India and explained why India lags behind china. The study recommended liberalization of trade between U.S. and India free trade in future. Panagariya (2004) carried out another study to examine the impact of India's external sector policies reforms on trade flows (which includes growth, composition and direction of trade), efficiency and growth particularly during the past two decades. The study attempted to predict direction of trade policy of India in the future and its major developments. The study found that trade liberalization led to higher level of efficiency and productivity. The study further found that capital and skilled labour-intensive industries had developed more under liberal trade as compared to labour-intensive industries. The study supported the argument that India and U.S. FTA (Free Trade Area) could be mutually beneficial and politically feasible.

Babatunde (2009) used panel least square estimation technique to determine the impact of real exchange rate based trade liberalization in promoting the export growth of Sub-Saharan Africa during the period 1980 to 2005. The study found that trade liberalization stimulates export performance through increased access to imported inputs. The study further identified evidences that a more competitive and stable real effective exchange rate positively influence export performance.

However, it is clear from above views that reforms played a significant role in spurring growth and the 1990s reforms represented a change in the mindset and a broad acceptance of the idea that entrepreneurs and markets were to be given priority over government in the conduct of economic activity and that government interventions required proper justification rather accepted by default. One comprehensible lesson from the past two decades reforms, however, is that countries taking advantage of the incredible expansion in world trade have also made substantial progress in promoting economic development and reducing poverty. Evidences have shown that there are many diverse ways in which countries can take advantage of the opportunities given by trade, but nearly involve some liberalization of domestic trade policies.



## II. Objective, Data base and Methodology of the Study

Under trade liberalization regime, the exports are being recognized as a crucial factor in the determination of the behavior of national income and employment in an economy as well as a significant determinant of the economic welfare of the people of a country. With the growing concern of economic and trade liberalization regarding the situation in developing economies vis-à-vis globalization drives, we think it is relevant to ask question where the Indian foreign trade stands after two decades of liberalization and globalization. However, the present study is concerned to this. In the view of aforesaid discussions, the present paper has been designed to achieve the following objectives.

- To study the impact of Trade Liberalization on India's Exports, Imports and Balance of trade.
- To suggest suitable policy implications.

The secondary data has been used to achieve the objectives of the present study. The data have been taken from the various issues of *Handbook of Statistics on the Indian Economy*, Published by RBI, and the Report on *Foreign Trade and Balance of Payments*, September 2011, published by Centre for Monitoring Indian Economy. The study covers the comprehensive period of thirty one years from 1980-81 to 2010-11. For the analysis purpose, the study is further divided into two periods, namely, Pre-WTO period i.e. from 1980-81 to 1993-94 and Post-WTO period i.e. from 1994-95 to 2010-11. The relevant data is presented in the form of tables. The data of balance of trade has been generated by taking the difference of exports and imports. The compound growth rate has been calculated to analyze the growth of Indian foreign trade under the study period. With the help of regression, the correlation coefficient (r) and the value of t-statistics have been calculated on the data under reference period. The Percentage change calculator is used to calculate percentage changes of exports and imports during the study period from 1980-81 to 2010-11. For this purpose, we consider the following formula:

$$\text{Percentage Growth Rate Change} = \{[X_2 - X_1] / X_1 * 100\}$$

Here  $X_1$  = First Value

$X_2$  = Second Value

### Section-III

#### Trade Policy Reforms in India during the Post-Liberalization Period

By trade liberalization, we mean the relaxation or elimination of tariffs and non-tariff barriers; removal of quantitative restrictions; duties; and quotas on exports and imports. Theoretically, the impact of trade liberalization on economic growth is vague. In controversial neoclassical growth model, trade does not affect the equilibrium or steady state rate of output growth by assumption, growth is determined by an exogenously given technological progress (Kusi, 2002). In two-sector models of this kind, trade policy affects the allocation of resources between sectors and, thus, the steady state level of savings and capital accumulation (ibid). The impact of trade liberalization probably works mainly through improving efficiency and stimulating exports which have powerful effects on both supply and demand within an economy. The ratio of international trade to GDP of the country increased from 15.6 per cent in 1990-91 to 20.8 per cent in 1999-00<sup>2</sup>

Many countries of the world adopted outward-looking strategies with a view to integrating themselves into the world economy to improve their growth prospects during the last quarter of the twentieth century. India presents an interesting case in view of there increasing emphasis on outward-looking policies from a broader perspective. The reforms implemented in India during the post-reforms are not very different from the reforms undertaken by many developing countries. However, the difference lies in the speed with which these reforms have been implemented. India's reforms are being implemented in a gradual manner like China. Nevertheless, the reasons for the gradual approach to reforms are different for China and India. Being the largest democracy with a pluralist society in the world has made it necessary for India to obtain a reasonable consensus across different interest groups before policy changes could be implemented and this has been the major cause for the slow pace of reforms. The main thrusts of trade policy reforms have been to open up India's trade and hence the policy measures had been related to export promotion and import liberalization' (Kalirajan, 2001).

In June 1991, India faced a severe balance of payment crisis. The foreign exchange reserves were depleted. Reserves were down to two weeks of imports, despite and IMF loan of \$1.8 billion in January 1991, and despite damaging import cuts<sup>3</sup>. An inappropriate exchange rate regime, unsustainable current account deficit (*it is an excess of import payments over export receipts for goods and services*) and a rise in short-term



debt in relation to the official reserves were identified as the key contributing factors to the crisis. The credibility of India was very low and commercial borrowing was impossible. The situation was desperate and called for desperate measures. Indian government had to devalue Rupee twice in 1991 in order to make exports less costly. The devaluation of rupee was resorted to at the instance of World Bank /IMF with the object of encouraging exports and cutting down imports. Therefore, the government was forced to approach the World Bank and IMF for help in the form of Stand-by arrangement. Under the compliance of World Bank/IMF, the New Economic Policy (NEP) was adopted to stabilize the economy in the short run (reducing inflation and improving the balance of payments); and to fundamentally restructure the economy in the long-run to enable India to obtain a higher growth rate.

These measures have been focused towards liberalization: Country-specific and commodity-specific measures have been taken to promote exports. Efforts have also been made to reorient institutional infrastructure towards creating an export friendly environment (Economic Survey of India, 1999-00) to achieve the higher economic growth. It is now widely recognized that major reforms in trade policy have accelerated India's transition towards a globally oriented market by stimulating exports and facilitating imports of indispensable inputs as well as capital goods. The trade liberalization episodes have generally reduced export-bias and supported the export-led-growth hypothesis. These reforms include, namely, free exports and imports; reduction and rationalization of tariff structure and removal of Non-Tariff Barriers; decentralization; liberalization of exchange rate regime; setting up of trading houses, Special Economic Zones, Export Promotion Industrial Parks; reservation of items for Small Scale Sector and reforms in labour laws; and Various exemptions under the EXIM policies to increase exports and imports and make the trade policy regime transparent and less cumbersome. The following trade policy reforms have been introduced from time to time by the Government of India during the Post Liberalization.

- In 1991 imports were regulated by means of a positive list of freely importable items. Since 1992 imports are regulated through a limited negative list rather than an examtive.
- Quantitative restrictions on imports of most intermediate inputs and capital goods have been eliminated.
- In July 1991 out of 5021 Harmonized System (H.S.) tariff lines (6 digits), 80 percent i.e. 4000 lines were subject to import licensing restrictions. As of December, 1995

more than 3000 tariff lines covering raw materials, intermediates and capital goods were made free of import licensing requirements.

- A large number of items covering 1487 tariff lines whose import is otherwise restricted, are now allowed to be imported under freely tradable special import licences, which are granted to the export houses/ trading houses/star trading houses and super star-trading houses.
- Control on exports has been liberalized to the extent that now all goods may be exported without any restriction except the few items mentioned in the negative list of exports. The items in the negative list are regulated because of strategic considerations, environmental and ecological grounds, essentially domestic requirements, employment generation, and on grounds of socio-cultural heritage. (Economic Survey, 1995-96)

Import restrictions were gradually lifted in the course of 1991-92 and the new liberalized exchange rate management system was introduced in the budget in 1992-93 to remove import licensing in most capital goods, raw materials, intermediates and components and introduced a dual exchange rate system with one rate effectively floated in the market (Mathur, 2006). These reforms have put a great impact on external sector policy of India and which primarily focused on promotion and development of foreign trade instead of control and regulation over trade.

#### **Section-IV**

##### **Exports, Imports and Balance of Trade**

External sector is very significant for a country to achieve growth at domestic and international level. The performance of export of any country is 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. Over the last two decades, significant changes in the EXIM policy of India have helped to strengthen the export production base; remove procedural, irritants; facilitate input availability focusing on quality and technological up gradation; and improving competitiveness. Several Steps have also taken to encourage exports through multilateral and bilateral initiatives, identification of thrust areas and focus regions. In this section, we have analyzed the impact of New Economic Policy (NEP) on Indian exports, imports and balance of trade.

The data of Indian exports, imports and balance of trade during the pre-WTO period (from 1980-81 to 1993-94) and Post-WTO period (from 1994-95 to 2010-11) has been



presented in table 1 and 2 respectively. The plain picture of Indian exports, imports and balance of trade under study period has been presented in figure 1, 2, 3 and 4 respectively.

### **I. Export Performance**

The new economic policy announced in 1991, which removed many trade barriers, gave impetus to exports. The percentage change in exports shows an impressive growth till 1996 but sluggish export performance towards the close of millennium reflected the effect of a range of factors: decline in growth of world trade since 1997; a decline in export prices of some major Indian manufactured goods; growing infrastructural bottlenecks and the appreciation of Rupee in terms of real effective exchange rate. The recessionary tendencies across the world have also severely affected the demand for our exports. The data of exports under pre-WTO period from 1980-81 to 1993-94 is presented in Table 1, which revealed numbers of significant facts. In the pre-WTO period, the data reveals that total exports of India have grown from a low of Rs. 6711 crores in 1980-81 to a high of Rs.32558 crores in 1990-91, which increased to Rs. 69751 crores in 1993-94. During the post-WTO period, the amount of India's exports has been increased from Rs. 82674 crores in 1994-95 to Rs. 1157475 crores in 2010-11.

The compound growth rate of Indian exports has increased at the rate of 19.4 during the pre-WTO period from 1980-81 to 1993-94 and under the post-WTO period, it should be 17.49 per cent. The CGR of exports is also statistically significant at 1 per cent probability level and is judged through the value of t-statistics. However, there are wide fluctuations in its growth rate. The growth rate of Indian exports is negative (7.23) per cent in the year 1985-86 and reached a high positive 36.71 per cent in the year 1989-90. The compound growth rate of India's exports is only 14.82 per cent during the period from 1980-81 to 1989-90 but it should be sharply increased to 28.23 per cent during the period of economic reforms from 1990-91 to 1993-94. This development is led due to the impact of all the economic reforms, which primarily focused on promotion and development of foreign trade instead of control and regulation over trade.

The developments which have taken place during the second half of 2008 till the end of financial year 2009-10 has put a serious threat to the performance of exports of the emerging economies in general and Indian economy in particular. The foreign trade of India has suffered on account of the contraction in demand during the recession. The growth rate of Indian exports is 28.19 per cent in the year 2008-09 and reached a very low rate to 0.57 per cent in the year 2009-10, which further increased to 36.89 per cent in

2010-11. The overall growth rate of Indian exports is 172.47 per cent under the study period of thirty one years.

Table 1  
India's Foreign Trade during the Pre-WTO Era

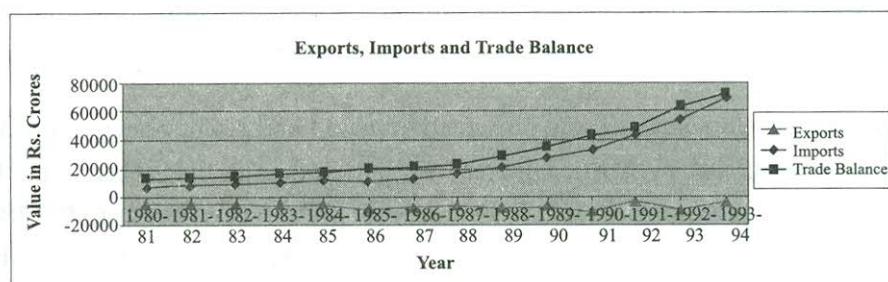
Year	X <sub>1</sub>	X <sub>2</sub>	X <sub>3</sub>	X <sub>4</sub>	X <sub>5</sub>	X <sub>6</sub>	X <sub>7</sub>	X <sub>8</sub>
1980-81	6711	-	12549	-	-5838	4.62	8.63	53.48
1981-82	7806	16.32	13608	8.44	-5802	4.57	7.97	57.36
1982-83	8803	12.77	14293	5.03	-5490	4.61	7.48	61.59
1983-84	9771	11	15831	10.76	-6060	4.39	7.12	61.72
1984-85	11744	20.19	17134	8.23	-5390	4.71	6.87	68.54
1985-86	10895	-7.23	19658	14.73	-8763	3.87	6.99	55.42
1986-87	12452	14.29	20096	2.23	-7644	3.96	6.38	61.96
1987-88	15674	25.88	22244	10.69	-6570	4.38	6.22	70.46
1988-89	20231	29.07	28235	26.93	-8004	4.77	6.65	71.65
1989-90	27658	36.71	35328	25.12	-7670	5.67	7.24	78.29
1990-91	32558	17.72	43193	22.26	-10635	5.72	7.39	75.38
1991-92	44042	35.27	47851	10.78	-3809	6.73	7.31	92.04
1992-93	53688	21.96	3375	32.44	-9687	7.13	8.42	84.71
1993-94	69751	29.92	73101	15.35	-3350	8.06	8.45	95.42
Average	331784/14 = 23699		426496/14 = 30464					
CGR	19.4		14.82					
CGR (1980-81 to 1989-90)	14.82		11.17					
CGR (1990-91 to 1993-94)	28.23		20.5					
t statistics	16.27		16.46					
r <sup>2</sup>	.957		.958					

Source: Data collected from RBI, database (various issues of Handbook of Statistics of Indian Economy) and Foreign Trade and Balance of Payments, Centre for Monitoring Indian Economy, 2010 and author's calculations.



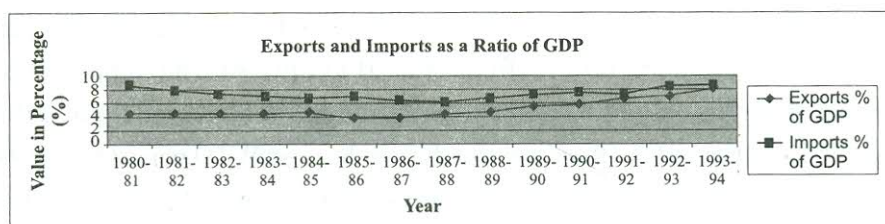
Note:  $X_1$ : Exports in Rs. Crores;  $X_2$ : Change in Exports (in percentages);  $X_3$ : Imports in Rs. Crores;  $X_4$ : Change in Imports (in percentages);  $X_5$ : Trade Balance;  $X_6$ : Export (% of GDP);  $X_7$ : Imports (% of GDP);  $X_8$ : Exports as a percentage of Imports, CGR: Compound Growth Rate;  $r^2$ : Correlation Coefficient

Figure 1



Source: RBI Database, Handbook of Statistics of Indian Economy, 2008-09

Figure 2



Source: Foreign Trade and Balance of Payments, Centre for Monitoring Indian Economy, 2011

## II. Import Performance

During the 1990s, the India has been experiencing faster growth of imports than that of exports, therefore, there is need to exercise extreme caution in liberalizing imports, which imports are inessential. India has been one of the founding members of WTO. Under the compliance of WTO (1995), Indian government also adopted several measures, namely, removal of quantitative restrictions on imports; simplifying the licensing procedure; set up Export Promotion Capital Goods (EPCG) Scheme; Special Economic Zones (SEZs) and Duty Exemption Scheme (DES). These measures have been introduced to remove the obstacles associated with the cumbersome administrative procedures arising from control over exports, imports, exchange rates and custom duties, which have put a great impact on India's imports performance.

The detailed analysis of the data of imports (see table 1 and 2) indicates that the imports had a moderate growth from 1980-81 to the year 1987-88. But since 1989, the imports have shown a highly accelerated growth. The value of imports in 1980-81 was only Rs.12, 549 crores, which increased enormously to Rs. 1605315 crores in 2010-11. It implies that imports grew at 127.92 per cent over the period of thirty one years. It is clear that the rate of growth of imports accelerated rapidly in post-reforms period because NEP removed various import duties and provided a much friendlier environment in India for imports than Indian exports encountered in foreign markets.

The data on India's imports has been presented in table 1 and 2. The policy implications were stronger in the later years of post-reforms period than in the earlier years. If we compare the average exports of Rs. 23699 crores for pre-reforms decade to Rs. 388324 crores for post-reforms decade, the exports grew at an average annual rate of 133.49 per cent during the period. The imports indicate a continuous rise in both pre-and post-liberalization period. As compared with exports, the imports were increased at higher rate in the second half due to the impact of new economic policy adopted in 1991. It is clear from the compound growth rate of India's imports, which is only 11.17 per cent during the period from 1980-81 to 1989-90 but it should be increased to 20.5 per cent during the period of economic reforms from 1990-91 to 1993-94. The compound growth rate of Indian imports is only 14.82 per cent during the pre-WTO period from 1980-81 to 1993-94 and it is increased to 19.95 per cent during the post-WTO period from 1994-95 to 2010-11. The CGR of imports is also statistically significant at 1 per cent probability level.

During the global recession of 2008, the growth rate of Indian imports is 35.77 per cent in the year 2008-09, which reached to a negative rate of -0.78 per cent in the year 2009-10. But it is further increased to 17.71 per cent in 2010-11. The share of both exports and imports as percentage of GDP has increased during the entire period of study except few exceptions (See Figure 2 & 4).



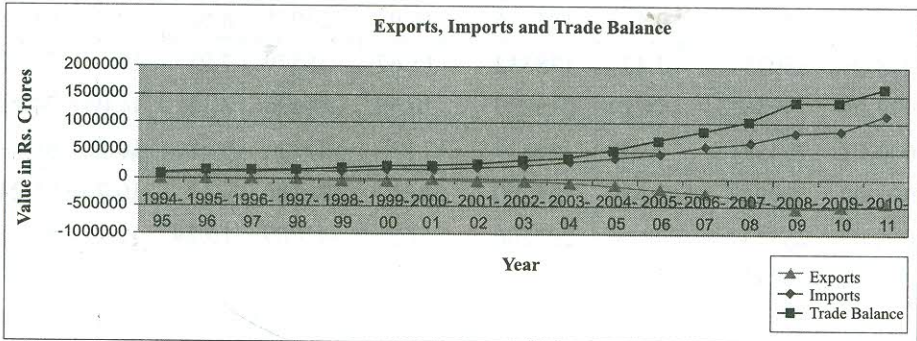
**Table 2**  
India's Foreign Trade during the Post-WTO Era

Year	X <sub>1</sub>	X <sub>2</sub>	X <sub>3</sub>	X <sub>4</sub>	X <sub>5</sub>	X <sub>6</sub>	X <sub>7</sub>	X <sub>8</sub>
1994-95	82674	-	89971	-	-7297	8.14	8.86	91.89
1995-96	106353	28.64	122678	36.35	-16325	8.92	10.29	86.69
1996-97	118817	11.72	138920	13.24	-20103	8.62	10.08	85.53
1997-98	130101	9.5	154176	10.98	-24075	8.52	10.1	84.38
1998-99	139753	7.42	178332	15.67	-38579	7.98	10.18	78.37
1999-00	159561	14.17	215237	20.69	-55676	8.15	11.04	74.13
2000-01	203571	27.58	230873	7.26	-27302	9.58	10.86	88.17
2001-02	209018	2.68	245200	6.21	-36182	9.17	10.76	85.24
2002-03	255137	22.06	297206	21.21	-42069	10.39	12.11	85.85
2003-04	293367	14.98	359108	20.83	-65741	10.65	13.04	81.69
2004-05	375340	27.94	501065	39.53	-125725	11.58	15.45	74.91
2005-06	456418	21.6	660409	31.8	-203991	12.36	17.89	69.11
2006-07	571779	25.28	840506	27.27	-268727	13.32	19.52	68.03
2007-08	655864	14.71	1012312	20.44	-356448	13.15	20.16	64.79
2008-09	840755	28.19	1374436	35.77	-533681	15.06	24.62	61.17
2009-10	845534	0.57	1363736	-0.78	-518202	12.91	20.82	62
2010-11	1157475	36.89	1605315	17.71	-447840	14.58	20.38	72.1
Average	6601517/17 = 388324		9389480/17 =552322					
Average % growth	1334.9		1496.9					
CGR	17.49		19.95					
CGR (1994-95 to 2000-01)	13.81		14.5					
CGR (2001-02 to 2010-11)	16.03		17.68					
t statistics	34.86		27.33					
r <sup>2</sup>	.988		.980					

Source: Data collected from RBI, database (various issues of Handbook of Statistics of Indian Economy) and Foreign Trade and Balance of Payments, Centre for Monitoring Indian Economy, 2010 and author's calculations

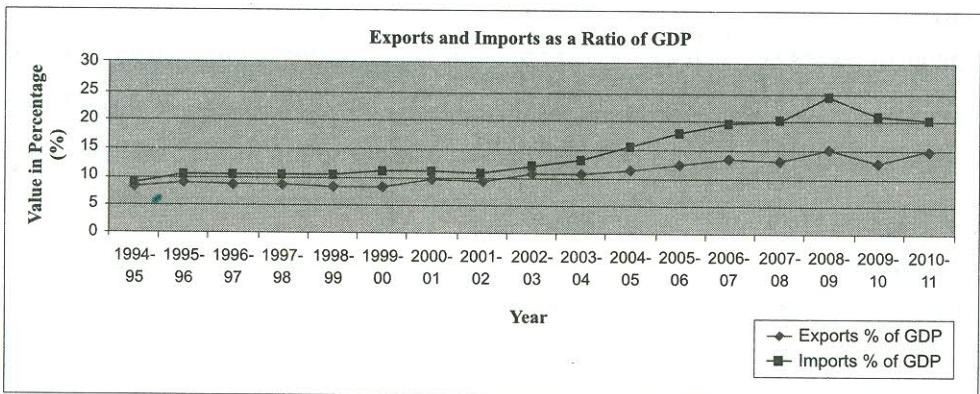
Note:  $X_1$ : Exports in Rs. Crores;  $X_2$ : Change in Exports (in percentages);  $X_3$ : Imports in Rs. Crores;  $X_4$ : Change in Imports (in percentages);  $X_5$ : Trade Balance;  $X_6$ : Export (% of GDP);  $X_7$ : Imports (% of GDP);  $X_8$ : Exports as a percentage of Imports, CGR: Compound Growth Rate;  $r^2$ : Correlation Coefficient

Figure 3



Source: RBI Database, Handbook of Statistics of Indian Economy, 2010-11

Figure 4



Source: Foreign Trade and Balance of Payments, Centre for Monitoring Indian Economy, 2011

### III. Balance of Trade

Balance of Trade (or *net exports*, sometimes symbolized as  $NX$ ) consists of two variables: the value of Exports and value of Imports. It is the difference between the monetary value of exports and imports of output in an economy over a certain period. It is the relationship between a nation's imports and exports. It can be either favorable or unfavorable. A positive or favorable balance of trade is known as a trade surplus if it consists of exporting more than is imported; a negative or unfavorable balance is



referred to as a trade deficit or, informally, a trade gap which leads to the draining of foreign exchange reserves. The data on India's balance of trade has been presented in table 1 and 2, which depicted that there is trade deficit over the entire period of study. This is due to the fact that the values of imports were much higher than the corresponding values of exports. Since, the difference between exports and imports have increased throughout, the trade deficit has also been rising continuously. However, the year 1993 and 1994 shows sharp decline in trade gap. Though the trade deficit up to 1994 has been increased only in a gradual manner but since 1994, the trade deficits have rapidly risen in trade deficit.

The data reveals that the balance of trade shows a negative balance of (-) Rs. 5838 in 1980-81, which further sharply increased to (-) Rs. 447840 in 2010-11. The analysis found that both exports and imports have increased during this period. The share of exports as a percentage of imports was 53.48 per cent in 1980-81, which increased to only 72.1 per cent in 2010-11. This development has taken place due to the fact that the imports have increased at a higher rate as compared to exports, which has put negative impact on the balance of trade during the study period.

In spite of huge trade deficits in India, there is no doubt that the results have been astounding in India under the trade liberalization regime. The growth of trade-both exports and imports- has been very rapid over the past two decades. This rapid growth in trade has been accompanied by much faster rates of economic growth (See Figure 2 & 4). This rapid growth has translated into material improvements in standard of living of the people of India.

### **Conclusions/Policy Implications**

It is discernible from the above analysis of data that the policy implications were stronger in the later years of post-reforms period than in the earlier years. The analysis reveals that both exports and imports have increased under the entire period of the study. This development has taken place due to the fact that the imports have increased at a higher rate as compared to exports that has put negative impact on the balance of trade, which shows a negative balance of (-) Rs. 5838 in 1980-81, which further increased to (-) Rs. -447840 in 2010-11 under the reference period. The figures reflect that the trade balance of India is negative during the entire period of the study from 1980-81 to 2010-11.

Further, the study found that the per cent change in exports was lower and the per cent

change in imports was higher in post-reforms period over pre-reforms period. This development is the consequence of repeated devaluation of Indian rupee and increasing import intensity of both production and consumption 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.

Over the last two decades, the main purpose of foreign trade reforms was creating an environment for achieving rapid increase in exports, raising India's share in world exports and making exports as an engine for achieving higher economic growth. 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. 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 leads to increase in imports; a number of foreign collaborations were approved which leads to import of capital goods and foreign technology; and import liberalization policy also had an adverse impact on indigenous production by our domestic industry. 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.

At the end, we can say that the challenges of the globalization have been converted into opportunities with proper policy and reforms. Therefore, the study strongly recommends that there is a need to review the foreign trade liberalization 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. There is a scope for further analysis to investigate the impact of foreign trade reforms on the transfer of technology, level of competition; reduction of poverty and income distribution in India during the post-WTO period.



### Important Notes

\* While the documentation below is limited to scholarly writings, many opponents of reforms in the political arena, including some in the Congress party, share this view.

<sup>1</sup> A paper entitled, "Making SAFTA A Success: The Role of India" by Ratna, R.S. and Geetu Sidhu, CUTS International available at [www.thecommonwealth.org](http://www.thecommonwealth.org) This paper is written under a research grant from the Commonwealth Secretariat, London to CUTS International, Jaipur.

<sup>2</sup> Todaro, Micheal P. and Stephen C. Smith. (2007). *Economic Development*, Pearson Education, New Delhi.

<sup>3</sup> A paper entitled, "Indian Economy, Globalization and World Economic Reforms" by Geetanjali Sharma and Sandeepa Malhotra has been edited in the book entitled, *Poverty, Globalization and Human Development* edited by V.B Jugale, Serials Publications, New Delhi.

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