

## **A Comparative Study of India's Foreign Trade in Pre and Post Reform Period**

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Foreign trade has been playing a vital role in the economic progress and prosperity of every country. In modern days foreign trade has assumed an immense prominence and substance for economic development of a country because of interdependence of economies, increasing specialization and joining regional cooperation. In 1991, the major program of economic reform were introduced which emphasize on external sector wherein the protective tariffs were decreased, changes into foreign investment and the restrictive import licensing system was relaxed and simplified. After the New economic reforms, India's foreign trade has undergone substantial changes, volume of trade rose up and composition of trade was also frequently changed. The main objective of the paper is to study the trends of India's foreign trade pre and post new economic reforms in India. The entire data for the present study is collected from the secondary sources. The collected data has been analyzed by using Paired t-test from SPSS software package and graphs. The findings of this paper said that there is positive relationship between economic reforms and India's foreign trade. A push has been given to the exports but analyzes says that the increasing rate of imports is higher in comparison to the increasing rate of exports.

### **Prologue**

A country's position in the international scenario is evaluated by its economic power. The economic strength of a country depends upon its various economic components. One of the most important economic components is the foreign trade of the country. Foreign trade has been playing a vital role in the economic progress and prosperity of every country. In modern days foreign trade has assumed an immense prominence and substance for economic development of a country because of interdependence of economies, increasing specialization and joining regional cooperation. Foreign trade has worked as "Engine of Growth" for developing countries like India. The foreign trade of any nation comprises of inward and outward movement of goods and services, which ultimately affects the inward and outward flow of foreign exchange from one country to another.

For providing, regulating and creating necessary environment for its orderly growth, several Acts have been put in place. The international trade of India is directed by the Foreign Trade Development & Regulation Act, 1992 and the rules and orders issued there under. The physical movement of goods and services through various modes of transportation and Payments for Export and Import transactions are governed by Custom Act, 1962 and Foreign Exchange Management Act, 1999 respectively. (Sahu, 2017) An analysis of foreign trade indicates the composition and the determinants of foreign trade. By composition is meant the various commodities exported and the various commodities imported by country. By determinants is meant the factors that influence the value of the exports and the value of the imports. Based on these criteria, the countries could be classified either as developed countries or as developing countries. In today's world, nations cannot exist on economic isolation. In other words, we can say that any country in the world cannot claim that it is self-sufficient to possess facilities for economical production of all goods and services that are consumed by its people. Some nations have rich in natural resources and agricultural products such as fertile soil, timber, fossil fuels, tea, rice, pulses etc., while other nations have scarcity of many of these resources. So, there is a need of international trade for the benefit of countries.

### **India's Foreign Trade Pre and Post Reforms Period**

Since the time of independence in 1947, India's foreign trade has shown a significant positive growth. Prior to independence, India was typically a colonial economy, based primarily on the agricultural sector. Major portion of India's trade was controlled by the British rulers who exploited the country's resources by exporting the goods to England at cheaper rates. After independence, Indian government was facing a major problem related to economic development of the country. At that time growth economy conditions were not very good.

This was because it did not have proper resources for the development, not only in terms of natural resources but also in terms of financial and industrial development. At that time India's foreign trade was regulated through economic planning. During the period of 1949-1970, India's export has grown at a very slow rate. In the words of Harikumar (2014) "*In the period of 1950 to 1951, main products dominated the Indian export sector. These included cashew kernels, black pepper, tea, coal, mica, manganese ore, raw and tanned hides and skins, vegetable oils, raw cotton, and raw wool. These products comprised of 34 % of the total exports. In the period of 1950s there was balancing with payments crunch. The export proceeds were*

not enough to fulfil the emerging import demand. ” In 1950s, India entered into planned development era. Due to continuous increasing imports and stagnant exports, policy of import substitution was started in 1960s to cut down on imports. During this period, Indian Government had implemented the policy of export pessimism and import substitution. The growth rate of exports was 15.8 % in 1970s, which declined to 8 % in 1980s. The decade of 1970 also witnessed an upsurge in the imports, resulting in a higher growth rate for imports as compared to exports. The export was flourishing at the time of 1970s, however, showed a declining trend during the starting of 1980s. During the second half of the 1980s, due to recovery in the world economy, the exports of India grew at a significant rate (17.8 %). There was found an unquestionable improvement in the competitive position of India in terms of trade during the period as a result of the increased export subsidies. India has a very high rate of merchandise trade growth compared with per capita income. For instance, compound annual growth rate of merchandise trade are rises from 9 % to 21% in 1990-95, whereas per capita income has moved slowly to about 8 per cent over 2000-05 from around 6 % in 1990-95. (Yadav, 2012)

India adopted New Economic Reforms in 1991 for the improvement in the economy and country's growth. Economic Reforms comprises that the introduction to inventive policies such as abolishing the market trade barriers, boosting economic participation in private sector, decrease in the fiscal deficit, an increase in exports and reducing imports, etc. for increasing the growth rate of the economy. Thereafter, the government of India has announced many programs related to Economic Reforms in India. Liberalization, Privatization and Globalization (LPG) model is one of them. The concept of globalization and liberalization was introduced in this era and it got momentum through process of economic integration. In the post liberalization period, rate of growth of import and export increased manifold. Many export promotion policies were started after liberalization. Various schemes have been introduced by the government from time to time to encourage exports, such as Export Promotion Capital goods (EPCG), Duty Entitlement Passbook (DEPB), Software Technology Parks (STPs), Special Import License (SIL), Agri Export Zones (AEZ), Export Oriented Units (EOUs), Duty Free Replenishment Certificate (DFRC), Special Economic Zones (SEZs), Electronics Hardware Technology Parks (EHTPs), and Biotechnology Parks (BTPs).

In 1991, the major program of economic reform were introduced which emphasize on external sector wherein the protective tariffs were decreased, changes into foreign investment and the restrictive import

licensing system was relaxed and simplified. This policy mainly focused on liberalization of capital goods and imports from industry for encouraging the domestic and export oriented growth. India's trade was changed significantly into the post reform periods. After the New economic reforms, volume of trade rose up and composition of trade was also frequently changed. India's chief exports involve machinery items, chemicals, precious and semi-precious stones and electronic goods. On the other hand, side major imports were involved fertilizers, gold, petroleum and petroleum products. Through the introduction to new economic reforms, there was also an enlargement of the direction of India's foreign trade with the new other countries and regional trading blocs.

### **Significance of the Study**

During the period 1950 -1990, India's foreign trade suffered from strict administrative controls. In 1991, the Indian Government introduced the economic reforms policy of the liberalization and globalization of Indian economy. After the establishment of economic reforms, India's foreign trade has started increasing. The trade policy of India has undergone various changes time to time and the major changes involved simplification of processes and techniques, elimination of quantitative restrictions and reduction in the tariff rates. The foreign trade acts as an engine of growth of India's trade in terms of increase in Export and Import. Thus, it is essential to understand the trend of the foreign trade since 1991.

### **Literature Review**

Misra, Jena and Shil (2011) ,in his research paper analyzed and evaluated the India's foreign trade position in terms of volume, composition and direction during the post liberalization period. The author suggested the mechanism for improving India's foreign trade on the basis of the observation of the study.

Yadav (2012),in his analytical study deliberated on the regional patterns of inflows and outflows of trading activity which includes the changes in commodity composition and direction. On the basis of the available data the author suggested that that globalization has directed to specialization of production and expansion of consumption. Finally, it can be conclude that manufacturing sector has increased its share vis-à-vis other tradable sectors and Indian trade is gradually moving away from low value-added product.

Singh (2014),in his research article analyzed the trend and composition of international trade during the post liberalization era and also determine the effect of foreign trade on the economic growth of India. The

analysis of secondary data revealed that though the total exports and imports both have improved but the growth rate of imports is higher in comparison to the growth rate of exports. Major portion of exports comprises the manufactured goods while petroleum and crude products hold the major portion of the imported goods. On the further analysis it was observed that there is positive relationship between export and economic growth while imports are negatively related with the economic growth of India.

Jadhav and Satpute (2014), in his research paper evaluated India's direction and composition of foreign trade for the period 2003-04 to 2012-13. It may be found that there has been a gradual increase in India's export and imports and also there is a rise in trade deficit. India has good trading associations with all the topmost countries in the world. More than 50% of India's total export is with Asia and ASEAN region and about 60% of India's total imports are with the same countries. Thus, it can be analysed that India now export the same items which we once use to import. This is a good sign for one of the fastest emergent economies in the world. So in the present research study effort has been made to cast light upon India's direction and composition of foreign trade especially after 2000.

A. Harikumar (2014), examined the foreign trade of India during pre and post the liberalization period. This study found that with the Liberalization, Privatization and Globalization of the Indian economy and following liberal foreign trade, there had been changes in the business environment. With the development of science and technology there is a change in the nature of the Indian economy. There had been increase in the trade volume in the India's international trade, and the exports from India also have increased.

Sachin N. Mehta (2015), examined the trend outline of India's Exports, Imports and Total Trade during the pre and post New Economic Policy program with the time series data from 1971 to 2013. The study also analyzed the impact of New Economic Policy on Exports, Imports and Total Trade of India using paired sample 't' test. It suggests that there is more increment in the growth rate of imports in comparison to growth rate of export. The outcome of paired sample "t" test suggests that there was positive impact of new economic policy on India's Exports, Imports and Total Trade. It means after the new economic policy India's Exports, Imports and Total Trade had increased significantly.

Matore and Sagar (2015), concluded that, the exports was rises at a decreasing rate but the imports are rises at an increasing rate. As a result, the balance of trade is becoming unfavorable to India during the post

globalization period. It is a significant achievement for India that we have changed ourselves from a mainly primary goods exporting country into a non-primary goods i.e. manufactured goods exporting country.

Kumar and Sood (2016), examined the growth of foreign trade and balance of payments in pre and post reforms period. This study also suggest to ways and means for accelerating India's Foreign Trade. Therefore, the fact that introduction of economic reforms had a positive impact on India's foreign trade, cannot be denied. A push has been given to the exports but the increasing rate of imports is higher in comparison to the increasing rate of exports. As a consequence of it economic reforms have not flourished in correcting trade imbalance.

Kabita Kumari Sahu (2017) in his study examined the India's foreign trade pre and post liberalization in India. This study found that the total trade after liberalization has been significantly higher than the total trade before liberalization and the imports were more than the exports in all the years. Thus, the liberalization period is effective insignificantly increasing the export of India. This study is suggested that import restriction is necessary on non-essential items to narrow down the trade deficit.

### **Objective**

The prime objective of the study is to examine the trade pattern of India' Foreign Trade for a period of twenty one years before and twenty one years after the new economic reforms period (1991-1992).

### **HYPOTHESIS OF THE STUDY**

The following are the hypothesis(s) of the study:

H<sub>0</sub>: There was no significant increase in trade performance of India after the new economic reforms period.

H<sub>1</sub>: There was a significant increase in trade performance of India after the new economic reforms period.

## Research Methodology

### *A. Period of the Study*

The present study examines the India's foreign trade for a period of twenty one years before (1970-71 to 1990-91) and twenty one years after (1992-93 to 2012-13)

### *B. Data Collection*

The study is mainly based on secondary sources of data. The data has been collected from sources like different issues of the Handbook of Indian Statistics, the Economic Survey, and the website of Ministry of Commerce, RBI.

### *C. Tools for Data Analysis*

In this study, tabular and graphical representation tools are used for the analysis of data. Using t-test (Paired samples for means), the pre-reform period and post-reform period trade performance was tested.

Table-1 India's Trade During Pre Reform Period

Year	Export	AGR (%)	Import	AGR(%)	Total Trade	AGR(%)
1970-71	2031		2162		4193	
1971-72	2153	6.01	2443	13.0	4596	9.61
1972-73	2550	18.44	2415	-1.15	4956	8.0
1973-74	3209	25.84	3759	55.65	6968	40.34
1974-75	4174	30.47	5666	50.73	9840	41.22
1975-76	4665	11.76	6084	7.38	10349	9.24
1976-77	5753	23.32	5677	-6.69	11430	6.34
1977-78	6316	9.79	7031	23.85	13347	16.77
1978-79	6978	10.48	8300	18.05	15278	14.47
1979-80	7947	13.89	11321	26.40	19628	26.12
19780-81	8486	6.78	15869	40.17	24355	-1.96

1981-82	8704	2.57	15174	-4.38	23878	0.07
1982-83	9107	4.63	14787	-2.55	23456	1.29
1983-84	9449	.69	15311	3.54	23894	3.64
1984-85	9878	4.54	14412	-5.87	24760	-1.90
1985-86	8904	-9.86	16067	11.48	24971	2.86
1986-87	9745	9.45	15727	-2.12	25472	2.01
1987-88	12089	24.05	17156	9.09	29245	14.81
1988-89	13970	15.56	19497	13.65	33467	14.44
1989-90	16612	18.91	21219	8.83	37831	13.04
1990-91	18143	9.22	24075	13.46	42218	11.60
CAGR	0.157		0.1286		0.1224	
CAGR%	11.57		12.8		12.24	

Source DGCI

Table-1 presents an analytical study of India's Export and Import and also shows the %age of annual growth rate respectively. Exports and Imports grew with varying rates during the period under study. In graph, values of exports and imports is showing significantly a rising trend.



Table-2 India 's Trade During Post 1991

Year	Export	AGR (%)	Import	AGR(%)	Total Trade	AGR(%)
1992-93	18537		21882		40419	
1993-94	22238	19.97	23306	6.51	45544	12.68
1994-95	26330	18.4	28654	22.95	54954	20.7
1995-96	31797	20.7	36678	28.0	68745	24.53
1996-97	33470	5.26	39133	6.69	72603	6.03
1997-98	35006	4.59	41484	6.01	76490	5.35
1998-99	33218	-5.11	42389	2.18	75607	-1.15
1999-2000	36715	10.53	49738	17.34	86453	14.35
2000-01	44076	20.05	49975	0.48	94051	8.79
2001-02	43827	-0.56	51413	2.88	95240	1.26
2002-03	52719	20.29	61412	19.45	114131	19.84
2003-04	63843	21.10	78149	27.25	141992	24.41
2004-05	83536	30.85	111517	42.7	195053	37.37
2005-06	103091	23.41	149166	33.7	25257	29.33
2006-07	126414	22.62	185735	24.52	312149	23.74
2007-08	163212	29.05	251654	35.49	414786	38.88
2008-09	185295	13.59	303696	20.68	488991	17.89
2009-10	178751	-3.53	288373	-5.05	467124	-4.47
2010-11	251136	40.49	369769	8.23	620905	32.92
2011-12	305964	21.83	489319	32.33	795283	28.08
2012-13	300401	-1.82	490737	.029	791138	-0.52
CAGR	0.1494		0.1682		0.1603	
CAGR%	14.94		16.82		16.03	

Source DGCI

The above table presents an analytical study of India's Export and Import and also shows the %age of annual growth rate respectively. Exports and Imports grew with varying rates during the period under study.

## Analysis and Interpretation

### India's Exports in Pre-Reforms and Post-Reforms period

Table 1 and 2 shows that general trend of India's Overall exports during the period under study. It is useful to mention that various policy measures introduced from time to time have a significant impact on the value of exports. Indian exports have covered a long distance from the time of independence in terms of value. In 1970-71, India's merchandise exports stood at low level of 2031 million US dollars which moved up to an all-time high level of 18143 million US dollars in 1990-91 before the pre-reforms period. The annual growth rate of exports was highest at 30.07 % in 1974-75 during the pre-reforms period under study. Thereafter, this rate was continuously decreasing with many fluctuations and in the year 1985-86 this rate was recorded in negative values i.e. -9.86 %. In 1990-91, the exports annual growth rate was 9.22 %. During post reforms era, Indian exports have shown remarkable improvement principally from the period 1992-93 to 1996-97 and from 2002-03 to 2008-09. Exports registered 1.8 times and 3.5 times rises in the year 1992-93 to 1996-97 and 2002-03 to 2008-09 respectively. In 2009-10, the exports was declined with the slight variation and recorded at 178751 million US dollars. After that the Indian exports have moved up and touch a new height of 305964 million US dollars in 2011-12. It was also a highest India's exports during the period under study. Lastly, in 2012-13 exports value has decreased and stood at 300401 million US dollars.

Regarding annual growth rate of exports, it was high in 1993-94 and 1994-95 at 19.97 % and 18.40 % respectively, but declined sharply in 1996-97 to 5.26 %, and continuously till 1998-99 on account of the South East Asian crisis and worldwide recession. It again recovered to 10.53 % and 20.05 % in 1999-00 and 2000-01 respectively.. The export growth rate declined to -3.53 % in 2009-10 in view of the global meltdown. But in 2010-11, exports made a huge jump and thus the growth rate of exports recorded at 40.49 % which was also the highest annual growth rate during the post-reforms period under study.

The growth rate values also registered in negative terms during the post- reforms period, such as -5.11 % in 1998-99, -0.56 % in 2001-02, -3.53 % in 2009-10 and -1.82 % in 2012-13. The Annual growth rate of exports is fluctuating in both the periods because of many reasons. It does not give the clear picture of growth of exports. Therefore, compound annual growth rate is calculated. The CAGR % of post-reforms period is more than the pre-reforms period. The compound annual growth rate of exports in the pre-reforms

period was 11.57 % whereas in the post-reforms period it went up to 14.94 %. The table clearly shows that exports have increased during post reforms period although the impact of economic reforms on exports is not very significant but still it is positive. Therefore through this analyses we can say that, India's exports moved up with varying rates during the period under study.

#### India's Imports in Pre-Reforms and Post-Reforms Period

Table 1 and 2 shows that trend of India's imports during the period under study. During 1970s, India's total imports growth rate picked up and was even higher than growth rate of India's exports. This period was also characterized by a stronger import substitution strategy and greater. Initially, annual growth rate of imports was registered at 13 % in 1971-72 but next year it was declined and reached in negative values i.e. -1.15 %. Thereafter suddenly, this rate shows the tremendous growth and recorded at 50.73 % in 1974-75 and it was also the highest annual growth rate during the pre-reforms period under study. It was maintained at 13.46 % in 1990-91. There has been a sharp increase in the import during post-reforms period. This development is the result of repeated devaluation of Indian rupee and increasing import intensity of both production and consumption during the post-reforms period.. Between 2000-01 and 2004-05 imports were registered 2.2 time growth and in the year from 2005-06 to 2009-10, imports fallen down and attained a growth of 1.9 times. The highest total India's imports was registered at 490737 million US dollars in 2012-13 during the period under study. Table-1 and 2 also shows the annual growth rate of India's imports during pre and post-reforms period. Regarding the annual growth rate of imports, it was 6.51 % in 1993-94. The growth rate was high in the 1995-96 (28 %) and then it declined steeply.

The growth rate of imports was very low in 2000-01 (0.48 %). It regained in 2002-03, and has grown steadily thereafter and touched 42.70 % in 2004-05 which was also the highest annual growth rate during the post-reforms period under study and then declined up to 20.68 % in 2008-09. Data clearly shows that like exports annual growth rate of imports in both the periods is also fluctuating because of many reasons. The CAGR of Imports is higher than that of exports even in the post reforms period. It is important to mention here that the Indian exports are not increasing at expected rate instead imports are increasing because of liberalized trade policies.

### Descriptive Statistics

Variables	Min	Max	Mean	Std Dev
Export In Pre Reform	2031.0	18143.3	8136.5	4458.34
Export In Post Reform	18537.2	305964.6	101880.4	93137.5
Import In Pre Reform	2162.2	24075.64	11626.3	6680.34
Import In Post Reform	21882	490737.5	150675.4	153924.66

Table -3 t –test analysis of India Export during pre & Post Reform

	Particulars	mean	Std Dev	t-test	p-value
Pair 2	Export in pre&Post reform	-937.12	89033.5	-4.825	0.000

Table -4 t –test analysis of India Import during pre & Post Reform

	Particulars	mean	Std Dev	t-test	p-value
Pair 2	Import in pre&Post reform	-139048.9	148272.0	-4.28	0.000

The mean value in post-reform period is more than the mean value in pre-reform period (Table-3). Hence it can be said that the export in pre-reform period was less than the export in post-reform period. As per the result of paired t-test, the p value (0.000) is less than the level of significance value 0.05, indicating that there is significant increase in the exports after the post-reforms period.

The mean value in post-reform period is more than the mean value in pre-reform period (Table-3). In this result, the value of t-statistic is negative. Hence it can be said that the import in pre-reform period was less than the import in post-reform period. However, it is more important to know whether the differences in the mean values is significant or not. In the paired t-test results, the p value (0.000) is less than the value of significance 0.05 that indicating there is significant increase in the imports after the post-reforms period.

### **Limitation of the Study**

The study is based on secondary data which are collected from several websites. The limitations of secondary data, if any, will also influence study. The major factors have been discussed, yet there exist more issues which have not been detailed due to time constraints as well as unavailability of data in the stipulated time. The study is limited to twenty one years before and twenty one years after the new economic reforms period.

### **Conclusion**

The present study investigates the effect of New Economic Reforms on Exports, Imports and Total Trade for India using time-series data from 1970-71 to 2012-13. In this regard pre crisis and post crisis period trade performance is compared on the basis of its value. Over the study period it has been concluded that foreign trade of India has shown an increasing trend after the introduction of new economic reforms in India. During the period under study, the volume of trade is increasing day by day with the many fluctuations. The study also indicates that post reform era has certainly helped India in achieving high growth of the economy. The result shows that in post-reforms period the exports and imports were more than the exports and imports in pre-reforms period but it is also suggested that the growth rate of imports was higher in comparison to the growth rate of exports. The null hypothesis has been rejected. So, the study concludes that the introduction of economic reforms in India had a significant positive impact on India's foreign trade.

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