INDIA'S TRADE PERFORMANCE UNDER LIBERALISED REGIME

A DISSERTATION SUBMITTED FOR PH. D. DEGREE IN ECONOMICS (ARTS) AT THE UNIVERSITY OF NORTH BENGAL JULY, 2007

By

Tulika Kar
Lecturer (Part Time)
Kalipada Ghosh Tarai Mahavidyalaya
Bagdogra, Siliguri

Supervisor

Dr. Anil Bhuimali
Professor of Economics

DEPARTMENT OF ECONOMICS
UNIVERSITY OF NORTH BENGAL
WEST BENGAL, INDIA

Acknowledgement

My heartfelt thanks and acknowledgement goes to my guides, teachers, friends and co-workers, whose selfless help, guidance and encouragement in course of my dissertation work which to me to swim across the stormy sea.

Prof. A. Bhuimali, Department of Economics, University of North Bengal, whom I think as my mentor, whose constant guidance and encouragement from the starting has helped me to take up and finish this dissertation work. I shall remain ever grateful to him.

I acknowledge the kind help and guidance by Prof. K. K. Bagchi, Head, Department of Economics, University of North Bengal.

I cannot forget the help and encouragement made by Dr. S. Majumder, Reader, Visva Bharati, Shantiniketan, West Bengal.

Also I would like to thank the co-operation I received from Dr. D. K. Das, Reader and Dr. S. Goswami, Lecturer, Kalipada Ghosh Terai Mahavidyalaya, Bagdogra, West Bengal from every corner.

I must also acknowledge my indebtedness to Papia, my friend, who unsparingly extended her constant help and inspiration to me throughout this investigation.

I shall never forget the help and co-operation made by Krishnakali, Rupsy and Sujoy in this regard.

Overall my husband Santanu, whose constant inspiration along with my son Arya and other family members always boost me up to reach at the goal.

Tulika Kar

Tulika Kar

CONTENTS

Chapter I

INTRODUCTION

1.1 THE PROBLEM

Many developing countries in the world are blessed with natural resources including land that are ideal for the production and export of natural resource products. India, being a developing country, is not an exception. A strategy known as primary export-led development strategy helps exploit natural comparative advantage by increasing production of a few export goods mostly related to the countries resource base and exporting them in return for manufactured goods produced abroad. In such a situation it is stated that standards of living rise due to specialisation along the lines of comparative advantage. India, for a long time, had been the exporter of primary goods such as raw materials and importer of finished products from the Western World. To improve the balance of trade position India adopted import substitution trade policy since independence. Import substitution policy seeks to promote rapid industrialisation by way of charging high tariff barriers to importable. This policy encourages local production by erecting high barriers to foreign goods. Not only India but also many developing countries apply the infant industry argument for

protection to one or more targeted industries. The government determines these sectors best suited for local industrialisation, raises barriers to trade on the products produced in these sectors to encourage local investment. Barriers to import are reduced with the expansion of industries. If the choices of the industries are correct then the expansion and the growth of these sectors will continue even if the protection is reduced.

There are some problems with the import substitution trade policy. First, the trade barriers rarely come down. Second, this policy tends to limit the development of industries that supply inputs to the protected industries. Third, employment in these newly industrialising sectors does not grow as fast as might otherwise be the case. India adopted import substitution policy to build a strong manufacturing sector and this could only be possible by protecting the manufacturers of domestic products from the foreign competition. Naturally, we ignored primary-export-led growth strategies in favour of imports substitution development strategies. We thought that these policies would promote rapid indistrialisation and development by erecting high barriers to external goods to encourage domestic producers. These policies were applied to infant industries argument for protecting to some targeted industries. The infant industries argument argues that a country may have a potential comparative advantage in a good, but because lack of technical know how and the initial small level of output, the industries would not be set up, or if already set up, cannot compete successfully with more established foreign firms. In such a situation trade protection is there justified at least temporarily to establish and protect the home industries. Since mid 1970s the policy of import substitution was more effective along with export promotion policy.

The real beginning of economic reforms in India occurred in July 1991. This regime has, among others, considerable impact on the balance of payment position of the country. In the new economic policy efforts have been laid to improve export-import cover along with the encouragement of foreign direct investment and portfolio investment.

Post independent India experienced an abrupt change in the composition, direction and volume of foreign trade. Since 1991, a good number of non-traditional goods are included in the export list of the countries. The import strategy has also been changed. In fact, we have adopted a pro-trade growth strategy since July 1991, a strategy that encourages both exports and imports.

The problem that we seek to investigate in this research investigation is that there has been a sea change in the India's trade pattern and accordingly there has been remarkable achievement in the export of some commodities, which we could not think even a few years ago. According to a source (CMIE'2002) India's export growth performance during the 1990s was substantially higher than the global export growth. The data says that world export grew at the rate of 5.5 percent per annum during 1991- 2001 while India's export grew at the rate of 9.3 percent per annum during the same period of time. This is indeed a remarkable achievement in terms of export performance. The faster growth, however, made little difference to India's relative position in world trade during 15 years of reformed regime. India's share in world trade grew marginally from 0.5 percent in 1991 to 1 percent in 2005. This is equally bad. What is the main obstacle behind this can be properly investigated.

1.2: THE OBJECTIVE OF THE STUDY

India's commodity composition of exports has changed. The major export groups are manufacturing sector, agricultural and agro-industries. Of these the manufacturing sectors recorded the highest growth of 9.6 percent per annum during 1990s. Export of agricultural goods did not grow substantially. In fact the exports of agricultural goods increased at a rate of 6.2 percent annually. This showed an unimpressive performance of the agriculture sector in terms of exports. The principal reasons behind this poor export performance of the agriculture sector would again be examined thoroughly. Exports of agro commodities were substantially high during the first half of 1990s but in the second half, it recorded a decline.

The main objective of the study is to investigate India's overall export performance and all aspects of trade related matters will be analysed in detail. India's imports position will also be investigated. Data show that imports grew at a faster rate than export during 1990s. Imports grew 10.1 percent while the growth of exports of 9.3 percent annually during 1990s. What are the causes of such situation? What will be the impact of imports on the balance of payments position? What steps have been taken to improve the export- import cover? These problems along with so many other trade related problems would be investigated thoroughly in course of our research investigation. An important aspect of foreign trade, that is, the welfare effect of trade would be taken into due consideration.

1.3: HYPOTHESES TO BE TESTED

We would like to test the following set of hypotheses specifically relevant for this investigation.

1. Trade deficit decreases with the opening up of trade.
2. The sharp increase in foreign exchange reserves is not the result on any favourable balance on current account but is the consequence of unilateral flows in the form of external assistance from international financial institutions or commercial borrowing or non residential Indian (NRI) deposits etc.
3. Inward trade orientation permits the exploitation of scale economics, which in turn result in growth.
4. The outward oriented economics may record a much more impressive export performance than inward oriented economics.
5. In the age of globalisation there is scope for increasing its benefits by reducing domestic marketing cost and tapping better supplies for imports.
6. Reforms process in India has benefited the rich and worsened the poor.
7. A less developed economy with comparative disadvantage in agricultural product is affected by agricultural trade liberalisation. In the course of our analysis, we would like to test the above hypothesis with the help of the relevant data from authentic sources (secondary sources). However, we have every freedom of inclusion of some important hypotheses and the exclusion of the above-mentioned set of hypotheses.

1.4: METHODOLOGY, SAMPLE AND DATA SOURCES

India's sluggish export performance during the 1950s attracted considerable debate and it was explained in terms of both export pessimism thesis (Singer 1950; Prebisch 1959). The poor export performance in India during the pre-liberalisation era is mainly attributed to the lack of good quality products, lack of trade policy framework conducive to trade and domestic demand pressure (Singh, Bhagwati, Desai). In view of the perverse effects of import substitution policies, a phased reduction in tariff rates constituted one of the major thrust areas in the structural reforms of July in 1991.

In the present research investigation we would like to study the impact of new trade policy on India's trade. We will be concerned with trade liberalisation and its impact on the direction and volume of trade. In the context of free trade it can be said that any barrier on trade may impede the growth of the economy. Thus there should not be any restriction in any form on trade. Under such a situation, free trade can so far be the best alternative. Free trade policy is the best in the sense that it can reduce economic disparity among different sections of the society. The counter opinion is that trade liberalisation may be beneficial to equal partners and to the condition of market perfection. We will analyse both these aspects on the data to be collected from the secondary sources. Various data sources are different journals such as International Financial Statistics (Year Book), Economic and Political Weekly Research Foundation, Economic and Political weekly, Centre for Monitoring Indian Economy, Indian Journal of World Intellectual Property, Publication by International Monetary Fund (IMF), World Bank and Asian Development Bank etc. Simple statistical calculations such as percentage, arithmetic mean,

standard deviation, correlation, regression etc. would be used to come to specific conclusion. Tables, graphs such as bar diagram, line diagram etc. would be used according to our purpose.

1.5 REVIEW OF LITERATURE

Many eminent economists expressed their views on India's trade performance during the pre and post-liberalised periods, which came in the forms of articles and books. In the present context we would like to make a brief review of literature on India's trade in the post independent period and especially during liberalised trade regime.

On the eve of planning, our foreign trade showed an excess of imports over exports because of pent-up demand of the war and the post war period due to various controls and restrictions, shortage of food and basic raw materials, and rise in the import of machinery and technology. A large number of writings on our pattern of trade during planning and up to 1990 came up in economic literature. De Costa (1988) examines, in this context, India's balance of commodity trade over 1970-71 to 1984-85. Over fifteen years the paper shows, India's average trade deficit increased ten times i.e. from Rs. 488.2 cores in 1970-71 to 1975-76 to Rs. 5096.2 cores in 1975-76 to 1984-85. Current account balance was showed surplus in 1976 and 1977. The paper has argued that the factors, which have affected India's commodity trade balance over the 1970-71 to 1984-85, are those, which have operated on India's quantum of exports and imports, and on the net barter terms of trade.

There is a controversy in relation to the role of international trade in industrialisation and economic development. Greenway and Nam (1988) examined industrialisation and macro-economic performance in developing economics under alternative trade

strategies. They have identified groups of countries using a number of quantitative and qualitative criteria and well examined the performance of characteristics of different groups. On the basis of careful examination of some indicators of macro-economic performance they suggested that the performance of the outward looking economies had been superior to that of the inward looking economies i.e. developed economies following liberalised economic policy have experienced more rapid growth of per capita income than that of the developing economies not following or following not so much new economic policies.

It is claimed that new economic reforms have claimed reduction in trade deficit and accumulation of foreign exchange reserve (Datt, 1996). Naturally, India's credibility in the international market has been restored. It is observed that the sharp increase in foreign exchange reserves is not as a result of favourable balance on current account. It is the consequences of unilateral flows in the form of external assistance from the international organisation or commercial borrowings or deposit from non-resident Indians. A voice has been raised at the end as to the application of new economic policy.

There is a two-way interaction between trade liberalisation and economic growth. World growth rate can be increased through increasing returns to specialization (Devereux, 1997). Trade liberalisation equilibrium may be thought of as corresponding to the progressive post war multilateral tariff reductions generated through General Agreement on Tariff and Trade (GATT).

The second phase of economic reforms in 1991 has considerable impact on the balance of payments position of the country. In the new economic policy efforts have been made to raise the export-import cover (Bhuimali & Sarkar, 2004). Imports were liberalised in order to bring technological up-gradation and also

foreign direct investment and portfolio investment were encouraged to replace debt-creating capital.

The theories of international trade and international money are undergoing revolutionary changes in the new context. Full and free mobility of capital and of skilled / technical labour, and indirectly tends to lead to processes source what opposite to that of free trade in commodities only (Brahmananda, 1997). The commodities now exported by the developed countries can become exporters of products and services previously specialised by the developed countries.

The main problem of trade in a small open economy like India seems to be a problem of production and hence domestic supply and demand constraints, rather than the problem of external demand constraints (Singh, 1998). The future trade policy framework for India needs to lay further emphasis on the supply side factors with recognition of quality of output and control of inflation.

Our trade liberalisation has an important effect on agricultural trade and net social welfare. Many studies have so far been conducted on this particular issue. A remarkable study was made by Ramesh Chand (1999). The study measures the impact of trade liberalisation on producer surplus, consumer surplus and net social welfare for rice, maize, chickpea and rapeseed-mustard. The study showed that domestic price of rice during 1991-1996 had a tendency to go up. The impact of firm level price of paddy was obtained by multiplying by wholesale price by the elasticity of price transmission from wholesale to firm level. The elasticity of price transmission between firm level paddy price and wholesale price of rice turns out to be 1.04. Farm level paddy price under liberalised trade regime witnessed 1 to 29 percent rise in different years. The only exception was 1993-94. In the case of maize the free trade

domestic firm level price raised in the range of 24 to 60 percent. Two exceptional years were 1993-94 and 1994-95 when its domestic farm level price fell sharply. In the case of CIF price of rapeseed – mustard oil imported by India fluctuations were noticed. But the price in the representative international market showed a steadily rising trend. The actual CIF price paid by India for imported rapeseed – mustard oil was found to be much higher compared to the CIF price corresponding to the international price. This phenomenon is shown in Table 1 below.

Table 1: Actual CIF Import Price of Rapeseed – Mustard Oil paid by India and CIF Price Derived from Prices in International Market.

Year	*Actual CIF Price**	*International Price Rotterdam***	*Imputed CIF Price****
1988-89	7506	5961	6710
1989-90	14458	6915	7575
1990-91	11982	7589	8378
1991-92	27932	10022	11201
1992-93	27153	11277	12520
1993-94	17543	15570	17045
1994-95	30491	18226	19701

Here * → Derived from monthly statistics of foreign trade and imports Annual Number, Vol. II, Ministry of Commerce, Government of India.

** → Taken from India. The Indian Oil seed Complex: Capturing market opportunities, Vol. II, Report No. 15677-N, World Bank, Table A 5.11.

Imputed CIF price is derived from the CIF price Rotterdam by subtracting freight from Rotterdam to US Golf and adding freight from US Golf to India (Mumbai).

The conclusion of the paper is that trade liberalisation is a mixed bag and its impact would vary from commodity to

commodity. It is noted that there is some scope for increasing benefits from trade liberalisation by reducing domestic marketing costs and by tapping proper markets for imports.

After 1991 there has been a remarkable shifting of trade policy in India in matters of exports and imports. Kathuria (1996) examines whether exports incentives have enhanced as a result of new trade policy. In this context export profitability has been calculated with the help of a model. The model is divided into two parts. The first part compares export profitability across regimes and next part compares the gap between domestic and export profitability in the pre-reforms period, export profitability declined in the dual exchange rate regime for most export sectors. The gap between domestic and export profitability also increased in this period. This implies that domestic sales are more attractive relative to export sales than they already were.

There is no denying the fact that there exists industry-agriculture inter-linkage specifically in an open economy in which agricultural exports play a vital part in the national economy (Nag and Ghosh, 2003). The study found that agricultural trade liberalisation contribute to industrial expansion and can avert a potential realisation crises even for the agriculture sector in a situation of dependence of industrial production on intermediate imported input, real wage resistance and foreign exchange constrain. It is thought that a less developed country with comparative disadvantage in agricultural product will be affected by agricultural trade liberalisation.

After six years of reform, many sectors did not achieve the desired improvement, including exports. The external sector reform began in July 1991 by devaluing its currency by almost 19 percent. The exchange rate was unified in March 1993. As a result of various reforms, the growth rate of exports in US dollars shot up from 1.1

percent in 1991-92 to 20.2 percent in 1993-94 and further to 20.7 percent 1995-96 but it fell to 5.35 in 1996-97 and again fell to only 1.5 percent in 1997-98. The decline in Indian exports during 1996-97 was due to mainly a fall in the growth rate of export volumes-(Banik, 2001).

Devaluation of the rupee after 1990s has increased India's competitive advantage in labour and skill intensive industries. External reforms allowing freer imports of raw materials, intermediate goods and capital goods has reduced the dependence of competitive industries on inefficient domestic producers of inputs and technology and thereby contribute to the growth of exports in a few sector by enhancing the domestic competition, import liberalisation appears to have made domestic production of critical input more efficient. Not only the export volume increases due to reforms but also have to a moderate shift into higher quality (Ghemawat & Patibandla , 1998).

Until 1990 European countries had been major sources of foreign direct investment (FDI) inflows to India. In the liberalised period their relative importance has steadily declined. Between 1980-90 major European countries, namely, the UK, Germany, France, Switzerland, Sweden, Italy and the Netherlands accounted for 69 and 66 percent of FDI stock respectively but in between 1991-97 they accounted for only 18 percent of FDI inflows. Over this period the US has emerged as the most important source of FDI with a share of 27 percent. Since 1991 the US has established a clear lead over the European countries. In recent years South Korea, Singapore, Israel, Malaysia and Thailand have emerged as major sources of FDI in India. Therefore due to liberalisation of trade there open sectors to FDI in India and investment regime seems to have helped India to diversify its sources of FDI (Kumar 1998).

During 1990-94 the trade deficit had fallen sharply (2.1percent of the GDP) but in 1995-97 it increased even more sharply to an average 3.6 percent of gross domestic product (GDP). In 1999-2000 it touched 4 percent of the GDP and again fell back 3 percent in 2000-01. The increase in the import GDP ratio over the nineties is driven by the increase in manufactured imports. In the post-crises period the invisible account improved significantly. This improvement is due to the reform of gold policy. In the post reform period FDI portfolio started playing a role. The central government fiscal deficit declined from an average 6.6 percent of the GDP, during the pre-crises decade of the 1980s, to an average of 5.2 percent of the GDP in the post-crises period (i.e. from 1992-93 to 2000-01). This decline of 1.4 percent of the GDP was double the 0.7 percent of the GDP decline in the current account deficit between the two periods. The decline in the fiscal deficit explains about 0.65 percent of the improvement in the current account deficit and rest is explained by the depreciation of the average real effective of 0.7 percent per annum in the post crises period. (Virmani, 2003).

The relationship between trade liberalisation and economic growth has received wide attention. There is mixed as well as conflicting evidence on trade liberalisation which promotes growth. India had initiated the financial and structural reform since 1991 whose objective was to provide macro economic stability and integrate the Indian economy with the rest of the world. Ramkrishna (2003) has tried to investigate empirically the relationship between trade liberalisation and economic growth of India using neoclassical growth model. Trade liberalisation has played a positive role in influencing economic growth of the country. The empirical results suggest the importance of outward looking strategies in promoting the economic growth of India.

Globalisation has increased the capital flow, trade flow of information and the mobility of labour. As regard the impact of globalisation a series of questions came up. Has globalisation raised standard of living? Has globalisation removed poverty and reduced inequality? In regard to first question it is seen that the standard of living increases more rapidly in the countries which adopt outward looking trade policies than the countries which adopt inward looking trade policies. It is noticed that poverty has been reduced globally. In India there has been a sharp decline of poverty since 1990s. Per capita income also increases. (Finance and Development, 2002).

Since 1990s virtually all sectors of the economy were opened up and the Export Import (EXIM) Policy over the years focused on liberalising the foreign trade regime. During the year 1993-94 to 1995-96 there was a strong performance of exports approximated 20 percent export and after that exports took a severe beating. The main problems that seem to have obstructed India's transition to a high income economy in the phase of 1990s are continued adhocism and lack of well-integrated policies, non-transparent nature of selected policies and political certainty (Shukla, 2001).

The trade liberalisation, globalisation and policy reform carried out in India seem to have increased the importance of export activity for the private non-financial corporate sector. This is indicated by an increase in the number of exporting companies over the year. From 1993-94 the median export intensity for exporting companies as measured by the ratio of the export revenue to net sales has also increased. The reforms have created an environment for companies to concentrate more on export activity (Dholakia & Kapur, 2001).

After a slow growth rate of real GDP (1995=100) from 1991 to 1993 on account of structural adjustment and liberalise the

economy from 1991, during the years 1994 to 1996 the Indian economy grew at higher rates of 7.6, 7.68 and 7.23 percent respectively. Since then it has been growing at lower rates. The growth rates were 4.47, 6.00, 7.02 and 3.98 percent respectively during 1997, 1998, 1999 and 2000. As per the estimates of Central Statistical Organisation (CSO), India's GDP is estimated to have grown at 5.4 percent in 2001-02. These lower growth rates primarily reflect the uneven and poor performance of the agricultural sector and in these years the lower growth rates of value added in agriculture were – 2.4, 6.2, 1.3 and - 0.2 percent respectively. The share of agriculture in GDP has come down to about 25 percent; GDP in the non-agricultural sector has strong demand and production linkage with the agricultural sector. It is observed that an increase of 1 rupee in GDP in agriculture boosts GDP in the non- agricultural sector by about 1.1 rupee over time-through consumption and investment demand linkage (Chitre, 2003).

There arises a question after 1990s that which firms benefited from trade liberalisation policy of India. Studies reveal that there have been inter-industry differences. There have been major inter-firm differences in behaviour relating to technology and growth strategies and the resultant productivity and efficiency differences. Some firms have gained by the liberalisation and globalisation policies while others have lost. Multinational Enterprises (MNEs) are the main gainers, which have better access to technology and other intangible assets. The domestic firms which import technology against royalty payment to survive and to compete with the MNEs are called networking firms. These firms have also done well. Other domestic firms that have no networking or non- equity strategic alliances have not done well. Within MNEs, the main advantage of the US-based MNEs has been technology

while for the Japanese MNEs efficiency advantages seem to dominate. Acquisition of technology seems to be the main vehicle of growth and domestic firms that enjoy better technology and have a smaller productivity gap with the MNEs have benefited by liberalisation policies (Siddharthan, 2004).

Using data from the annual survey of industries, total factor productivity growth rates have been computed for the period 1980-81 to 1999-2000 and for the four sub-periods corresponding to the four phases of trade reforms. The results indicate TFP growth of 0.80 percent per annum averaged over 75 three- digit industries for the entire period. The standard deviation and co-efficient of variation both shows considerable variation in TFP growth. The TFP growth rates for individual industries are either negative or in the 0 to 2 percent range. Only the capital goods sector has registered a positive growth (1.39 percent per annum) but the intermediate and consumer goods sector both record negative growths in TFP during the entire period. Easing of quantitative restriction on imports of machinery and spare parts has introduced external competition in the capital goods industries resulting in an improvement in productivity growth of capital goods (Das, 2004).

India has initiated various reforms in the economy since the 1990s. These were undertaken in order to make the country more competitive and ready to face the global challenges. Ray (2004) has examined the changes in competitiveness of Indian manufacturing firms through increase in efficiency over the period 1991 to 2001. The firm level efficiencies have been calculated by using 27 industry groups' data and using the delta envelopment approach (DEA). He found a decline in average efficiency from 1991 to 1996. After that, efficiency increases but does not reach the 1991 level. Certain industries have performed well in 2001 compared to 1991. These

industries are automobiles, personal care or electronics, which have been characterised by strategic alliances.

Marries model was used to analysis the impact of the series of liberalisation measures introduced by the government. since 1991 on the growth of Indian corporate firm. Using Marries frame work, it was argued that policy changes introduced since 1991 would result in a change in the environment in which the firm functioned. The firm's growth profit frontier will depend on their firm specific characteristic like international orientation, affiliation and strategic alliances with MNEs, size of the firm, capital intensity and vertical integration. The impact of firm specific determinants will vary over the years in accordance with the progress of liberalisation measures. During the initial years, farm size, MNE affiliation, capital intensity, vertical integration and import of capital goods had a negative impact on growth. But in recent years the impact of these variables had turned positive and significant indicating the important changes brought about by globalisation. (Siddharthan & Lal, 2003)

India's debt statistics reflect the reduction in the dependence on debt. The ratio of total external debt to the GDP has declined from a peak of 33.8 percent at the end of March 1998 to 19.8 percent of gross domestic product (GDP) at the end of March 2000. The share of short term debt in total debt has been reduced from a peak of 10.2 percent on March 31, 1991 to 4.1 percent on March 31, 2000. The ratio of short term debt was only one tenth of foreign currency reserve at the later date (Virmani, 2003).

Due to liberalisation of restriction on inward investment in 1991-92, there was a sharp increase in capital inflows between 1992-95 and 1996-97. This is similar to the experiences to other emerging economies in Asia and Latin America, all of the typically experienced a rise in inward foreign capital following market

oriented reforms. In 1993-94 the magnitude of capital flows into India was peak level of 3.5 percent of GDP, which is small, compared to other emerging markets. For Malaysia, the peak levels were above 20 percent, for Thailand 13 percent, for the Philippines 10 percent and almost 10 percent for Singapore between 1990 -93 (Glick, 1998). This is probably due to India's late start of trade liberalisation and investment regimes, by which time the competition for international capital had already stiffened.

There arises a question regarding FDI for Indian that "is liberal foreign investment policies good for India?" Three categories of foreign ownership can be defined: first, investment below 25 percent, investment between 25 and 40 percent and investment of 40 percent (51percent after 1991) or above. Foreign ownership below 25 percent (or foreign low) and foreign ownership greater than 25 percent but less than 40 percent (i.e. foreign medium) do not have a significant relationship with firms export to sales ratios. Only when levels of foreign ownership exceed over 40 percent (or 51 percent) (i.e. foreign high), there is a positive relationship between the level of foreign ownership and exports. So, in case of foreign high FDI is good for India [Majumder and Chhibber, 1998].

The overall economic performance of the 1990s should provide guidance in assessing the success of reforms undertaken during the period such as whether the real rate of growth took a significant up-turn, whether double digit inflation was brought under control, whether there was a balance improvement on revenue and expenditure. It was found that by the fiscal year 1994-95 the real rate of growth rising steadily to over 7 percent but in 1997-98 it had fall substantially once again to about 5 percent. The inflation rate was also checked from 12 to 14 percent in 1990-91 and 1991-92 to 7 percent by 1992-93. It increased again over 10 percent in the following two years and by 1995-96, it had fallen

back to about 5 percent. There was a decline in the tax revenue to GDP ratios from about 11 percent by 1990-91 prior to the reform to about 10 percent by 1995-96. Plan expenditure depended increasingly on borrowing while declining progressively as a percent of GDP from almost 8 percent in 1985–86 to just over 4 percent by 1996–97 (Shome & Mukhopadhyay, 1998).

International trade and foreign investment can potentially affect economic growth and income distribution. In an article (Economist, 2001) Robert Wade of The London School of Economics has brought out some startling facts. Covering short period from 1988 to 1993, Wade concluded that during that period Gini co-efficient of the world income increased by 6 percent; share of world income going to the poorest 10 percent of the world's population fell by over a quarter, whereas the share of the richest 10 percent rose by 8 percent, the richest 10 percent pulled away from the median while the poorer 10 percent fell away from the median. In other words, poorer countries and the poor in these countries were left behind in the process of growth.

In the context of globalisation the paramount consideration guiding all our actions should be to make our products competitive in international markets. To achieve these objectives emphasis should be given in these areas such as improving labour productivity, infrastructure development and strengthening supportive institutions (Vyas, 2002).

Since 1991 reforms have played a crucial role in the performance of the Indian Economy. The reforms have involved opening the economy, making it more competitive, empowering the states to take more responsibility for economic management and thereby creating a kind of competition between the states for foreign investors. FDI brings huge advantage like new capital, technology, managerial expertise and access to foreign market will little

downside. Sector wise break-up of FDI and technical collaboration approved after globalisation revealed that the engineering sector received the largest (32.11 percent) share of total FDI. While telecommunication sector stands at the second position by receiving the 17.83 percent share of total FDI, and transport sector stands in the third position by attaining 6.85 percent share of the total FDI in between August 1991 to January 1999. From August 1991 to May 2002 only electrical equipment, computer and electronics industries' position increases (from 5.14 percent in 1991 to 1999 to 9.69 percent in 1991 to 2000) (Bodla, Bhati, 2004).

In the new environment of globalisation, Indian entrepreneurs will have to move from their traditional trader mentality to a global band building mindset. "Reinvest or Die" is the new slogan and its big practitioners include Hindustan Lever, Reliance, The Tata's, The Aditya Birla Group's and Ranbaxy as well as many other new and upcoming players. Business families, both big and small, are gradually making the shift and many are deserting the shop floor for competitive services, whether in finance, retailing or information technology. Competition has affected the business far more than structural changes in the economy. India's share of world exports for many products is poor. It indicates that Indian industry lacks global competitiveness (Rajput, 2001).

India is the second largest producer of rice in the world, following China and produces for about 21 percent of total global rice. Only 10-15 million tones of world production of rice to be traded across countries. India and China together contribute 57 percent of global rice production but they contribute only marginally to world exports (China 4 percent and India 3.5 percent). Until 1991, exports and imports of some selected commodities have been subjected to various kinds of regulations and restrictions. Restriction on export of common rice was somewhat relaxed during

1992 following initiation of economic reform programs in June 1991. During 1995-96 a major boost to rice export occurred and the Government of India decided to release two million tones of rice for export (Ruman and Gowda, 2005).

Srinivasan (2001), while recoding an improvement in export performance of India in 1990s, recognised that India still lags behind compared to other South East Asian countries.

Cooper (1995) shows that there is a positive correlation between long term economic growth and variables like trade openness of an economy, government investment expenditures and investment in Research and Development, primary and higher education by using cross-country comparisons. Trade openness of economies has been observed to be a major source of growth. World GDP grew at a rate of 3.2 percent and world export grew at 4.3 percent in the decade of 1980-90. For this period China and India together GDP grew at 7.6 percent and exports at 9.8 percent.

Now there arises a question. What would be the India's share in world exports of fruits and vegetables after liberalisation of trade? It is revealed from the data that despite the tremendous production of fruits and vegetables, India's share in the world trade of fruits and vegetables is very inadequate, hardly 1.41 percent of the world's total trade exports. This shows that our export performance is quite poor (Kalamkar, 2003)

The real thrust of globalisation process was provided by the new economic policy of India in 1991. The desperate condition of 1990 and 1991 pushed India towards globalisation through exchange rate adjustment, import liberalisation etc. It is a long process. The process of globalisation and changes in India's industrial and other policies have led to considerable changes in external sector. India's industries are in illegal and unhappy

competition with MNEs and suffering from size disadvantages (Shandilya, 2003).

Various studies show that during the liberalised era exports are not increased so much as compare with imports and the trade deficits are wider. Singh (1992) suggested following points for export promotion in India:- (i) Though the liberalisation is a welcome measures, the production of export oriented items is expected to group in views of the open general license. (ii) The demand for imports should be held in cheque through fiscal, monetary and credit polices. (iii) Restriction of domestic consumption within reasons limits with a view to creating export surplus. (iv) The export-oriented industries should be exempted from the incidence of excise duties or raw material, and intermediates. (v) The quality of exportable commodities should be improved through the application of new technology.

There is a debate on whether export can be used as a vehicle of economic growth in Indian context. The connection between export and economic growth is established in the following way. Export-oriented policies provide similar incentives to scales in domestic and in foreign markets. This leads to resources allocation according to comparative advantages leading to greater capacity utilisation and exploitation of economies of scale, generate technology improvement in response to competition abroad and in labor surplus countries contribute to increase in employment (Khan 1994).

Since July 1991, there have been dramatic changes in the trade policy regime in India. One of the objectives has been enhancing export performance by improving export incentives and eliminating discretionary control. Kathuria (1996) examined whether export incentives actually improved as a result of the policy changes. The model is divided into two parts: (a) It compares export

profitability (EP) across regimes and (b) It compares the gap between domestic and export profitability across regimes. The export basket is divided into eight sub-sectors, and the model is applied to each of these sectors. The dominant results are that relative to export profitability in the pre-July 1991 period, EP declined in the dual exchange rate regime for most export sectors (March 1992- February 1993). The gap between domestic and export profitability also increased in this period meaning that domestic sales become even more attractive relative to export sales than they already were. This adverse moment in export incentives were reserved with the unification of the exchange rate in March, 1993.

It is true that globalisation will involve exposures to the vagaries of the world economy, since the developing countries will be growing at a higher rate, some fluctuation in the latter will be inevitable. Globalisation will help the domestic economy to move up its growth rates, especially in industries, services and infrastructure but it cannot help in agriculture except indirectly (Brahmananda, 1997).

During 1991-92 exports showed a negative growth of 1.5 percent, during 1992-93 they picked up slightly by 3.7 percent but showed a sizeable growth of 19.6 percent during 1993-94. During the first half of 1994-95 exports has shown a growth rate of 12.3 percent, which is fairly encouraging. However, a reduction in the balance of trade to $1,545 million during 1991-92 was the result of import compression. The deterioration of the balance of trade to $ 3,345 million during 1992-93 was primarily the result of sharp increase in imports. A decrease in the growth of imports during 1993-94 and a spurt in exports by 19.6 percent lead to a sharp decline in balance of trade during 1993-94. The situation again deteriorated during 1994-95. Due to the policies of liberalisation,

especially resulting from a reduction in custom duties the imports have raised by 19.1 percent in 1993-94. As against this, exports have shown a growth rate of 12.3 percent. As a result, trade deficit in 1994-95 rose to $1,240 million. It may be further noted that the rise in imports was due to the sharp increase in non-Petroleum, Oil and Lubricant (non-POL) imports from $7,746 million during 1993-94 to $ 10,201 million in 1994-95 – an increase of 31.7 percent. Obviously, import liberalisation is resulting in the widening the trade gap because measures of export promotion have not shown a sustained high growth trend. (Datt, 1995)

Export performance was an important cause of growth in India. Exports may have contributed to economic growth in India directly by relieving severe import constraints, especially in vital capital goods industries. Indirectly, exports may have caused the balance of payment situation and relieved the Indian government, of the necessity of perusing deflationary policies and undertaking difficult structural adjustment programms such as those undertaken by many developing countries in response to the trade shocks of the 1970s and 1980s. (Raju & Kurien 2005).

1.6 RESEARCH GAP AND EXPECTED CONTRIBUTION

Many works have so far been done on the issue of India's trade performance in the context of liberalisation, privatisation and globalisation. But little was done on the welfare effect of trade in the context of liberalisation and globalisation process. What is new in this research investigation is that we would try to calculate the welfare effect of trade on consumption and production and the well being of the common masses.

1.7: AN OVERVIEW

The second chapter discusses in brief the trade performances of India starting from pre-independent India. It also analyses the trade performance in the post-independent period up to 1990 along with government policies on trade before and after independence. Chapter III is about new economic policy and trade liberalisation in the Indian context. A global perspective of trade liberalisation and globalisation has also been discussed in brief. A detailed analysis of our trade performance during reformed regime has been done in chapter IV highlighting the main features of new trade policies. Chapter V deals with how welfare effect of trade is being measured. Some measures of well-being of India such as net state domestic product and per capita NSDP have been thoroughly discussed. Chapter VI deals with the vital issue of predicting the future prospects of India's trade. In chapter VII summary, conclusions and recommendations are made.

REFERENCES:

Banik, N. (2001), "An Analysis of India's Exports during the 1990s" Economic and political weekly, November 3.

Bhuimali, A. and Bimal Sarkar (2004), "India's Trade Performance in the Post-Liberalisation Era" Indian Journal of Social and Economic Policy, Vol. 1, No. 1, p. (117-125).

Bodla, B. S. and Usha Bahati (2004), "FDI: Emerging Scenario" Yojana October.

Brahmananda, P. K. (1997), "Factor Mobility, Globalisation, Multi-National Corporations, Convergence and the Consequent Revolution in International Trade Policy". The Indian Economic Journal Vol. 44 No. 3.

Chand, R. (1999), "Liberalisation of Agricultural Trade and Net Social Welfare, A Study of Selected Crops" Economic and Political Weekly, December 25.

Chitre, Vikas (2003), "Global Slow down and the Indian Economy" Economic and Political Weekly May 24.

Datt, R. (1995), "New Economic Reforms – Need for Some Rethinking" The Economic Journal Vol. 42, No. 3.

Devereux, M. B. (1997), "Growth, Specialisation and Trade Liberalisation" International Economic Review Vol. 38, No. 3.

Dholakia, R. H. and Deepak Kapur (2001), "Economic Reforms and Trade Performance Private Corporate Sector in India" Economic and Political Weekly, December 8.

Ghemawat, P. and M. Patibandla (1998), "India's Export since the Reforms" Economic and Political Weekly, May 16.

Greenway, D.A. and C. H. Nam (1988), "Industrialisation and Macroeconomic Performance in Developing Countries under Alternative Trade Strategies" KYKLOS, Vol. 41, Fase-3.

Kalamkar, S.S. (2003), "Liberalisation and India's Horticultural Export" Economic Affair, Vol. 48, Qr. 4, December.

Kathuria, S (1996), "Export Incentives: The Impact of Recent Policy Changes in India" Indian Economic Review. Vol. XXXI, No. 1, p 109-126.

Kumar, N. (1998), "Liberalisation and Changing patterns of Foreign Direct Investments: Has India's Relative Attractiveness as a Host of FDI Improved?" Economic and Political Weekly, May 30.

Majumdar, S. and P. Chhibber (1998), "Are Liberal Foreign Investment Policies Good for India" – Economic and Political Weekly, February 7.

Mani, S. (1991), "External Liberalisation and Import Dependence A Note" Economic and Political Weekly, July 6-13.

Rajput, J. (2001), "Globalisation and Emerging Trends of Industrial Development" Yojana, March.

Raju, S.S. and Jacob Kurien (2005), "Exports and Economic Growth in India; Co integration, Causality and Error-correction Modeling : A Note" Indian Journal of Economics and Business Vol. 4 No1. (209-219).

Ray, S. (2004), "MNEs Strategic Alliances and Efficiency of Firms, Emerging Trends" – Economic and Political Weekly, January 31.

Sen, R. K. (2003-04), "Globalisation and Indian Economic Thinking in the Past and Their Relevance in the Present and Future" Indian Economic Journal Vol. 51, No. 2.

Shandilya, T. K. (2003), "Globalisation: Challenges Ahead and Implications for India" Economic Affair, Vol. 48, Qr. 4. December.

Shome, P. and H. Mukhopadhyay (1998), "Economic Liberalisation of the 1990s, Stabilisation and Structural Aspects and Sustainability of Results" Economic and Political Weekly, July 18.

Sirdharthan, (2004), "Globalisation Productivity, Efficiency and Growth. An Overview" Economic and Political Weekly, January 31.

Siddharthan, N. S. and K Lal (2003), "Liberalisation and Growth of Firms in India "Economic and Political Weekly, May 17.

Singh, B.N.P. (1992), "Problems of India's Export Promotion: An Anxiety for Social Scientist" Economic Affairs, Vol. 37, Qr. 1.

Sukla, A. (2001), "Impact of Import Liberalisation on Export Performance of Indian Economy" Economic Affair, Vol. 46, Qr. 4.

Vermani, A. (2003), "India's External Reforms; Modest Globalisation, Significant Gains" Economic and Political weekly, August 9.

Vyas (2002), "Globalisation: Hopes, Realities and Coping Strategy" Economic and political weekly, March 23.

Chapter II

A BRIEF ANALYSIS OF INDIA'S TRADE PERFORMANCE IN PRE-LIBERALISATION ERA

2.1 INTRODUCTION

Before the British rule in India, its foreign trade was in a prosperous state. In terms of volume of trade and the items of goods entering into trading list, it was better placed compared to other countries of similar status. India's image in the world as a core trade partner that India maintained for centuries had been shattered during the British rule. At the time of independence, India was left with massive poverty, rampant unemployment and unfavourable trade balance. To overcome those unfortunate conditions economic planning was adopted in the beginning of 1950s. Since first five year plan tried to improve its adverse balance of payment situations. This part of the dissertation discusses India's trade performance during the independent period and the panning period up to 1990, i.e. just before the advent of new economic policy introduced in 1991 July. Government trade policies during the pre independent period (starting from 1757) and the post independent period, especially up to 1990 have been elaborately analysed. A review of India's trade pattern during the period under study has been made extensively.

2.2 GOVERNMENT POLICY OF TRADE BEFORE INDEPENDENCE

In order to meet the unilateral transfer of payments to Britain in the form of salaries and pensions of British officer (civil and military), interest on sterling loans and dividends on British capital, which was invested in India, before the Second World War, India was forced to export more and import less. The nature of India's international trade was changed during the Second World War. India began to export large quantities of goods to Britain but in return Britain did not permit her to export to India adequate quantities of goods due to engagement of Britain in War. The feature of India's foreign trade was to export more and import less helped the growth of a favourable balance of trade. Britain was the main customer of Indian goods and the trade balance with Britain was so favourable that even after paying off the sterling debt, India was able to build huge sterling balance amounting Rs.1733 crore in April 1946 [Datt and Sundharam (2005)], In India the growth of consumer goods industries was facilitated as War afforded a natural shed of protection. A vacuum was also created in the Middle East and Far East countries and as a result India was able to develop market in these countries for her manufactures and import raw materials, which were requited to her growing consumer goods industries.

Trade Policy after Independence

The policy of more than four decades of planning was characterised by -

(1) The passive export regime of the 1950s (especially the period of 1956-62)

(2) Export subsidisation regime (1962-66).

(3) An abortive attempt at liberalisation (1966-68).

(4) More restrictive regime (1968-75).

(5) The subsequent regime with selective relaxation of controls (1975-85).

(6) More systematic approach toward liberalisation (1985-91)

(7) The paradigm shift and adoption of a comprehensive structural adjustment programme with more liberalised trade regime (July 1991, onwards)

These trade regimes are grouped into three broad phases, namely,

(a) The pre-liberalisation phase (1950-1965)

(b) The first liberalisation and the transition phase (1966-1990)

(c) The second liberalisation and the recovery phase (1991 onwards).

The 1950s sluggish export performance attracted considerable debate and it was explained in terms of "export pessimism" thesis and certain constraints. Prebisch (1959) and Singer (1950) propounded the export pessimism thesis, with some analogous explanation in Nurkse (1954). They provide the theoretical and generalised argument in favour of developing countries poor performance of exports. The Prebisch-Singer thesis states that steady and long run deterioration of the terms of trade occurs due to low income and price elasticities of demand for primary commodities. As a result of low elasticity of demand, the increased supplies lead to a reduction in the prices of primary commodities relative to the prices of manufactured goods imported by the developing countries. India exported mainly primary commodities and imported manufactured goods, which was required by the development strategy of second plan.

The "export pessimism" thesis was theoretically found but practically unfound with quite substantial growth in world trade. According to Bhagwati (1988, 1990) the growth of world trade was not rapid during the 1950s and 1960s; it was even faster than that

of world income. During 1953-63, the world trade grew at an annual average rate of 6.5 percent while the world output increased at the rate 4.3 percent per annum.

In the late 1950s or early 1960s the Prebisch–Singer (and Nurkse) thesis came into vogue and accordingly it was used as the course of post-facto justification for the failure of India's exports to complete in the world market [Krueger (1961) and Cairn Cross (1962) are the leading critics of export pessimist thesis]. According to Bhagwati and Desai (1970) export pessimism was an export rationalisation of inward looking development strategy of the second plan. Inward looking development strategy is also known as import-substitution development strategies. These policies seek to promote rapid industrialisation and therefore development by erecting high barriers to foreign goods to encourage local production. Ideally, this approach to development applies the infant industry argument for protection to one or more targeted industries in developing countries. During the 1950s and 1960s and also including the early 1970s many countries switched to outward oriented trade policy framework so as to exploit the growing trade opportunities. These policies involve government targeting of sector in which the country has potential comparative advantage. Thus, if a country is well endowed with low-skilled labour, the government would encourage the development of labour intensive industries in the hope of promoting exports of these products. This type of strategy included government policies such as keeping relatively open markets so that internal prices reflect world prices, marinating an undervalued exchange rate so that export prices remain competitive in world market, and imposing only minimal government interference on factor markets so that wages and rents reflect true scarcity. However, India persisted with its import substitution policies and missed on the growing trade opportunities.

During 1950s, the poor export performance was mainly due to the lack of good quality product, lack of trade policy framework conducive to trade and the domestic demands pressures (Singh 1964, Bhagwati and Desai 1970). Singh's (1964) analysis was further extended by Bhagwati and Desai (1970) and concluded that the stagnation of export earnings during the 1950s (except for a few items like iron ore) is to be largely attributed to domestic policies and as a result India's share in traditional exports were falling which led to an inadequate expansion of new products in the absence of any export promotion measures. Moreover, the self-sufficiency measure of trade policy laid an increasing and single sided stress on import substitution rather than export promotion during the 1950s.

The evidence from statistical data of domestic policy bias in favour of production of the domestic rather than the export market which is provided by the estimate of purchasing power parity effective exchange rules (PPP-EER) for imports and exports, as constructed by Bhagwati and Srinivasan (1975) for 1950 to 1971, Wolf (1982) for 1971-72 to 1979-80 and Balusubramanyam and Basu (1990) for 1981-86. The excess of PPP-EER for imports over exports indicates the excess of number of rupees earned by producing import substitutes over that earned by producing export goods. During the subsequent period of 1950s ratio of EER for exports was more than unity, which indicate a policy induced anti export bias. This provides a statistical evidence for policy discrimination against exports and in favour of production for domestic market anti export bias.

The deterioration in trade balance and balance of payments give rise to import intensive industrialisation with stagnant exports in 1950s, which led to a policy shift in favour of export subsidisation and accordingly the institution of additional export

promotion scheme so as to redress the anti-export policy bias during the subsequent period of the 1960s.

First Liberalisation and the Transition Phase (1966-90)

The second half of the 1960s witnessed still more significant policy development market by the devaluation of Rupee on June 6, 1966 (by 57.6 percent from Rupees 4.76 to 7.50 percent US dollars.) Various policy reforms namely the removal of a number of cash subsidy schemes for exports, abolition of import entitlement schemes and the reduction in import duties was accompanied with the devaluation so as to streamline the existing complex network of export incentive. Besides the countervailing export duties were imposed on a number of traditional export goods in which India was deemed to have a monopoly power with a view to offset the effects of devaluation on traditional exports of low price elasticities of demand in the international market. The attempt to reforms and liberalise the economic system was first introduced by the devaluation package of June 1966.

The effects of rupee devaluation not totally but partially offset by impositions of countervailing duties on import entitlement and other subsides on various non-traditional exports. The net effective devaluation was estimated by Bhagwati and Srinivasan (1975) and argued, "*The total net devaluation on the (visible) trade account therefore may be approximated as amounting to 21.6 for export and 42.3 for imports. For the entire current account (including invisible) the estimates are: 22.3 percent for receipts and 44.8 percent for payment*" (Bhagwati and Srinivasan 1975).

The commodity wise account of the estimates of net devaluation for exports was provided by Nayyar (1976) and finds that the de-facto devaluation for most traditional exports are

reduced due to imposition of export duties to a range of 15 percent to 25 percent as against the de-jure devaluation of 57.6 percent. The removal of export subsidies causes the contraction in the effects of gross devaluation and imposition of import tariff in-built in the reform package was further accentuated by the rising domestic inflation which gave rise to two consecutive droughts (1965, 1960). As a result of droughts there was recession in agro based industries due to shortage of raw materials and resulted in a price rise with adverse effects on traditional exports. The external sectors were under substantial pressure of suspension and aid (1965). As a result of severe shortage of foreign exchange there was a rise in premium on import entitlements (abolished in 1966) and in many cases it reached as high as 100 percent.

The liberalisation reforms of 1966 were short lived and could not sustain due to these circumstantial setbacks along with the reduced net effective devaluation. The removal of export subsidies and the reduction of import tariff (duties) could not be resisted and were soon reintroduced in a formulated manner along with the subsequent addition of some more schemes which gave emphasis on the promotion of non traditional exports. These schemes included the (i) Cash assistance schemes (August, 1966), (ii) Import replenishment schemes (August, 1966), (iii) Duty drawback schemes and (iv) Preferential import licensing scheme (April 1468). To measure the degree of effective export incentives Bhagwati and Srinivasan (1975) estimate the range of effective equivalent export subsides resulting from various schemes. These estimates indicate that devaluation of the export incentives averaged around 50 percent to 90 percent on an advalorem basis for non traditional export groups including engineering goods, chemicals, plastic sports goods, paper products and processed food.

During 1960s all these incentive schemes helped to diversify the export structure in favour of non-traditional items and encouraged the growth of real exports of break way from the stagnation of the 1950s. In the 1960s the real exports recorded 3.3 percent growth rate. In the commodity-wise analysis of India's export in the 1960s, Nayyar (1976) finds that the exports of engineering goods grew very rapidly. India's performance was quite well, compared with other developing countries, for a period of nearly 5 to 10 years many of the engineering firms were characterised by foreign collaboration agreements with restrictive clauses for export. Unfettered exports could have better performance in the absence of these collaboration agreements. Frankena (1972) finds that discrimination against exports by foreign collaborators was a significant export barrier by analysing various restrictions on exports by foreign investors.

The traditional exports are largely ignored by substitution schemes and focused on the non-traditional exports and within the non-traditional export group, mainly on a more narrow range of engineering good, plastic, chemicals, sports goods, paper products and processed foods. According to Nayyar (1976) on a small range of non-traditional manufacture exports, subsidisation was concentrated, so that new and dynamic exports were not developed. The benefits of various subsidisation in terms of departure from stagnation in the 1950s were quite disappropriate to the heavy cost which involved the diversification of domestic resources with heavy opportunity cost.

Krueger (1970) estimated and analysed the domestic resource cost of various subsidisation programmes for thirty four firms, Staelin (1974) for thirty- two sectors and Bhagwati and Srinivasan (1975) for sixty- five sectors. The general conclusion of their studies is that the subsidisation and export incentives schemes involved

substantial costs in terms of use of domestic resources. Bhagwati and Srinivasan (1975) argued that export promotion policies were not efficiently designed and implemented with little economic rationale. The cost of export incentives and subsidies paid to the exporters was not only high, but was also quite disproportionate to their foreign exchange earnings. The rate of cash subsidies paid to the exporters as a percentage of f.o.b value of the exports. These were characterised by the little relation to the estimated rates required to bridge the gap between export prices and domestic costs. The domestic costs were less than the f.o.b prices and the subsidies were provided on such goods in many cases.

In the late 1970s there arose new thinking and debate on the need for experimentation with market forces and change in inward-oriented policy regime. The Government of India instituted three consecutive committees to review and suggest measures to reform the existing trade policy frame work. These committees included the Alexander Committee (1978), the Dagli committee (1979) and the Tandon committee (1980).

The recommendation of Alexander committee were: (i) modification in the methods of computing cash assistance, (ii) amalgamation of cash assistance with duty drawback for the products with the combined rule was less than 25 percent and (iii) the simplification of import licensing system as well as the reduction in the role of licensing system. The removal of anomalies embedded in the administration of subsidies was recommended by Dagli committee (1979). Tandon committee (1980) gave emphasis of the efficiency aspect of exports.

With the simplification of the licensing system and relaxation of some quantitative controls on imports the efforts for domestic deregulation continued in a slow but steady manner. Many import items of intermediate goods required for domestic production were

shifted from restricted list to the easily importable Open General License (OGL) list. Some of the forward steps toward market oriented economy were initiated. Higher tariff rates were associated with some of the items which were shifted from restricted to OGL list. To examine the trade policy framework, two more consecutive committees namely the Hussian committee (1984) and the Narasimham Committee (1985) were instituted by the Government of India. A phased reduction of effective protection and harmonisation between trade and other economic policies was recommended by Hussian Committee (1984) where as Narasimham committee recommended not encouraging that import substitution activities which do not save foreign exchange.

2.3 A REVIEW OF INDIA'S TRADE DURING PRE AND POST INDEPENDENT INDIA UP TO 1990s.

2.3.1 FOREIGN TRADE DURING 1757-1857

Long before 1500 B.C. Indians were carrying out business in fabrics (woven fabrics), metal artisans work, stones etc. with West Asia and beyond. This statement was established by the archeological excavations during 1920-30 at Mahenjodaro and Harappa as well as at Rangpur in Gujarat.

It was still after the Europeans came to India in recent centuries. In the 15th and 16th centuries, most of the explorations were inspired by a severe desire to acquire direct control of the profitable trade with India which was then controlled by the Arabs. Vasco da gama discovered the sea-route to India via Cape of Good Hope. The Dutch, the Portuguese and the British were earned profit in their early trade with India.

The chief article of export in the whole world including England was textiles.15,000 pieces of Calicoes were annually

exported from Hoogly (India) to England between 1658-1664 which rose to 91,000 pieces between 1673-78.Alternatively, England imported 0.95 million of Calicos and 0.11 pieces of Bengal Silk from India in the year 1700. Besides, India exported other articles, which includes indigo, cotton yarn, opium, marble, precious stones, iron and steel, and rice. The imported items mainly consisted of articles of luxury meant for the rich.

The most part of India came under British control in the later part of 18th century. At the same time, Industrial Revolution takes place in England. British productive powers stimulated with great speed with the new method of manufacture and tremendous development in transport, mining and banking sector. As a result, India returns from an enterprising commercial nation to a docile country that gently supplies new materials to her rulers and readily purchasing articles, which she herself could have manufactured. As a result, India deteriorated and England improved from an agricultural country to industrial and commercial country. These two opposite trends are rapid and highly connected. British control and prosperity causes India's deterioration.

According to Palme Dutt, "*The value of goods exported from India fell from Rs. 1.30 crore to below Rs.10 lakh- a decline of 12/13 of the trade while the value of English piece goods imported into India rose by 16 times from Rs.2.6 lakh to Rs.40 lakh. By 1950, India which had for centuries, exported cotton goods to the world was importing one forth of all British exports- the same process could be traced in respect of silk goods, woolen goods, iron, pottery, glass and paper.*"

At that time, the value of trade was not large. It was just Rs.2.5 crore in 1813 and even so as 1834, directly after the close of the company's operations, it amounted to not more than Rs.14.3 crore. In 1857, it was Rs.54.2 crore.

The composition of foreign trade was totally changed during this period. India's chief exports were indigo, salt-petre and manufactures of fine quality, cotton and silk piece goods at the beginning of the 19th century. India's main export goods were raw-cotton, raw silk, raw wools, grains, sugar, indigo and jute and her main import items were cotton, silk, and woolen goods, machinery and metal manufactures.

Because of her political domination of India and being the great carrier of the world, the U.K. placed a monopoly of all the European trade with India. Half of the entire trade of India was with Great Britain. The other countries were China, Ceylon, Persia and other Asiatic regions.

At that time exports always exceeded imports except for the year 1856-67 due to Indian Mutiny, India had an adverse balance of trade. The export surplus was Rs.2 crore in 1834-35, which increased to Rs. 5.5 crore in 1855.

2.3.2 FOREIGN TRADE DURING 1857-1914

The most striking feature of this period was the steady growth both in volume and value of trade. There was not uniform expansion of trade. At the time of American Civil War, the exports of raw cotton were greatly increased. Due to frequent famines at different parts of India the trade development was comparatively slow between 1873 and the end of the century. There was also violent fluctuation in the exchange value of the rupee. Further there was more rapid expansion during the first 14 years of the 20th century when the value of foreign trade more than doubled from Rs.213.27 crore in 1900 to Rs.440.31 crore in 1913-1914.

At that time, with the decline of the indigenous industries, India was obliged to imports consumer goods. There were also the imports of capital for construction of railways, irrigation works and private investments in Plantation, Commerce and Industrial Enterprises like jute manufacture. The government had to pay Home Charge' to England. As a result, it was necessary to create surplus to agricultural product, which was the only source for earning foreign exchange. So, at that time, the main exports goods were agricultural commodities like raw materials and foodstuffs. Cotton textile once which was the largest export items of India's export now turned the largest share of India's imports and their value having risen from Rs.9.6 crore in 1859-60 to about Rs.49 crore for the quinquennium 1909-10 to 1913-1914.

Exports indicated a general up-trend despite the yearly fluctuations depending upon the foreign demand for the Indian agricultural produce and climatic condition in the country. During 1864-65, there was abnormal demand for raw cotton in Lancashire. As a result, speculations increase in case of export of raw cotton. But at the end of the Civil War these exports fell off to a low level and recovered again as a result of discovery of new market on the continent and Japan. After the Crimean War, the exports of raw jute began on a large scale but cut off due to supply of Russian flux and hemp. Exports of indigo and opium suffered a severe decline.

The export of food - grains rose from Rs 3.6 crore to Rs.22.2 crore during this period. Total quantity of food-grains exported from the country increased from a little under 0.65 millions tons in 1967-68 to an annual average of 4.4 million tons in the quinqunnium 1909-1910 to 1913-1914.

The bulk of India's foreign trade consisted of exports to or imports from England, the share of other countries were negligible. In 1875-76 the U.K.'s share in India's foreign trade was 62 percent,

which was continuously declined thereafter, and in 1913-14 it was 41 percent. If we take imports and exports separately, we find that in 1875-76, more than 83 percent of the total imports came from the U.K., which was declined to 64.2 percent in 1913-14. In exports, the share of the U.K declined from 48 percent in1875-76 to 23.5 in 1913-14.

A feature of India's trade during this period was that the increase in exports was more marked than the increase in imports and that with expanding trade, the gap between exports and imports also kept widening. It was only Rs.20 crore in 1865 but rose to Rs.57 crore by 1913-14.

2.3.3 FOREIGN TRADE DURING 1914-1919

Due to First World War, India's foreign trade was adversely affected. Calculated at 1913-14 prices, the overall average value of India's foreign trade was reduced to 60 percent by 1918. Both the exports and imports were adversely affected but the decline in imports was more serious. Decline of exports was fluctuating. In the early years of the war it suffered but in 1916-17 it recovered and again decline in the last two years of the war. It is evident from fact that the value of imports calculated in 1913-14prices declined from Rs.183.25 crore in 1913-14 to Rs. 63 crore in 1918-19 while exports came down from Rs.244.20 crore to Rs.159.55 crore in the same period. This is shown in Table 2.1 and Figure 1.

Table 2.1 India's Foreign Trade in Merchandise Excluding Import and Export Of Bullion:

Year	Imports At 1913-14 prices (Rs. crore)	Exports At 1913-14 prices (Rs. crore)	Balance of Trade (Rs. crore)
1913-14	183.25	244.2	60.95
1914-15	137.23	194.95	57.72
1915-16	104.75	186.95	82.2
1916-17	88.02	202.65	114.63
1917-18	71.28	186.75	115.47
1918-19	63.07	159.55	96.48

Source: Review of the trade of India 1927-28.

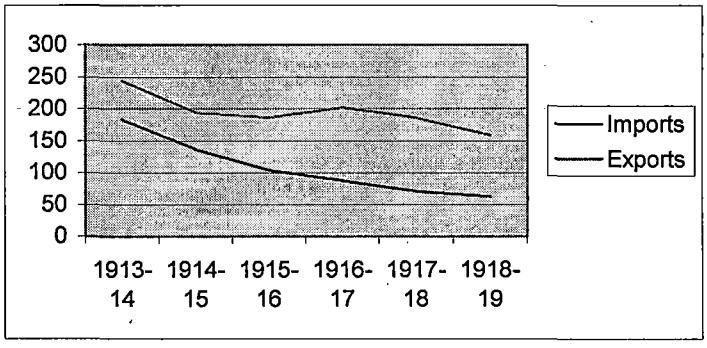

Fig. 1: India's Balance of Trade during 1913-14 to 1918-19

During the war, India's chief exports were cotton, jute, oil seeds, hides and skins, jute and cotton manufactures, food grains, tea, tobacco, and ammunition and imports were cotton, raw twist yarn and piece goods, sugar, petroleum, chemicals and drugs, silk-raw and manufactured, Iron and steel, machinery, railway plant and hardware. Group wise, the percentage share of manufactured articles in our imports decline from 73 percent before the war and their share of exports increased from 23 percent to 31 percent. Share of raw material fell from 46 percent to 38 percent of export. The percentage share of various commodities in exports and imports are shown in Table 2.2.

Table 2.2: Percentage Share of Various Commodities in Exports and Imports.

Commodity	Imports		Exports	
	1909-10 to 1913-14	1914-15 to 1918-19	1909-10 to 1913-14	1914-15 to 1918-19
1. Food, Drink and Tobacco	14	16	28	27
2. Raw materials	6	5	46	38
3. Articles, wholly or mainly manufactured.	73	68	23	31

Source: Calculated on the basis of data given in Fiscal Commission 1921-22 Report, p: 18.

Due to artificial canalisation of foreign trade of India, the share of the U.K. increased from 53 percent to 57 percent during the war (Merchandise only). Due to pre occupation with the war effort, the share of the U.K. in India's imports slightly declined but she still retained our principal supplier- supplying more than 56.5 percent of our imports. The share of exports increased from 25.1 percent to 31 percent during the same period. The next two countries were the U.S.A. and Japan. The share of the U.S.A increased from 6 percent to 10 percent while the share of Japan rose from 5.5 percent before to 11 percent during the war.

Table 2.3: Percentage Share of the Principal Countries in the Total Trade in Merchandise only

Countries	Average of five years 1909-10 to 1913-1914			Average of five years 1913-14 to 1918-19		
	Imports	Exports including re- exports	Total	Imports	Exports including re- exports	Total
1. The British Empire including the U.K.	69.8	41.9	52.9	65.4	51.7	57.1
2. Japan	2.5	7.5	5.5	10.4	11.2	10.9
3. U.S.A	3.1	7.5	5.8	7.0	11.9	9.9
4. Java	6.4	1.3	3.3	7.8	1.1	3.8
5. France	1.5	6.6	4.6	1.8	4.5	3.2
6. Germany	6.4	10.0	8.6	0.7	0.9	0.8
7. Italy	1.6	3.2	2.3	1.2	3.9	2.8
8. Austria - Hungary	2.2	3.5	2.9	0.2	0.4	0.3

Source: Indian Fiscal Commission, 1921-22, Report, p.212

There was a favorable balance of trade as a result of persistence demand on the part of the Allies for goods of national importance and with the decline of imports of sugar, salt, kerosene and 101 necessary commodities. During the pre war years merchandise exports exceeded imports, on an average, by 51 percent whereas, the exceeded, on an average, by only 52 percent during the war. Thus there was only marginal favorable turn except for the years 1916-18 when the export surplus was substantial.

Table 2.4: India's Balance of Trade in Merchandise Excluding Bullion

Year	Amount
1913-14	+57.70 crore
1914-15	+37.24 crore
1915-16	+61.31 crore
1916-17	+87.11 crore
1917-18	+80.55 crore
1918-19	+86.61 crore
Average of War Years	+70.50 crore

Source: Review of the Trade of India, 1927-28, p-1

2.3.4 FOREIGN TRADE DURING THE INTER-WAR PERIOD

At the end of the war, there was a gradual removal of many wartime restrictions on exports and there was also normal trade relation with the enemy countries. In western countries there was brisk demand for Indian Goods. India's foreign trade value rises from Rs.377.15 crore for the quinqunnium 1914-15 to 1918-19 to Rs. 566.68 crore in 1919-20 and Rs. 595 crore in 1920-21, which led to a boom in India's foreign trade. But this was a temporary phase and soon the tided turned. That is prices began to fall, exports fell and exchange landed downward. After 1922-23, there was a gradual recovery especially on the export side, because of the progressive stabilisation of the European currencies and a general improvement in their credit position. Both the value and volume of export reach their peak in 1924-25 as a result of plentiful harvest and high export prices. Due to fall in world prices of agricultural commodities our value of export began to fall after 1924-25. As a result of Great Depression, India's imports fell from Rs. 240 crore in the quinqunnium 1925-26 to 1929-30 to Rs.134 crore in 1930-31 to 1934-35. Exports declined from Rs.327 crore to Rs.161 crore during the same period.

At the end of 1932 the worst phase of the Depression came and at the beginning of 1933 there was a considerable revival of business activity. The inter war period was one of great stress and strain. Other countries adopted suitable commercial and currency policies to protect them. India's political status was so that it first protect the 'mother' country's (i.e. England) interest. As a result, India's share in world exports declined from 3.7 in 1928 to 2.9 in 1938.

Table 2.5: Value of India's Imports and Exports, 1914-15 to 1939-40.

Quinqunnial Average	Value in crore	
Year	Import	Export
1914-15 to 1918-19	159.25	217.89
1920-21 to 1924-25	261.78	300.81
1925-26 to 1929-30	240.29	327.27
1930-31 to 1934-35	134.28	161.33
1935-36 to1939-40	150.21	180.86

Source : Indian Fiscal Commission, 1949-50 p-41

According to Ganguly, "*Experience shows that when other countries in a relatively early stage of economic development make industrial progress, imports of raw materials and partly manufactured goods increase while exports of crude materials and foodstuffs decrease in relative importance. At the same time, there is a decrease in the relative significance of manufactured imports and an increase in the relative importance of manufactured exports. When industrial development is stimulated by the tariff protection, such a shift in the composition of the import trade becomes more pronounced.*" These tendencies were broadly reflected in the composition of the inter war period of trade.

The overall share of consumer goods in our imports declined from 54 percent in 1925-26 to 33 percent in 1938-39 but the overall share of raw materials increased from 15.6 percent to 28.4 percent and share of capital goods from 23.2 percent to 26 percent. Exports were consisted of raw materials, which belonged half of the share, and the rest belonged in about equal portions to the food and manufactures groups. There were appreciable changes in the shares of the three groups of exports. In the food groups main items were food grains, pulses and flour. In the raw materials group, raw cotton was the largest item. Cotton and jute were two most important exports in the category of manufactures. Other Important

items were leather and dressed hides and skins. Due to increase in competition and rise of substitute, exports of raw and manufactured silk, cotton twist and yarn, and Indigo suffered a decline.

In the direction of trade, there was a steady change in the inter war period. The share of common wealth in imports fell from nearly 23 percent to 54 percent but other countries rose from 35 percent to 45 percent during 1924-25 to 1935-40. Even during the depression, Japan increased its share; Germany also made an equal gain. But the United States of America (U.S.A.), which had earlier increased its share from 5.7 percent to 9.3 percent, suffered a decline. Java lost heavily in sugar.

In the inter war period there was also significant changes in India's balance of trade due to fluctuations in exports receipts. In 1924-25, India's exports were Rs.400 crore. But during 1930-31 to 1932-33, the quantum index of exports heaving declined and their value came down to Rs.132 crore in 1932-33. In 1936-37, there was a recovery to Rs. 202 crore, was followed by a heavy decline due to recession. The size of the export surplus was thus varying but from 1928-29 onward, it started declining till it touched the rock bottom of a bare of Rs. 3 crore in 1932-33 and Rs. 5 cores in 1935-36.

Table 2.6: Balance of Trade

Period	Amount of Surplus (in rupees)
1914-15 to1918-19	+58.64 crore
1920-21 to 1924-25	+39.03 crore
1925-26 to 1929-30	+88.98 crore
1930-31 to 1934 to 35	+27.05 crore
1935-36 to 1939-40	+30.65 crore

Source: Indian Fiscal Commission, 1949-50,p-41.

2.3.5 INDIA'S FOREIGN TRADE DURING THE WORLD WAR II

With the outbreak of the war in September 1939 and its extension in scope and intensity, a number of factors affecting the volume, value, composition and direction of India's foreign trade were brought into play.

Due to war there was a decline in the volume of trade. On account of the pre occupation of the exporting countries with the war effort, restricting of shipping space, increasing incidence of freight and war-risk insurance and the cutting off of the large supplies of imported goods from some of the enemy countries, the machinery import controls the volume of imports was reduced to the minimum. Due to the loss of the continental markets and an acute shortage of shipping space of the quantum of exports also declined and these hampered export even to the U.K. Imposition of export restriction in Indian and the loss of Burma and Far Eastern market, the volume of exports accounted to decline. In 1944-45 the quantum of exports stood at 53 percent of that in 1938-39.The quantum of imports was reduced to only 40 percent in 1943-48 but increased to 71 percent in 1944-45 as a result of heavy imports in the year. It is worthwhile noting that the quantum of imports fell much more rapidly than the quantum of export during the whole period of the war excepting 1944-45.

The value of foreign trade increased during the whole period of the war. The total value of merchandise trade rose from Rs. 385 crore to Rs. 459 crore. On the whole, the recorded value of imports and exports in 1944-45 showed an increase of 34 percent and 35 percent respectively over that of 1938-39.

There were no significant changes in the composition of trade. On the export side the proportion of raw materials declines and the proportion of manufactured articles rose. On the import side, the

proportion of raw materials increased and manufactured articles declined. Exports of manufactures increased from 30 percent to 47 percent and raw materials declined from 45 percent to 28 percent. In case of imports the trend was opposite. The share of manufactures declined from 61 percent to 41 percent but raw materials increased from 22 percent to 48 percent in 1945-46.

Throughout the period commodity wise exports of tea and jute manufactures continued to increase. In the fore war period exports of raw jute and oil seeds were showing increase but due to the German occupation of the central European countries where India had a good market declined substantially. Exports of short stable cotton declined because of stoppage of supplies to Japan. Exports of cotton cloth and yarn increased due to the withdrawal of British and Japanese supplies from Middle East countries and Africa. As a result of protection, there was a continuous decline in the imports of cotton yarn and manufactures, sugar, cement, matches and other consumer goods. On the other hand, imports of mineral oil, chemicals, dyes and colour increased throughout the war period.

Table 2.7: Changes in Composition, Percent Changes.

Import	1938-39	1945-46
1. Food, Drink and Tobacco	15	9
2. Raw- materials	22	48
3. Manufactured, wholly or mainly	61	41
4. Postal articles not specified	2	2

Exports	1938-39	1945-46
1. Food, Drink and Tobacco	14	23
2. Raw- materials	45	28
3. Manufactured, wholly or mainly	30	47
4. Postal articles not specified	1	2

Source: Evidence of the National Steamship Owners Association, Bombay, before the Fiscal Commission, 1949-50, vol. III.

The direction of trade also changed in the wartime. Several countries fell, one after another, under German occupation and were lost as market to India. As a result of relative decline in long distance traffic, acute shipping shortage and insecurity of many sea-lanes and also a corresponding improvement in our trade relation with nearby counties like Egypt, Iran, Saudi Arabia, Iraq, Kenya, Australia etc. their share in our import improved from 12.5 percent in 1938-39 to 45 percent in 1944-45 and in our export from 8 percent to 20 percent. The share of the U.S. also increased from 8.4 percent to 21.2 percent in exports and from 6.4 percent to 25.7 percent in imports. Although England's share both in import and export declined, yet the overall share of British Empire remained unaltered by the wartime trade. India's exports to their area increased from 50.4 percent in 1935-40 to 64.3 percent in 1940-45 and imports fell from 53.8 percent to 51.5 percent during the same time.

Table 2.8: Direction of Trade, Percentage Share.

Year	Exports to Commonwealth	Other Countries	Imports from Commonwealth	Other Countries
1935-40	50.4	49.6	53.8	46.2
1940-45	64.3	35.7	51.5	48.5

Source: Fiscal Commission Report, 1949-50, vol. I, p: 42

India's balance of trade was traditionally favourable, war only made it more so. England, engaged as it was in a life and death struggle with Germany, was no more in a position to meet India's needs. And so were the Allied countries. Their exports to India declined. The Allied powers needed almost everything that India could produce and export to help their war effort. So, at the end of the war, our trade balance began to grow. India had not only

liquidated her external debt amounting $ 320 million but also accumulated a large sterling balance worth Rs.1733 crore by April 1946.

2.3.6 FOREIGN TRADE DURING 1951-1966:

The launching of the first five year plan brought in its wake, important change both in foreign trade and trade policy. Foreign trade was no longer a conduit pipe for ciphoning the surplus from India to Britain; rather it served as a pipeline for the inflow of capital resources from abroad and reflected the impact of development plants on the economic structure of the country. That is why it shows important changes in regard to its volume, value, composition, direction and balance.

The first (1st) significant change was with regard to the volume of trade. During 1950-51 to 1965-66 the quantum index of import rose from 100 to 202 and exports increased from 100 to 118. This increase in the volume of trade was a reflection of the tempo of the economic and industrial development in the country.

The value of trade during this period increased. India's total visible trade amounted to Rs. 125 crore in 1950-51 but in 1965-66 it rose to Rs. 2214.17 crore, i.e. an amount increase of about 77 percent. In absolute term this increase is impressive but in relative term, it was insignificant. India's share in world trade came to 2.2 percent in 1951 but in 1966 it declined to a mere 0.8 percent. The expansion in India's trade was disappointing. In 1951-52, imports, as a percent of Gross National Product (GNP), stood at 13.7 but declined to 9.2 in 1965-66 while exports fell from 11 to 5.3 during the same period. Table 2.9 and Figure 2 show the foreign trade of India during 1950-51, 1955-56, 1960-61 and 1965-66.

Table 2.9: Foreign Trade of India.

Year	Imports	Exports including re- exports	Total value of Foreign Trade	Balance of trade
1950-51	650.21	600.64	1250.85	-49.57
1955-56	678.84	544.32	1275.16	-82.52
1960-61	1139.69	660.22	1799.91	-479.47
1965-66	1408.53	805.64	2214.17	-602.89

Source: India, 1970 p: 366.

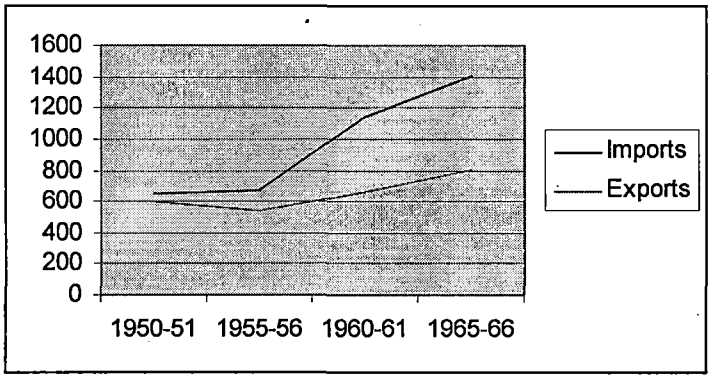

Fig. 2: India's Balance of Trade during 1950-51 to 1965-66

As was to be expected, the plans led to the stepping up of the total foreign trade of the country, imports increasing substantially but both imports and exports undergoing important changes in composition.

Table 2:10 Structure of Imports

Commodity	As a percentage of the total		
	1st plan	2nd plan	3rd plan
Capital Goods	28.8	42.2	47.8
Raw Materials	27.5	17.7	17.0
Consumer Goods	24.0	19.8	15.4
Food Grains	16.3	14.9	19.8

Source: Reserve Bank of India Bulletin (various issues).

The above table shows that during the first 15 years the import pattern changed rapidly in favour of capital goods. On the other hand, the share of raw materials and consumer goods declined. This changing pattern was an index of the growing industrialisation of the country. The share of capital goods declined from 28.8 percent in the first plan to 47.8 percent in the third plan and the share of consumer goods declined from 24 percent to 15.4 percent due to the lightening up of import licensing and increased production of these goods within the country. As a result of decline of import of raw jute and to some extent, also of raw cotton the import of raw materials was declined. As a percentage of total agricultural imports, the import of raw jute fell from 12.9 percent in 1951-52 to 1.2 percent in 1965-66 and the import of raw cotton declined from 26.3 percent to 9.6 percent during the same period. The imports of agricultural machinery and fertilizers increased by nearly 100 percent in between 1956-57 to 1960-61 and by 171 percent in between 1961-62 to 1965-66.

Table 2.11: Composition of Exports:

Commodity	(As percentage of the total)		
	1950-51	1960-61	1965-66
Agricultural product	24.6	31.8	31.9
Agro-based manufactures	49.9	36.9	37.4
Mineral Products	3.1	6.2	8.0
Machinery	0.9	2.4	4.9

Source: Monthly Statistics of Foreign Trade 1968.

A significant feature of the export trade was that four categories of sixteen commodities accounted for 78.5 percent of the exports in 1950-51 and in 1965-66 it was 82.2 percent.

Another feature was that proportion of agro-based manufactures such as jute manufactures, cotton manufacture, leather goods, coir product and agricultural product remain

fluctuating around 70 percent in 1950-51, it was little higher at 74.5 percent and it was little less at 69.3 percent in 1965-66. Coffee and oil cakes did not enter the export trade in 1950-51 in any substantial quantity but they had become important articles of export in 1965-66. Similarly, export of tea, cotton, and jute manufactures, which constitute 60 percent of the total export in between 1948-50, it declined to 44 percent in the third plan.

Another feature of export composition was the first time emergence of several new articles such as oil cakes, fruits and vegetables, iron ore, iron and steel, handicrafts and engineering goods. In 1950-51, exports of fish preparation constituted only 1.9 percent of India's export but in 1965-66 it was 4.2 percent. The export of fruits and vegetables rose from 0.2 percent to 1.6 percent. Export of clothing, footwear and scientific instrument rose from 0.8 percent in 1950-51 to 2.7 percent in 1965-66.

Another group of exports consisting of iron ore, manganese ore and mica recorded substantial increase, their percentage share rising from 4.1 percent to 8 percent during 1951-52 to 1965- 66.

The welcomest development was the emergence of engineering exports. This group included metal manufactures, electrical and other machinery items, transport equipment and other engineering goods. During the first three plans, there was a significant change in the direction of the trade. On the export side, the U.K's share fell sharply from 26.8 percent to 18.1 percent during 1941-52 to 1965-66 and Australia declined from 6.6 percent to 1.8 percent during the same period of time. The share of trade of Japan rose from 2.2 percent to 7.2 percent during the same period. The share of the United States of Soviet Russia (U.S.S.R.) being 1 percent in 1951-52 and 11.6 percent in 1965-66, emerged as the third largest purchaser of Indian goods. The export of East European countries rose from 1.2 percent to 19.5 percent of the total. There was an

unsatisfactory trade relation of India with South East Asia, the Middle East, East Africa and other developing countries.

There was similar change in the direction of imports as well. The U.K's share fell from 18.5 percent to 10.7 percent during 1951-52 to 1965-66. There was similar decline in the share of Middle East countries and Africa but the U.S.A and East European countries went up to 37.7 percent and 11.3 percent respectively.

Table 2.12 Balance of Trade: India's Export.

Period	Total Value	Annual Average
First Plan	Rs.3029 crore	606 crore
Second Plan	Rs. 3046 crore	609 crore
Third Plan	Rs.3812 crore	762 crore

Source: Commerce, 1 March 1969, p- 6

From the above table it can be seen that during the first two plans India's export was stagnant but in the third plan it rose by 25 percent. The first plan stated that "*in period of relatively easy foreign exchange supplies, the need for export promotion will be less evident*" while the second plan hoped that "*increased production at home will be reflected in larger export earning*". During the third plan exports were given high priority and various measures initiated to export them. India's share of world export during 1955 to 1966 declined from 1.4 percent to 0.8 percent.

Table 2.13: India's Import

(in crore of rupees)

Period	Total Value	Annual Average
1. First Plan	3617	723
2. Second Plan	4882	976
3.Third Plan	6209	1242

Source: Commerce, 1 March 1969, p: 6

During the first plan, the developmental and investment activities were still in doldrums. Consequently, the value if imports

fell from Rs.650 crore in 1950-51 to Rs.610 crore in 1953-54. The year 1953-54 remained the lowest level of India's foreign trade. Thereafter, there was a steady rise. As a result, import increased from Rs.3617 crore in the first plan to Rs. 4882 crore in the second plan, Rs. 6209 crore in the third plan. That is imports rose by 34 percent during the second plan over the first plan and by 27 percent during the third plan over the second plan.

During the second plan the heavy imports were due to a) large scale imports of capital goods to develop heavy and basic industries, b) the necessity of making "minimum maintenance imports" for a developing economy and c) the failure of agricultural production to rise to meet the growing demand for food and raw-materials which necessitated large imports of those articles. During second and third plan, massive investment outlays resulted in more than a doubling of India's imports, implying an annual growth rate of 7.9 percent. During the same period, exports increased at an annual rate of about 3.1 percent. Imports were running ahead of exports, so the ratio of exports to the imports showed a declining trend. On an average, exports financed 83.7 percent of the imports during the first plan, 62.4 percent during the second and 61.5 percent during the third. As a result, India's export deficit rose from Rs. 82.52 crore in 1955-56 to Rs. 584.50 crore in 1965-66.

Table. 2.14: India's Trade Deficit

(in crore of rupees)

Period	Total Amount	Annual Average
1. First Plan	588	117
2. Second Plan	1836	367
3.Third Plan	2396	479

Source: Commerce, 1 March 1969

2.3.7 DEVALUATION OF 1966 AND THE PERIOD UP TO 1979

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 by India from foreign countries and international institutions like International Monetary Fund (IMF) to overcome balance of payment problems- all these factors induce India to devaluate the rupee by 36.5 percent in June 1966. Devaluation was resorted to essentially a] to reduce the volume of imports, b] to boost exports and c] to create a favourable balance of trade and balance of payments. During a year of drought devaluation was announced, the following year again happened to be a bad weather year and was the year when the government announced its policy of liberalising imports in case of 59 industries, so the immediate effects of devaluation was further aggravation of the trade deficit. After devaluation, exports increased during 1966-67 and 1967-68, but on account of relative inelasticity of imports, the import bill literally soared - Rs. 1,992 crore in 1966- 67 and Rs. 2,043 crore in 1967-68. As a result, the balance of payment decreased during 1966-67 and 1967-68. However, foodgrains imports declined during 1968-69, with a better crop. Moreover, as a result of devaluation exports stimulated. Consequently, balance of trade, which was unfavourable to the tune of Rs. 788 crore during 1967-68 declined significantly during the next three years. During 1972-73, for the first time since independence, India was able to have a favourable balance of trade, due to the policies of import restriction and reduction in food grain imports coupled with vigorous measures of export promotion. But the impact of the healthy development was soon lost in 1973-74 because of several international factors, which pushed up the prices of petroleum product, steel and non-ferrous metals, fertilizers and newsprint.

Although the spurt in the prices of exports helped to boost them up to a level of Rs. 2523 crore, the kick given to imports was much stronger and they reached a high level of Rs. 2955 crore. As a result, trade balance deficit appeared of the order of Rs. 432 crore in 1973-74.The whole trade deficit was of much lower in the fourth plan than the period of second plan, third plan, and the annual plan.

Table: 2.15: Trade Balance During Annual Plans, the Fourth Plan:

Year Annual Plans	Exports	Imports	(Rs. crore)
1966-67	1089	1992	-906
67-68	1255	2043	-788
68-69	1367	1740	-373
Annual Average	1236	1925	-689
Fourth Plan			
1969-70	1413	1582	-169
70-71	1535	1634	-99
71-72	1608	1824	-216
72-73	1971	1867	+104
73-74	2523	2955	-432
Annual Average	1810	1972	-162

Source: Reserve Bank of India Bulletin, Dec 1981.

In October 1973, there started oil price hike, which seriously affected the pattern of trade throughout the world, and so India was no exception. During the fifth plan period the value of imports reaches very high levels- due to sharp increase in the cost of India's major imports, viz, petroleum, fertilizers and food grains. Simultaneously, there was a significant improvement in India's export during the fifth plan period. The rise was so fast that by 1976-77, exports at Rs. 5146 crore exceeded imports by Rs. 72 crore. Since 1951 for the second time balance of trade surplus emerged. Export of fish and fish preparations, coffee, tea, groundnuts, cotton fabrics and readymade garments and handicrafts recorded substantial increase in this period.

During 1977-78 and in the next two years, the Janata Government followed a policy of haphazard import liberalisation at a time when export boom had almost petered out- the result was the re-emergence of the trade deficit from 1977-78 onward.

Table: 2.16: Trade Balance During the Fifth Plan:

Year	Import	Export	Balance of Trade
1974-75	4,519	3,329	-1,196
1975-76	5,265	4,043	-1,222
1976-77	5,074	5,146	+72
1977-78	6,025	5,404	-621
1978-79	6,814	5,726	-1,088
Annual Average	5540	4,730	-810

Source: Reserve Bank of India Bulletin, Dec 1981.

2.3.8 FOREIGN TRADE DURING 1980 - 1990

Trade deficit stared widening with the last year of fifth plan (1978-79). Due to further increase in prices of petroleum products by Oil and Petroleum Exporting Countries (OPEC) the import bill shot up from Rs. 6814 crore to over Rs. 8908 crore in 1979-80 and further to Rs. 12,524 crore in 1980-81 and to Rs. 13,608 crore in 1981-82. Exports also continued to rise but the value of exports fell much short of imports. The result was unprecedented trade deficits - from nearly Rs 2450 crore in 1979-80 to Rs. 5,813 crore in 1980-81. This deficit forced the government to approach the International Monitory Fund (IMF) in November 1981 for a huge loan.

Table: 2.17: Trade Balance during Sixth and Seventh Plan:

Year	Import	Export	Trade Balance
Sixth Plan			
1980-81	12,524	6711	-5,813
1981-82	13,608	7,806	-5,802
1982-83	14,356	8,908	-5,448
1983-84	15,763	9,872	-5,891
1984-85	18,680	11,959	-6,721
Annual Average	14,986	9,051	-5,935
Seventh Plan			
1985-86	21,164	11,578	-9,586
1986-87	22,689	13,315	-9,354
1987-88	25,692	16,396	-9,296
1988- 89	34,202	60,647	-13,555
1989-90	40,642	28,229	-12,413
Annual Average	28,874	18,033	-16,841

Source: Economic Survey (1991-92) and RBI Bulletin, March 1993.

The same situation continued in 1983-84 and the trade deficit further rose to about Rs. 5891 crore. As we examine the import, export data, we can see that even if imports of Petroleum, Oil and Lubricant (POL) declined from Rs. 5267 crore in 1980-81 to Rs. 4830 crore in 1983-84, partly because international prices of oil showed a downward trend and partly because of domestic production of crude oil was jacked up by Oil and Natural Gas Commission (ONGC), the trade deficit in 1983-84 was Rs. 5,891 crore. This is explained by the fact as a result of the policy of import liberalisation the decline in POL imports were more than counter balance by a hike in non- POL imports. Further deterioration in the trade balance showed in 1984-85 and trade deficit was Rs. 6721 crore. During the sixth plan, the annual average imports were Rs. 14,986 crore while exports were Rs. 9051 crore. So, a huge annual average trade deficit was witnessed during the sixth plan amounted Rs. 5,935 crore.

Seventh plan period data revealed that due to indiscriminate liberalisation, the average annual imports shot up to Rs. 28,874 crore, but exports averaged Rs. 18,033 crore. Thus, there emerged an unprecedented annual average trade deficit of the order of Rs. 10,841 crore. In 1947-48, the main items of imports in India (in order of importance) were machinery of all kinds, oils (vegetable, mineral and animal), grains, pulses and flour, cotton, raw and waste, vehicles (excluding locomotives), cutlery, hardware, implements and instruments, chemicals, drugs and medicines, dyes and colours, other yarns and textile fabrics, paper, paper board and stationery and metals other than iron and steel and manufactured. These imports together constituted more than 70 percent of all imports.

The initiation of the planning process in the country in 1951-52, and more specifically the beginning of the second five-year in 1956-57 brought about a considerable change in the composition of imports. The second plan (based on the Mahalonobis Model) introduced a programme of industrialisation with heavy emphasis on the development of capital goods and basic industries. So, it became necessary to import capital equipment in large quantities. After some years, spare parts, materials and machinery had to be imported in substantial quantities to keep the equipment in working order. Thus, maintenance imports entered into the import structure of the country in a big way.

Now, imports have been classified into two groups: a) Bulk Imports and b) Non- bulk Imports. Bulk imports are further sub-divided into three components – (i) Petroleum, crude and products, (ii) Bulk composition goods which compromise of cereals and pulses, edible oils and sugar, (iii) Other bulk items comprising of fertilizers, non-ferrous metals, paper and paper boards, rubber, pulp and waste paper, metallic ores, iron and steel.

Non- bulk imports are classified into three components – (i) Capital goods which include metals, machine tools, electrical and non-electrical machinery, transport equipment and project goods, (ii) Mainly export related items consist of pearls, precious and semi-precious stones, organic and inorganic chemicals, textiles, yarn and fabrics, cashew nuts, (iii) Other include artificial resins and plastics materials, professional and scientific instruments, coal and coke, chemicals, medicinal and pharmaceutical products, non-metallic mineral manufactures etc.

Due to both internal and external factor, there was a rise in trend of imports. During the 70s, as a result of the sharp hike in oil prices by the Organisation of Petroleum and Exporting Countries (OPEC) first during 1973-74 and then again in 1979-80, the POL imports rose sharply not only during the 70s, but also during the 80s. In 1979-80, the economy also suffered a major drought.

During the eighties, there were some factors, which produced a cumulative effect in pushing up imports. Important among them were: a higher outflow of foreign exchange consequent upon the hike in POL prices as a part of the legacy of the preceding decade, severe shortages on account of the unprecedented drought of 1987, the growing pressure of demand accompanied with the stepping up of the real growth of the economy and the policy of liberalisation adopted by the government.

Imports rose from Rs. 1,634 crore to Rs. 12,549 crore during 1970-71 to 1980-81. That is the annual growth rate was as high as 19.2 percent during the decade. During the eighties, specifically of 1984-85, when the Prime Minister was Rajiv Gandhi and he followed the policy of liberalisation, imports in 1990-91 zoomed forward to Rs. 43.190 crore. During 1980-81 to 1990-91, the annual rate of growth of imports was as high as 13.1 percent.

Basic raw materials, intermediates and foodstuffs, which were the main items of bulk imports, were linked to the growth and stability of the economy grew at an annual average growth rate of 23.2 percent during the seventies. As a result, their share in total imports went up from 50.5 percent in 1970-71 to 69.6 percent in 1980-81.However, during the eighties as well as during the nineties their rate of growth significantly declined.

Among the non-POL bulk items, consumption goods comprising cereals preparations, edible oils, pulses and sugar declined at an annual growth rate of 8 percent during the seventh plan. However, during 1985-86 to 1990-91, the imports of iron and steel recorded a much higher rate of 14.4 percent.

During the sixth plan, the growth rate of bulk items was 10.2 percent, which decreased to 7.2 percent during the seventh plan. As a result, in 1984-85 the share of bulk items in total imports fell to 58.6 percent. Among the non- bulk items the share of capital goods imports was 15.2 percent in 1980-81 and it was 17.7 percent during 1990-91.

During the first plan period, the imports of consumer goods and food grains accounted for 40 percent of India's imports. But the imports of these have gradually declined over the years - 35 percent during the second and third plan period, 27 percent during the fourth plan and 24 percent during the fifth plan and only 2.5 percent during the seventh plan, but declined significantly to 0.7 percent during 1990-91.

From 1957 onward, imports of food grains were considerable and these were arranged through PL 480 Aid from the USA. From the dawn of fourth plan, India's imports were increasing. Due to drought conditions and inability of domestic supplies to meet fully

domestic demand, imports of food grain increased. Only during the fourth plan imports of food grains declined to 10 percent.

Table: 2. 18: Structures of Indian Imports.

	1970-71	1980-81	1990-91
I. Bulk Import	82	8,739	19,464
A. Petroleum, Crude and Products.	137	5,267	10,816
B. Bulk Consumption goods.	326	901	966
a) Cereals and pulses	213	100	1301
b) Edible Oils.	39	704	326
C. Other Bulk Items.	362	2,571	7,650
a) Fertilizers.	100	818	1,766
b) Non- ferrous metals	119	477	1,102
c) Paper and paper board	456	1,891	-------
d) Metallic ores	11	116	1,528
e) Iron and Steel	147	852	2,113
II. Non- Bulk Imports.	809	3,472	23,729
C. Capital goods	404	1,916	10,471
a)Machinery except electrical and electronic	258	1,089	3,768
b) Electrical and electronic goods	70	266	1,702
c) Transport equipment	472	1,670	2,571
d) Project goods	------	-----	2,556
D. Mainly Export related items.	193	1,158	6,603
a) Pearl, Precious and semi precious stones	25	417	3,738
b) Organic and inorganic chemicals.	131	673	2,289
c) Textiles, yarn and manufactures	8	59	443
d) Cashew nuts	29	9	139
e) Others	212	404	6,655
Total	1,634	12,549	43,193

Source: Complied and computed from RBI, Report on Currency and Finance. (1998-99)

Table: 2.19: Average Annual imports of Principal Commodities:

Items	1966-67 to 1968-69	1969-70 to 1973-74	1974-75 to 1979-80	1980-81 to 1984-85	1985-86 to 1989-90
1. Food grains	400	196	548	374	516
2. Machinery (including locomotives)	518	484	1078	2515	6415
3. Mineral oils	90	226	2063	5264	4498
4. Metals (ferrous and non ferrous)	185	309	647	1448	2450
5. Chemicals- drugs and medicines.	126	113	254	660	1868
6. Fertilizers	121	96	439	698	1114
7. Pearls and precious stones	-	-	244	730	2405

Source: RBI Bulletins and RBI Report on Currency and Finance, 1997-98.

India's exports are broadly classified into four categories: a) Agriculture and allied products which include coffee, tea, oil cakes, rice fish and fish preparations, meat and meat preparations, vegetable oils, fruits, vegetables and pulses, b) Ores and minerals include manganese ore, mica and iron ore, c) Manufactured goods include textiles and ready made garments, jute manufactures, leather and foot wear, handicrafts including pearls and precious stones, chemicals, engineering goods and iron steel and d) Mineral fuels and lubricants.

Tea and Coffee: Tea and coffee are India's main export items. In certain year, tea had the first position in our exports. During the first plan period, the average annual export of tea was Rs. 106 crore. In 1960-61, tea export further picked up to touch Rs. 195 crore. But they decline later. During 1991-92, tea export earned Rs. 1132 crore.

Cotton Yarn and Manufactures: During the first plan period, the average annual exports of cotton yarn and manufactures touched Rs. 81 crore, but they declined to Rs. 55 crore during the third plan. Due to high cost in Indian textile industry, India found if difficult to capture the international market. Infact, the causes of the high cost were rising labour costs and use of old worn out machinery. In the pre devaluation period exports of cotton textiles had increased due to their competitiveness in the international market. During 1970-71 and 1990-91 export of cotton (yarn and manufactures) improved from Rs. 75 crore to Rs. 2100 crore.

Ready-made garments: The export of ready-made garments was just Rs. 9 crore in 1970-71. They jumped to Rs. 196 crore in 1974-75. During 1990-91, they were Rs. 4012 crore. This indicated the increasing importance of this item in our exports.

Leather and leather manufactures: Raw hides and skins is one of the traditional items of Indian export. In the exports of these items, the proportion for leather and leather manufactures to raw hides and skins is on the increase. This is really a healthy development. In 1970-71, India earned Rs. 72 crore from this item. In 1979-80, it was Rs. 486 crore and in 1990-91, it touched Rs. 2566 crore.

Iron ore: During 1970-71, exports of iron ore rose to Rs. 117 crore and it touched Rs. 1649 cror in 1990-91.This is an unhealthy development.

Handicrafts: In the 1970s the exports of Indian handicraft assumed great importance. In 1970-71, they were in low level of Rs. 70 crore. But they increased to Rs. 894 crore in 1980-81 and Rs. 1881 crore in 1984-85 and further to Rs. 6167 crore in 1990-91. Among the handicrafts, the most important item was pearls and precious stones. It averaged Rs. 3177 crore during 1985-86 to 1989-90.

Machinery, transport and metal manufactures: The exports in the category also included iron and steel, electronic goods and computer software. Even up to 1980-81, exports of this group were a meagre Rs. 827 crore but these exports started picking up and by 1990-91, they were of the order of Rs. 3,872 crore.

Table 2.20: Classification of Indian Exports

(Rs. crore)

	1970-71	**1980-81**	**1990-91**
1. Agriculture and allied products	487	2057	6317
2. Ores and minerals	164	414	1497
3. Manufactured goods	772	3747	23,736
4. Petroleum products	13	28	948
5. Others	100	466	55
Total	1535	6711	35,553

Source: Govt. of India, Economic Survey, 1971-72 and 1996-97.

Table 2: 21: Annual Exports of Principal Commodities

Items	1970-71	1980-81	1984-86	1990-91
1. Coffee	25	214	265	252
2. Tea	148	426	626	1070
3. Fruits and vegetables	18	116	206	335
4. Cotton yarn and manufacture	75	277	574	2100
5. Leather and leather manufacture	72	337	770	2566
6. Iron ore	117	303	579	1049
7. Tobacco	33	141	170	263
8. Engineering Goods	130	727	954	3877
9. Cashew Kernel	52	140	225	447
10. Ready- made garments	9	378	1067	4012
11. Handicraft	70	894	1881	6167
12. Fish and fish preparation	31	213	409	966
13. Rice	5	224	196	462
14. Chemical and allied Products	-	-	-	3,558

Source: India's Balance of Payments, 1948-49 to 1961-62: RBI Report on Currency and Finance. (1998-99)

In order to study the regional direction of India's foreign trade, it would be appropriate to classify the world into four broad groupings: viz: American Europe, Asia, Oceania and Africa.

Since independence, direction of India's imports had changed remarkably. The following table shows the change in the direction of India's import since 1960-61.

Table: 2.22 : Direction of India's Imports

Country /Block	1960-61	1970-71	1980-81	1990-91
A. Block				
a) OECD	875 (78)	1042 (64)	5740 (45.7)	23,310 (54)
b) OPEC	22 (4.6)	126 (7.7)	3488 (28)	7041 (16.3)
c) Eastern Europe	38 (3.4)	220(13.5)	1296 (10.3)	3377 (7.8)
d) Developing Countries	132 (12)	239 (14.6)	1966 (15.7)	7965 (18.4)
e) Others	25 (2)	8 (0.5)	(60 (0.5)	1500 (3.5)
B. Countries.				
U.S.A	328 (29)	453 (28)	1619 (13)	5245 (12)
U.K	217 (19)	127 (8)	731 (6)	2894(7)
Japan	61 (5.4)	83 (5)	746 (6)	3245 (7)
Germany	123 (11)	108 (6.6)	694 (5.5)	3473 (8)
Iran	30 (2.6)	92	1339 (10.6)	1018
Saudi Arabia	14 (1.3)	24	540	2899 (6.7)
USSR	16 (1.4)	106 (6.5)	1014 (8)	2548 (6)
France	21 (1.9)	21	280	1304(3)
Australia	18(1.6)	37	170	1464(3.4)
Belgium	15 (1.4)	12	296	2718 (6.3)
Kuwait	6 (0.3)	8	33 (2.7)	363 (0.8)
Other Countries	288 (25)	454 (28)	4785 (28)	14,967 (35)
Total	1122(100)	12,549 (100)	43,193 (100)	12,2678(100)

Source: 1. Government of India, India Reference Annual, 1982.
2. Govt. of India economic Survey, 1992-93.

NOTE: Figures in the brackets are percentage in total.

The above table shows the direction of India's imports. If we study block wise, then it can be seen that the share of Organisation for Economic Co-operation and Development (OECD) countries in India's imports was higher but this share gradually declined from78 percent in 1960-61 to 54 percent in 1990-91. The share of OPEC in India's total imports increased from 4.6 percent to 16.3 percent during 1960-61 to 1990-91. In 1960-61, the share of Eastern European countries of India's import was 34 percent. It rose to 13.5 percent in 1970-77 and since then gradually declined and in 1990-91 it was 7.8 percent. The share of developing countries in India's imports gradually rose. It was 14.6 percent in 1970-71, 15.7 percent in 1980-81 and 18.4 percent in 1990-91. The share of other countries also rose from 2 percent in 1960-61to 18.4 percent in 1990-91.

The share of the U.K. in India's imports was 19 percent in 1960-61 being the highest among all the countries, gradually

declined to 8 percent in 1970-71 and in 1990-91, it was only 7 percent. The share of the U.S.A. in India's imports gradually increased initially from 1950-51 to 1960-61 and since then the share gradually declined. It was 29 percent in 1960-61, 28 percent in 1970-71, 13 percent in 1980-81 and 12 percent in 1990-91. So, it is found that from 1970-71 the direction of trade recorded a continuous change. India's dependence for imports from the USA and the UK gradually declined whereas there was an expansion of trading relation of India with other countries, like USSR, Japan, Germany, Belgium etc.

During 1960-61 India's trading relations with socialist countries particularly with USSR was expanded. The share of USSR in Indian imports was only 1.4 percent in 1960-61, which rose to 8 percent in 1980-81 but declined to 6 percent in 1990-91.

Since the adoption of planning in India, direction of India's exports has also recorded a remarkable change. The following table shows the direction of India's export since 1960-61.

Table 2.23: Direction of India's Exports:

Country	1960-61	1970-71	1980-81	1990-91
1. OECD	425(66)	769(50)	3126(46.6)	17428(53.5)
a) EEC/ EU	232(36)	282(8.4)	1447(21.6)	8951(27.5)
Belgium	5(0.8)	20(1.3)	145(2.2)	1259(3.9)
France	9(1.4)	18	147	766
Germany	20(3.1)	32	385(5.7)	2549(7.8)
U.K.	173(27)	170(11)	395(5.9)	2128(6.5)
b) North America	120(18.7)	235(15)	806(12)	5077(15.6)
Canada	18(2.7)	28(15)	62(1)	281(0.9)
USA	103(16)	207(13.5)	743(11)	4797(147)
2. OPEC	24(4.1)	99(6)	745(11)	183(7.6)
Iran	5(0.8)	27	123	141
Saudi Arabia	3(0.5)	15	165	419
3. Eastern Europe	45(7)	323	1426	5819
USSR	22(4.5)	210(13.9)	1226(18.3)	5255(16.1)
4. Developing Countries	95(15)	305(20)	1286(11.2)	5465(17)
Asia	45(7)	166	900	4665
Africa	40(6.3)	129	350	668
5. Others	51(8)	4	68	2010
Total	642	1535	6711	32,553

Source: Government of India, Economic Survey, 1997-98.

NOTE: Figures in the brackets are percentage in total.
OECD: Organisation for Economic Co-operation and Development.
OPEC: Organisation of Petroleum Exporting Countries.
EEC: European Economic Community.

Above table reveals the direction of India's exports since 1960-61. It is found that among five blocks, the share of OECD countries in India's exports was all along higher but its share gradually declined from 66 percent in 1960-61 to 53.5 percent in 1990-91.The shares of OPEC countries marginally increased from 4.1 percent in 1960-61 to 7.6 percent in 1990-91. The most remarkable change in the direction of exports is noticed in respect of Eastern Europe whose share in India's exports has increased remarkably from 7.0 percent in 1960-61 to 22.1 percent in 1980-81 and then slowly declined to 17.9 percent in 1990-91. The share of developing countries in India's exports maintained a steady level, i.e. from 14.8 percent in 1960-61 to 17 percent in 1990-91.

The share of the U.K. in India's total exports, which was as high as 23.3 percent in 1950-51 gradually rose to 26.9 percent in 1960-61 and occupied first place in this respect. But since then the share of the U.K. declined sharply to11.1 percent in 1970-71 and then to 6.5 percent in 1990-91. The share of the USA in India's exports remained all along steady and accordingly the share increased from 17.4 percent in 1960-61 to 18.6 percent in 1987-88 and then slightly declined to 14.7 percent in 1990-91. It is found that since 1970-71, the direction of India's exports recorded a considerable change with the diversification of exports markets for Indian goods among various countries of Eastern Europe, OPEC and other developing countries.

With the development of trading relations with socialist countries the share of USSR in India's exports increased from 4.5 percent in 1960-61 to 18.3 percent in 1980-81 and then 18.4

percent in 1985-86 and thus occupied first place in these two years. But since then its share of India's exports declined and reached the level of 16.1 percent in 1990-91.

In the three annual plans the total deficit in balance of trade amounted 2755.5 crore. The unfavourable event happened in this period was that the surplus in invisible account also transformed itself into a deficit.

The period of fourth plan was characterised by continuous increase in imports due to increase in prices in international market. The prices of petroleum product, fertilizers, iron steel, non-ferrous metals and various types of capital equipment increased unevenly. The value of imports increased from Rs.158.3 crore in 1969-70 to Rs. 2729.3 crore in 1973-74. The value of exports was also pushed by the international prices. The value of exports was Rs. 140.3 crore in 1969-70 and Rs. 2350.7 crore in 1973-74. The deficit in balance of trade during the Fourth Plan was Rs. 1563.9 crore.

The position of balance of trade in the first two years of fifth plan was not satisfactory. The year 1974-75 recorded a deficit of Rs. 977.2 crore, which was mainly due to increase in prices of petroleum products. In the entire fifth plan the deficit of balance of trade was Rs. 3177.6 crore.

In the sixth plan, the trade deficit averaged 3.4 percent of Gross Domestic Product (GDP) in 1985-86 but declined to 3.2 percent of GDP in 1986-87 due to better export performance and deceleration in the growth rate of imports.

The total deficit in the seventh plan was to the tune of Rs.2,00,00 crore which was 1.6 percent of GDP. In 1990-91, total deficit was registered at Rs. 11,721 crore.

References:

Bajpai, Bhartiya Vyapar Ka Itihas.

Balusubramanyam, V. N. and D. R. Basu (1990), "India Export Promotion Policies and Export Performance" in milner, Chris (ed) *Export Promotion Strategies: Theory and Evidence from Developing Countries*. New York: New York University Press.

Beri and Jathar, *Indian Economy*, Vol. I and II.

Bhagwati, J. N. and T. N. Srinivasan (1983), *Lectures on International Trade*; Cambridge, Mass MJI Press.

Bhagwati, J. N. and S. Chakravoarty (1969), "Contribution to Indian Economic Analysis: A Survey" The American Economic Review. Supplement, Vol. 59, p – 1-73.

Bhagwati, J. N and T. N. Srinivasan (1975), "Foreign Trade Regimes and Economic Development, India" New York, National Bureau of Economic Research.

Bhagwati, J. N. and T.N. Srinivasan (1975), *India*; New York University Press.

Chatterjee, P.K., *Foreign Capital and Economic Development in India.*

Datt, R. and K. P. M. Sundharam, *Indian Economy*, S. Chand and Company Ltd. New Delhi

Dutt, R.P., *India Today*

Hufbauer, G. and J. Schott (1985), *Trading for Growth: The Next Round of Trade Negotiation*, Washington D.C., Institute for International Economics.

Ganguli, B.N., *Reconstruction of India's Foreign Trade.*

Kausahal, G., *Economic History of India,* Kalyani Publishers (New Delhi).

Krueger, Anne (1970), *The Benefits and Costs of Imports Substitution in India – A macroeconomic Study,* October, Washington D.C. USAID.

Misra, S.K. and V.K. Puri (2004), *Indian Economy,* Himalaya Publishing House.

Naidu, N. S., *India's Foreign Trade.*

Nayyar, Deepak (1976), *India's Export and Export Policies in the 1960s:* Cambridge, Cambridge University Press

Report Indian Fiscal Commission, 1921-22

Report Indian Fiscal Commission, 1949-50

"Review of Trade of India". (Various Issues)

"Statistical Tables of India."

Sethwararar, S. (1997), "Trade Scenario in Post – Independence Era", Yojana, 61, -67, January.

Singh, T. (2001), "Balance of Trade, Exchange Rate and Trade Policy Regimes in India, Some Issues and Policy Perspective" The Indian Economic Journal, Volume 48 No. 1.

Singh, Manmohan (1964), *India's Export and the Prospects for self-sustained growth* Oxford, Clarendon Press.

Varashrey, L.R., *Indian's Foreign Trade.*

Chapter - III

NEW ECONOMIC POLICY AND TRADE LIBERALISATION

3.1 INTRODUCTION

Especially since 1980s economic reforms throughout the world became a common affair. This chapter of this dissertation describes in brief a global perspective of economic reforms, a short description of economic reforms of India with an elaborate description of its trade liberalisation.

3.2 : ECONOMIC REFORMS - A GLOBAL PERSPECTIVE.

Since the decade of late eighties and early nineties of the last century the entire world economy has been experiencing a dramatic change. Economic reforms took place in most of countries in world including entire Eastern Europe and developing countries including India to Vietnam and from Peru to Morocco and even Cuba. These countries are gradually rejecting old economic philosophies and are launching various reforms of their political and economic system.

Accordingly, there has been a considerable change in the nature of market institution, social relation of production, financial structure, industrial organisation and structures.

Economic reform promises more rapid and more sustained economic growth. Due to these reasons various countries of the world adopted economic reforms. The countries like Mexico, Chili, Spain and Greece have seriously carried out far-reaching reforms and ultimately obtain the benefit of such reforms. In the initial stage, these countries faced the problem of unemployment and higher prices, but all these were dissolved with the rising flow of foreign help along with its contribution to long run gains. The term 'economic reform' indicates necessary structural adjustment to external events. Such adjustment requires firstly reduction of expenditure of the country parallel to its income and reducing fiscal deficit considerably. Secondly, to make the economy more efficient and flexible and for using both domestic and foreign resources in a most appropriate manner such adjustment requires market oriented structural change.

Studies made by World Bank reveal three points.

a) Foreign assistance either specific project based or for meeting overall balance of payment (BOP) crisis is more effective in realising its goal where reforms is under way.
b) Effectiveness of economic reforms depends largely on the response of investment and institution towards structural adjustments.
c) The success of economic reforms depends on country's involvement in reform programmes where board consensus must be attained on the need of such reforms or structural change.

3.3 ECONOMIC REFORMS IN INDIA

The increasing globalisation of economic process (first phase) has changed the economic structure of India with the change in the nature of markets and institutions, industrial organisation and structure and social relation of production in various countries of the world.

The first phase of economic reform in India had its origin in 1985 when Rajib Gandhi was the Prime Minister. The new economic policy was declared by Mr. Gandhi where emphasis was given on improvement in productivity, absorption of modern technology and fuller utilisation of capacity and finally a greater role for the private sector.

This New Policy introduced various changes to provide greater scope to private sector regarding industrial licensing, technology up-gradation, elimination of controls and restriction, foreign equity capital, fiscal and administrative regulation and export - import policy. In order to get the rapid growth of the economy and pave way for modernisation of the economy, these policy changes were creating a favorable climate for getting big boost in private sector investment. According to Prof. K.N. Raj *"There has been, however, a general agreement that a very distinctive feature of these policy changes taken as a whole is the greater scope for unfettered expansion they offer to private sector, particularly in the corporate segment of manufacturing industry and the opportunities opened up to multinational enterprises"* (K.N. Raj, 1985.)

The new economic policy stressed on removing unnecessary restrictions on licensing policy and in denying industrial licensing to monopoly restricted trade practices (MRTP) companies. In this connection, the government introduced various measures in the following manner.

1. Cement: Cement was totally decontrolled and a number of private sector units were issued additional licensed capacities.
2. Sugar: The share of free sale of sugar in open market was enlarged.
3. Asset Limit: The ceiling of the asset limit of big business houses was enhanced from Rs. 20 crore of Rs. 100 crore.
4. Broad-Banding: The scheme of board-banding of licenses was introduced to bring variety in the production of two wheelers which was later extended to other categories of industries like four-wheelers, chemicals, petro-chemicals, pharmaceuticals, type writer etc.
5. Drug: 94 drugs were completely de-licensed and 27 industries were placed outside the purview of MRTP Act.
6. Textile: Introduction of new Textile Policy, 1985 practically abolished the distinction between mill, powerloom and handloom sectors.
7. Electronic: Electronics industry was liberalised from MRTP Act. The entry of FERA Companies in these areas was also liberalised.
8. Foreign Trade: Export-Import Policy, 1985 was announced in order to pore the way for easier and quicker access to imports, strengthening export production base and for facilitating technological up-gradation.
9. Long Term Fiscal Policy (LTFP): LTFP 1985 was announced for the successful implementation of the seventh plan.

Economic Reform (second phase): The First phase of economic reforms has failed to yield the expected result. During the seventh plan (1985-1990), the deficit in the balance of trade account gradually increased and average deficit in balance of trade between sixth plan to seventh plan was increased from Rs. 5,935

crore. There also declined the receipts on invisible account. As a result, the country faced serious balance of payment crisis. To overcome this situation the government approached the World Bank and the International Monitory Fund (IMF) to increase loan to the tune of about $ 7 billion. IMF finally decided to advance this loan and insisted the government that India should put again the economy on right track. Accordingly, the then Finance Minister, Dr. Manmohon Singh made a commitment in his letter dated Aug' 27, 1991 to the IMF Managing Director Michael Camdessus that in order to bring about structural readjustment of the economy the Government of India set certain macro-economic target and initiate certain policy measures.

The second phase of economic reform was adopted in 1991-92 by the Prime Minister P.V. Narshimha Rao as a reform of internal and external confidence. Under this economic reform monetary policy was tightened by rising interest rates, the exchange rate of rupee was adjusted by 22 percent, simplification and liberalisation of trade policy, reduction of fiscal deficit. *"The thrust will be to increase the efficiency and international competitiveness of industrial production, to utilise foreign investment and technology to a much greater degree than in the past to improve the performance and nationalise the scope of the public sector and to reform and modernise the financial sector so that it can more efficiently serve the needs of the economy"* (Finance Minister 1991).

Macro - Economic Objectives: The main macro-economic objectives of economic reforms (second phase) are (a) attaining economic growth at the rate of 3 to 3.5 percent in 1991-92 and at 4 percent in 1992-93, (b) reducing the annual rate of inflation by 9 percent in 1991-1992 followed by 6 percent in 1992-1993, (c) relieving the critical balance of payment situation and rebuilding

foreign exchange reserve to $2.2 billion in 1991-92, (d) reducing current account deficit in the budget from 2.5 percent of GDP in 1990 - 91 to 2.0 percent by 1992 - 1993.

Policy Measure of Second Phase of Economic Reforms:

The major areas of the second phase of economic reforms in India are as follows:

1. **Fiscal Policy Reform**: Our medium term objective is to progressively reduce overall public sector deficit from an estimated 12.5 percent of GDP to about 7 percent of GDP in the mid-1990s. In line with these objectives, the Union Government deficit would brought down from 9 percent of GDP in 1990-91 to 6.5 percent in 1991 - 92 to 5 percent in 1992 - 93 and 5.1 percent in 2000-2001. In order to achieve this target the government intends strictly to control public expenditure and took initiative to increase both tax and non-tax revenue. The other measures include imposition of fiscal discipline on the Central Government and the State Government, reduction of subsidies, developing a more efficient expenditure system.

2. **Monetary Policy Reform**: For improved balance of payment position and for reducing inflationary pressure the government pursued a restrictive monetary policy. The targeted board money (M) growth was 13 percent in 1991 - 1992, which was consistent with inflation and output targets. The targeted reserve money has risen by 5.5 percent due to the impact of new incremental cash reserve requirement. A further slow-down in the growth of board and reserve money will be sought in 1992-93. (11 to 12 percent).

3. **Price Policy Reform:** In order to reduce budgetary subsidies and promote a more flexible price structure, the government increased a number of administrated price of various commodities including the inputs (petroleum product and fertilizers), for saving (such as railway fares, bus transport) and for agricultural commodities (such as sugar) and gave greater freedom to public enterprises to set prices according to market prices.

4. **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 introduced stabilisation compression.

5. **Industrial Policy Reform**: in addition to earlier reforms industrial policy reform were also introduced in 1993 - 94. The various measures of industrial policy reforms may be summarised below:

   (i) With effect from March 26, 1993, 13 industries, earlier reserved for the public sector, have been opened for the private sector. As a result, the number of industries reserved for the public sector is reduced to 6, namely, defense products, atomic energy, coal and lignite, mineral oils, railway, transport, minerals specified in the schedule to the Atomic Energy Order 1953.

   (ii) "Motor Car" and "White Goods" industries were de-licensed with effect from April 28, 1993. Raw hides and Skins, leather and patent leather, excluding chamois leather, also stand de-licensed. Hence the number of items in respect of which industrial licensing is compulsory has been reduced to 15.

(iii) The manufacture of readymade garment and items reserved for exclusive manufacture by ancillary or small scale industrial undertakings is now open to large scale industries through notification dated July 29, 1993, subject to an export obligation of 50 percent and investment is fixed assets in plant and machinery of the large unit not exceeding Rs. 3 crore.

(iv) 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. These powers earlier rested with the Zonal Authorities under the Ministry of Commerce. This will bring down the levels at which clearances are required.

(v) Excise duties on capital goods were rationalised and import duties were reduced further to lower capital costs and stimulate investment.

(vi) To enhance the level of foreign investment in Indian stocks, a concessional tax rate of 30 percent on short-term capital gains for foreign institutional investors was introduced.

(vii) A five-year tax holiday was introduced for new industries in industrial backward States and Union Territories and for power generation anywhere in India.

(viii) Export credit refinance limits were augmented. Now refinance credit of 90 percent is available in U.S. dollars.

(ix) The compulsory consortium lending limit was increased from Rs. 5 crore to 50 crore. Greater flexibility to corporate investors would be given to

choose their bank and take advantage of increased competition.

(x) For the commercial bank to make available credit cash reserve ratio (CRR) and statutory liquid ratio (SLR) were reduced to 14 percent and 34.75 percent respectively.

(xi) Minimum lending rate of the highest credit slab was decreased to 15 percent.

(xii) Sick industrial companies (Special Provision) Act, 1985 (SICA) amended in December 1993 to facilitate early detection of sickness in companies and speedy enforcement of remedial measures.

(xiii) Elimination of the system of pre-entry security of investment decision of the MRTP companies and controlling only "unfair or restricted business practices".

(xiv) Liberalisation of location policy.

6. **Foreign Investment Policy Reform:** The new industrial policy, 1991 made provision of increased flow of foreign investment in connection with technology transfer, marketing expertise and introduction of modern managerial techniques. Accordingly, the new policy gives automatic permission for foreign direct investment up to 51 percent foreign equity to 34 priority industries in Annexure III. Automatic permission will be provided in high priority industry for royalty payment up to 5 percent on domestic sales, 8 percent on export sales or a maximum payment of Rs. 1 crore in respect of foreign technology agreements. In order to promote exports of Indian commodities in foreign markets, foreign trading companies are also allowed to

increase their foreign equity holding up to 51 percent for export activities.

7. **Public Sector Policy Reform:** Considering the huge amount of losses incurred by a large number of public sector enterprises, the government has taken various policy measures of making necessary reforms of public sector. These measures include: (a) reservation of list of industries under public sector reduced to 8 as against 17 industries reserved earlier, (b) review of these public investments be made in order to avoid those areas where social considerations are not so paramount and where private sector investment would be more efficient, (c) enterprises earning higher profit and judged appropriate, will be provided with much higher degree of management autonomy through the system of Memorandum of Understanding (MOU), (d) progressive reduction of budgetary support of public enterprises, (e) to increase market discipline private sector participation was invited and the competitive capacity of these public sector enterprises through disinvestments of part of equity of selected enterprises was also invited, (f) referring the chronically sick public enterprises to the Board for Industrial and Financial Reconstruction for its rehabilitation, reconstruction or rationalisation.

Game plan for Public Sector Reform 1994 - 1995: On February 8, 1994, the government announced a game plan for the public sector reform in 1994-95 for improving dynamic efficiency and quality check of the performance and also to give more weight (50 percent) for profit and profit related criteria in the MOU which improve the financial performance of the public sector. Originally when

in 1988 MOU was introduced no weight was given to profit, In 1993-94 it subsequently raised to 35 percent and it stepped up to 50 percent for 1994-95.The government had already evolved a six year action plan to restructure public sector undertaking and the idea is to have 100 percent weight for profit at the end of six years to make the public enterprises fully runs on commercial lines.

8. **Trade Policy Reform:** In the context of promoting international integration of our country and also of globalisation, phasing out root of excessive and indiscriminate protection given to domestic industry becomes necessary. As a result, a vibrant export sector has developed and created a regime of price base system. The main objective is to eliminate progressively the system of licenses and quantitative restrictions, particularly for raw materials and capital goods so that these items can be placed easily on open general license. The provision was made by the new policy for reduction of the scope of public sector monopoly sharply for most export items and also a good number of import items in this context.

9. **Social Policy Reform:** To meet the objective of poverty alleviation as a part of our adjustment process, the government has allocated a higher amount of outlays on elementary education, rural drinking water supply, assistance to small and marginal farmers, programs for the welfare of schedule caste and schedule tribe and other weaker sections of the society, programs for women and children and also on infrastructure and employment generation programme. The 1995-96 budgets had introduced a National Social Assistance Scheme in the form of housing assistance, old age pension, maternity benefit,

group insurance scheme act for the people living below the poverty line as a part of this program.

3.4 TRADE LIBERALISATION IN INDIA :

In India, the effective reforms have started as a result a macro economic crisis raised in 1991 (Joshi and Little, 1996). The objective of the reform was to bring macro-economic stability and to solve the problem of balance of payment, inflation and indebtedness. One of the most import components of the reforms was trade liberalisation. Still now India has continued with reforms.

The Government of India has introduced a series of reforms in trade sector since July 1991 to integrate the Indian economy with the rest of the world. Among these measures, the important are liberalisation of import regime, substantial reduction in customs tariff rates, devaluation of rupee in July 1991, introduction of the convertibility of the rupee in trade account etc.

In its report *India: Strategy for Trade Reforms* released in 1990, the World Bank (1990) had advocated re-designing of import policy so that there is only one restricted lists and imports of all items not explicitly on the restricted list are allowed, decreasing the import tariffs on all goods and freer entry to capital goods, intermediate goods or raw materials and consumer goods in to Indian economy. As a result of these proposals the 1992-97 export - import policy allowed the free import of all items, which include capital goods, except a restrictive list. On August 13, 1991, the supplementary trade policy announced which decanalised the import of 20 items. Not only this, the import duties on a wide range of commodities were drastically cut down. This was followed by substantial reduction of import duties in 1993-94 budgets. Duties on a host of other commodities were also decreased. Except for few items which include passengers luggage and alcoholic beverage, the

maximum rate of duty on all goods was reduced from 110 percent to 85 percent, the maximum rate of duty reduced from 85 percent to 65 percent in the 1994-95 budgets. In 1995-96 budgets this was brought down to 50 percent and in 1997-98 budgets to further to 40 percent. The peak rate of custom duty further reduced to 35 percent in 2000-01. Substantial import duty cuts have been announced for machine tools, steel, ores and concentrates, leather industry, electronics and telecommunication sectors and host of other industrial sector.

Besides the reduction of Import duties, being a member of World Trade Organisation (WTO) India had also committed itself to the phasing out of quantitative restriction (QR) over a six-year period beginning from 1997. By April 1, 2001, the quantitative restrictions are to be totally removed. But in March 1999, the Patents (Amendment) Act. 1999 was passed as a part of the Agreement on Trade Related Intellectual Property Rights (TRIPs) to provide for Exclusive Marketing Rights (EMRs).

In September 1975 the fixed exchange rates system was abandoned by India and since then the managed exchange ratio float system was started. Under the new system the rupee was not expected to appreciate against other currencies, which causes a decline in the competitiveness of the Indian exports in international markets. India's inflation rate is higher than the developed countries, as a result, the real effective exchange rate of rupee did not fall as much as the nominal effective rate of rupee. Hence, to restore India's international competitiveness, the government of India formally devalued the rupee in July 1991 by around 22 percent. This was followed by a liberalisation of the foreign trade regime through dismantling of same physical control. The import procedures were simplified along with a significant number of items was shifted outside the purview of import licensing. Exporters with

30 percent to 40 percent of their export earnings were given entitlement in the form of exim scripts against which even restricted items could be imported. Later this system was replaced by the dual exchange rate system under the liberalised exchange rate system. Partial convertibility of rupee on trade account was introduced in 1993-94 budgets and then dual exchange rate system was converted to a unified exchange rate system. In August 1994 full convertibility of the rupee for entire current account transaction along with some relaxation of exchange control was introduced.

The 1991-92 budgets had reduced the import duty rate from more than 300 percent as a first step towards a gradual reduction in the tariff. Further subsequent budgets carried the process of lowering the customs tariff rate. The peak import duty rate was reduced from 65 percent to 50 percent in the 1995 - 96 budgets and was further reduced to 40 percent 1997-98 budgets.

Even before 1991 the government had undertaken several measures to promote exports but the coverage of imports by export earning was quite low. This coverage ratio was only 66.2 percent in 1990-91, which led to trade deficit. The coverage ratio of imports to exports improved by 76.5 percent of the value of imports from 1991-92 to 1996-97. Various export promotion measures had undertaken by the government as a major component of structural reform under the export-import policy 1992-97 apart from the system of exim scripts and liberalised exchange rate. The measures introduced by the Government of India are establishment of export oriented units for promoting exports from the agricultural and allied sectors, simplification of export promotion capital goods scheme, introduction of export promotion capital goods scheme for the services sector, adoption of a more rational and convenient criterion for recognition of export houses / trading houses / star trading houses broadening of areas of activity in Export Processing Zones,

duty free import of exports under the advance licensing scheme and creation of an exporters grievance cell in the Ministry of Commerce to facilitate action on problems being faced by exporters. Some more measures have been introduced under the Exim Policy (1997 - 2002) to accelerate the country's transition to a globally - oriented economy to stimulate growth by providing access to capital goods, intermediate and inputs, to improve the technological strength of the economy and to improve the global competitiveness of the Indian exports.

As a part of package of external sector reform capital flows has also been liberalised by the government in the form of foreign direct investment (FDI). The important measures are (i) automatic approval of foreign equity participation up to 51 percent in 48 industries. (ii) approval of foreign equity participation up to 51 percent in service areas, (iii) de-linking technology transfer from equity investment to impart flexibility, (iv) automatic clearance for import of capital goods in cases where foreign exchange flows through foreign equity, (v) amending the Foreign Exchange and Regulation Act. (FERA) to place FERA companies on par with Indian companies for all operation purposes, FERA has been now replaced by Foreign Exchange Management Act. (FEMA). Foreign companies now have the permission to use their trademarks, accept appointment as technical or management adviser, borrow and accept deposit from the public. These liberalisation measures of foreign investment have exposed the industrial activity to extensive control to Multinational Corporations (MNCs).

References:

Abraham, J. (2002), Development Dimensions of Multilateral Trade The Role of WTO" YOJANA 19-24 Dec.

Ahluwalia, M. S. (2002), "Economic Reforms in India Since 1991 : Has Gradualism worked ?" Journal of Economic perspective Vol. 116 No. 3 P 67-88.

Ahluwalia, I, J, , "Trade Policy and Industrialisation in India", in *Thoughts on the New Global Economy,* (ed) by Y.V. Desai Chp. 10, 183 - 203.

Althukorala. P. C. (2005). "Agricultural Trade Policy Reforms in India" South Asia Economic Journal, Vol. 6 No. 1 23-26 Jan-June.

Athreya, V. (2005). "A Neo-liberal Obsessions", Frontline, Vol. 22 No. 6, 39-40

Bhatt, P.R. (2003), "Second Generation Reforms. Some Issues" Asian Economic Review, Vol. 45, No. 3, 448-467, Dec. 2003.

Bhagwati, J. N., *India in Transition, Freeing the Economy.* Clarendon Press-Oxford.

Bhagwati, J. N. and T.N. Srinivasan, *India's Economic Reform* - Ministry of finance, Government of India.

Bhagwati, J. N. and T.N. Srinivasan, *Foreign Trade Regimes and Economic Development : India,* National Bureau of Economic Research, New York, Columbia University Press.

Cassess, R., Joshi, V., and Lipton, M. (1993), "Stabilisation and Structural Reform in India" Contemporary South Asia, Vol. 2 No. 2.

Chandrasekhar, C. P. (2003), "New Liberal Reform and Industrial Growth Towards Deviator Recession" Social Scientist, November - December.

Choudhury, S. (2002), "Economic Reforms and Industrial Structure in India" Economic and Political Weekly, January 12, p 155-68.

Datt, R. (1995), "New Economic Reforms - Need for Some Rethinking" The Indian Economic Journal, Vol. 42 No. 3.

Datt, R. and K.P.M. Sundharam, *Indian Economy*, S. Chand and Company Ltd. New Delhi.

Dhar, P. K., *Indian Economy.*

Economist, (1995), "India, Hello World" Vol. 334 No. 7898.

Guha, Ashok (ed) (1990), *Economic Liberalisation, Industrial Structure and Growth in India,* Oxford University Press.

Government of India, Planning Commission, Tenth Five Year Plans, 2002-07 (Delhi 2003)Vol. I, Chapter 4 on "External Sector Dimensions"

Goldstein, J. (2001), "International Institutions and Domestic Policies: GATT, WTO and the Liberalisation of International Trade", in *the WTO as an international Organisation* ed. by Anne O. Krueger, 133-160.

Goswami, O. (2004), "Remaining the reforms bias", Business World, Vol. 24, June, 8, 28, July 13-19.

Government of India, Economic Survey 2004-05.

Jaha, V.S.. *Liberalisation in India : The Road Ahed.*

Jalan, Bimal (1992), *The Indian Economy, Problems and Prospects* : Viking, New Delhi.

Joshi, V. and Little I.M., *India's Economic Reforms* - Oxford University Press, 1996.

Khalilzades Shirazi, Jawad (1994), "Economic Reforms in India, Achievements, and Agenda Ahead" Columbia Journal of World Business.

Kapila, Uma (2001), *Understanding the problems of Indian Economy*, Academic Foundation (New Delhi).

Katti, V. (2005), "Foreign Trade Policy: An appraisal" Yojana, 43-46 May.

Kurien, N. J. (2004), "Pro-Poor and Pro-Reform" Yojana Vol. 48, 57-59, Aug.

Khatik, S. K. (2003), "Globalisation and Post - Reforms Scenario of Global Economy; Same Issues", The Indian Journal of Commerce, Vol. 56, No. 4, 77-82, Oct. Dec.

Mishra, S. N. and B.N. Goldar (1966), "India's Trade and Investment Policies", mimeo, Institute of Economic growth, February.

Mukhopadhay, S (2002), "Exim Policy 2002-07" Economic and Political weekly 1389-1390 April 13.

Muralidharan, S (2001), "A New Trade Round. Virtually", Frontline, December 7.

Misra, S. K. and V. K. Puri, *Indian Economy*, 2004, Himalaya Publishing House.

Nayar, Baldev Raj (1998), "Business and India's Economic Policy Reforms", Economic and Political weekly, Vol. XXXII No. 38 19-25 September.

Nayar, Baldev Raj (2001), *Globalisation and Nationalisation*, Sage Publications, New Delhi.

Nayar, Baldev Raj (2001), "Opening Up and Openness of Indian Economy". Economic and Political weekly, 3529-3537, Sept. 15.

Patibandla, M. (1994), "New Theories of International Trade: A survey of Literature" Indian Economic Journal, January - March.

Planning Commission (2000), "India's 1990-91 crisis: Myths, Reforms and Paradoxes", working paper No 4.

Radrik, D. (1996), "Understanding Economic Policy Reform". Journal of Economic Literature, Vol. XXXIV 9-14.

Saran, V. and I. N. Mukherjee, *India's External Sector Reforms* Oxford University Press, New Delhi - 2001.

Santos, Paulino and Amelia U (2002), "Trade liberalisation and Export Performance in Selected Developing Countries", The Journal of Development Studies, Vol. 39 No. 1 October.

Sharna, S. D. (2003). "India's Economic Liberalisation, A Programme Report", Current History, 176-179, April

Verma, P. (1997), "India's Internal Trade in Services", The Indian Economic Journal, Vol. 44 No. 3 103-115.

Virmani, A. (2003), "India's External Reforms; Modest Gobalisation Significant Gains":- Economic and Political Weekly August 9.

Virmani, A. (1991), "Trade Policy Reform, De- Licensing, Tariff Reform and Exchange Rates", Development Policy Research, Planning Commission, New Delhi, September.

World Bank (1989), *India : An Industrialising Economy in Transition*, World Bank Washington.

World Bank (2000), *Finance for Growth*, Oxford University Press.

Wadhva, C. D. (2003), "Economic Reforms in India in Retrospect and Prospect" Man and Development, 17-62, September.

Chapter - IV

OUR TRADE PERFORMANCE IN REFORMED REGIME

4.1: INTRODUCTION

There has been a remarkable change in India's pattern of trade in terms of its volume and direction since 1990s.The so called liberalisation, privatisation and globalisation (LPG) wave has more integrated the Indian economy with the global world. The present chapter of the dissertation highlights the points such as globalisation and our trade policy, main features of new trade policy and trade liberalisation during the reformed period. In section 4.2 a detailed analysis on globalisation in world and Indian perspectives has been made elaborating its necessity and the necessary steps towards achieving the goal of introducing globalisation throughout the world. In section 4.3 mention is made on different categories of imports, various types of import licenses and alternative ways of importing during the pre-reformed period. There has also been an exposition of rationalisation for export structure, liberalisation of exchange rate regime and EXIM policy, 2002-2007. Export

performance, composition of exports, impact of import liberalisation on export performance and an exposition of volume of exports and imports during the post reform period have been presented in section 4.4.

4.2 : GLOBALISATION AND INDIA'S TRADE POLICY

Globalisation means the increasing integration of national economy with world economy through the removal of international trade barriers and capital movements. Thus, in a fully globalised world economy, tariff and non-tariff barriers to imports and exports, restrictions on inflow and outflow of capital cease to exist. For this purpose World Trade Organisation (WTO) was set up in January 1995 by the Uruguay Round of General Agreement on Tariffs and Trade (GATT) and since then restrictions are dismantled bit by bit and the economy moves towards a situation of free trade. Thus, free market economy or internationalisation of the economy is known as globalisation.

However, development economists have diverse views about the repercussions of globalisation or free market economy. The neo-classical economists have long advocated the benefits of free trade policy. But the policy planners were strongly impressed by the writings of Myrdal (1950), Chenery (1961) and Prebisch (1964) and they strongly argued for inward looking trade policies with emphasis on import substitution, rather than free trade policy. To them, trade aggravated income disparities between countries and between regions within a country. Trade was viewed, as a single most important vehicle of transferring wealth from the less developed countries to the developed countries cannot serve as "engine of growth". Hence up to 1990, Indian economy mostly adopted the regime of multiple controls, restrictive regulations and wide range of state interventions.

Bhagwati, on the other hand, is of the opinion that more exposer to the world through export promoting trade would offer incentive for domestic resource allocation for efficient use. Chenery and Burno by advocating the theory of "two gap" argued that by removing foreign exchange constrains, foreign trade would promote total factor productivity and fullest utilisation of the under utilised resources of the developing countries. The policy makers of developing countries viewed that globalisation will greatly enhance the well-being and standard of living of developing countries. And being a developing country India is no exception.

Necessity of Globalisation

In 1990-91, Indian economy had faced a very difficult situation on domestic as well as external front and in this situation the Government of India decided to adopt globalisation. There was a high rate of inflation (13 percent per annum). India's current account (of Balance of payment) deficit was around $10 billion. Despite an International Monetary Fund (IMF) loan of $1.8 billion in January 1991 reserves were down to two weeks imports, India's credibility was very low and commercial borrowing was not possible. The inflow of foreign capital from non residential Indians (NRIs) had been reversed. It was realised that there was structural illness in the Indian economy. The studies of Korea, Taiwan, Hong Kong and Singapore have shown that those countries having higher GNP growth were more open to world trade and the correlation between GNP growth and openness is highly positive.

During the 1990s for the first time world's market economies had become integrated. Even in developing countries exports and imports as a share of gross domestic product (GDP) had reached very high levels. The share of export plus import in the GDP in developing countries rose rapidly from about 33 percent in the mid 1980s to 43 percent in the next millennium.

Since July 1991, the Government of India initiated "Structural Adjustment Programme" (S.A.P). It is also known as New Economic Policy (NEP) of 1991. The objective of NEP is to make the Indian economy more "outward oriented" and to provide "free play of market forces". Globalisation is closely related to liberalisation. Liberalisation means the removal of unnecessary control in laws and procedure. On the other hand, globalisation means the opening up of the economy to the world by removing barriers of trade, technology and investment. SAP of the Indian economy seems to be taking place mainly in the industrial, financial and external trade sectors through reforms.

The conditions that prevailed in 1990 and 1991 pushed India adopting the structural adjustment programme of the IMF and the World Bank. Since globalisation is a part of the structural adjustment programme, it is rightly stated that it was the desperate condition of 1990 and 1991 that pushed India towards globalisation (Dalip S. Swamy, 1995).

Steps Towards Globalisation

(a) Exchange Rate Adjustment and Rupee Convertibility: Full convertibility of the rupee is the most important measure for integrating the economy of a country with the global economy. As a first step towards this measure, the IMF insisted on 13 percent real devaluation of the rupee in July 1991, as it was felt that the RBI was artificially keeping the value of rupee high. The target rate of inflation was fixed at 9 percent by the government so that the nominal devaluation required satisfying the IMF and World Bank authorities came out to be 22 percent [Ibid p. 249-50]. The Finance Minister did it in two stages on July 1, 1991 and July 3, 1991. As a result of devaluation of rupee second time on July 3, 1991,

five major currencies appreciated exactly by 22 percent against the rupee.

(b) Import Liberalisation: In its report *India: Strategy for Trade reform* released in 1990, the World Bank had advocated redesigning of the import policy so that there is only one negative (restricted) list and imports of all the items not explicitly on restricted list are allowed lowering the import tariffs, on all goods and free entry to capital goods, intermediate goods, raw materials and consumer goods into the Indian economy. As a result of the proposal, the free import of all items including capital goods except a negative list was allowed in the 1992-97 export-import policy. The supplementary trade policy, which was announced on August 13, 1991, decanalised the import of 20 items. Import duties on a wide range of commodities were also drastically cut down.

In addition to the reduction of import duties, India as a member of World Trade Organisation, had also committed itself to the phasing out of quantitative restrictions over a six-year period beginning from 1997. This period has been further reduced following the ruling of Dispute Settlement Body of WTO against India on an appeal made by the USA. By April 1, 2001 the quantitative restrictions were totally removed. Moreover in March 1999 the Patents (Amendment) Act, 1999 was passed as a part of the agreement on Trade Related Intellectual Property Rights (TRIPs) to provide for Exclusive Marketing Rights (EMRs). Import liberalisation increased the competition from imports that would increase efficiency, quality and technology besides making international quality capital goods and inputs available to our export industries.

(c) Opening up of Foreign Capital: To attract foreign capital and integrate the Indian economy with the global economy, the Government of India has opened up the doors to foreign investors. In the new economic policy, for this purpose, various incentives and facilities have been offered to the foreign investors and non-resident Indians. In 1991, the government announced a specified list of high investment priority industries (listed in annexure III), wherein auto permission was granted for foreign investment up to 51 percent foreign equity. Until December 1996, 35 industries were listed in Annexure III. Presently, the Reserve Bank provides automatic approval in the case of foreign direct investment up to 51 percent equity in the case of 51 high priority industries export/import/state trading house, in 9 of priority sector industries, the automatic approval limit has been extended to 74 percent. The automatic approval granted industries include a wide range of industrial activities in the capital goods and metallurgical industries, entertainment electronics, food processing and the service sectors.

The gradual reform process started since the late 1970s could not make any remarkable progress and tariff rates in India stood highest compared to other countries at the beginning of the 1990s. The tariff rates were in fact not only the highest (maximum tariff rate was 25 percent and import weighted tariff rate was 87 percent) but also more than double the tariff rates in other countries like Mexico, Brazil, Korea and Indonesia. Tariff collection rate in India was also the highest at 47 percent whereas in Mexico and Indonesia it was only 5 percent and 6 percent in Korea. Mean tariff rate of the whole economy was 128 percent at the beginning of 1990-91, the highest protection was accorded to consumer goods industries with mean tariff rate on consumer goods being highest at 142 percent

followed by protection to intermediate goods industries (with mean tariff at 133 percent), capital goods industries (with mean tariff at 100 percent) and agro industries (with mean tariff at 106 percent).

In terms of import-weighted tariff, India followed a similar sequence of sectoral protection. A notable characteristic of tariff structure in India is that there exist a wide variety of tariff rates across various commodities. The high dispersion points towards multiplicity of tariff rates are characterised by bureaucratic and discretionary delays. The tariff restrictions on consumer goods understate the extent of protection, because consumer goods imports subject to quantitative restrictions generally do not appear in the import basket. On the other hand, statutory tariff of the intermediate goods and capital goods overstate the extent of protection to subsidies and other concessions provided to exporters.

The consumer goods industries enjoyed the highest protection with effective tariff rate at 191.8 percent being the highest followed by intermediate goods with effective tariff at 148 percent and capital goods with effective tariff at 87 percent. In case of nominal tariff rates, the similar structure is followed. Through the introduction of import licensing system, the tariff restrictions on imports were supplemented with the quantitative restriction. The basic criterion of import policy was the essentiality and indigenous availability of goods. Both these quantitative and tariff restrictions on imports exempted the domestic manufacturing sector from competition, sheltered inefficiency and produced in-built bias against export oriented industries. The inefficiency in import intensive industries raised the domestic prices because the fear of competition from import was absent. As a result, the general cost structure was increased and exports suffered from negative effective protection. Such import substitution strategies characterised by high rates of tariff and quantitative import restrictions are

associated with (a) directly unproductive profit seeking activities (Bhagwati, 1982, 1990) and (b) rent seeking activities (Krueger, 1974). These involved a high cost in terms of the diversion of resources from productive to unproductive activities.

In view of the perverse effects of import substitution policies, a phased reduction in tariff rates constituted one of the major thrust areas in structural reforms of July 1991. As a result of such reform agenda, the tariff rates reduced remarkably and by 1995-96 these rates were less than half their level in 1990-91. To avoid the bureaucratic discretionary delays, the tariff structure was also simplified by reducing the multiplicity of tariff rates. As compared to 1990-91, the dispersion of tariff rates had been significantly declined in 1995-96.

However, as compared to the other sectors, the consumer goods industries still continue to be characterised by highest tariff rates despite a significant reduction in tariff rates. A phased reduction in import tariffs was also accompanied by the reduction in export subsidies. The central government subsidies on export promotion and market development, which continued to rise and reached the peak of 22.55 percent of total subsidies in 1990-91, decreased to 14.35 percent in 1991-92, 6.80 percent in 1992-93, 5.17 percent in 1993-94, 4.37 percent in 1994-95 and 2.54 percent in 1995-96.

Since 1991, trade policy has undergone fundamental shift to correct the earlier anti-export bias through the withdrawal of quantitative restrictions (QRs), reduction and rationalisation of tariffs, liberalisation in trade and payment regime and improved access to export incentives, besides a realistic and market based exchange rate. The focus of these reforms has been on liberalisation, openness, transparency and globalisation with a basic thrust on outward orientation focusing on export promotion

activity and improving competitiveness of Indian industry to meet global market requirement (Economic Survey, 2002-03).

4.3 MAIN FEATURES OF NEW TRADE POLICY

Freer Imports and Exports: India's trade policy regime was complex in the pre-reformed period. There were different categories of imports, different types of import licenses and alternate ways of importing. The importers were of three categories, (i) actual users for industrial products and non-industrial products, (ii) exporters and (iii) others import licenses were categorised as (a) open general license (OGL), (b) automatic license, (c) supplementary import license and (d) imports through government-owned canalised agencies. In the post reform period, the coverage of OGL has been increased and the restricted list has been cut drastically. On March 31, 1996, the tariff line-wise import policy was first announced and at the time 6,161 tariff lines were made free. Another 1,905 tariff lines were made free till March 2000. The annual export import policy 2000-01 announced on March 31, 2000 removed quantitative restrictions on 714 items with effect from April 1, 2000. The remaining 715 items would also go by April 1, 2001 - the date by which India has to implement the rulings and recommendations of the Dispute Settlement Body of the WTO to remove existing quantitative restrictions.

Rationalisation of Tariff Structure: Chelliah Committee's report published in January 1993, had advocated drastic reduction in import duties. The committee expressed the opinion that in 1980s the rupee had depreciated considerably and pushing up the level of protection to Indian industries in the early 1990s. For instance, the real exchange rate of rupee had depreciated by 57.45 percent during 1985-86 to 1992-93.As a result, the cost of imports had pushed up considerably leading to very high levels of protection to Indian industry. The committee, therefore, recommended that the

prevailing import duties be rationalised and drastically lowered by 1998-99, so that parity in prices of goods produced domestically and internationally can be established. On the basis of the recommendations of the committee, the Finance Minister announced substantial cut in imports duties in the 1993-94 and the 1994-95 budgets. The 1993-94 budgets reduced the maximum rate of the duty on all goods from 110 percent to 85 percent, except for a few items. This was brought down to 65 percent in 1994-95 to 50 percent in 1995-96 to 40 percent in 1998-99. The 2000-01 budgets reduced the peak rate of basic custom duty to 35 percent. Now there are only four custom duty rates of 35 percent, 25 percent, 15 percent and 5 percent. However a surcharge of 10 percent has been levied due to revenue consideration.

Decanalisation: In India, through the public sector agencies, a large number of exports and imports used to be canalised. The new trade policy announced on August 13, 1991 reviewed these canalised items and decanalised 16 export items and 20 import items. The 1992-97 policy decanalised imports of a number of items, which includes newsprint, non-ferrous metals, natural rubber, intermediates and raw materials for fertilizers. However, eight items (petroleum products, fertilizers, edible oils, cereals etc.) were to remain canalized. The proportion of canalised items in total imports declined from 27 percent to 19 percent between 1988-89 and 1998-99 (Reserve Bank of India, 1998-99).

Liberalising the Exchange Rate Regime: The exchange rate policy in India has evolved from the rupee being pegged to a market related system (since March 1993). The exchange rate is largely determined by the market, i.e. demand and supply conditions. "*The objective of exchange rate management has been to ensure that the external value of the rupee is realistic and creditable as evidenced by a substantial current account deficit and*

manageable foreign exchange situation. Subject to this predominant objective, the exchange rate policy is guided by the need to reduce excess volatility, prevent the emergence of destabilising speculative activities, help maintain adequate level of reserved and develop an orderly foreign exchange market" (Ibid).

Before the devaluation of 1966, one US Dollar was equal to Rs. 4.76.After the devaluation of 1966; one US Dollar became equal to Rs. 7.50. By the end of 1990, one US Dollar had become equal to Rs. 18.70. It was Rs.7.58 per special drawing right (SDR) in 1970 and reached Rs. 25.71 by the end of 1990. The government devalued the rupee in early July 1991, led to depreciation in the value of the rupee against the five major international currencies by roughly 22 percent.

In the budget of 1992-92, the Finance Minister announced the liberalised exchange rate mechanism system (LERMS). Partial convertibility of the rupee was introduced by this system. Under this system, a dual exchange rate was fixed under which 40 percent of foreign exchange earnings were to be surrendered at the official exchange rate and the remaining 60 percent were to be converted at a market determined rate. The foreign exchange surrendered at official rate was to be used for the import of essential items and the foreign exchange converted at the market rate was to be used to finance all other imports. Full convertibility of rupee on trade account was introduced in 1993-94 budgets. As a result, a unified exchange rate system was introduced in 1993-94 budgets. Under this system, the 60:40 ratios were extended to 100 percent conversion. This 100 percent conversion was extended for (i) almost the entire merchandise trade transaction (ii) all receipts, whether on current or capital account of balance of payments, but not all payments.

On August 1994, when Reserve Bank further liberalised invisible payments and accepted obligations under Article VIII of the IMF, India achieved full convertibility on current account under which India is committed to forsake the use of exchange restrictions on current international transaction as an instrument in managing the balance of payments. In 1995-96, 1996-97 and 1997-98 many other relaxations of restrictions on current transactions were announced. These include major relaxation in exchange control, more liberal indicative ceilings for release of foreign exchange by authorised dealer, for basic travel quota, studies abroad, media expenses, casual (gift) remittance, donations, release of exchange for persons proceeding on employment abroad, and greater flexibility in the Exchange Earner Foreign Currency (EEFC) accounts held by exporters, greater flexibility of remittance for purchase of foreign services by residents etc.

To import a wide range of items the 1991 policy allowed export houses and trading houses. For the purpose of promoting exports, government also permitted the setting up of trading houses with 51 percent foreign equity. Under the 1992-97-trade policy, export houses and trading houses were provided the benefit of self-certification under the advance license system, which permits duty free imports for exports.

The units undertaking to export their entire production of goods may be set up at Export Processing Zones (EPZs), Electronic Hardware Technology Park (EHTP), Software Technology Park (STP) and Export Oriented Units (EOUs). Recent changes in EOU/EPZ/EHTP/STP scheme include (i) enhancement of tax holiday from five years to ten years, (ii) higher domestic access, (iii) rationalisation of minimum Net Foreign Exchange Earning as percentage of exports (NFEE) and minimum export performance (iv) enlargement of the scope of private warehouses in EPZs to include

procurement of indigenous goods for export, (v) undertaking of job work on behalf of domestic units for direct exports in certain sectors etc.

The EXIM Policy 1999-2000 announced on March 31, 1999 proposed the setting up of Free Trade Zones (FTZs) in the country. From July 1, 1999, the FTZs were to be operational. However, this scheme could not be implemented. The annual EXIM Policy for the year 2000-01 which was announced on March 31,2000 proposed the creation of Special Economic Zones (SEZs). The SEZs have full flexibility of operations. They would be able to import capital goods and raw material duty free and be able to access the same for Domestic Tariff Area without payment of Terminal Excise Duty. At Piparav in Gujarat and Tuticorin in Tamil Nadu the first two SEZs in the country are created. The existing EPZs are converted to SEZs.

With a view to involve the state governments in the creation of infrastructural facilities for export-oriented production, in August 1994, a centrally sponsored "Export Promotion Industrial Park" scheme was introduced. It provides for 75 percent of capital expenditure towards creation of infrastructure facilities limited to Rs. 10 crore of grants to the state governments.

During the 1990s a large number of tax benefits and exemptions had been granted to liberalise imports and promote EXIM Policy 1997-2002 serving as the basis of such concessions. In the Union Budgets, 1999-2000, some of the measures announced were as follows: (a) reduction in the prevailing 7 major advalorem rates of customs duties to 5 basic rate and rationalisation of both import duty and excise structures, (b) significant reduction in duty rates for critical inputs for the Information Technology Sector, which is an important export sector (c) extension of facilities and tax benefits available to exporters of goods and merchandise under

section 80 III C to the entertainment industry to facilitate its development and exports. The Union Budget 2001-02 reduced the peak rate of custom duty from 40 percent to 35 percent and also announced a number of the Information Technology Sector, the Telecommunications and the Entertainment sectors.

Export Import Policy (EXIM) 2002-07

The EXIM Policy 2002-07 gives a major thrust to agricultural exports by removing export restrictions on designated items. The efforts to promote export of agro and agro based products in the floriculture and horticulture sector have been sustained with the notification of 32 Agro Export Zones across the country. Non-actionable subsidies such as transport subsidy have been provided for the export of fruits, vegetables, floriculture, poultry and dairy products. All quantitative restrictions on exports (except a few sensitive items) have been removed with only a few items being retained for export through State Trading Enterprises. To improve the productivity and export competitiveness of small scale, cottage and handicraft sector, the EXIM Policy provides a package of incentives including exemption from maintaining the average export obligation under the Export Promotion Capital Goods (EPCG) scheme, permission to achieve a lower threshold level for achieving the Export House Status; preferential access to Market Access Initiative Funds and duty free access to trimming and embellishment for achieving value added exports. The towns of export excellence (such as Tirupur for hosiery, Panipat for woolen blanket and Ludhiana for woolen knitwear) are intended to be regional rural motors for economic development for the small-scale sector, focusing on plugging critical infrastructural bottlenecks and enhancing quality of support services for industrial development.

To provide necessary impetus to star achievers EXIM Policy 2002-07 provides a strategic package for status holders comprising

of new/special facilities like issuance of license on self-declaration basis, fixation of input-output norms on priority exemption from compulsory negotiation of documents through banks, cent percent retention of foreign exchange in Exchange Earners' Foreign Currency account, enhancement in normal repatriation period from 180 days to 360 days and not mandating exports in each of the three licensing years for achieving the status. The Policy has operationalised the procedure for duty free import of fuel under the Advance Licensing Scheme, providing the license holder has a captive power plant.

In view of phasing out of all restrictions on textile products by 2005 under the Agreement on Textile and Clothing (ATC), the EXIM Policy 2002-07 has focused on measures to encourage value added exports in the garment sector. Electronic Hardware Technology Park (EHTP) scheme has been modified to enable hardware sector to face the zero duty regime under Information Technology Agreement (ITA-1), mandating only a positive net foreign exchange as a percentage of export criteria and obviating any other export obligation for units in Electronic Hardware Technology Parks. The changes carried out in the gems and jewellary scheme includes abolition of the licensing regime for the import of rough diamonds, reduction in the value addition norms for export of jewellary and permitting personal carriage of jewellary.

Procedural simplifications have been made in the EXIM Policy to further reduce transaction costs covering Directorate General of Foreign Trade, Customs and Banks. These include adoption of 8 digit commodity classification of imports which would eliminate the classification disputes, reduction of maximum free limit for electronic filing from Rs. 1.5 lakh to Rs. 1 lakh, introduction of some day licensing, new norms for reduction in percentage of physical examination of export cargo, introduction of the simplified

brand rate of drawback scheme and EXIM Policy 2002-07 including widening of the scope of the Market Access Initiative Scheme to include activities considered necessary for a focused market promotion of exports, setting up of "Business Centre" in India mission abroad for visiting Indian exporters/businessmen for ensuring a facilitator environment for exporters, transport subsidy for exports to units located in the North East, Sikkim and Jammu and Kashmir and introduction of Focus Africa with Focus common wealth of independent states (CIS) to follow to diversify markets.

4.4 : TRADE PERFORMANCE DURING REFORMED REGIME

External sector reforms have been the most successful of all reforms that were undertaken in the 1990s. All the fears of Indian critics and the skeptics that imports would go through the roof and the current account deficits would balloon would confound by them. They confirmed the faith of the reformers that a more efficient and equally stable foreign trade and payments system was based on a well-regulated market. Now both the trade and invisible accounts are much more resilient than in the 1980s and merchandise trade has increased significantly to an average of 20.1 percent of the GDP in the post-crisis period (Table 4.1). Contrary to the expectations of reform critics, the change of export side has been more than the change of import side. In the decade before the crisis exports (imports) were 4.7 percent (7.9 percent) of the GDP and in the nine-year succeeding it (i.e. post crisis period) they raised to 8.5 percent (11.6 percent). As a result, between pre crisis to post crisis periods, the proportion of imports financed by exports has increased from 0.59 to 0.74 (Table 4.1).

For a disaggregated view one has to go from the payment data to the customs data. The growth of customs exports in US $ value increased from 8.1 percent to 10.9 percent during pre-crisis and post crisis periods (table 4.2). This increase in growth was

particularly due to increase in the quantum of exports whose growth rate almost doubled from 5.4 percent per annum in the first period to 10.2 percent per annum in the second period. This compensated for a deceleration in the growth of unit values from 10.3 percent per annum in the pre crisis period to 7.7 percent per annum in the post crisis period. In the post crisis period the net terms of trade have actually improved. They remain high by world standards despite the slowing down of unit value growth rates. World merchandise (manufacture) exports unit values increased by 2.7 percent (2.9 percent) per annum during the eighties and 0 percent (0.57 percent) per annum in the 1990s.

Manufactured exports responded well to the trade reform and increased from an average of 60.77 percent of total exports in the 1980s to an average of 76.11 percent of total exports after the crisis (table 4.2). As a result, the rates of manufactured exports to the GDP more than doubled from a pre-crisis average of 2.8 percent to 6.3 percent of post-crisis average. Between the two periods its share of total exports also increased from 60.7 percent to 76.1 percent. The importance of manufactured exports to domestic manufactures has correspondingly increased. The ratio of manufactured exports to the GDP from registered manufacturing, which has also more than doubled from 6.4 percent to 13.2 percent between pre crises to post crisis period. Thus, even with many domestic controls and policy distortions still hampering manufacturing in India, this sector has demonstrated its comparative advantage vis-a-vis other trade sectors.

Oil and non-oil imports have followed a significantly different path in the import side. After the crisis, oil imports have increased marginally by 0.2 percent of the GDP. Non-oil imports have jumped from 5.2 percent of the GDP to 7.6 percent of the GDP during pre crisis to post-crisis period.

Table 4.1: Balance of Payment (US $ million) Growth Rates (Percent)

	1970-79 Seventies	1980-89 Per Crisis	1992-00 Post Crisis	1990-99 Nineties
Exchange rate (ER)				
Real Effective	-2.1	2.0	0.0	-1.9
Standard Deviation	5.8	4.6	6.4	7.4
Normal Effective	0.4	-3.0	-4.6	-6.579
Standard Deviation	2.2	4.8	6.5	-2.0
REER Calendar Year	-3.9	-1.7	-0.7	7.9
Inflation (WPI)	8.5	7.2	6.7	3.6
Standard Deviation	9.4	3.9	3.3	17.3
Money Supply	17.5	17.2	17.4	14.4
Bank Credit, net	17.2	18.5	14.0	14.3
Commercial	18.9	17.2	14.6	14.3
Government	15.0	20.4	13.4	14.5
RBI Credit to Government	14.5	20.0	5.6	7.1
Payment (BOP)				
Exports, fob	17.3	803	10.8	8.6
Imports, cif	20.6	7.8	12.7	9.7
Foreign Investment	-	-	114	102
FDI	-	-	49	52
Customs Export Total ($)	16.6	8.1	10.9	8.6
Quantam Index	6.9	5.4	10.2	10.6
Unit value Index	10.2	10.3	7.7	9.5
Manufacture($)	18.4	10.4	10.9	9.7
Primary	14.9	2.4	8.9	6.2
Oil	20.3	109.6	-11.9	-14.5
Customs import Tools ($)	21.9	7.2	11.4	9.6
Quantum index	7.1	7.5	16.3	12.7
Unit value index	16.3	8.0	4.2	6.9
Manufacture($)	18.7	11.1	14.5	8.5
Machinery and equipment	14.2	13.4	4.9	1.7
Primary	15.8	4.6	19.5	12.5
Oil	54.1	3.3	5.5	15.8
Net exports (US$ million)	493	-2136	1894	1809
Non-oil	-207	-2686	-1220	-1131
Manufacture	648	1026	2594	2477
Primary	-1487	-3944	-7211	-6810
Oil	20.2	6.6	6.1	-
World Merchandise Export Growth Value ($)				
Volume	6.0	3.7	6.7	-
Unit Value	13.4	2.7	-0.7	-

Source: Hand book of statistic on the Indian Economy, Reserve Bank of India, World Trade Ogranisation, World Merchandise Trade Data

Table 4.2 : Balance of Payment Ratios

	1970-79 Seventies	1980-89 Pre Crisis	1992-00 Post Crisis	1990-99 Nineties
Fiscal deficit (center)	3.6	6.6	5.2	5.5
Fiscal deficit (center and state)	8.1	7.2	7.4	7.3
current Account Deficit	0.1	1.8	1.1	1.3
Goods and Services deficit	1.5	3.7	3.1	3.0
Trade deficit	1.2	3.2	3.1	2.9
Export fob	4.4	4.7	8.5	8.0
Imports, cif	5.6	7.9	11.6	10.9
Export-Import Ratio	0.80	0.59	0.74	0.74
Non-customs imports	0.3	0.7	1.8	1.6
Invisibles, net	1.1	1.4	2.0	1.6
Non factor services	0.3	0.4	0.4	0.3
Private Transfers	0.6	1.1	2.5	2.2
Official transfers	0.6	0.2	0.1	0.1
Income (including interest)	-0.3	-0.4	-1.0	-1.1
Capital inflow (adjusted)	0.9	1.6	2.4	2.2
Foreign Investment	0.0	0.0	1.1	0.9
FDI	-	-	0.5	0.5
Protfolio	-	-	0.6	0.5
External assistance	0.7	0.6	0.4	0.5
Private/market	0.2	0.9	0.9	0.9
NRI deposists, net	0.1	0.4	0.4	0.4
Rupee debit Service	0.0	0.0	-0.2	-0.3
Reserves (increase is negative and decrease is positive)	-0.5	0.2	-1.1	-1.0
Customs data				
Total imports	5.3	7.2	9.8	9.3
Oil imports	1.1	2.0	2.2	2.1
Non-oil imports	4.0	5.2	7.6	7.2
Manufactures imports	2.7	4.1	6.6	6.3
Total export	4.5	4.6	8.4	7.8
Manufactures exports	2.7	2.8	6.3	5.9
Other Ratios				
Export/import ratio	0.87	0.64	0.86	0.85
Manufactured exports ratio to total	55.7	60.7	76.1	75.4
To registered manufacturing	7.2	6.4	13.2	12.4
Net imports of manufactured goods ratio to manufacturing GDP	1.8	8.9	2.5	2.3
Machinery and equipment import share in manufacture imports.	26.0	29.0	29.6	29.7

Sources: RBI, Handbook of Statistics on the Indian Economy, Directorate General of Commercial Intelligence and Statistics 2000.

The value of net imports of manufactured products has fallen dramatically from a pre-crisis average of 8.9 percent of the GDP to a post crisis average of 2.5 percent of the GDP (Table 4.2).

During each of the four years from 1991-92 to 1994-95 exports of manufactures exceeded imports of manufactures. This shows that manufacturing trade was highly responsive to the exchange rate devaluation of July. 1991.

In the post-crisis period, the trade deficit has no changes despite all these changes in the trade account. In the post crisis period, it averaged 3.1 percent of GDP whereas in the eighties it was 3.2 percent and in the second half of the eighties it was 3.0 percent.

The real effective exchange rate averaged the same in the pre-crisis and post crisis period but paradoxically these changes in exports and imports have occurred. This is however quite misleading on the real effective exchange rate depreciated by an average of 1.9 percent per annum in the 1990s, because of a depreciation of 15.1 percent in 1991-92 and 11.1 percent in 1992-93. The real depreciation rate was therefore only 0.1 percent per annum slower than in the 1980s and 0.2 percent per annum slower than in the 1970s. As a result from 1990 to 2000 India's share in the world exports continued to increase from 0.52 percent to 0.67 percent. Because of gradual lifting of the QRs and reduction in customs tariffs this increase was higher than in the previous decade.

During the second half of the 1990s several commentators have, however, raised the issue of a slowing and perhaps even some reversal of reforms (tariffs and exchange rate management) and its effect on export and balance of trade. A comparison of the performance in the second half of the nineties relative to that in the first half can shed some light on this issue. The ratio of exports to GDP, which was identical during the two halves of the eighties (4.7 percent), jumped to 7.3 percent in the first half of the nineties and in the second half of the nineties it was 8.3 percent. In 2000-01 it was 9.5 percent. India's share in world merchandise exports shows

a similar trend. Between 1990 and 1995 India's share of world exports was 0.08 percent and between 1995 and 2000 it was 0.07 percent.

During the 1990s the share of manufactured exports in India's total exports also increased. During the 1st half of the 1990s it was an average of 74.7 percent and in the second half of the 1990s it was an average of 76.2 percent. The increase in the share of manufactured exports between the second half of the 1980s and the first half of the 1990s this manufactured export growth rate over the 1990s may be partly due to the slowing of real effective depreciation to 2.9 percent per annum during the first half and to 0.8 percent per annum during the second half of the 1990s.

During 1990-94 the trade deficit was falling sharply 2.1 percent of the GDP and during 1995-99 trade deficit was falling sharply on an average 3.6 percent of the GDP. This is higher than in 1980-84 (3.5 percent). In 1999-2000, it touched 4 percent of the GDP and fell back to 3 percent in 2000-01. As a result of manufactured imports the import GDP ratio was increased. In the second half of the nineties the net negative imports of manufactured goods have risen. In the first half of the 1980s they still remain below. There are number of reasons for these developments. The euphoria that preceded the Asian crisis created large capacities in many products in Asia that has put downward pressure on the global prices of manufactured goods. The combination of slower pace of real depreciation (0.8 percent per annum) during the second half of the 1990s eliminates any remaining water under the tariff. So, for the first time Indian manufacturing is subject to competitive pressure. The competitive efficiency is to increase through faster tariff reductions in combination with greater freedom to exchange markets to depreciate. Imports of capital goods as a percentage of

manufactured imports have also fallen after rising to a peak of 3.3 percent in the period from 1993-94 to 1996-97, though they were still in the second half of the 1990s a higher proportion of manufactured imports than in the first half of the 1980s. As a result of decline in FDI from 1997-98 onward and decline in domestic investment (GDI) over the same period this rise occurs. The ratio of capital goods imports to domestic products of capital goods has fallen thus it rose as a result of boom of FDI and GDI during 1993-94 to 1996-97. This is a precursor of lower productivity growth in future.

Export Performance during the Post Reform Period

It is observed from table (4.3) that during the post reform period, the mean growth of GDP was 6.0 percent but during the post reform period the mean growth of import was 23 percent. In the post reform period the growth rate is inconsistent. Imports are also inconsistent. However, exports have increased steadily during the period due to openness of trade. In 1990-91 the share of the exports as a percentage of GDP was 4.7 percent but it increased to 19.9 percent at the end of 2003-04 the mean growth export rate has increased to 16.5 percent. The results establish that trade liberalisation has a positive impact on expert performance in India.

Table 4.3: Trade openness and GDP in India 1990-2006

	Growth Rate			As a percentage of GDP			
Year	**Exports**	**Import**	**GDP**	**Export**	**Import**	**Trade Openness**	**EEX/Im**
1990-91	17.7	22.3	5.6	4.7	6.2	10.9	0.75
1991-92	35.3	10.8	1.3	6.3	6.8	13.0	0.92
1992-93	21.9	32.4	5.1	7.3	8.6	15.8	0.84
1993-94	29.9	15.3	5.9	8.9	9.3	18.3	0.95
1994-95	18.5	23.1	7.3	9.8	10.7	20.6	0.92
1995-96	28.6	36.4	7.3	11.8	13.6	25.5	0.87
1996-97	11.7	13.2	7.88	12.2	14.3	26.6	0.85
1997-98	9.5	11.2	4.8	12.8	15.2	27.9	0.84
1998-99	7.4	15.7	6.5	12.9	16.5	29.4	0.78
1999-00	14.2	20.7	6.1	13.8	18.7	32.6	0.74
2000-01	27.6	7.3	4.0	17.1	19.3	36.4	.88
2001-02	2.7	6.2	6.0	16.5	19.3	35.8	0.85
2002-03	22.1	21.2	4.2	19.5	22.5	46.5	0.87
2003-04	15.0	20.8	8.5	19.9	24.3	44.2	0.82
2004-05	27.9	39.5	7.5	12.2*	17.1*	29.3*	0.71*
2005-06	21.6	31.8	9	13.1	19.5	32.6	0.67
Mean Growth	19.47	20.5	6.6	13.6	15.1	27.8	0.82

Source: Economic Survey, Government of India, various issues.
*Economic Survey, Government of India 2006-07

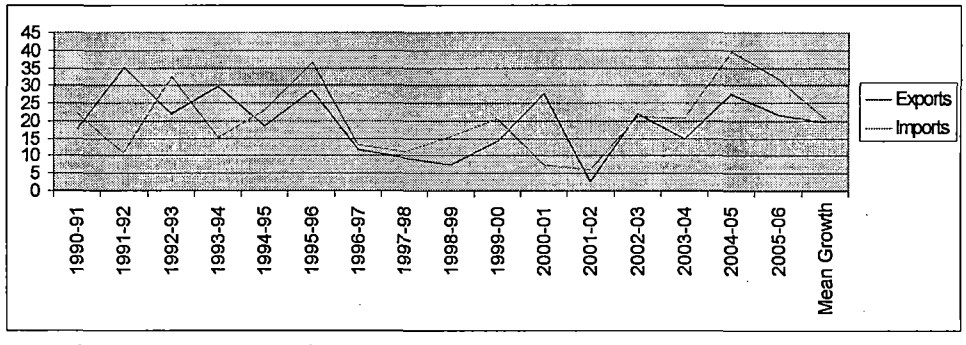

Fig 1: Export and Import Growth in India 1990-2006.

Shift in Composition of India's Export

The sectoral composition of India's exports indicated that in 1990-91 the share of primary product in exports was 23.8 percent, which declined to 12.4 percent in 2003-04. Between 1990-91 and 2003-04 the share of manufacture good had increased from 71.6 percent to 77.8 percent and in the last few years the share of petroleum product in the total exports has increased to be considerable extent. That is during the post reforms period, the

total value of exports had registered substantial increase in all the sectors. (Table 4:4 and 4.5)

Table 4.4 reveals that during the first three years the share of primary products was constant and in subsequent period it was decrease. The share has declined at considerable extent during the last three years. The fluctuation was less in the share of manufactured goods in total exports Table 4.4 gives the share of major sectors in the total exports during 1990-91 to 2003-04.

Table4.4: Exports of Principal Commodities

			Petroleum		
Year of Commodities	Primary Products	Manufactured goods	Products	Other	Total
1990-91	4324	12996	522	302	18145
1991-92	4132	13148	414	170	17865
1992-93	3873	14038	476	148	18537
1993-94	4915	16656	397	268	22238
1994-95	5214	20404	416	294	26330
1995-96	7256	23747	453	583	31794
1996-97	8035	24613	481	339	33469
1997-98	7687	26546	352	419	35006
1998-99	6927	25791	89	409	33218
1999-00	6524	29714	38	544	36822
2000-01	7126	34335	1869	1229	44560
2001-02	6146	33792	3177	712	43827
2002-03	6962	41070	4275	412	52719
2003-04	7888	49671	5666	618	63843

Source: Economic Survey (Various issues), Govt. of India

Table 4.5: Percentage share of Board Groups of Exports to Total Exports

			Petroleum	
Year of commodities	**Primary Products**	**Manufactured goods**	**Products**	**Others**
1990-91	23.8	71.7	2.9	1.6
1991-92	23.1	73.6	2.3	0.9
1992-93	20.8	75.7	2.5	0.9
1993-94	22.2	74.9	1.8	1.2
1994-95	19.8	77.5	1.6	1.1
1995-96	22.8	74.7	1.4	1.1
1996-97	24.0	73.5	1.4	1.1
1997-98	21.9	75.8	1.0	1.3
1998-99	20.8	77.6	0.3	1.3
1999-00	17.7	80.7	0.1	1.5
2000-01	16.0	77.0	4.2	2.8
2001-02	14.0	77.1	7.2	1.7
2002-03	13.2	77.9	8.1	0.8
2003-04	12.4	77.8	8.9	0.9

Source: Economic Survey (Various issues), Govt. of India

From the table (4.5) we can notice that during the post reforms period, the exports growth has been consistent. It is observed that the negative growth rate was registered in respect of primary products as compared to manufactured exports. This table also shares the year-to-year percentage variation in exports.

Table 4.6: Percentage Charge in Exports of Principal Commodity Groups.

			Petroleum		
Year of Commodities	Primary Products	Manufactured goods	Products	Other	Total
1990-91	11.4	8.6	26.7	10.9	9.2
1991-92	4.4	1.2	26.6	43.7	1.5
1992-93	6.3	6.8	14.9	12.9	3.7
1993-94	26.9	18.6	16.6	81.08	20.0
1994-95	6.1	22.5	4.8	9.7	18.4
1995-96	39.2	16.4	8.9	98.3	26.8
1996-97	10.7	3.6	6.2	41.8	5.2
1997-98	4.3	7.8	26.8	23.6	4.6
1998-99	9.9	2.8	74.7	2.4	5.1
1999-00	5.8	15.2	57.3	33.0	10.8
2000-01	9.2	15.6	48.1	125.9	21.6
2001-02	13.7	1.58	59.9	42.0	1.6
2002-03	13.3	21.5	34.5	42.1	20.3
2003-04	13.3	20.9	32.5	50	21.1

Source: Economic Survey (Various issues), Govt. of India.

Comparative Perspective

During the 1980s India's merchandise export growth was 7.7 percent per annum, which increased to 8.7 percent per annum in 1990s. The world exports during these periods were 5.4 percent and 6.3 percent, so this was faster than the world export. As a result, the share of export of India in world exports increased from 0.42 percent in 1980 to 0.52 percent in 1990 and 0.67 percent in 2000. Consequently India's growth ranking improved from 52 to 46 during eighties to nineties. Most of the countries whose GDP growth was faster than India during these decades, like China, Korea, Singapore, Thailand, Malaysia, Ireland, and Vietnam also had a faster growth of exports. Other Countries like Hong Kong, Bangladesh, Sri Lanka and Mexico had a faster growth of export than India, but their per capita GDP growth was slower than India.

The trade share was improved from 0.57 percent in 1980 to 0.60 percent in 1990 and further to 0.7 percent in 2000. The country ranking was reflected by this improvement. This ranking improved from 43 to 33 and again to 27. The import rank was slightly better and export rank was slightly lower than the trade rank.

India's GDP in US dollar was 12th highest in the world and India's trade rank was 27, which clearly shows that India is still a very closed economy. Countries that are smaller than India in US dollar GDP but are relatively large like Korea, Australia, Russia, Netherlands, Switzerland, Belgium and Sweden have a higher rank than India. At the end of the decade India had the highest tariffs. Out of 70 countries based on data of world development indicators India had the third highest rate followed by Pakistan and Cameroon.

Among the countries having a lower weighted average tariff than India (29.5 percent) are its neighbours: Sri Lanka (22.5 percent), Bangladesh (22 percent), Nepal (18 percent) and China (15.7 percent). This creates additional problems of import diversion and smuggling. As a result of India's free-trade arrangement with its neighbours, it becomes profitable to import many items into these countries and then export them to India.

For a larger set of countries customs duty collection rates are available (about 114 in 1999). India's rank was 103rd in 1999. Out of 114 countries only 11 had a higher custom duty collection rate than India.

The comparative picture with respect to FDI contrasts somewhat with that for trade. In case of FDI inflows (US $ value) India's position was 39th which was better than its trade rank in 1980. During1980s India's overall rank, however, worsened and reached to 42nd in 1990. Since then it has improved significantly and in 1999 it ranked 33rd and then worse than its trade rank. If we exclude the rich countries and consider only the emerging markets and developing countries, then in 1999 India was ranked 14th.

The fear of foreigners to take over Indian Industries were due to domestic resistance to further opening of FDI. The fear can be quantified in a comparative perspective to look at the share of FDI in gross domestic investment GDI. For India, the ratio was only 2.1 percent in 1999 compared to 5.3 percent for Russia, 85 percent for S. Korea, 10.5 percent for China and Mexico, 21.3 percent for Brazil, 23.8 percent for Thailand and 25.1 percent for Singapore. Both China and Singapore have the highest domestic saving rates in the World. Out of 201 countries India's rank was 126, with only about 25 countries having a lower rate for FDI in the domestic economy.

Impact of Import Liberalisation on Export Performance

Trade Policy reforms are a step in the right direction of making the foreign trade regime in India, free from an over-regulated trade policy. The new approach attempts to establish a market-oriented linkage between exports and imports. The volume of imports has increased due to the adoption of import liberalisation policies with energy in the eighties and nineties.

The volume index of import was 224.2 in 1988-89 but in 1996-97, it rose to 511.8 (base 1978-79 = 100) i.e. by more than five times between the periods 1978-79 to 1996-97.

In recent years studies conducted by different economists show that due to import liberalisation, import intensity of exports has increased significantly. Deepak Nayyar has shown that in 1972-73 the import intensity of exports was 6.9 percent, which was increased to 23.5 percent as a proportion of total exports in 1984-85.

The trade policy reforms of 1991 have drastically changed the scenario and have shifted the economy from inward-oriented policy to outward -oriented policy.

In the post reform period India's trade has increased significantly. From 1980s to 1995-96 India's trade rose from the level of around 15 percent to more than 22 percent as a ratio of GDP. A highest growth in India's exports (11.95 percent per annum) than imports (9.75 percent per annum) recorded the period 1990-91 to 1996-97, thus leading to a decline in India's trade deficits from around US $ 5 billion - $ 6 billion per annum in 1980's to $ 2.3 billion in 1994-95. Due to import liberalisation policies of the government, imports were increased from $ 4.9 billion in 1996-97. In 1996-97 over 1996-95, the trade deficits rose to $ 4.9 billion in 1996-97. In 1996-97 imports increased by 6.7 percent over 1995-

96 and exports increased by 5.3 percent. Consequently, in 1996-97 trade deficits further rose to $ 5.6 billion.

During 1950s to 1970s the share of India's exports in world trade has fallen sharply from 2 percent to around 0.6 percent but in 1995-96 India's exports in world trade was around0.8 percent. The value of India's exports increased at an annual rate 12 percent during 1990-91 to 1996-97, which is higher than the value of world trade (7.5 percent).

Table 4.7: Unit Value Index, Volume Index and Terms of Trade

	Unit Value Index		Volume Index		Terms of Trade		
	Export	Import	Export	Import	Gross	Net	Income
1984-85	169.8	161.7	120.8	156.1	129.2	105.0	126.8
1985-86	170.8	158.8	111.3	182.3	163.8	107.6	119.8
1986-87	179.4	139.4	121.3	212.3	175.0	128.6	156.0
1987-88	195.4	160.0	140.0	204.8	146.3	122.1	170.9
1988-89	232.2	185.5	152.1	224.2	147.4	125.2	190.4
1989-90	276.6	228.4	174.9	227.8	130.2	121.1	211.8
1990-91	292.5	267.7	194.1	237.7	122.5	109.3	212.2
1991-92	369.5	309.1	208.6	228.0	109.3	119.5	249.3
1992-93	421.5	331.0	222.9	282.0	126.5	127.3	283.8
1993-94	474.1	327.2	251.5	329.1	127.8	144.9	373.1
1994-95	494.6	324.6	292.7	408.3	139.5	152.4	446.0
1995-96	484.2	351.0	384.3	514.8	134.0	137.9	530.0
1996-97	504.7	399.8	411.8	511.8	124.3	126.2	519.7
1997-98	589.4	404.2	386.0	562.1	145.6	145.8	562.8
1998-99	611.7	407.8	399.2	644.2	161.4	150.0	598.8
1999-00	604.5	450.5	461.0	704.8	152.9	134.2	618.7
2000-01	624.3	487.5	571.4	697.7	122.6	128.1	732.0
2001-02	618.0	492.9	592.7	732.8	123.6	125.4	743.2
2002-03	619.6	545.6	721.6	802.4	111.2	113.4	819.7
2003-04	672.4	545.1	764.6	907.4	126.9	123.4	943.5
2004-05	732.0	663.0	899.0	1113.0	110.0	124.0	991.0
2005-06	881.0	988.0	1307.0	1095.0	67.0	90.0	662.0

Source: Economic Survey 2006-07, Govt. of India.

From Table 4.7 it can be seen that volume index of exports recorded a steady rising trend during post reform period. Table shows that between 1991-92 and 1992-93 the quantum index of export showed an increase from 208.6 to 222.9 and in 2004-05 and 2005-06 further increased to 899.0 and 1307.0. So, there was an upward trend in the changes of the level of quantum of export.

In between 1990-91 to 1998-99, the direction of India's export to organisation for economic cooperation and development (OECD) countries increased from 53.5 percent to 57.9 percent. To oil and pertroleum exporting countries (OPEC) countries, in 1990-91 the percentage share of Europe was 27.5, which had came down slightly to 26 percent in 1998-99. It went up from 14.7 percent in 1990-91 to 21.8 percent in 1998-99 in case of the United States of America. The exports to OPEC have gone up from 5.6 percent to 11.2 percent between 1990-91 and 1998-99. Between 1990-91 and 1998-99 exports to East Europe have come down drastically from 17.9 percent to 3 percent. The percentage share had gone up from 8 percent in 1990-91 to 32.4 percent in 1998-99 in developing countries other than OPEC.

The export performance since 1984-85 has been shown in the following table 4.8 as the India's reforms process actually initiated in 1985.

Table 4.8: Exports as a Percentage of GDP

Year	At Current Price
1990-91	5.8
2000-01	9.9
2001-02	9.4
2002-03	10.6
2003-04	11.0
2004-05	12.2
2005-06	13.9

Source: Economic Survey Government of India, 2006-07

From the Table it is seen that export as a percentage of GDP is on a growth path.

The economy in many ways affected by outward orientation. Since 1990-91 the experiences of India are explained in table 4.9.

Table 4:9: Trends in India's Volume of Export 1990-91.

Year of	Volume of Export (in US $ million)	Export as Percent of GDP at MP	India's Share in World Trade	Percent Change in Export
1990-91	18477.00	6.2	0.53	9.2
1991-92	18266.00	6.7	0.53	1.5
1992-93	18869.00	9.1	0.52	3.8
1993-94	22683.00	8.3	0.57	20.0
1994-95	26855.00	8.1	0.59	18.4
1995-96	32311.00	8.9	0.60	20.7
1996-97	34133.00	8.6	0.62	5.3
1997-98	34849.00	8.3	0.62	1.5
1998-99	16634.00	-	0.62	29
1999-00	41543.00	-	0.70	-
2002-03	63028.00	10.6	0.86	-
2003-04	79846.00	11.0	0.90	-

Source: Economic Survey 2006-07, Govt. of India.

Table 4.10: India's Share in the World Trade.

	1993	1994	1995	1996	1997	2000
India	0.57	0.59	0.6	0.62	0.61	0.7
China	3.63	3.37	3.41	3.42	3.45	3.9
Malaysia	1.26	1.38	1.46	1.48	NA	1.5
Indonesia	0.98	0.94	0.9	0.94	NA	1.0
Singapore	1.98	2.28	2.32	2.37	2.29	2.2
Thailand	0.98	1.06	1.11	1.05	NA	1.1
U.S.A.	12.46	12.08	11.5	11.84	12.62	13.0
Developing Countries	30.73	31.48	31.91	32.68	33.45	37.1

	2001	2002	2003	2004	2005	2006
India	0.7	0.8	0.8	0.8	1.0	1.0
China	4.3	5.1	5.9	6.6	7.4	7.8
Malaysia	1.4	1.5	1.3	1.4	1.4	1.4
Indonesia	0.9	0.9	0.8	0.8	0.8	0.9
Singapore	2.0	2.0	2.0	2.0	8.8	2.3
Thailand	1.1	1.1	1.1	1.1	1.1	1.1
U.S.A.	NA	13.4	11.6	10.7	10.6	10.3
Developing Countries	36.8	37.8	38.8	40.7	43.8	44.8

Source: Computed from International financial statistics, May 1998, p-60 and Economic Survey, Government of India 2006-07.

Table 4.10 shows the India's share in World Trade from 1993-2006.

The data presented in table 4.10 lead us to the following conclusions.

(i) As a result of trade policy reform Indian economy shifted from inward oriented policy of the past to an outward looking policy.

(ii) Up to 1997-98 the volume of exports had shown an upward trend.

(iii) Except for the year 1997-98 India's export as percent of GDP at MP had shown an upward trend.

(iv) In comparison with East Asian countries India's share in world trade was one of the lowest.

(v) The U.S.A. keeps the leadership in the world trade with a share of 10.3 percent in 2006.

Between 1987-88 and 1998-99, the share of manufacture export to total export had gone up sharply from 67.8 percent to 76.6 percent. Over the past decades, the relative share of tea, coffee, marine products and ores and medicines have declined. On the other hand, Indian Basmati rice improved its share in total exports from 2.2 percent to 4.4 percent between 1987-88 and 1998-99.

In July 1991 foreign trade shifted from control to open market and economic reform started. This facilitated structural change in export trade. There was 52.4 percent export-import ratio in 1980-81 and in 1990-91 the export-import trade had been only 66 percent. But after 1991-92 i.e. after the liberalisation of foreign trade, this ratio increased to 86.7 percent in 1991-92 and in 1993-94 it was 94.6 percent.

A detailed study on "Impact of Economic Reforms on India's Major Exports" - Policy guidelines by H.A.C. Prasad (IIFT New Delhi) - 1997 shows the following results. (i) In 1994-95, India's major export covered around 90 percent (ii) In 1994 - 95 many new major

items are included which were not exported in 1990-91. (iii) India's relatively high export growth rates for most of the major export items and relatively low growth rates of world imports for these items and the increase in India's share of exports in world imports of these items indicate that India has made a dent into the markets of its competitors during the referred period. This study says that despite the lower world demand India's export increases due to reform process.

Table 4.11: Imports and Exports

(in US $ Million)

Year	Import	Export
1996-97	39132	33470
1997-98	41484	35006
1998-99	42389	33218
1999-00	496.71	36822
2000-01	50536	44566
2001-02	51413	43827
2002-03	61412	52719
2003-04	78150	63843
2004-05	111518	83536
2005-06	149166	103091

Source : Economic Survey, Government of India 2006-07

It was expected that economic reforms would lead to increase in exports and improve balance of trade. Imports had risen rapidly in spite of depreciation of rupee rate. In 1991-92 trade deficit was US $ 1546 millions, which rose to US $ 6398 million in 1997-98. In the 1st half of 1990s, imports of capital goods particularly non-electrical machinery grew. There are three reasons. (a) to meet international competition Indian manufacturers adopted advanced technology. (b) FDI inflow rose, (c) import duties were reduced and regulations on imports of capital goods were relaxed.

In the first half of 1990s export grew but remained stagnant since 1996-97. During the 1998s the share of agriculture and allied products in total exports declined sharply but at the same time the share of gems and jewellery rose. Exports of machinery, transport and metal manufactured increased. In between 1992-93 to 1996-97 India's software exports grew from US $ 22.5 millions to US $ 1085 millions. After the reform cotton yarn, fabrics made up exports increased. However, new export industries have not developed after 1990s except software (Meha 1997-98).

During 1990-96 total trade as proportions to total GDP hiked from about 16 percent to 22.67 percent mainly due to a fast rising imports rather than exports. During 1990-97, share of imports in GDP increased from 6.2 percent to 9.4 percent but proportion of exports in GDP increased only from 6.2 percent to 9.4 percent. Adverse balance of trade resulted from US $ 9.44 millions to US $ 14.30 billions, which constitutes 4 percent of GDP. In between 1990 to 1996, due to higher export growth the adverse balance of trade was quite low.

Table 4.12: Trade Balance (Us $ Million)

Year	Exports	Imports	Trade Balance
1990-91	18143	24075	5932
1991-92	17865	19411	1546
1992-93	18537	21882	3345
1993-94	22238	23306	1068
1994-95	26330	28654	2324
1995-96	31797	36678	4881
1996-97	33470	39133	5663
1997-98	35006	41484	6478
1998-99	33218	42389	9171
1999-00	26822	49671	12849
2000-01	44560	50536	5976
2001-02	43827	51413	7586
2002-03	52719	61412	8693
2003-04	63843	78150	14307
2004-05	83563	111518	27982
2005-06	103091	149166	46075

Source: Economic Survey, Govt. of India (2006-07)

The table 4.12 clearly shows that growth of imports is greater than exports. Since 1991 all sectors of the economy were opened up and EXIM policy focused on liberalising the foreign trade regime. But exports took a severe striking after the strong performance during the years 1993-94 to 1995-96 when the annual growth rate was approximately 20 percent. While domestic economy was entangled in a withdrawal, adverse trading environment prevailed abroad for an extended period of time.

A serious hindrance is that bulk of our exports were in between 30 percent to 50 percent, is accounted for by small-scale sector. In terms of number, they face in accessing working capital and export finances they are in greater number. On the other hand, the contribution of organised sector was not significant. Even the top companies' share of India's exports was 5 percent though their import intensity was high. So for a majority of them, domestic market occupies the top priority and this market is vast and profitable. When the home demand is met, they look upon exports as a residual activity. The commodity basket is also narrow. The impact of the value of exports felt with the decrease in export of any of the mainstay items like textile, gems and jewellery.

The main problem in the 1990s phase that is seen to have obstructed India's transition to high income economy are lack of well integrated policies, non-transparent nature of selected policies and political certainty. A scrutiny of India's exports trends since 1990s yields many interesting results. During 1990s the contribution of exports to the gross domestic product has been on the rise. The exports- GDP ratio was between 4.6 percent and 6.1 percent in 1980-81 and 1990-91. But in 1995-96 this ratio has improved significantly to 8.7 percent. In 1998-99 the export- import ratio at 8.1 percent despite the setback in export.

Reference

Agarwala, R. (2003), "Towards a Multipolar World of International Finance" Indian Economic Journal, Vol 51, No. 2 July – Sept.

Baldev, Raj (2001), "Opening up and Openness of Indian Economy," Economic and Political weekly, 3529-3537, Sept.15. Prof,

Baldev, Raj (2001), *Globalisation and Nationalisation,* Sage Publications, New Delhi.

Basam, A. L. (1997), *The World that was India,* Rupa and Co. Calcutta PP 226-231.

Bhagwati, J. N. and T.N. Srinivasan (1975), *Foreign Trade Regimes and Economic Development: India,* National Bureau of Economic Research, New York, Columbia University Press.

Bokare, M. G. (1993), *Hindu Economics (External Economic Order)* Janaki Prakasan, New Delhi.

Brahmananda, P.R. (1997), "Factor Mobility, Globalisation, multi - National Corporations, Convergence and the Consequent Revolution in Internation Trade Theory": The Indian Economic Journal ; Vol. 44, No. 3.

Dholakia, R.H. and Deepak Kapur (2001), "Economic Reforms and Trade Performance, Private Corporate Sector in India"- Economic and Political weekly December 8.

Dholakia, Ravindra (1994), "Special Dimensions of the Acceleration of Economic Growth in India" Economic and political weekly, Vol. 29 No. 35 PP 2303 - 2309.

Diwan, Romesh (1996), "Economic Reforms-Alternative Policy Package," The Statesman, Feb 21.

Dutta, Bhabatosh, *Indian Planning at the cross road.*

Government of India, *Economic Survey* (Various Issues).

Government of India (1999), *Export - Import Policy Statement* July.

Ibid, p. 32.

Jalan, Bimal (2001-02), "India and the Challenge of Globalisation" The Indian Economic Journal, Vol. 49, No. 3, 9-12.

Jaftrelot, C. (2001-2002), "Is India Globalisable" Indian Horizon, Vol. 48, Oct-2001- March 2002, 134-140

Jayashankar, Mitu (2004), "India Today, The World Tomorrow" Business World, Vol.23.

Jha, L. K. (1987), "Indian Economy in Eighties and Nineties" Mainstream (Republic Day), 26

Kalamkar, Shrikants (2003), "Liberalisation and India's Horticulture Export," Economic Affairs, Vol. 48, No 4,199-210, Dec.

Kapoor, R. S. (2005), "Integrating with Global Economy," Yajana 43-46, May

Karnar, N.G. (2005), "Paradigm Change" The Hindu Survey of Indian Industry, 197-201.

Kapila, Uma (2001), *Understanding the Problems of Indian Economy*, Academic Foundation (New Delhi).

Kent, George (2004), "What is Free Trade? Where is Free Trade?" UN chronicle, No. 3, 34

Khartik, S. K. (2003), "Globalisation and Post Reforms Scenario at Global Economy: Some Issues", The Indian Journal of Commerce, Vol. 56, No.4 77-82, Oct-Dec.

Khusro, A. M (1992), "Myths and Misconceptions," Financial Express March 12.

Lekhi, R. K., *The Economics of Development and Planning* Kalyani Publishers.

Mehta, Rajesh (2000), "Removal of QRs and Impact on India's Import," Economic and Political Weekly, 1667-1671, May 6.

Memorandum of Economic Policy from 1991-92 to 1992-93, submitted by Finance Minister to I.M.F, August 27, 1991.

Michael, Kideran, *Foreign Investment in India.*

Moore, Mike (2003), *A World without Walls, Freedom, Development, Free Trade and Global Governance.*

Nanda, Nitya (2003), "WTO and Trade Facilitation Some Implications", Economic and Political weekly, 2622-2625

Narula, M. (2003), "Looking ahead", Business India, 47-48, May 26-June 8,

Nayyar, Deepak (1996), "Globalisation: The Past and the Present". Indian Economic Journal Vol-43 Jan- Mar.

Panchamukhi, V. R. (2000), *Indian Classical Thoughts on Economic Development and Management.* Bookwell Publications New Delhi.

Planning Commission (2000), "India's 1990-91 Crisis: Myths Reform and Paradoxes," Working Paper No. 4.

Raj, K.N. (1985), "New Economic Policy Engine to Growth", Economic Times December 21.

Rajput, Jyotsna (2001), "Globalisation and Emerging Trends in Industrial Development" Yojana March.

Rao, C. N. (1989). "Trade Related Aspects of Intellectual Property Rights", Economic and Political weekly, 1053-1057, May13.

Ravindra (2004), "WTO and Tariff Preferences", Economic and Political weekly, May.

Rostow, W. W., *The World Economy, History and Prospect.*

Sen, R. K. (2003-04), "Globalisation and Indian Economic Thinking in the Past and their Relevance in the Present and Future" The Indian Economic Journal Vol. 51. No. 2 2003-04.

Sen, R. K. and Ratan Lal Basu (2004), *Economics in Arthashastra* (Forthcoming), Deep and Deep Publications, New Delhi.

Shandilya, T. K. (2003), "Globalisation, Challenges Ahead and Implications for India" Economic Affairs Vol. 48, Qr. 4, December.

Singh, P. N. (1995), "Globalisationing Indian Economy : The Environment", an article publishing in *India's Economic Reform and*

Beyond, edited by R.K. Sinha, Anamika Publisher, Delhi.1995, P 31.

Singh, T. (2001), "Balance of Trade, Exchange Rate and Trade Policy Regimes in India: Some Issues and Policy Perspective" The Indian Economic Journal Vol. 48 No. 1.

Tasswing, F. W., *Free Trade Tariff and Reciprocity.*

Virmani, A. (2003), "India's External Reforms; Modest Globalisation, Significant Gains" - Economic and Political Weekly, August 9.

Virmani, A. (1991), "Trade Policy Reform: De-licensing, Tariff Reform and Exchange Rates": Development Policy Research Planning Commission, New Delhi, September.

Vyas, V. S. (2002), "Globalisation: Hopes, Realities and Coping Strategy" Economic and Political weekly, March 23.

World Bank (2000), *Finance for Growth*, Oxford University Press.

Chapter V

MEASURING WELFARE EFFECT OF TRADE

5.1: INTRODUCTION

Goods and services produced by a society are basically meant to feed its citizens. After fulfilling the basic domestic needs surplus produces are being exported to earn foreign exchanges from abroad. It is noticed that some citizens end up with high standard of living while others end up without enough to eat, wear and live. This is because of the fact of unequal distribution of wealth. In the discussion of distribution one should not talk about distribution of things but about the distribution of well-being. Nineteenth century economists, philosophers and thinkers used the term 'utility' as a measure of 'well-being'. People's choices depend on the quality of the good, that is, how much utility they attain while consuming the good. According to this concept every citizen acts to maximize his/her utility or satisfaction. If, for example, person x gets more

total utility than person y then it is obvious that x is well-off than y and this situation can be measured in terms of utility possibilities frontier in which every point on the curve is efficient. But this measure cannot provide the direct measure of well-being. Since utility is not observable or measurable directly, most discussions on social policy centre on the distribution of wealth as an indirect measure of well-being. But economists also consider that income and wealth are not the perfect measures of well-being. This chapter deals with the measure of welfare effect of trade. Section 5.2analyses some measures such as consumer surplus, producer surplus, and net social welfare as well-being of people of a country. Section 5.3 deals with some measures of well-being of India undertaken by the Government of India since independence. In this context the major issues such as poverty, unemployment, Net State Domestic Product (NSDP), trade gap etc. have been considered as indirect measures of well-being.

5.2 HOW TO MEASURE SOCIAL WELL-BEING

In 1991 structural reforms were introduced in India. In order to increase the standard of living or to increase social wellbeing, various measures have been undertaken. Trade liberalisation has an opposite effect on domestic producers and consumers. Due to liberalisation, a decline in price enables consumers to pay less and does not allow producers to earn more. 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. Consumer surplus is the difference between what a consumer would be willing to pay for a bundle of goods and the amount consumer actually has to pay. Suppose an individual has been walking through the desert all day without water and buys a bottle with Rs. 10/- unless he is very poor, he would be willing to pay

much more than Rs.10 for the bottle. So the surplus associated with that transaction is the difference between what the individual would have been willing to pay and what he did pay. From the demand curve he obtains information on how much he would pay. So the consumer surplus associated with consuming q* units of a commodity for a consumer with demand Q(p) is the area between the demand curve and the horizontal axis and between the vertical lines q=0 and q=q*.

On the other hand producer surplus is the difference between revenue received for sale of q* units of a commodity and the cost of providing that commodity, C(q*). The difference is generally equal to the area between the supply curve and a horizontal line through the price, and between the vertical line q=0 and q=q*.

In fig. (1) These concepts are shown. It is a representation of supply and demand curve for clothes. The figure shows consumer surplus, producer surplus and total welfare gain (the sum of producer and consumer surplus). To welfare at q* is the area under the demand curve plus the area under supply curve measured between q=0 and q=q*. This is the shaded area.

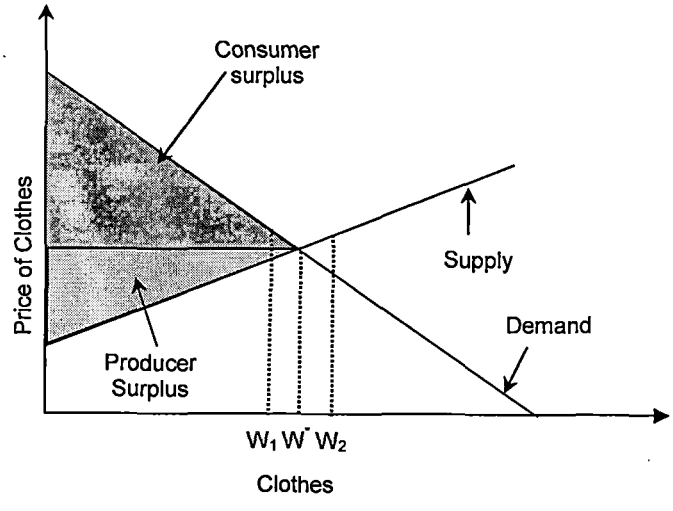

Fig. 1 : Consumer and Producer Surplus

Therefore, we can say that total welfare gain = consumer surplus + producer surplus. But when we produce some goods, these goods associated with some amount of marginal social cost i.e pollution. So, net Social Welfare = (Consumer Surplus + Producer Surplus) – Marginal Social Cost. Underdeveloped countries are mainly based on agriculture and give less emphasis to industrial sector. So, in underdeveloped countries or in developing countries marginal social cost (pollution) is less than the developed countries. So, developing countries have greater potentiality to maximize social welfare.

Consumer gets satisfied by consuming different amounts of different commodities services. Their purchasing power related to (a) their level of income (b) prices of commodities and services and (c) the satisfaction level. Purchases and hence total expenditure relates to some specified level of satisfaction in a given price. If we consider the ordinal utility function the equilibrium level of satisfaction and the commodity bundle are satisfied at the point where the slope of the budget line is equal to the slope of the indifferent curve. So we can say that, at a given price every actual expenditure is associated with some level of satisfaction and more the amount of expenditure, more the level of satisfaction. This lead to the concept of money matric indirect utility, which is level by the amount of money require to attain it, given the set of prices (Varian 1992). Thus expenditure is considered as a measure of wellbeing.

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).

Social welfare (living) function of n individual in the society with Y_i expenditure of the i-th individual may be written as $W=W(Y_1, Y_2\text{-------}Y_n)$..... (i). Where W is symmetric and non-decreasing in

Y_i. It satisfies Pigou-Dalton's principal of transfer. W becomes maximum when each individual spends equal amount of money $u=\Sigma Y_i/n$. But in practice income distribution and hence expenditure distribution possess some amount of inequality which is equal to deviation of actual social welfare (W) from its maximum value (μ). So actual social welfare is defined (Atkinson, 1970, Sen 1973) $W=\mu I^*$, where $I^* = 1-I$.....(ii). Here I is a measure of inequality in the expenditure distribution. Thus standard of living depends on: (1) per capital expenditure and (2) degree of inequality in the expenditure distribution. The level of living will change, as a result of change of these two components.

In (ii) W is the money matric measures of welfare. It is equal to per capita expenditure net of expenditure inequality. If 't' is the time, which is a variable, welfare during 't' to (t + 1) improves if

$$\frac{\mu_{t+1}}{\mu t} \quad \frac{I^*_{t+1}}{I^*_t} > 1$$

Which requires.

$$\frac{\mu_{t+1}}{\mu_t} > \frac{I^*_t}{I^*_t} = \frac{1-I_t}{1-I_{t=1}} \quad \text{.....} \quad (3)$$

Condition (3) in some form, equals to Shorrocks (1983) condition for improvement in social welfare.

$$W_{t+1} > W_t \text{ iff } L_{t+1}(p) \geq (\mu_t / \mu_{t+1}).\ L_t(p) \quad \text{.....} \quad (4)$$

Where Lt(P) Lorenz curve for distribution at time t and p is proportion of persons such that

$$0 \leq P \leq 1$$

Others things remaining same over time per capita expenditure changes due to changes in amounts or prices of consumption items.

Not only expenditure, per capita income is also a partial index of economic wellbeing because the question of economic welfare involves a judgment about the desirability of income distribution. Therefore, it is not possible to say confidently even if per capita income has risen economic welfare has not increased unless we are satisfied about the desirability of the present distribution of income. Economic welfare involves the question of composition of output and how this output is being valued. It may also involve the questions that this output has been produced at what social cost. In this connection Colin Clark argues that promotion of economic welfare through increase in real income and per capita income though necessary, but is by no means a sufficient condition for promoting economic wellbeing.

5.3 SOME MEASURE OF ECONOMIC WELLBEING OF INDIA

5.3 A) ECONOMIC REFORMS AND REDUCTION OF POVERTY

There has been some impact of economic reforms initiated since 1991 on poverty reduction. In his article "Has Poverty Declined since Economic Reforms?" Dr. Gaurav Datt of the World Bank has drawn the following conclusions:-

(1) Both rural and urban poverty rates in between 1973-74 and 1986-87 were declined but thereafter there is no sign of anything comparable.

(2) For the period 1973-74 and 1990-91 in the rural sector, headcount index of poverty declined at the annual rate of 2.7percent, the rate of decline thereafter is not significantly different from zero.

(3) For the urban sector, headcount index of poverty declined at the rate of 2.2 percent per annum for the period 1973-74 and 1990-91 and in the post reform period the same trend continued at the annual average rate of 2.2percent.

(4) Rural poverty reduction was choked off by the lack of growth but urban sector have continued its march of poverty reduction in the process of growth.

Table 5.1 : Poverty in India 1973 – 97

NSS Round	Survey Period	Head Count Index		Poverty Gap Index		Squared Poverty Gap Index	
		Rural	Urban	Rural	Urban	Rural	Urban
28	Oct'73 - Jun'74	55.72	47.96	17.175	13.602	7.128	5.219
32	Jul'74 - Jun'78	50.60	40.50	15.025	11.687	6.057	4.526
38	Jan'83 - Dec'83	45.31	35.65	12.649	9.517	4.841	3.557
42	Jul'86 - Jun'87	38.81	34.29	10.013	9.100	3.700	3.395
43	Jul'87 - Jun'88	39.23	36.20	9.275	9.121	2.983	3.056
44	Jul'88 - Jun'89	39.06	36.60	9.504	9.537	3.291	3.293
45	Jul'89 - Jun'90	34.30	33.40	7.799	8.505	2.575	3.038
46	Jul-90 - Jun91	36.43	32.76	8.644	8.509	2.926	3.121
Post-Reform	Jul'89 - Jun'91	35.37	33.08	8.222	8.507	2.751	3.080
47	Jul'91 - Dec'91	37.42	33.23	8.288	8.244	2.680	2.902
48	Jan'92 - Dec'92	43.47	33.73	10.881	8.824	3.810	3.191
50	Jul'93 - Jun'94	36.66	30.51	8.387	7.405	2.792	2.417
51	Jul'94 - Jun'95	41.02	33.5	9.285	8.382	2.995	2.799
52	Jul'95 - Jul'96	37.15	28.04	8.098	6.781	2.527	2.222
53	Jan'97 - Dec'97	35.78	29.99	8.312	7.762	2.757	2.750
Post-Reform	Jul'95 - Dec'97	36.47	29.02	8.205	7.273	2.642	2.473

Source : Gaurav Dutt, Has Poverty Declined since Economic Reforms, Economic and political weekly, December 11 – 17, 1999.

(5) A large sample during July 1999 to June 2000 the National Sample Survey completed the 55th round. In

economic survey (2000-01) published the figure, NSS 55th round shows " *a significant decline in poverty to 26percent based on 30day recall and 23.3 percent on a seven day recall day methodology.*"

The reference period has essentially been uniform after the 50th round of NSS - the schedules were filled by asking the respondents about their consumption for the past 30 days. During 55th round, the question on consumption of clothing, footwear, health, education and durable goods were asked only by past 365 days and for intoxicants, food and tobacco all sample households were put both 30 days and one week question.

Table 5.2. : Estimates of Poverty

Year	All India	Rural	Urban
1973-74	54.9	56.4	49.0
1977-78	51.3	53.14	45.2
1983	44.5	45.7	40.8
1987-88	38.9	39.1	38.2
1993-94	36.0	37.3	32.4
1999-2000			
30 day recall	26.1	27.1	23.6
7 day recall	23.3	24.0	21.6

Source: Ministry of Finance Government of India, Economic Survey (2000-2001).

Table 5.3: Poverty Ratios of the State Level (Selected State Percent)

	Rural		Urban	
	1993-94	1999-00	1993-94	1999-00
Andhra Pradesh	15.9	11.2	38.3	26.6
Arunachal Pradesh	45.0	40.0	7.7	7.5
Assam	45.0	40.0	7.7	7.5
Bihar	58.2	44.3	34.5	32.9
Gujrat	22.2	13.2	27.9	15.6
Haryana	28.0	8.3	16.4	10.0
Himachal Pradesh	30.1	7.9	9.2	4.6
Jammu & Kashmir	30.3	4.0	9.2	2.0
Karnataka	29.9	17.4	40.1	25.3
Kerala	25.8	9.4	24.5	20.3
Madhya Pradesh	40.6	37.1	48.4	38.4
Maharastra	37.9	23.7	35.2	26.8
Meghalaya	45.0	40.0	7.7	7.5
Nagaland	45.0	40.0	7.7	7.5
Orrissa	49.7	48.0	41.6	42.8
Punjab	11.9	6.4	11.4	5.8
Rajasthan	26.5	13.7	30.4	19.8
Tamil Nadu	32.5	20.6	39.8	22.1
Uttar Pradesh	42.3	31.2	35.4	30.9
West Bengal	40.8	31.9	22.4	14.9
Delhi	1.9	0.4	16.0	9.4
All India	37.3	21.7	32.4	23.6

Source: Planning Commission, 2000.

In the reduction of poverty, wide variation may be noticed among the states. During 1993-94, and 1999-00 rural poverty has been reduced from 30.3percent to 40percent in Jammu and Kashmir. It is beyond the imagination that being a highly troubled state like Jammu and Kashmir could bring about reduction of poverty by 26.3 points in the short span of 6 years. Similarly, in this period, Himachal Pradesh brought about 22.4 percent points reduction in rural poverty. Seven states, namely Maharashratra, Uttar Pradesh, Madhya Pradesh, Bihar, Orissa, Tamil Nadu and West Bengal accounts for 199.5 million poor which is 76.7percent of the total 260 million poor estimated for 1999-00. In these states the rate of poverty reduction is slower than the relatively better off state. As a result, as compared with 1993-94, these seven states show greater concentration of poor in 1999-00.

The chairman of NSSO Governing Council Pravin Visaria prefers 'one week recall' but he agrees that this shall make these estimates non-comparable with the earlier estimates. His opinion is that "*overstatement of the level of poverty has thus quite likely been a consequence of a long reference period for the collection of data on food consumption by our people*" (Pravin Visaria, July 2000).

The view of Visaria was questioned by Abhijit Sen. He writes. "*Moreover, the limited results now available from the 55th round show clearly that the answers to both one week and 30 day question have been contaminated by the presence of the other. Quite possibly, exclusive reliance on the 365 day question in case of clothing etc. has also altered responses. As a result, consumption estimates from this round are not comparable to those from previous NSS round and will probably be virtually useless for any assessment of changes in consumer demand.*" The planning commission also takes the same position and did not accept the poverty figure of NSS in its mid-term appraisal of the ninth plan because with the change of methodology non- comparability arises. In order to maintain the integrity of the India's statistical system, Abhijit Sen concludes that, it would be necessary to conduct another large Consumer Expenditure Survey as soon as possible during 30-day reference period (Sen, 2000).

In his paper 'Adjusted Indian Poverty Estimates for 1999-2000', Angus Deaton at Princeton University has worked out the adjusted poverty rates based on 16 major states in India. After his study he concluded: "*The adjusted rural poverty estimates are some what higher than the official estimates of 27.1 percent is replaced by 30.2percent. Instead of there a drop in rural poverty since 1993-94 of 10.2 percent points, the adjusted figures show a reduction of only 7.0 percent points, so that a little more than two-thirds of the official reduction appears to be real.... For all India urban, the official*

estimates of 23.6 percent is raised only to 24.7 percent, so that I estimate that 7.9 percent points of the official reduction at 9.1 percent points is real". Deaton's view is that 30-day recall is more reliable and that 7-day recall is less accurate.

Gaurav Dutt, Valerie Kozeland Martin Ravallion of the World Bank in their paper 'A model based assessment of India's progress in reducing poverty in 1990s' suggest that the agricultural production, growth of non-farm sector, development spending and inflation are the main determinants of the rate of reduction of poverty in the state level, the findings of the model has been given below:-

1) As compared to 1980s the rate of poverty reduction in 1990s was slightly lower. National: 0.8 percent points against 1percent point

   Rural: 0.9 percent points against 0.7 percent points.

2) In the 1990s poverty reduction is slower than expected from pre reform national elasticity of poverty with respect to average consumption. In 1990s it was 0.8 percent point as against 1.6 percent in the earlier period..

   The pattern of growth which was promoted by following the policies of liberalisation, privatisation and globalisation is the main reason for the slow decline in poverty. For the decades of 1990s most of the research studies conclude that all India level rural poverty did not show any decreasing trend but the 55th round result of NSS suddenly indicate a sharp decline in rural poverty on the basis of 30-day recall from 37.3 percent in 1993-94 to 27.1percent in 1999-2000 and on the basis of 7-day recall it declined to 24.0 percent.

   Tenth plan accept that in 1999-2000 260 million persons i.e 26 percent of the population are below the poverty

line. Out of these, in rural areas there were 75 percent (195 million) people and in urban areas there were 25 percent (65 million) people. 22 percent world's poor are in India. The tenth plan targets to reduce poverty by about 7 percent points, from 26.1 percent in 1999-2000 to 19.3 percent in 2006-07. National Sample Survey completed the 61st round of the year 2004-05. NSS 61st round shows a decline in poverty to 27.8 percent at uniform recall period and 22 percent at mixed recall period. (Economic Survey 2006-07).

5.3 B) NET STATE DOMESTIC PRODUCTION AND PER CAPITA NSDP.

Due to severe balance of payments crisis in 1991, the Government of India adopted a series of reform in order to restore the economic stability of the country. Now, India has record in the 1990s of successful policies of economic stabilisation and structural adjustment. The government have achieved a rapid economic recovery due to the adoption of reform and opened up the economy and created attractive investment prospects. Until now, emphasis has been given to trade and industrial reform. Agriculture not directly but indirectly has benefited from improvement in its terms of trade by reform.

The overall growth performance has been accompanied by substantial regional variation in growth. There are major differences in socio-economic dimension of development at the state level of India. These are size of economy, population, physical infrastructure, agro climatic conditions, politics and culture.

Table 5.4: Annual Rate of Growth of Net State Domestic Product and Population of 14 major States.

States	Population in Million according to 2001 census	NSDP (percent) 1993 - 94	NSDP (percent) 2003 - 04
Andhra Pradesh	75.7	8.9	9.7
Bihar	82.9	3.6	2.7
Gujrat	50.6	7.4	8.2
Hariyana	21.1	3.3	3.8
Karnataka	52.7	6.4	6.7
Kerla	31.8	4.15	4.7
Madhya Pradesh	60.4	5.9	5.1
Maharastra	96.7	17.72	16.9
Orissa	36.7	2.8	2.8
Punjab	24.3	4.7	4.2
Rajasthan	56.5	5.04	5.5
Tamil Nadu	62.1	8.9	8.7
Uttar Pradesh	166.0	12.35	10.9
West Bengal	80.2	8.4	9.9
Total	**1,027.0**	**7.1**	**7.2**

Source: Economic Survey, Govt. of India, 2006-07

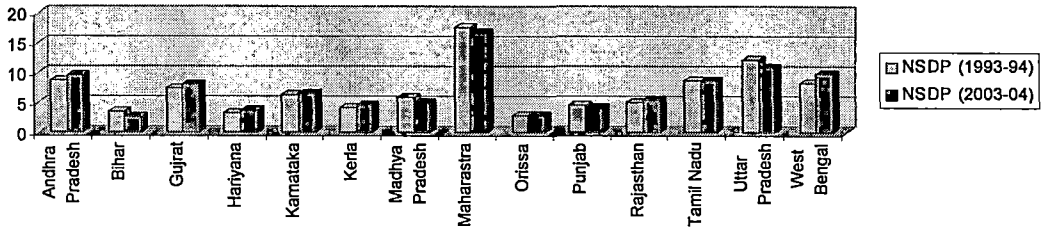

Fig.2: Annual Rate of Growth of NSDP of 14 major States

Table 5.5: Annual Rates of Growth of per Capital NSDP

States	1993 - 94	2003 - 04
Andhra Pradesh	4.1	7.5
Bihar	1.6	1.8
Gujarat	5.4	9.4
Haryana	6.1	10.4
Karnataka	4.3	7.5
Kerala	4.4	8.7
Madhya Pradesh	3.6	4.8
Maharastra	6.7	10.2
Orissa	2.7	4.5
Punjab	7.0	10.1
Rajasthan	3.4	5.6
Tamil Nadu	4.9	8.3
Uttar Pradesh	2.8	3.8
West Bengal	3.7	7.3

Source: Economic Survey, Govt. of India, 2006 – 07.

From table 5.4, it was evident that Maharashtra contributing highest share (17 percent) of the NSDP of the 14 major states in 2003-2004. It is the second most populous state with almost 96.7 million people. Uttar Pradesh with 11percent share of NSDP secure the second position but with largest population of 166.0 million or 16.16 percent in total. West Bengal was in third position (10 percent). Andhra Pradesh (9.7 percent) and Tamil Nadu (8.7 percent) were in fourth and fifth position. These five states together contributed 56.1percent of the 14 states NSDP in 2004-05. Bihar is the third most populous state, but its share of NDPS was only 2.7 percent.

There is a considerable variation in the performance of individual states, with some states growing faster than the average and others slower. The degree of dispersion in growth rates across states increased very significantly in the 1990s. The range of

variation in the growth rate of NSDP in 1993-94 was from a low of 2.8 percent in Orissa to a high of 17.72 percent in Maharashtra, a factor of more than 6. In 2003-2004 the range of variation in the growth rate of NSDP was from a low of 2.7 percent in Bihar to a high of 16.9 percent in Maharastra, a factor of more than 6. So from 1993-94 to 2003-04 the range of variation was more or less same.

The differences in performance across states become even more marked when we allow for the differences for the rate of growth of population and evaluate the performance in terms of growth rate of per capita NSDP (5.2 percent). The variation in growth rates in 1993-94 ranged from a low of 1.6percent in Bihar to a high of 6.7 percent for Maharashtra, a factor of 1:6. In 2003-04 it ranged from a low of 1.8 percent in Bihar to high of 10.2 percent in Maharashtra, a factor of 1:10. The increased variation in growth performance across states in the 1990s reflects the fact that whereas growth accelerated for the economy as a whole, it actually decelerated sharply in Bihar and Orissa, all of which had relatively low rates of growth to begin with and were also poorest states. There was also a deceleration in Madhya Pradesh and Punjab.

Eight states showed acceleration in growth of NSDP in the 2000. The acceleration particularly marked on Maharashtra and Gujarat, both of which were among the richer states, but there was also acceleration in Haryana, Kerala, Tamil Nadu, Karnataka, Punjab and West Bengal, all belonging to the middle group of states in terms of per capita NSDP.

The high growth performers in the 1990s and 2000s were not concentrated in one part of the country. The seven states with growth rates of NSDP in 1993-94 and 2003-04 above 6percent are fairly well distributed regionally, i.e. Maharashtra (17.72percent, 16.9percent), Uttar Pradesh (12.32percent, 10.9percent), West

Bengal (8.4 percent, 9.9 percent), Andhra Pradesh (8.9percent, 9.7 percent), Tamil Nadu (8.9 percent, 8.7 percent), Gujarat (7.4 percent, 8.2 percent) and Karnataka (6.4 percent, 6.7 percent).

In the post reform period an interesting feature of the performance is that the popular characterisation of so called BIMARU states (Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh) as a same group of poor performers, a grouping originally proposed in the context of observed commonalities in demographic behaviour. Bihar and U.P growing much more slowly than the average, but Rajasthan and MP have performed reasonably well.

In the period of liberalisation, the perception that it is only the coastal states or the southern states have performed well is not valid. Orissa's growth performance is very poor though it is a coastal state but MP and Rajasthan have performed reasonably well though they are both heartland states. The best-performers are Maharashtra, Haryana, Punjab, Tamil Nadu, West Bengal and Madhya Pradesh.

The performance of Kerala deserves special attention. Kerala's economic growth is low, but its human development index is high. Its performance during post reform period showed a marked improvement. Due to low growth of population, its performance in per capita NSDP growth in the liberalised period is actually much better than the average (table 5.2).

The difference in per capita income and other indicators of social development across states have long attracted attention. Punjab, the richest state has a per capita NSDP which is five times that of Bihar at the end of 2003-04. There has always been an unstated assumption that inter-state difference would narrow with development. This can happen only when the poorer states actually grown faster than richer state. But during the post reform period,

regional inequality increases with the poorer state being left further behind.

It is not entirely accurate that the rich states got richer and the poor states got poorer. From table 5.2 we can conclude that it is not true that all the richest states got richer relative to the poorer states. In 2003-04, Punjab, Haryana, Maharashtra and Gujarat were the richest states in terms of per capita income level and grew at rates much higher than the national average. Bihar, Uttar Pradesh and Orissa, which together account for over a third of the population of the country, did perform very poorly in the post reform period. They do not actually become poorer on average, their per capita NSDP has positive growth but these rates are very low.

The states grow at different rates should not be viewed as a failure of policy. Given our size and diversity, different states will grow at different rates. Some may grow faster than others at certain times as they may be particularly well placed to exploit some new opportunity that arises. The new agricultural strategy was well suited to condition in Punjab and Haryana, which led to a spurt of growth in the 1970s in these states. Coastal states may have a location advantage in a globalising world due to their water transport facilities. Finally, differences in growth may arise due to better management and therefore able to create favourable environment, which generates higher growth.

The differences in growth performances of different states do not mean that we should passively accept the low rates of growth witnessed in U.P, Bihar, and Orissa. For a group of states into the future continuation of such low growth rates representing almost a third of the total population, while the other states of the country enjoys strong growth has alarming implication. It means that interstate inequality would continue to increase and poverty would become even more regionally concentrated that it is today.

So it is necessary to increase the rate of growth of per capital NSDP in these states from around 1.5percent to somewhat between 3.5percent to 4percent, because inequality will increase if the poorer states do not grow at least as first as national average. The problem of poverty of these states is tackle by the acceleration in growth.

The foregoing analysis provides some useful perspective. The most important perspective is that there were high growth rate states from 1993-94 to 2003-04 that performed well above average. At least two of these were consistently top performers throughout the whole period.

The association of a number of other policies related variables with high growth rates of NSDP also provides guidance. The association of high growth rates of NSDP with low rate of growth of population, higher life expectancy and literacy rates provides support for policies of population control, and enhanced programs of public health and primary education.

5.3 c) HUMAN RESOURCES

Another critical determinant of growth is the quality of human resource development and one would expect to find faster growing states to be the status with superior availability of human skills. Unfortunately, there are no reliable measures of the educational attainment and skill level of labour force in different states and therefore, literacy rate of population is commonly used as a proxy for the quality of human resource. This is clearly an unsatisfactory measure of labour skill.

Literacy levels in the slow growing states are distinctly lower than the average for all states. There is no statistical correlation between NSDP and literacy rate. The literacy rate of U.P, Bihar and Orissa was very poor. In the 1990s the performance of Madhya

Pradesh, Rajasthan and Andhra Pradesh showed much better. The low levels of literacy, which must contain growth performance.

Literacy rates have risen over time in all states including the slow growing state of U.P, Bihar and Orissa. In 1997 literacy in Bihar is significantly higher than it was in Madhya Pradesh and Andhra Pradesh in 1991. Similarly, in 1997 the literacy rate of U.P is about the same as in Karnataka or west Bengal in 1991. These improvements were in absolute term but in relative term the states were in much worse position because other states have also moved ahead. In these states the absolute improvement in literacy should help improve the efficiency of resource use but that poorer states will continue to find it difficult to compete with the more advanced states.

The lack of any statistical correlation between literacy and growth reflects the fact that literacy is a poor measure of labour skill. It is evident from the fact that economic growth is affected by education. So poor performing states must create special efforts to develop the quality of human resources.

5.3 D) TRADE GAP AND ECONOMIC WELFARE

Globalisers advocated the acceptance of the new strategy of liberalisation and globalisation on the plea that India will be able to access foreign markets more effectively. It is interesting to examine this claim using data from table 5.6

Table 5.6: Export –Import and Trade Balance (US$ Million)

Table	Export	Import	Trade Balance
1990 – 91	18143	24075	-5932
1991 – 92	17865	19411	-1546
1992 – 93	18537	21882	-3346
1993 – 94	22238	23306	-1068
1994 – 95	26330	28654	-2324
1995 – 96	31797	36678	-4881
1996 – 97	33470	39133	-5663
1997 – 98	35006	41484	-6478
1998 -99	33218	42389	-9171
1999 – 2000	36822	49671	-12849
2000 - 01	44560	50536	-5976
2001 - 02	43827	51413	-7586
2002 - 03	52719	61412	-8693
2003 - 04	63843	78150	-14307
2004 - 05	83536	11518	-27982
2005 - 06	103091	149166	-46075

Source: DGCI and S, Kolkata.

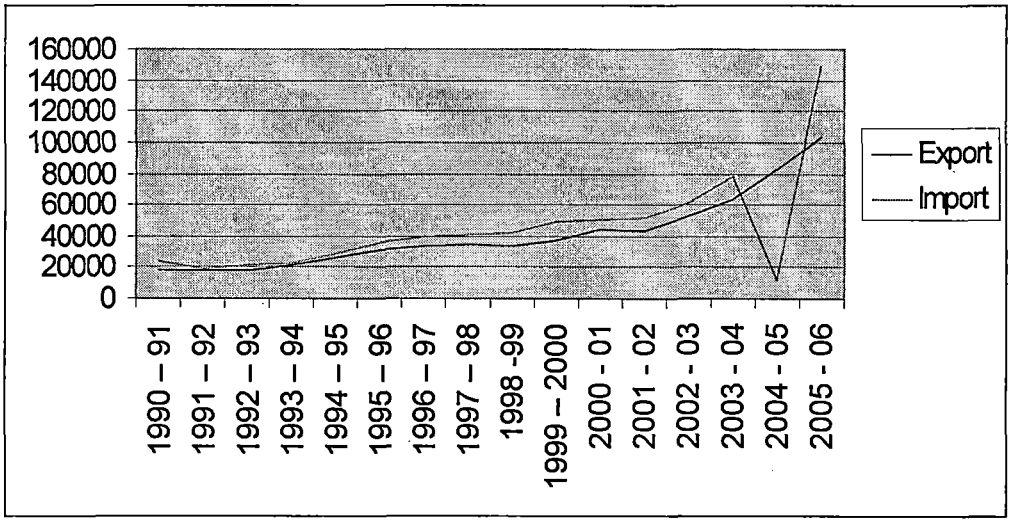

Fig. 3: Trade Balance in India from 1990-91 to 2005-06

Exports rose from $17865 million in 1991-92 to $ 35006 million in 1997-98. In 1998-99 it declined to $ 33218 million. Thereafter it continuously increased from $ 36822 million in 1999-2000 to $ 10, 3091 million in 2005-06. Increase in export increases the wellbeing of a country. But if we examine the trend of imports, we can see that it continuously increased from $19411 million in 1991-92 to $ 149166 million in 2005-06. As a result, India's trade deficit increased continuously from 1996-97 to 1999-2000. The situation has slightly improved during 2000-01 and 2001-02 and thereafter again increased continuously and in 2005-06 trade deficits was $ 203991 million.

So, as a result of trade liberalisation and globalisation India's exports have been increased but at the same time imports have also been increased and the increase in imports are more than the increase in exports. As a result the trade deficit or the trade gap is increasing. The increase in trade gap is not a true measure of well being of a nation. But the main items of our imports are petroleum, oil and lubricants ($ 43963 million in 2005-06) and capital goods ($ 23522 million in 2005-06) which includes a) manufactures of metals ($ 1211 million in 2005-06), b) Non-electrical machinery apparatus and appliances including machine tools ($ 11086 million in 2005-06), c) electrical machinery apparatus and appliances ($ 1504 million in 2005-06) and d) Transport equipment ($ 8838 million in 2005-06). They are necessary for the establishment of heavy industries and self- sufficiency of a country. So, increase of imports can help the development of our country indirectly and hence improve the wellbeing of India. The principal imports of India in 2005-06 have shown in Table 5.7.

Table 5:7 Principal Imports 2005-06 ($ Million)

I	**Food and live animals chiefly for food.**	
1.1	Cereals and cereals preparation	36
II	**Raw Materials and Intermediate Manufactures**	
II.1	Cashew	472
II.2	Crude Rubber	414
II.3	Fibres	
II.3.1	Synthetic and regenerated fibers	78
II.3.2	Raw Wool	204
II.3.3	Raw Cotton	159
II.3.4	Raw Jute	21
II.4	**Petrolium, Oil and Lubricants**	**43963**
II.5	**Animal and Vegitable Oils and fat of which**	
II.5.1	Edible Oils	2024
II.6	**Fertilizers Chemical Products of which**	
II.6.1	Fertilizers and Fertilizers Mfg.	1991
II.6.2	Chemical Elements and Compounds	8037
II.6.3	Dyeing, Tanning and Colouring Material	503
II.6.4	Medical and Phermaceutical Products	1028
II.6.5	Plastic Material, Regenerated Cellulose and artificial resins	2268
II.7	Pulp and waste paper	573
II.8	Paper, Paper Board and Manufactures there of	944
II.9	Non- Metallic Mineral Manufactures of which:	
II.9.1	Pearls, Precious and semi-precious stones, unworked or worked	9134
II.10	Iron and Steel	4572
II.11	Non-ferrous metals include Gold & silver	13162
III.	**Capital Goods**	**23522**
III.1	Manufactures of metals	1211
III.2	Non-Electrical machinery apparatus and appliances including machine tools	11086
III.3	Electrical Machinery apparatus and appliances	1504
III.4	Transport equipment	8838
Total		**149166**

Source Economic survey Government of India, 2006-07.

REFERENCES

Ahluwalia, M. S. (2000), "Economic Performance of States in Post-Reformers Period," Economic and Political Weekly, May 6, 2000.

Aiyar. S (2000), "Have Economic Reforms Bypassed the Poor" The Times of India, April 23.

Aiyar, S (2000), 'Lack of Growth Trickles Down'- The Times of India April 30

Atkinson, A. B. (1970), "On Measurement of Inequality," Journal of Economic Theory, Vol.2.

Bhalla and Surajit S. (2000), "Growth and Poverty in India-Myth or Reality," paper prepared for a conference in honour of Raja Chellah, Institute of Economic and Social Change, Bangalore, January 17.

Bhalla and Surajit S. (2000), "FAQs on poverty in India", seminar at the Delhi School of Economics, July.

Bhide, S. and Ric Shand (1999), "Inequalities in Income Growth in India Before and After Reforms," South Asian Economic Journal, Vol. No.1 (forthcoming).

Chakraborty, D., Pal, D. P. and J. Sen: "Changing Levels of Living in India in the 1990's "*In Economic Reform in India*,(ed), Ravishankar Kumar Singh, Abhijeet Publication, Delhi.

Chand, R. (1999), "Liberalisation of Agricultural Trade and Net Social Welfare, A study of Selected Crops" Economic and Political weekly, December 25.

Charles, D. Kolstad, *Environment Economics*, Oxford University Press.

Dandekar, V. M. and N. Rath (1971), "Poverty in India, Dimension and Trends, "Economic and Political Weekly, January 2, and January 9.

Datt, G. and Martin Ravallion (1990), *Regional Disparity Targeting and Poverty in India.*

Datt, G., V. Kozel and Martin Ravallion, *A model-based approach to projection of poverty in India.*

Deaton, Angus and Alessandra Taro (1999), *Prices and Poverty in India,'* Princeton University (mimeo), December 13.

Deaton, Angus, *Adjusted Indian Poverty Estimates for 1999-2000.*

Dubey, A. and S. Gangopadhyay (ed), *Counting the Poor,* Sarvekshana Analytical Report No.1, Department of Statistics, Govt. of India, New Delhi.

Dutt, Gaurav (1997), *Poverty in India and Indian States: An Update,* International Food Policy Research Institute, Washington D.C.

Dutt, Gaurav (1999), "Has Poverty Declined since Economic Reform?" Economic and Political Weekly, Vol. 34 No.50.

Foneseca, A. J., *Challenge of Poverty in India*

Gupta, S. P. (1996), "Recent Economic Reforms in India and their Impact on the Poor and Vulnerable Section of Society" in *Economic Reform and Poverty Alleviation in India* (Eds: C.H Hanumanthe Rao and Ham Linnemann), Sage Publication.

Ibid, p 30

Ibid, p 30-31

Kalirajan, K. P. and R. T. Shand (1994), *Economics in Disequilibrium, An Approach from the Frontier,* Macmillan Press, New Delhi.

Lal, D., Mohan R. and J. Natarajan (2001), "Economic Reform and Poverty Alleviation, A Tele of Two Surveys" – Economic and Political Weekly, March 24.

Lal, D. and H. Myini (1996), *The Political Economy of Poverty, Equality and Growth*, Claredon Press, Oxford.

Mellor, J.W. (1978), *The New Economics of Growth*, Cornell University Press, Ithaca.

Minhas, B. S, Jain L. R. and Tendulkar, S. D (1991), "Declining Incidence of Poverty in 1980," Economic and Political Weekly, July- 6-13.

Natarajan, J. (1998), *India Market Demographics Report*, 1998, NCAER.

NSSO Government of India, *Household Consumer Expenditure and Employment Situation in India.*

50th Round, 1994

51st Round, 1995

52nd Round, 1996

53rd Round, 1997

54th Round, 1998

62nd Round, 2006

NSSO, *Level and Pattern of Consumer Expenditure*, 1993-94, 1999-2000.

Planning Commission (1998), *Ninth Five Year Plan* (1997-2002) Vol.1 p.30.

Planning Commission (1997), 'Estimation of Poverty', Press note March 11, New Delhi.

Planning Commission (1993), "Report of Export Group on Estimation of Proportion and Number of Poor" Government of India, New Delhi, July.

Rao, S. L. (1993), *Consumer Market Demographics in India*, NCAER, New Delhi.

Rao, S. L and I. Natrajan (1996), *Indian Market Demographics-The Consumer class*, NCAER, New Delhi.

Reserve Bank of India (1999), *Handbook of Statistics on Indian Economy*, New Delhi.

Sen, A. K. (1973), *On Economic Inequality*, OUP.

Sen, Abhijit (2000), "Estimates of Consumer Expenditure and its Distribution- Statistical Priorities after NSS' 55th Round," Economic and Political Weekly, December 16.

Shand, Ric and S. Bhide (2000), "Sources of Economic Growth, Regional Dimensions of Reforms," Economic and Political Weekly, October 14.

Srinivasan, T. N. (1999), "Poverty and Reform in India" paper presented at Conference on Reform organised by National Bureau of Economic Research and NCAER, December.

Tendulkar, S. (1998), "Indian Economic Policy Reform and Poverty, An Assessment" in I Ahluwalia and I. M. D. Little (eds), *Indian Economic Reform and Development*, Oxford University Press, New Delhi.

Varian, H. (1992), *Micro Economic Analysis*, 3rd Edition, W.W Narton and Company, New York.

Visaria, Pravin (2000), *Poverty in India during 1994-98, Alternative Estimates*, mimeo, June 9.

Visaria, Pravin (2000), "Alternative Estimates of Poverty in India,' Economic Times July 29.

World Bank (1989), *India, Poverty, Employment and Social Series.*

Chapter- VI

PREDICTING FUTURE PROSPECTS OF OUR TRADE

6.1: INTRODUCTION

India has emerged as the largest player in the global trade just after China enhancing it's both exports as well as imports baskets remarkably. Section 6.2 gives an exposition of India as being a big partner in the global trade showing its performance in the foreign trade sector. The export growth and share in world exports of selected countries including India have been shown with supportive data. Section 6.3 describes India's future prospects of trade and trade related aspects.

6.2: INDIA AS A BIG PARTNER OF WORLD TRADE

In 2005-06 India's external trade, both in goods and services grew by 31.2 percent to US $361 billion. In the first half of 2006-07 growth rate was 27.5 percent, with value of such trade at US $ 212.5 billion. Trade in services has been growing faster than merchandise trade, and the share of services in total

external trade increased from 25.8 percent to 27.4 percent during 2004-05 to 2005-06. The share was 26.5 percent in the first half of 2006-07.

India's merchandise exports have been growing continuously at a high rate of more than 20 percent since 2002-03 and in 2005-06 it grew by 23.4 percent to cross the US $ 100 billion mark. Exports during 2006-07 after a slow start gained momentum and reached US $ 89.5 billion in April-December, 2006 with growth of 36.3 percent.

Till 2002-03, volume of growth dominated the export performance. In 2003-04, the trend was reverse, with increasing contribution of higher unit value in export performance. For exports, while volume increased by a record 45.4 percent (mainly petroleum products, chemicals and related products and machinery and transport equipment) during 2005-06, unit value increased by 20.4 percent. But there was a sharp decrease in both net and income terms of trade. The net terms of trade deteriorated as the unit value index rose by 49 percent (mainly due to increase in price of crude petroleum), because net terms of trade is equal to the ratio of unit value index of exports and value index of imports. Gross terms of trade fell with a decline in the quantum of imports.

Between 2003 and 2004 India's share in world merchandise exports remained fixed at 0.8 percent and reached 1.0percent in 2005, and in the first eighth months of 2006 it remained fixed. This increase was due to India's export growing at more than double the rate of growth of world exports since 2005. China has been a star export performer for year 2005 and the first eighth months of 2006, for the first time India's export growth conceal that of china.

In recent years, India's significant export growth was due to favourable external development and domestic policy initiatives. Besides, the growth of Indian export was aided by improved global growth and recovery. The opening up of the economy and corporate restructuring increased the competitiveness of Indian industry. We present below the performance of foreign trade sector in table 6.1.The export growth and share in world exports of selected countries have been shown in table 6.2.

Table 6.1: Performance of the Foreign Trade Sector

Year	Export Growth			Import Growth			Term of Trade	
	Value (In US $ term)	Volume	Unit Value	Value (In US $ term)	Volume	Unit Value	Net	Income
1990 - 00	7.7	10.6	8.4	83	12.4	7.2	1.5	11.7
2000 - 01	21.1	23.9	3.3	1.7	-1.0	6.2	-4.5	18.3
2001 - 02	1.6	3.7	-1.0	1.7	5.0	1.1	-2.1	1.5
2002 - 03	20.3	21.7	0.3	19.4	9.5	10.7	-9.4	10.3
2003 - 04	21.1	6.0	8.5	27.3	20.9	-0.1	8.6	15.1
2004 - 05	30.8	17.6	8.9	42.7	14.7	21.6	0.5	5.6
2005 - 06	23.4	45.4	20.4	33.8	-1.6	49.0	-27.4	-33.2
2006 - 07	36.3	-	-	36.3	-	-	-	-

Source: DGCI & S-Kolkata

Table 6.2: The Export Growth Share in World Exports of Selected Countries

Country	Growth Rate(Percent)				Share in World Export				Value (US$ billion)
	1995 to 2001	2004	2005	2006	2001	2004	2005	2006	2005
China	12.4	35.4	28.5	25.8	4.3	6.6	7.4	7.8	762.0
Hong Kong	3.6	15.6	11.6	8.6	3.1	2.9	2.8	2.6	289.0
Malaysia	6.6	26.5	12.1	15.1	1.4	1.4	1.4	1.4	140.9
Indonesia	5.7	11.2	18.2	17.4	0.8	0.8	0.8	0.9	84.6
Singapore	4.1	24.5	15.6	34.5	2.0	2.0	2.2	2.3	229.6
Thailand	5.9	20.0	14.6	20.6	1.7	1.1	1.1	1.1	110.6
India	8.5	25.7	30.0	40.4	0.7	0.8	1.0	1.0	99.5
Korea	7.4	30.9	11.8	13.7	2.5	2.8	2.7	2.7	284.6
Developing Countries	7.9	27.1	21.8	23.1	36.8	40.7	43.8	44.8	4530.3
World	5.5	21.2	13.9	16.4	100.0	100.0	100.0	100.0	10355.3

Source: IFS Statistics, IMF. January to August-2006

Deepening of domestic reforms required in order to reach the 1.5 percent targeted share of world exports by 2009, and maintaining and accelerating the long term current dynamic exports. These reforms are reducing constraints like infrastructure bottlenecks, outdated labour laws, small scale industries (SSI) reservations, and a high transaction costs, lowering custom duties and increasing export incentives.

Exporters gave more emphasis on non-price factors like product quality, brand image, packaging, delivery and after-sales service. The increase in foreign direct investment (FDI) in exports industries will increase the rate of investment and install new technologies and management practices in these industries and thereby increase exports.

The Export-Import Bank of India is financing different stages of exports. The main determinant of export performance is the availability of adequate export credit at competitive rates. In the recent decade, export credit as a proportion of net bank credit has gone down steadily. These reflect the growing strength of the Indian export sector. The export credit

outstanding as on March 24,2000, March 23,2001,March22, 2002,March21, 2003,March19, 2004,March18, 2005 and March 31,2006 is depicted in table 6.3 below.

Table 6.3: Export Credit Outstanding

Outstanding as on	Export credit Rs. Cr.	Variation (percent)	Export Credit as percent of NBC
March 24, 2000	39118	9.0	9.8
March 23, 2001	43321	10.7	9.3
March 22, 2002	42978	-0.8	8.0
March 21, 2003	99202	14.5	7.4
March 19, 2004	57687	17.2	7.6
March 18, 2005	89059	19.7	6.3
March 31, 2006	86207	24.8	5.7

Source: Reserve Bank of India, 2007

Merchandise imports grew by 33.8 percent to US $ 149.2 billion in 2005-06 due to the high POL prices. In 2005-06 volume growth of POL imports declined to 6.1 percent whereas in previous year it was 6.4 percent. During 2005-06 POL imports increased by 47.3 percent to US $ 44 billion whereas growth of non-POL imports was 28.8 percent. The growth of imports of gold between 2004-05 and 2005-06 decreases from 62.6 percent to 1.5percent due to high international price of gold and silver. Non-POL non-bullion imports grew by 39 percent in 2005-06.The imports of gems and jewellery declined by 3.1cpercent.Imports continue to grow in the current year.

Good performance in most of the sectors was the basis of export growth in 2005-06. During 2005-06 major drivers of export growth were petroleum products, engineering goods and chemicals. Petroleum products showed 66.2 percent growth in exports in 2005-06. Exports of ores and minerals grew by

17.4percent in 2005-06. Manufacturing growth was mainly consisting of engineering goods, chemicals and related products and textiles. The share of manufactured goods declined marginally from 74.2 percent in 2004-05 to 72.0 percent in 2005-06. Agriculture and allied exports show reasonably good growth of 19.8 percent.

The textile and clothing industries including readymade garments are important sectors of India in terms of both output and employment improved after removal of quota system in 2005. In 2005-06 exports of textile including RMG grew by 20.4 percent to reach US $ 14.8 percent billion, but in the second year of the quota free regime, such export growth by India was 11.7 percent in April-October 2006. During April-November 2006, from India to US textile and cotton exports grew by only 6.2 percent. India improved its share of the global textile and cotton trade from 2.4 percent in 2004 to 3.4 percent in 2005.

Engineering sector is the largest contributor of India's merchandise exports with a share of 2.3 percent well ahead of gems and jewellery. Gems and jewellery's contribution of India's total commodity exports in 2005-06 was 15 percent. In marine products India's share was 2.3 percent. Among marine products, foreign shrimp continued to be the largest export items, followed by frozen fish, cuttlefish, squid and dried items. The largest share of India's exports of marine products accounted to European Union, followed by the US and Japan.

Out of 99 commodity chapters at the two digit level India had a share of one percent or more of world exports only in 32 items. India had a significant world export share of 5 percent or more only in six items. The commodity composition of our exports is shown in table 6.4 and imports of principal commodities in table 6.5 below.

Table 6.4: Commodity Composition of Exports

Commodity Group		Percentage Share		Growth Ratio (in US$)	
		2004 - 05	2005 - 06	2004 - 05	2005 - 06
I	Primary Products	16.0	15.4	36.2	18.9
	Agriculture & Allied	10.5	10.2	11.7	19.8
	Ores & Minerals	5.5	5.2	136.5	17.4
II	Manufactured Goods	74.2	72.0	24.9	19.6
	Textile include RMG	14.9	14.5	5.3	20.4
	Gems & Jewellery	16.5	15.1	30.2	12.8
	Engineering Goods	20.7	20.7	40.2	23.4
	Chemical & Related products	12.2	11.6	33.9	17.3
	Leather & Manufacture	2.9	2.6	12.0	11.1
	Handicrafts	1.2	1.2	-7.0	30.2
III	Petroleum, Crude & Products (Incl. Coal)	8.5	11.5	91.2	66.2
Total Export		**100.0**	**100.0**	**30.6**	**23.4**

Source: DGCI & S, Kolkata.

Table 6.5: Imports of Principal Commodities

Commodity	Percentage Share		Growth Rate	
	2004 - 05	2005 - 06	2004 - 05	2005 - 06
POL	26.8	29.5	45.1	47.3
Pearls, Precious & Semi-precious Stones	8.4	6.1	32.2	-3.1
Capitals Goods	12.4	15.0	39.5	62.0
Electronic Goods	9.6	9.5	35.1	32.7
Gold & Silver	10.0	7.6	62.6	1.5
Chemical	6.2	5.7	38.3	23.3
Edible Oil	2.2	1.4	-3.0	-17.9
Coke, Coal & Briquettes	2.9	2.6	126.7	21.0
Metal ferrous Ores & Metal scrap	2.2	2.6	90.5	57.3
Professional instruments and Optical Goods	1.4	1.3	24.4	28.9
Total Imports	**100.0**	**100.0**	**42.7**	**33.8**

Source: DGCI & S, Kolkata

Since 2000-01, the share of 11 major trading partner of India, accounting for nearly a half of India's trade has not changed. The US is the largest trading partner of India, but with declining trend. China becomes the second largest trading partner of India. India is not only importing crude oil from but also is exporting refined POL products to the United Arab

Emirates (UAE). The third largest trading partner of India is UAE.

Table 6.6: India's Major Trading Partners, 2000 – 06.
Percentage Share in Total Trade (Exports + Imports)

Country	2000 - 01	2002 - 03	2003 - 04	2004 - 05	2005 - 06
US	13.0	13.4	11.6	10.7	10.6
UK	5.7	4.6	4.9	3.7	3.6
Belgium	4.6	4.7	4.1	3.6	3.0
Germany	3.9	4.0	3.8	3.5	3.8
Japan	3.8	3.2	3.1	2.8	2.6
Switzerland	3.8	2.4	2.6	3.3	2.8
Hong Kong	3.7	3.1	3.3	2.8	2.7
UAE	3.4	3.8	5.1	6.2	5.1
China	2.5	4.2	4.9	6.5	7.0
Singapore	2.5	2.5	3.0	3.4	3.5
Malaysia	1.9	1.9	2.1	1.7	1.4
Total	**48.6**	**47.9**	**48.1**	**48.2**	**46.1**

Source: DGCI & S- Kolkata

In 2005-06, the US continued to be the principal destination accounting for 16.8 percent of India's total exports, following by UAE (8.4 percent), China (6.5 percent), Singapore (5.4 percent) and the UK (5.0 percent). Region wise, Asia and ASEAN countries have emerged as major export destination. In April-October 2006, the share of Asia and ASEAN countries were 19 percent and China Republic, Hong Kong and Taiwan were 10 percent, accounts for half of India's total exports. During these period exports of Europe and America registered moderate growth.

India's merchandise export to South Asian Countries was 7.3 percent growth in 2004-05, which rose to 19.3 percent in 2005-06. The major items of India's exports to south Asian countries are: engineering goods, chemicals and related products, petroleum, crude and products, cotton yarn fabrics

and made ups and rice. 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 ups, iron and steel, spices, organic and inorganic chemicals, artificial resins and plastic materials, essential oil and cosmetic preparation and fruits and nuts.

In 2005-06 Asia and ASEAN continued to be the major and growing source for India's imports, accounting for 35.2percent of total imports. Imports from China were 75 percent growth in the previous year, while in the current year China recorded high growth of 51.3 percent. Growth of Imports from America was 12.7 percent and from EU 25 was 19.5 percent. Imports from major oil exporters like Saudi Arabia, UAE recorded rapid growth. With 9.1 percent share, China is the top import source of India recorded growth of 58.1 percent and import from the US was also cheerful at 30.2 percent with 5.7 percent share.

During the last few years, India registered high growth in the export of services. In 2005-06, with a growth of 42 percent, India's exports of services have increased threefold during the last three years, and it reached US $ 61.4 billion in 2005-06. The software services, business services, financial services and communication services recorded rapid rate of growth. India's share and ranking in world merchandise exports were 1 percent and 26 in 2005 and in world commercial services exports its share and ranking was 2.3 percent and 11 respectively.

6.3 OUR FUTURE PROSPECTS

With the progress of economic reforms in many countries of the world and deregulation of financial markets, the importance of private capital relative to government financing has been increasing rapidly. This is also true for Asia as a whole and India in particular. India has been successful in attracting a sizeable amount of private foreign capital majority of which are non-debt creating variety. These have helped improve balance of payments and increase resources in the economy. Over the years there has been a steady liberalisation of current account transations, opening up of sectors for foreign direct investment and portfolio investments. These have in fact facilitated to foreign investors in telecom, roads, ports, airports, insurance and many other major sectors.

The liberalisation of our domestic economy and increasing integration with the world economy in fact have helped comfortable improvement in GDP growth rate and reduction of poverty from 26 percent in 1999-2000 to 21 percent in 2007.A global comparison shows that India is the fastest growing country in the world just after China because of the fact that India has a largest domestic market and has competitive advantage in world market over many countries due to cheap labour and less polluted environment.

What India requires most is to concentrate on areas such as technological entrepreneurship, new business openings for small and medium enterprises, importance of quality management and new prospects in rural areas. The growth of the entire economy depends largely on rural participation in the global race where rural people can lead a decent standard of living with dignity from active participation in productive as well as consumption activities.

References

Bhuimali, A. (2003), *Rural Cooperative and Economic Development*, Sarup and Sons, New Delhi.

Bhuimali, A. and Satrajit Dutta (2006), *Foreign Trade of India Under WTO Regime*, Abhijeet Publications, New Delhi

Department of Economic Analysis and Policy, Reserve Bank of India, Mumbai

Economic Survey, Government of India, 2006-07

Frederick P. Stutz and Anthony R. de Souza (1998), *The World Economy. Resources, Location, Trade, and Development.* Prentice Hall, Upper Saddle River, New Jersey.

Government of India (2007), *India 2007 A Reference Annual*, Publication Division Ministry of Information and Broadcasting.

RBI monthly Bulletin (2007), "India's Foreign Trade: 2006-07 (April-March)."

The Hindu (2002), *India Book of the year 2002*, Encyclopedia Britannica (India) Pvt. Ltd and The Hindu.

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 10th 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.

BIBLIOGRAPHY

Abraham, Joseph (2002), "Development Dimensions of multilateral Trade The Role of WTO", YOJANA 19-24 Dec.

Agarwala, R. (2003), "Towards a Multipolar World of International Finance" Indian Economic Journal, Vol. 51, No. 2 July - Sept.

Ahluwalia, I. J., "Trade Policy and Industrialisation in India", in *Thoughts on the New Global Economy,* (ed) by Y.V. Desai Chp. 10, p183 - 203.

Ahluwalia, M. S. (2000), "Economic Performance of States in Post-Reformed Period," Economic and Political Weekly, May 6.

Ahluwalia, M. S. (2002), "Economic Reforms in India Since 1991, Has Gradualism worked?" Journal of Economic Perspective Vol. 116 No. 3 P 67-88.

Aiyar, S (2000), "Have Economic Reforms Bypassed the Poor" The Times of India, April 23.

Aiyar, S. (2000), "Lack of Growth Trickles Down"- The Times of India April 30

Althukorala, P. C. (2005), "Agricultural Trade Policy Reforms in India"., South Asia Economic Journal, Vol. 6 No. 1 23-26 Jan-June

Athreya, Venkatesh (2005), "A Neo-liberal Obsessions", Forntline, Vol. 22 No. 6, 39-40

Atkinson, A. B. (1970), "On Measurement of Inequality," Journal of Economic Theory, Vol.2.

Bajpai, *Bhartiya Vyapar Ka Itihas.*

Baldev, Raj (2001), "Opening up and Openness of Indian Economy," Economic and Political weekly, 3529-3537, Sept.15.

Baldev, Raj (2001), *Globalisation and Nationalisation* Sage Publications. (New Delhi).

Balusubramanyam, V. N. and Dipak R. Basu (1990), "India Export Promotion Policies and Export Performance" in milner, Chris (ed) *Export Promotion Strategies: Theory and Evidence from Developing Countries,* New York, New York University Press.

Banik, N (2001), "An Analysis of India's Exports during the 1990s" Economic and Political Weekly, November 3.

Basam, A. L. (1997), *The World that was India,* Rupa and Co. Calcutta p 226-231.

Beri and Jathar, *Indian Economy,* Vol. I and II.

Bhagwati, J. N. and T. N. Srinivasan (1983), *Lectures on International Trade*; Cambridge, Mass MJI Press.

Bhagwati, J. N. and S. Chakravoarty (1969), "Contribution to Indian Economic Analysis: A Survey" The American Economic Review. Supplement, Vol. 59, PP – 1-73.

Bhagwati, J. N. and T.N. Srinivasan, *India's Economic Reform,* Ministry of finance, Government of India.

Bhagwati, J. N., *India in Transition, Freeing the Economy.* Clarendon Press, Oxford.

Bhagwati, J. N. and T.N. Srinivasan (1975), *India*; New York University Press.

Bhagwati, J. N. and T.N. Srinivasan (1975), *Foreign Trade Regimes and Economic Development: India,* National Bureau of Economic Research, New York, Columbia University Press.

Bhalla and Surajit, S. (2000), "FAQ'S on poverty in India", Seminar at the Delhi School of Economics, July.

Bhalla and Surajit S. (2000), " Growth and Poverty in India-Myth or Reality," paper prepared for a conference in honour of Raja Chellah, Institute of Economic and Social Change, Bangalore, January 17.

Bhatt, P. R. (2003), "Second Generation Reforms. Some Issues" Asian Economic Review, Vol. 45, No. 3, 448-467, Dec.

Bhide, S. and Ric Shand (1999), "Inequalities in Income Growth in India Before and After Reforms," South Asian Economic Journal, Vol. No.1 (forthcoming).

Bhuimali, A. and Bimal Sarkar (2004), "India's Trade Performance in the Post-Liberalisation Era" Indian Journal of Social and Economic Policy, Vol. 1, No. 1, p (117-125).

Bhuimali, A. (2003), *Rural Cooperative and Economic Development*, Sarup and Sons, New Delhi.

Bhuimali A. and Satrajit Dutta, (2006), *Foreign Trade of India Under WTO Regime*, Abhijeet Publications, New Delhi

Bodla B.S. and Usha Bahati (2004), "FDI: Emerging Scenario" Yojana October 2004.

Bokare, M. G. (1993), *Hindu Economics (External Economic Order)* Janaki Prakasan, New Delhi.

Brahmananda, P. K. (1997), "Factor Mobility, Globalisation, Multi-National Corporations, Convergence and the Consequent Revolution in International Trade Policy". The Indian Economic Journal Vol. 44 No. 3.

Case, E. Karl and Ray C. Fair (2002): *Principles of Economics (Sixth Edition)*, Pearson Education (Singapore), Pvt. Ltd. Indian Branch, 482 F.I.E. Patparganj, Delhi.

Cassess, R., Joshi, V. and Lipton, M (1993), "Stabilisation and Structural Reform in India" Contemporary South Asia, Vol. 2 No. 2.

Chakraborty, D., Pal, D.P. and J. Sen, "Changing Levels of Living in India in the 1990's" In *Economic Reform in India*, (ed), Ravishankar Kumar Singh, Abhijeet Publication, Delhi.

Chand, R. (1999), "Liberalisation of Agricultural Trade and Net Social Welfare, A Study of Selected Crops" Economic and Political weekly, December 25.

Chandrasekhar, C. P. (2003), "New liberal Reform and Industrial Growth Towards Deviator Recession" Social Scientist, November - December.

Charles D. Kolstad, *Environment Economics*, Oxford University Press.

Chatterjee, P. K., *Foreign Capital and Economic Development in India.*

Chitre, Vikas (2003), "Global Slow down and the Indian Economy" Economic and Political Weekly May 24.

Choudhury, S. (2002), "Economic Reforms and Industrial Structure in India" Economic and Political Weekly, January 12, p 155-68.

Dandekar, V.M and N. Rath (1971), "Poverty in India, Dimension and Trends" Economic and Political Weekly, January 2, 1971 and January 9.

Datt, G., Valeric, Kozel and Martin Ravallion, *A model-based approach to projection of poverty in India.*

Datt, R. (1995), "New Economic Reforms, Need for Some Rethinking" The Indian Economic Journal, Vol. 42 No. 3.

Datt, R. and K.P.M. Sundharam, *Indian Economy*, S. Chand and Company Ltd. New Delhi.

Deaton, A. and Alessandra Taro (1999), *'Prices and Poverty in India,'* Princeton University (mimeo), December 13.

Deaton, Angus, *Adjusted Indian Poverty Estimates for 1999-2000.*

Department of Economic Analysis and Policy, Reserve Bank of India, Mumbai

Devereux, M. B. (1997), "Growth, Specialisation and Trade Liberalisation" International Economic Review Vol. 38, No. 3.

Dhar, P.K., *Indian Economy.*

Dholakia, R. H. and Deepak Kapūr (2001), "Economic Reforms and Trade Performance Private Corporate Sector in India" Economic and Political Weekly, December 8.

Dholakia, Ravindra (1994), "Special Dimensions of the Acceleration of Economic Growth in India" Economic and Political Weekly, Vol. 29 No. 35, p2303 - 2309.

Diwan, Romesh (1996), "Economic Reforms-Alternative Policy Package," The Statesman, Feb 21.

Dubey, A. and S. Gangopadhyay (ed), *Counting the Poor,* Sarvekshana Analytical Report No.1, Department of Statistics, Govt. of India, New Delhi.

Dutt, R. P., *India Today*

Dutt, Gaurav (1997), *Poverty in India and Indian States: An Update,* International Food Policy Research Institute, Washington D.C.

Dutt, Gaurav (1999), "Has Poverty Declined since Economic Reform?" Economic and Political Weekly, Vol 34 No.50.

Dutta, Bhabatosh , *Indian Planning at the Cross Road.*

Economic Survey, Government of India, 2006-07

Economic Survey, Government of India, (various issues)

Economist (1995)."India, Hello World" Vol. 334 No. 7898.

Foneseca, A.J: *Challenge of Poverty in India*

Frederick, P. Stutz and Anthony R. de Souza (1998), *The World Economy. Resources, Location, Trade, and Development.* Prentice Hall, Upper Saddle River, New Jersey.

Ganguli, B. N., *Reconstruction of India's Foreign Trade.*

Ghemawat, P. and M. Patibandla (1998), "India's Export Since the Reforms" Economic and Political Weekly, May 16.

Goldstein, Judith (2001), "International Institutions and Domestic Policies: GATT, WTO and the Liberalisation of International Trade", in *the WTO as an international Organisation* (ed) by Anne O. Krueger, 133-160.

Goswami, O. (2004), "Remaining the reforms bias", Business World, Vol. 24, June, 8, 28, July 13-19.

Government of India (2007), *India 2007 A Reference Annual,* Publication Division Ministry of Information and Broadcasting.

Government of India, *Export - Import Policy Statement* July - 1991.

Government of India, Planning Commission, Tenth Five Year Plans, 2002-07 (Delhi 2003)Vol. I, Chapter 4 on "External Sector Dimensions".

Greenway, D. A. and H. Nam (1988), "Industrialisation and Macroeconomic Performance in Developing Countries under Alternative Trade Strategies" KYKLOS, Vol. 41, Fase-3.

Guha, Ashok (ed) (1990), *Economic Liberalisation.Industrial Structure and Growth in India* Oxford University Press.

Gupta, S.P (1996), "Recent Economic Reform in India and their Impact on the Poor and Vulnerable Section of Society" in *Economic Reform and Poverty Alleviation in India* (Eds): C.H Hanumanthe Rao and Ham Linnemann, Sage Publication.

Hufbauer, G. and J. Schott (1985), *Trading for Growth: The Next Round of Trade Negotiation,* Washington D.C.: Institute for International Economics.

Ibid, p 30

Ibid, p 30-31

Ibid, P. 32.

Jaftrelot, C. (2002), "Is India Globalisable?" Indian Horizon, Vol. 48, No. 4. No. 1.2002,

Jaha, V. S. , *Liberalisation in India* : The Road Ahead.

Jalan, Bimal (1992), *The Indian Economy, Problems and Prospects,* Viking, New Delhi;

Jalan, Bimal (2002), "India and the Challenge of Globalisation" The Indian Economic Journal, Vol. 49, No. 3, 9-12.

Jalan, Bimal, "Balance of Payments, 1956 to 1991" The Indian Economy, 163-194.

Jayashankar, M. (2004), "India Today, the World Tomorrow" Business world, Vol.23.

Jha, L. K. (1987), "Indian Economy in Eighties and Nineties" Mainstream (Republic Day), 26

Joshi, V. and Little I. M., *India's Economic Reforms* - Oxford University Press, 1996.

Kalamkar, S. S. (2003), "Liberalisation and India's Horticultural Export" Economic Affair, Vol. 48, Qr. 4, December.

Kalirajan, K. P. and R. T. Shand (1994), *Economics in Disequilibrium, an Approach from the Frontier*, Macmillan Press, New Delhi.

Kapila, Uma (2001), *Understanding the problems of Indian Economy*, Academic Foundation (New Delhi).

Kapoor, Rami Shankar (2005), "Integrating with Global Economy" Yajana 43-46, May.

Karnar, N. G. (2005), "Paradigm Change" The Hindu survey of Indian Industry, 197-201.

Kathuria, S. (1996), "Export Incentives: The impact of Recent Policy Changes in India" Indian Economic Review. Vol. XXXI, No. 1, p 109-126.

Katti, V. (2005), "Foreign Trade Policy: An appraisal" Yojana, 43-46 May.

Kausahal, G., *Economic History of India*, Kalyani Publishers (New Delhi).

Kent. George (2004), "What is Free Trade? Where is Free Trade?" UN chronicle, No. 3, 34

Khalilzades, Shirazi, Jawad (1994), "Economic Reforms in India, Achievements, and Agenda Ahead" Columbia Journal of Worlds Business.

Khartik, S. K. (2003), "Globalisation and Post Reforms Scenario at Global Economy: Some Issues", The Indian Journal of Commerce, Vol. 56, No.4 77-82, Oct-Dec.

Khusro, A. M., "Myths and Misconceptions," Financial Express March 12.

Krueger, Anne (1970), *The Benefits and Costs of Imports Substitution in India – A Macroeconomic Study*, October, Washington D.C. USA.

Kumar, N. (1998), "Liberalisation and Changing patterns of Foreign Direct Investments: Has India's Relative Attractiveness as a Host of FDI Improved?" Economic and Political Weekly, May 30.

Kurien, N. J. (2004), "Pro-Poor and Pro-Reform" Yojana Vol. 48, 57-59, Aug.

Lal, D. and H, Myini (1996), *The Political Economy of Poverty, Equality and Growth,* Claredon Press, Oxford.

Lal, D., Mohan R. and J. Natarajan (2004), "Economic Reform and Poverty Alleviation, A Tele of Two Surveys" Economic and Political Weekly, March 24.

Lekhi, R. K., *The Economics of Development and Planning,* Kalyani Publishers.

Majumdar, S. and P. Chhibber (1998), "Are Liberal Foreign Investment Policies Good for India" Economic and Political Weekly, February 7.

Mani, S. (1991), "External Liberalisation and Import Dependence A Note" Economic and Political Weekly, July 6-13.

Mehta, Rajesh (2000), "Removal of QRs and Impact on India's Import," Economic and Political Weekly, 1667-1671, May 6.

Mellor, J. W. (1978), *The New Economics of Growth,* Cornell University Press, Ithaca.

Memorandum of Economic Policy from 1991-92 to 1992-93, submitted by Finance Minister to I.M.F, August 27,1991.

Michael, Kideran, *Foreign Investment in India.*

Minhas, B. S., Jain L. R. and Tendulkar S.D (1991), "Declining Incidence of Poverty in 1980," Economic and Political Weekly, July- 6-13.

Mishra, S. N. and B. N. Goldar (1966), *India's Trade and Investment Policies*, mimeo, Institute of Economic growth, February.

Misra S. K. and V. K. Puri (2004), *Indian Economy*, Himalaya Publishing House.

Moore, Mike (2003), *A World without Walls, Freedom, Development, Free Trade and Global Governance.*

Mukhopadhay, Sukumar (2002), "Exim Policy 2002-07" Economic and Political weekly 1389-1390 April 13.

Muralidharan, Sukumar (2001), "A New Trade Round. Virtually", Frontline, December 7, 2001, 4-6, 9-13.

Naidu Naraina Swamy, *India's Foreign Trade.*

Nanda Nitya (2003), "WTO and Trade Facilitation Some Implications", Economic and Political weekly.

Narula, Manoj (2003), "Looking Ahead", Business India, 47-48, May 26-June 8 Nyar,

Natarajan, J. (1998), *India Market Demographics Report*, 1998, NCAER.

Nayar, Baldev Raj (2001), "Opening Up and Openness of Indian Economy". Economic and Political weekly, 3529-3537, Sept. 15.

Nayar, Baldev Raj (2001), *Globalisation and Nationalisation*, Sage Publications (New Delhi)".

Nayar, Baldev Raj (1998), "Business and India's Economic Policy Reforms", Economic and Political weekly, Vol. XXXII No. 38 19-25 September 245 : 2468.

Nayyar, Deepak (1976), *India's Export and Export Policies in the 1960s* Cambridge: Cambridge University Press.

Nayyar, Deepak (1996), "Globalisation The Past and the Present". Indian Economic Journal V-43.

NSSO: Government of India, *Household Consumer Expenditure and Employment Situation in India.*

NSSO: *Level and Pattern of Consumer Expenditure 1993-94.*

Panchamukhi, V.R. (2000), *Indian Classical Thoughts on Economic Development and Management.* Bookwell Publications, New Delhi.

Patibandla, M. (1994), "New Theories of International Trade A survey of Literature" Indian Economic Journal, January - March.

Patibandla, M. (1996), *Trade and Industrial Policy Reforms as Strategic Policy Signal's* Forthcoming.

Planning Commission (1993), "Report of Export Group on Estimation of Proportion and Number of Poor of India", New Delhi, July.

Planning Commission (1997), "Estimation of Poverty", Press note March 11, New Delhi.

Planning Commission (1998), *Ninth Five Year Plan (1997-2002)* Vol.1 p.30.

Planning Commission (2000), "India's 1990-91 Crisis: Myths Reform and Paradoxes," Working Paper No. 4.

Radrik, D. (1996), "Understanding Economic Policy Reform". Journal of Economic Literature, Vol. XXXIV 9-14.

Raj, K. N. (1985), "New Economic Policy Engine to Growth", Economic Times December 21.

Rajput, J (2001), "Globalisation and Emerging Trends of Industrial Development" Yojana, March.

Raju, S. S. and Jacob Kurien (2005), "Exports and Economic Growth in India; Co-integration, Causality and Error-correction Modeling : A Note" Indian Journal of Economics and Business Vol. 4 No1. (209-219).

Rao, S. L. (1993), Consumer Market Demographics in India, NCAER, New Delhi.

Rao, S. L. and I. Natrajan(1996), *Indian Market Demographics-The Consumer class*, NCAER, New Delhi.

Rao and C. Niranjan (1989), "Trade Related Aspects of Intellectual Property Rights", Economic and Political weekly, 1053-1057, May13.

Ravindra (2004), "WTO and Tariff Preferences", Economic and Political weekly, May.

Ray, S. (2004), "MNEs Strategic Alliances and Efficiency of Firms, Emerging Trends" Economic and Political Weekly, January 31.

RBI monthly Bulletin (2007), "India's Foreign Trade: 2006-07 (April-March)."

Report *Indian Fiscal Commission*, 1921-22

Report *Indian Fiscal Commission*, 1949-50

Reserve Bank of India (1999), *Handbook of Statistics on Indian Economy*, New Delhi.

"Review of Trade of India". (Various Issues)

Rostow W.W., *The World Economy, History and Prospect.*

Santos, P. and Amelia U. (2002), "Trade liberalisation and Export Performance in Selected Developing Countries", The Journal of Development Studies, Vol. 39 No. 1 October.

Saran, V. and I. N. Mukherjee, *India's External Sector Reforms* Oxford University Press, New Delhi - 2001.

Sen, A. (2005), *The Argumentative Indian*, Allen Lane an imprint of Penguin Books.

Sen, A. (2006), *Identity and Violence*. The Illusion of Destiny. Allen Lane an imprint of Penguin Books.

Sen, A. K. (1973), *On Economic Inequality*, OUP.

Sen, Abhijit (2000), "Estimates of Consumer Expenditure and its Distribution- Statistical Priorities after NSS 55th Round," Economic and Political Weekly, December 16.

Sen, Raj Kumar (2004), "Globalisation and Indian Economic Thinking in the Past and Their Relevance in the Present and Future" Indian Economic Journal Vol. 51, No. 2.

Sen, Raj Kumar and Ratan Lal Basu (2004), *Economics in Arthashastra,* (Forthcoming), Deep and Deep Publications. New Delhi.

Sethwararar, S. (1997), "Trade Scenario in Post-Independence Era", Yojana, 61, -67, January.

Shand, Ric and S Bhide (2000), "Sources of Economic Growth, Regional Dimensions of Reforms," Economic and Political Weekly, October 14.

Shandilya, T. K. (2003), "Globalisation: Challenges Ahead And Implications For India" Economic Affair, Vol. 48, Qr. 4. December.

Sharna, Shalendra D. (2003), "India's Economic Liberalisation, A Program Report", Current History, 176-179, April.

Shome, P. and H. Mukhopadhyay (1998), "Economic Liberalisation of the 1990s, Stabilisation and Structural Aspects and Sustainability of Results" Economic and Political Weekly, July 18.

Siddharthan (2004), "Globalisation Productivity, Efficiency and Growth, An Overview" Economic and Political Weekly, January 31.

Siddharthan, N. S. and K. Lal (2003), "Liberalisation and Growth of Firms in India" Economic and Political Weekly, May 17.

Singh, B.N.P. (1992), "Problems of India's Export Promotion: An Anxiety for Social Scientist" Economic Affairs, Vol. 37, Qr. 1.

Singh, P.N. (1995), "Globalisationing Indian Economy : The Environment", an article publishing in *India's Economic Reform and Beyond*, edited by R.K. Sinha, Anamika Publisher, Delhi, p 31.

Singh, T. (2001), "Balance of Trade, Exchange Rate and Trade Policy Regimes in India, Some Issues and Policy Perspective" The Indian Economic Journal, Volume 48 No. 1.

Singh, Manmohan (1964), *India's Export and the Prospects for Self-sustained Growth* : Oxford; Clarendon Press.

Srinivasan T. N. (1999), "Poverty and Reform in India" paper presented at Conference on Reform Organised by National Bureau of Economic Research and NCAER, December.

"Statistical Tables of India."

50th Round, 1994

51st Round, 1995

52nd Round, 1996

53rd Round, 1997

54th Round, 1998

62nd Round, 2006

Sukla, A. (2001), "Impact of Import Liberalisation on Export Performance of Indian Economy" Economic Affair, Vol. 46, Qr. 4.

Tasswing, F.W., *Free Trade Tariff and Reciprocity.*

Tendulkar, S. (1998), 'Indian Economic Policy Reform and Poverty, 'An Assessment' in I Ahluwalia and IMD Little (eds), *Indian Economic Reform and Development*, Oxford University Press, New Delhi.

The Hindu (2002), *India Book of the year 2002*, Encyclopedia Britannica (India) Pvt. Ltd and The Hindu.

Varashrey, L.R., *Indian's Foreign Trade.*

Varian, H. (1992), *Micro Economic Analysis*, 3rd Edition, W.W Narton and Company, New York.

Verma, P. (1997), "India's Internal Trade in Services", The Indian Economic Journal, Vol. 44 No. 3 103-115.

Virmani, A. (2003), "India's External Reforms; Modest Globalisation, Significant Gains" Economic and Political weekly, August 9.

Virmani, A. (1991), "Trade Policy Reform, De- Licensing, Tariff Reform and Exchange Rates", Development Policy Research, Planning Commission, New Delhi, September.

Visaria, Pravin (2000), *Poverty in India during 1994-98, Alternative Estimates,* mimeo, June 9.

Visaria, Pravin (2000), "Alternative Estimates of Poverty in India" Economic Times July 29.

Vyas, V. S. (2002), "Globalisation: Hopes, Realities and Coping Strategy" Economic and Political weekly, March 23.

Wadhva, C. D. (2003), "Economic Reforms in India in Retrospect and Prospect" Man and Development, 17-62, September.

World Bank (1989), *India: An Industrialising Economy in Transition,* World Bank Washington.

World Bank (1989), *India, Poverty, Employment*

World Bank (2000), *Finance for Growth,* Oxford University Press.

INDEX