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

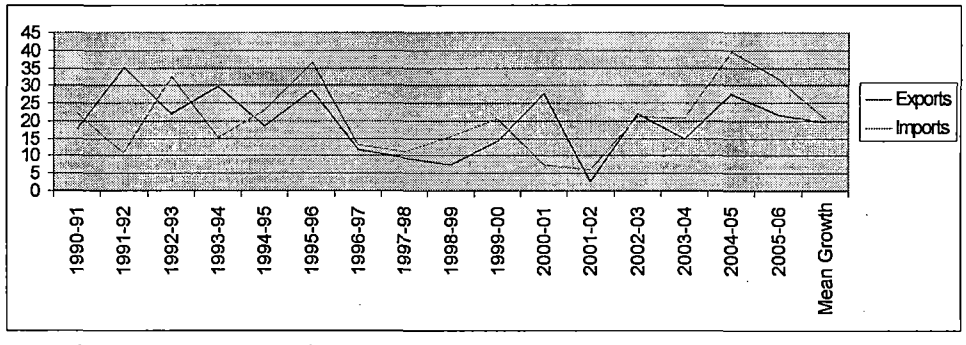

Fig 1: Export and Import Growth in India 1990-2006.

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.

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