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An analysis of India's foreign trade during pre and post economic policy

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Abstract

Foreign trade acts as a catalyst for economic growth and development of any country. In order to analyze the impact of new economic policy introduced in 1991 on India's foreign trade, the time series data has been used to examine the performance and compare the two eras of pre-reform periods (1970-71 to 1990-91) and post-reform periods (1991-92 to 2017-18). This paper highlights the average growth rate of exports and imports, the contribution of exports and imports to India's GDP, the export value index and the value index of imports in the pre- and post-reform era and reveals that the growth rate of imports is higher than the growth rate of exports in the post-reform periods. This successful Indian transition from a regulated, inward-looking and slow growing economy to a liberalized and transparent economy has found a spot among the world's fastest growing economies.

Keywords: post economic reforms, foreign trade, exports, imports

Introduction

After independence the Indian government adopted a planned economy approach for development of the country and focused more on state run industries rather than a very few numbers in the private sector. It is not hidden from anyone that from 1951 to 1991, Indian policy-makers followed the path of centralized economic planning accompanied with regulatory authorities controlling each sector of the economy. The realization of conservative macro-economic policies of old inward looking and import substitution strategy for economic development started in 1980's and therefore India went through several phases of economic liberalization in the 1970's and the 1980's. India being an agricultural economy was restricted to UK only for its trade relations. During the first and second five year planning, exports were largely neglected due to inelastic demand for India's exports in foreign market. It dropped from 1.4 percent during 1950's to 0.9 percent during the 1960s^[1]. To boost any economy, exports are the key factors for the growth and therefore various measures were adopted by Indian government to promote exports. The efforts put by the government showed their results and the Indian exports experienced higher growth rates of 18.0 percent per annum during 1970s. But this boom could not sustain for long and again it dropped in 1980's and it went on continuing unless and until in 1991 the government adopted the new economic policies. The trade was open to rest of the world. The major changes were of liberalization, globalization, exports oriented strategies, value to private investment, capital market reforms and encouragement to FDI and MNCs culture in trade^[2]. The intention of the reforms in the external sector of India was to integrate the Indian economy with rest of the world. In this context, the Ninth five year plan (1997-2002) observed, "The process of globalization is a really The Ninth Five Year Plan (1997-2002) noted in this way, "The cycle of globalization is a fact that cannot be ignored and should not be stopped, which cannot be denied and also should not be avoided. However, it needs to be managed so that we can derive the maximum advantage from the world markets". The post-reform period have witnessed growth in Indian economy. The GDP of India has increased and the improvements in exports cannot be denied^[3]. This economic growth has transformed the economy to a developing nation. It has facilitated the establishment of an international economic order and setting up of a mutual relationship between the developed and developing countries. Now the country is no more restricted to agriculture only but open to rest of the sectors for trade and investment.

Objective of the study

The study gives the comparative picture of foreign trade in both pre and post reforms period.

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Hence with this background the present study is undertaken with a view to achieve the following objectives

- Examining India's exports and imports in the period pre- and post-reform.
- Finding balance of payments in the period previous to and after reforms.
- To recommend ways and means to improve Foreign Exchange in India.

Methodology and sources of data

The study is analytical in nature and covers broadly the period of 48 years of pre and post economic reforms from 1970 - 1991 and from 1991 - 1918 respectively [7, 8]. The study portrays a detailed view of our trade along with comparative statistical analysis of exports and imports. The data has been simplified with the help of average calculation to examine the growth or downfall of exports compared with imports and its impact on overall balance of Trade of Indian economy [9, 10].

The data has been collected from secondary sources of Economic Survey of Govt. of India, RBI Bulletins, RBI Handbook of Statistics and Ministry of Commerce & Industry of Govt. of India etc. Annual growth rate of India's exports and imports, Annual cumulative growth rate of India's exports and imports, and balance of payment status are determined for inferences to make [11, 12].

Analysis and findings

Trends in india's foreign trade in pre economic reform periods

Table 1 shows the annual growth rate of India's exports compare to Indian imports, the total trade and the annual growth rate in trade balance. It can be seen from the table that in the year 1970-71 the imports were more than the exports. The exports continued to increase from 15.35 billion in 1970-71 to 325.58 billion in 1990-91. The imports were at 16.34 billion in 1970-71 increased at a very slow pace to 18.25 in 1971-72 and further to 18.67 billion in 1972-73 after that it increased exponentially to 431.93 billion in 1990-91 by this time the trade balance was deficit by 106.35 billion. There was a growth rate of 38.66 billion in trade deficit. It can be seen that there was a export promotion due to the measures taken by the Indian government but it was indecudate to match with import [4]. For Indian economy the exports were majorly from agriculture sector and the prices of the products remained low in international market. India could not enhance its exports due to its increasing domestic consumption of goods like sugar, vegetables etc. The reason for trade deficit was also the unit value of imports being greater than unit value of exports [13].

India's Exports in Pre and Post Economic Reform Periods

Table 1: India's Trade during Pre-Reforms Period from FY 1970-71 to FY 1990-91(Rs. Billion)

Year	Total Exports	Annual Growth Rate (%)	Total Imports	Annual Growth Rate (%)	Total Trade	Annual Growth Rate (%)	Total Trade Balance	Annual Growth Rate (%)
1990-91	325.58	17.71	431.93	22.26	757.51	20.26	-106.35	38.66
1989-90	276.58	36.71	353.28	25.12	629.87	29.96	-76.70	-4.17
1988-89	202.32	29.08	282.35	26.94	484.67	27.82	-80.04	21.82
1987-88	156.74	25.87	222.44	10.69	379.17	16.50	-65.70	-14.05
1986-87	124.52	14.30	200.96	2.23	325.48	6.53	-76.44	12.77
1985-86	108.95	-7.23	196.58	14.73	305.52	5.80	-87.63	62.57
1984-85	117.44	20.19	171.34	8.23	288.78	12.79	-53.91	-11.06
1983-84	97.71	10.99	158.32	10.77	256.02	10.85	-60.61	10.41
1982-83	88.03	12.78	142.93	5.03	230.96	7.86	-54.89	-5.38
1981-82	78.06	16.32	136.08	8.43	214.14	11.18	-58.02	-0.63
1980-81	67.11	4.55	125.49	37.26	192.60	23.77	-58.38	114.32
1979-80	64.18	12.09	91.43	34.24	155.61	24.12	-27.24	151.17
1978-79	57.26	5.88	68.11	13.13	125.37	9.70	-10.85	77.11
1977-78	54.08	5.16	60.20	18.65	114.28	11.86	-6.12	-988.82
1976-77	51.43	27.41	50.74	-3.63	102.17	9.84	0.69	-105.61
1975-76	40.36	21.25	52.65	16.51	93.01	18.52	-12.29	3.24
1974-75	33.29	31.92	45.19	52.90	78.48	43.24	-11.90	175.46
1973-74	25.23	27.99	29.55	58.26	54.79	42.72	-4.32	-515.38
1972-73	19.72	22.59	18.67	2.35	38.39	11.83	1.04	-148.06
1971-72	16.08	4.75	18.25	11.64	34.33	8.30	-2.16	118.59
1970-71	15.35	----	16.34	-----	31.70	-----	-0.99	-----
CAGR %	15.66%		16.88%		0.16		24.95%	

Source: Handbook of Statistics on Indian Economy, RBI, Economic Survey, GOI and Annual Report, Ministry of Commerce and Industry, Government of India.

Table 2: India's Trade during Post-Reform Periods from FY 1991-92 to FY 2017-18 (Rs. Billion)

Year	Total Exports	AGR (in %)	Total Imports	AGR (in%)	Total Trade	AGR (in%)	Total Trade Balance	AGR %
2017-18	19565.15	5.79	30010.33	16.42	49575.48	11.98	-10445.19	43.43
2016-17	18494.34	7.75	25776.75	3.51	44271.09	5.24	-7282.42	-5.90
2015-16	17163.84	-9.49	24903.06	-9.02	42066.90	-9.21	-7739.21	-7.94
2014-15	18964.45	-0.45	27370.87	0.80	46335.32	0.28	-8406.41	3.73
2013-14	19050.11	16.56	27154.34	1.73	46204.45	7.37	-8104.23	-21.69
2012-13	16343.18	11.48	26691.62	13.80	43034.80	12.91	-10348.44	17.66
2011-12	14659.59	28.26	23454.63	39.32	38114.23	34.85	-8795.04	62.71
2010-11	11429.22	35.17	16834.67	23.45	28263.89	27.93	-5405.45	4.31
2009-10	8455.34	0.57	13637.36	-0.78	22092.69	-0.27	-5182.02	-2.90
2008-09	8407.55	28.19	13744.36	35.77	22151.91	32.79	-5336.80	49.72
2007-08	6558.64	14.71	10123.12	20.44	16681.75	18.12	-3564.48	32.64
2006-07	5717.79	25.28	8405.06	27.27	14122.86	26.46	-2687.27	31.73
2005-06	4564.18	21.60	6604.09	31.80	11168.27	27.43	-2039.91	62.25
2004-05	3753.40	27.94	5010.65	39.53	8764.04	34.32	-1257.25	91.24
2003-04	2933.67	14.98	3591.08	20.83	6524.75	18.13	-657.41	56.27
2002-03	2551.37	22.06	2972.06	21.21	5523.43	21.60	-420.69	16.27
2001-02	2090.18	2.68	2452.00	6.21	4542.18	4.55	-361.82	32.53
2000-01	2035.71	27.58	2308.73	7.26	4344.44	15.91	-273.02	-50.96
1999-00	1595.61	14.17	2152.37	20.69	3747.98	17.83	-556.75	44.32
1998-99	1397.53	7.42	1783.32	15.67	3180.85	11.89	-385.79	60.24
1997-98	1301.01	9.50	1541.76	10.98	2842.77	10.30	-240.76	19.76
1996-97	1188.17	11.72	1389.20	13.24	2577.37	12.53	-201.03	23.14
1995-96	1063.53	28.64	1226.78	36.35	2290.31	32.66	-163.25	123.73
1994-95	826.74	18.53	899.71	23.08	1726.45	20.86	-72.97	117.83
1993-94	697.51	29.92	731.01	15.35	1428.52	22.03	-33.50	-65.42
1992-93	536.88	21.90	633.75	32.44	1170.63	27.39	-96.86	154.30
1991-92	440.42	35.27	478.51	10.78	918.93	21.31	-38.09	-64.18
CAGR % 1991to 2012	18.78		21.11%		20.10%		30.59%	
2013 to 2017	0.53%		2.02%		1.42%		-5.21%	

Source: Handbook of Statistics on Indian Economy, RBI, Economic Survey, GOI and Annual Report, Ministry of Commerce and Industry, Government of India.

During the post reform period, India's export recorded 35.27% annual growth rate for the year 1991-92. It continued to increase till 1995-96. The growth rate of export was inconsistent and declined from 11.72% in 1996-97 to 2.68% in 2001-02 due to south east Asian crises and worldwide recession ^[5]. The declined period did not continue for long period and the recovery was done in 2002-03 when it reached to 22.06% there was a decline in exports in 2009-10 on account of global recession. After that Indian exports experienced new heights of Rs. 11429.22 Billion, a growth rate of 35.17% in 2010-11. Since after that it has declined to 5.79% growth in 2017-18. As far imports are concerned it was 478.51 Billion in 1991-92. It continued to increase and reached Rs 30010.33 billion in 2017-18 ^[6] The sharp increase in imports is a result of devaluation of Indian rupee and increase in import production and consumption. The growth rate of imports was negative in 2009-10 i.e. -0.78% and -9.02% in 2015-16. The global crash down of 2008 did impact Indian economy even.

Conclusion

The economic reforms policy introduced by GOI in 1991 has positive impact on the value and volume of trade. The imports, exports and Trade balance of India's Foreign trade have expanded and fulfilled the development needs of the economy. Today only the matter of concern is the problem of deficit which is increasing every year. India needs to fill the gap by increasing the share of imports which is possible through effective promotion of domestic manufacturing. The efforts taken by government need to be floated to every

nook and corner of the country. Make in India concept, the role of MSME, the increase in Startups need to be boosted further to increase the number. In order to reduce trade deficit the volume of imports should also be reduced by effective import substitution policy.

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