# Chapter VII

## SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 7.1. SHORT SUMMARY

India's foreign trade before the British rule was in a prosperous state. The feature of India's foreign trade was to export more and import less that helped the growth of a favourable balance of trade. The most striking feature of this period was the steady growth of exports both in volume and value. At the time of independence, India was left with massive poverty, rampant unemployment and unfavourable balance of trade. In the beginning of 1950s economic planning was adopted to overcome these situations. Since 1951 there was adverse balance of trade and as a result there was adverse balance of payment, acute shortage of foreign exchange, extensive borrowing from foreign countries and international institution like International Monetary Fund to

overcome the balance of payment problems. All these factors induce India to devaluate the rupee by 36.5 percent in June 1966. As a result of devaluation exports stimulated. Since independence for the first time in 1972-73 India was able to have a favourable balance of trade, due to import restriction policies coupled with export promotion policies. The balance of trade during the annual plan was Rs.689 crore. During the fourth plan balance of trade was Rs.162 crore which was much lower than the period of the second plan, the third plan, and the annual plan. During the fifth plan period the value of imports reached very high level due to sharp increase in the cost of India's major imports. At the same time, there was a significant improvement in India's exports also. As a result, for the second time after independence there was a favourable balance of trade in 1976-79 by Rs.72 crore but during 1977-78 and in the next two years, due to Janata Government haphazard import liberalisation policy there again emerged trade deficit from 1977-78 onward and as a result during the fifth plan balance of trade again increased to Rs.810 crore. Due to increase in prices in petroleum process by organisation of petroleum exporting countries the import bill shot up exports also continued to rise but the value of exports fell much short of imports. The result was unprecedented trade deficit of Rs.5935 crore during the sixth plan (1980-1985). Seventh plan period (1985-1990) data revealed that due to indiscriminate liberalisation, the average annual imports short up to Rs.28874 crore but exports averaged Rs. 18033 crore. Thus there emerged an unprecedented annual trade deficit of the order of Rs.10,841 crore.

A dramatic change of the entire world economy took place during the decade of late eighties and early nineties of the last century in the form of economic reform, which promises more rapid and sustained economic growth. Due to these reasons various

countries of the world like Mexico, Chili, Spain and Greece adopted economic reforms and obtained the benefit of reforms. In 1985, during Rajib Gandhi regime the first phase of economic reforms had its origin where emphasis was given to an improvement in productivity, absorption of modern technology and fuller utilisation of capacity and finally a greater role for the private sector in India. The first phase of economic reforms failed to yield the expected result. The Prime Minister P. V. Narashima Rao adopted the second phase of economic reforms in 1991 July as a reform of internal and external confidence. Under these economic reforms monetary policy was tightened by rising interest rate, the exchange rate of rupee was adjusted by 22 percent. The major areas of the second phase of economic reform are- a) Fiscal policy reform - its objective is to reduce overall public sector deficit. To achieve this objective the government intends strictly to control public expenditure and taken initiative to increase both tax and non-tax revenue. b) Monetary Policy Reform - its aim is to improve balance of payments position and reducing inflationary pressure. c) Price Policy reform – Its aim is to reduce budgetary subsidies and promote a flexible price structure. d) External Policy Reform – In order to reduce the current account deficit in balance of payment to 2.1 percent of GDP in 1991-92 and then to 2 percent of GDP in 1992-93 the government introduces stabilisation compression. e) Industrial Policy Reform– due to this reform the number of industries reserved for the public sector is reduced to 6. "Motor Car" and "White Goods" industries were delicensed with effect from April 28, 1993. In June 1993 the Development Commissioners for Export promotion Zones (EPZS) were delegated some specific powers for 100 percent Export Oriented Units (EOUS) and EPZS. To stimulate investment excise duties on capital goods were rationalised and import duties were reduced. f) Foreign Investment Policy Reform – This reform gives automatic permission for foreign direct investment upto 51 percent

foreign equity to 34 priority industries. g) Public Sector Policy Reform: h) Trade policy Reform – its main objectives is to eliminate progressively the system of licenses and quantitative restrictions and i) Social policy reform - The main objective of this reform is to eliminate poverty and bring equality in social structure. Trade liberalisation was the most important component of these reforms. The 1992-97-export import policy allowed free imports of all items, which included capital goods, except a restricted list. The import duties on a wide range of commodities were drastically cut down the peak rate of custom duty was reduced to 35 percent in 2000-01 budgets. Import liberalisation would improve efficiency of the competition from import quality and technology. Various export promotions measures had been undertaken by the government as a major component of structural reforms. The measures introduced by the Government of India are establishment of export oriented units for promoting exports form agricultural and allied sectors, simplifications of Export Promotion Capital Goods Scheme, adoption of a more rational and convenient criterion for recognition of Export houses/ Trading houses / State Trading houses broadening of areas of activity in Export Processing Zones. Capital flows have also been liberalised by the government in the form of foreign direct investment. The important measures are automatic approval of foreign equity participation up to 51 percent, delinking technology transfer from equity investment to impart flexibility and amending the Foreign Exchange Regulations Act (FERA). Now foreign Exchange Management Act (FEMA) has replaced FERA.

The trade policy reforms of 1991 have drastically changed scenarios and have shifted the economy from inward oriented policy to outward oriented policy. In the post reform period India's trade has increased significantly. The highest growth in India's exports (11.95 percent per annum) than imports (9.75 percent per annum)

recorded during the period 1990-91 to 1996-97. But due to import liberalisation policies of the government imports were also increased and despite the increase of exports deficit touched the highest level at $ 46.0 billion in 2005-2006. The main problem in 1990s phase that seems to have obstructed India's transition to high income economy are lack of well integrated policies, non-transparent nature of selected policies and political uncertainty.

Trade liberalisation has an opposite effect on domestic producers and consumers. Due to liberalisation a decline in price enables consumers to pay less and lefts producers earn less. In this situation of trade off net social welfare to a country due to policy change is computed by comparing changes in consumer surplus and producer surplus. But when we produce some goods, these goods are associated with same amount of marginal social cost, i.e, pollution. So net social welfare = (Consumer Surplus + Producer Surplus) - marginal social cost. Expenditure is also as a measure of wellbeing at a country. Expenditure is taken as an indicator of living in micro sense and aggregate expenditure (i.e. per capita expenditure) may be considered as an indicator of living (welfare) in the macro sense (i.e. social welfare level). Per capita real income and increase in productive assets also measures the economic wellbeing of a country. In 1991 structural reforms were introduced in India. In order to measure the economic wellbeing of India since 1990s (i.e. post reform period) we have to see that poverty and inequality have been decreasing during these periods. The 61st round at National Sample Survey, at the year 2004-05, shows a decline in poverty to 27.8 percent at uniform recall period and 22 percent at mixed recall period. Net State Domestic production and per capita NSDP are also increased as a result of liberalisation. Kerala's economic growth is low, but its human development index is high. Due to low growth of population, its performance in per capita

NSDP growth in the liberalised period is actually much better than the average. Literacy rate that is one of the determinant of human resource have risen over time in all states including Bihar and Orissa. It is evident from the fact that economic growth is affected by the improvement of skill level, which is affected by education. So special efforts must be created by the poor performing states to develop the quality of human resource and hence to develop economic wellbeing. The trade gap or the balance of trade increases during the liberalised period. Exports increases from $ 17865 million in 1991-92 to $10, 3091 million in 2005-06. At the same time imports also increases from $ 19411 million to $ 14,4166 million. As a result trade gap also increases. But the main imports items of India are petroleum, oil and lubricants (POL) and capital goods which are necessary for the establishment of heavy industries. So increase in trade gap indirectly increases the wellbeing of India.

Now India is a big partner at world trade. In 2005 India's share in world merchandise exports remained fixed at 1 percent due to India's export growth at more than double the rate of growth of world exports. India's significant export growth was due to favourable external development and domestic policy initiatives. With the opening up of the economy the competitiveness of Indian Industry has increased. Good performance in most of the sector was the basis of export growth. The major items at export growth were petroleum products, engineering good and chemicals. Agriculture and allied export shows good growth but the share of manufactured goods declined marginally from 74.2 percent in 2004-05 to 72.0 percent in 2005-06. After the removal of quota system the textile and clothing industries including readymade garment in India improved in terms of both output and employment. India improved its share at global textile and cotton

trade from 2.4 percent in 2004 to 3.4 percent in 2005. Engineering sector is the largest contributor at India's merchandises exports. The contribution at gems and jewellery in India's total commodity exports in 2005-06 was 15 percent whereas in marine product its share was 2.3 percent. United States is the largest and China becomes the second largest trading partner of India. The Third largest trading partner is United Arab Emirates (UAE). In 2005-06, US continued to be the principal destination accounting for 16.8 percent at India's total exports, following by UAE (8.4 percent), China (6.5 percent), Singapore (5.4 percent) and the United Kingdom (5.0 percent). Region wise, Asia and ASEAN countries have emerged as major export destinations. The Major export items of India to South Asian countries are engineering goods, chemical, petroleum, cotton yarn fabrics etc. Imports from South Asian Countries increased by 40.1 percent in 2005-06. Major imports items are non-ferrous metals, textile yarn fabrics and made up, iron and steel, spices, essential oil, cosmetic preparation and fruits and nuts. Export at service in India also increases in recent year and in 2005-06 India's export of services reached US $ 61.4 billion. The software serves, business services, financial services recorded rapid rate of growth. In world commercial services exports India's share and ranking was 2.3 percent and 11 respectively in 2005.

## 7.2 CONCLUSIONS AND RECOMMENDATIONS

The well-being of a nation depends much on foreign trade. Indian economy witnessed a remarkable improvement since 1991 July when it started liberalise its trade and other aspects of the economy through the adoption of new economic reforms. The main elements were in short, to liberalise the economy, privatise government owned industry and open India to become competitive in the global market. The International Monetary Fund (IMF) and

World Bank persuaded India to change its static view of trade i.e. only to adopt export promoting and import-substituting trade policies that had been adopted since the beginning of independence. Since 1991 India has moved forward with traditional macroeconomic tools to handle balance of payments, deficits and inflation. Import tariffs have been slashed in phases loosing government control on trade and business through dismantling the licensing system. Due to this remarkable achievements have taken place in accelerating the development of information technology and its exports have covered a wide range in the agricultural and industrial sectors as also engineering goods, ores and minerals, chemicals and related products, gems and jewellery and petroleum products. India's imports also have increased because of abolition of quantitative restrictions since 2001. Most of our imports consist items like petroleum and crude products, fertilizers, precious and semi-precious stones for export production and capital goods, raw materials, consumables and intermediates for industrial production and technological up gradation.

India's exports of merchandise goods during 2005-2006 are valued at Rs.454800 crore (P) (Ministry of Information and Broadcasting, Government of India, 2007) compared to Rs.375340 crore in 2004-2005 and the growth rate is accorded at 21.17 percent. This achievement has been achieved in spite of demand for capital goods, raw materials and intermediate goods. As a result of maintaining a consistent high growth rate of over 20 percent during 10$^{th}$ five year plan India for the first time has been able to improve its share in world exports from 0.66 percent in 2002 to 0.9 percent in 2005. Because of huge demand for crude oil, capital goods, raw materials, intermediate goods and technical know how imports also increased from Rs.501065 crore in 2004-2005 to Rs.630527 (P) crore during 2005-2006. Thus the total imports registered a growth

of 25.84 percent. The trade gap thus has increased to Rs.175727 (P) crore in 2005-2006 from Rs.125725 crore in the previous year.

It is a matter of great pride that India has consistently been maintaining a good trading relation with all the major trading blocks and all the geographical regions of the world. India's major exporting regions are Asia and Oceania, West Europe, and America. America is the single largest trading partner of India, which has accounted for 13 percent of our total trade in 2005-2006.

India's exports have become accentuated especially since 2004 with the announcement of Foreign Trade Policy, 2004. The new policy has set a target of doubling its share in world trade by 2009. The policy aims at stimulating grater economic activity through creation of ample employment opportunities. To increase exports cover SEZ Act 2005 has been passed to trigger a larger flow of investment infrastructure and productive capacity, setting up of Foreign Trade Zones, lifting of remaining trade restrictions, promoting exports of garment, leather, gems and jewellery and auto components catering to the market needs.

India has bright future prospects of exports with the European Union (EU). India's exports of cotton readymade garment, gems and jewellery, primary and semi-finished iron and steel, cotton yarn, machinery and instruments to European Union are on the rise. This is because of healthy economic relations both individually and collectively.

India also has close and cordial trading relation with the Sub-Sahara Africa region covering 50 countries. In spite of several barriers India's trade with this region has been expanding rapidly. This is reflected from the rate of growth of trade of 25 percent between these two regions from 2004-2005 to 2005-2006. The items of exports which are on the rise are cotton yarn, fabric made

ups, drugs, pharmaceuticals and fine chemicals, metals machinery, manmade yarn, transport equipments, iron and still, plastic and linoleum products, inorganic and organic agrochemicals etc. for the promotion of bilateral trade relations between India and African nations a programme "Focus: Africa" was started in 2002 by our Ministry of Commerce and Industry and since then the programme has been continuing uninterruptedly. This sort of programme has escalated India's trade with most of the African Countries.

India, for the first time in Asia adopted Export Processing Zone (EPZ) in Kandla in 1965 as an important export promoting means. Seven more zones were set up thereafter. But these all failed to effectively improve India's export cover. For effective functioning of this model our government has announced Special Economic Zone Policy (SEZP) in 2000 to make special economic zones as an engine of economic growth. The zones work as an effective tool for promoting our exports and providing direct employment to over 1.10 lakh persons.

India is a founder member of General Agreement on Tariff and Trade (GATT) and World Trade Organisation (WTO). The WTO is supposed to provide a rule based, transparent and predictable multilateral trading system. The system allows the member countries to veto. With the progress of world trade under WTO regime most of the developing countries are of the opinion that WTO dictates terms in policy. They also perceive that WTO forces countries to join WTO. But they consider that they are powerless when comparing with the developed countries like the US, Canada the UK, Germany etc. India has expressed its dissatisfaction over the functioning of WTO in several ministerial conferences such as Singapore Ministerial Conference (1996), Doha Ministerial Conference (2001), Cancun Ministerial Conference (2003) and Hong Kong Ministerial Conference (2005). In all the conferences meetings

India is proactive in articulating its position on issues of concern to it and other like-minded developing countries and played pivotal part in further strengthening the coalitions with the developing countries by bringing together G-20, G-33 and G-90 groups of countries in a board alliances to reinforce their positions on issues of mutual interest (India, 2007). India's ultimate object is to protect and pursue its national interest in these negotiations and work together with other WTO member countries and safeguard the livelihood and food security of the marginal, small and medium farmers, labourers and to develop its consumer goods and capital goods industries and services sectors.

India's recent trade data (Commodity-wise) for 2006-2007, April – January show some revealing results. Exports growth of primary products and manufactured products have shown remarkable improvement. In spice, engineering goods, and petroleum products have maintained maximum growth in exports. But it is a matter of great concern that textiles and textile products have shown declining trend. The commodity composition of our export baskets shows that there has been a structural change during 2002-2007. Petroleum products, engineering products, and ores and minerals have emerged as the main drivers of our expert growth and it seems that these commodities would be able to maintain this trend in the years to come. But it is a matter of great concern that exports of handicrafts, textiles, gems and jewellery, agricultural products, leather and manufactures have shown a declining trend. This might have negative effect on employment generation and the well–being of the masses. During the 2006-2007 India's merchandise imports have also posted a growth of 26.4 percent to meet domestic consumption, investment, production and inputs need for experts. This is a sign of overall growth of trade and also the growth of the economy benefiting both consumers and

producers. In the EXIM Policy 2002-2007 our government has taken a number of policy initiatives for boosting our exports. The government has given special emphasis to the sectors having high export potentials, maximum possible employment creating capacity. Three major employment-generating sectors are pisciculture, livestock and poultry sectors. India has a bright future prospect in the world trade of fish, livestock and poultry products. Our dairy industry is already at a take off stage and the entry of the corporate sector is bound to complement the effects of National Diary Development Board (NDDB) to usher in a white revolution. The possibility of India emerging as a potential exporter of various livestock products largely depends on her capacity to exploit her potentials in this sector and generate exportable surplus of these products enhancing trade cover. More trade and more connections between countries will bring people of different countries in close contact that will in turn benefit all through learning by doing.