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.

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