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A Study On The Impact Of Foreign Trade On Economic Growth Of India

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Abstract

The Indian economy has been experiencing a major transformation since 1990's in the wake of unilateral economic reforms initiated since 1991 and the reorientation of the economy in accordance with the rules and regulations within the multilateral framework of GATT/WTO. Accordingly, the globalization of production process, market for goods as well as financial markets has been initiated, though slowly. This has generated debate on the linkage between trade policy and economic growth, in addition to other variables, the balance of payments and current account deficits. In this paper an effort has been made to study the impact of trade policy on India's economic growth, balance of payments and current account deficit. The evidence suggests that the trade liberalization policies pursued in India played a positive role in influencing economic growth. Indian exports have been doubled in dollar terms and there is an evidence of export diversification. Imports have been rising continuously and the current account showed a surplus in recent years. Empirical analysis on BOP indicates a statistically significant change during liberalization period. Finally, the open policies seem to have influenced current account balances positively. Finally, the evidence presented by us suggests that the expansion of the government sector is detrimental to growth, i. e., the government led-growth thesis is rejected by the data. An examination of this thesis at a disaggregated level shows that while the expansion of government investment has a negative impact on growth, the impact of growth in government consumption is insignificant. An interesting finding emerging from our study is that the investment ratio has an insignificant impact on growth in India The policy conclusion emerging from this study is that export pessimism of the past was misplaced and India would do well to pursue export expansion much more vigorously than hitherto. This would require policies aimed at offsetting the earlier anti-export bias, such as an aggressive exchange rate policy, lowering the degree and dispersion of protection further, de-reservation of (removal of reservation status for) the small-scale sector and liberalisation of the agricultural and consumer goods sectors.

Keywords: Trade Policy, WTO, Economic Growth, Balance of Payments

Introduction

Foreign Trade is very crucial for a country's economic development as it has made an increasingly significant contribution to economic growth and substantially to the economic welfare of the people. The foreign trade of a country consists of inward and outward movement of goods and services, which results in outflow and inflow of foreign exchange from one country to another country. No country in the world possesses adequate facilities for economical production of all the goods and services that are consumed by its people. This implies that no country is self-sufficient in the sense that no country can produce all the goods that it needs. Hence, the need to trade with each other arises. Economies of scale and international specialisation which is also the fruits of scientific and technological progress in the world would become more easily accessible through foreign trade. Developing countries need more goods to feed a rapidly growing population. Exports can be a leading sector in growth. It implies that increased earnings from higher marketability of a country's commodities in the international market would stimulate the indigenous industrial activity within the country. This in turn brings many distinct benefits, viz., greater utilisation of resources, larger employment opportunities, more foreign exchange, etc. It was thus considered that foreign trade would make an impressive contribution to a country's development; hence it is considered to be not simply a device for achieving productive efficiency; but also an engine of growth. International trade has now become a vital part of development strategy and it can be an effective instrument of economic growth, employment generation and poverty alleviation in an economy.

Objectives

- To analyse the trend of foreign trade in India.
- To analyse the impact on the economic growth of India.

Review of Literature

- **Nazaquat Husain (2017)** indicated that before the beginning of liberalization, India was largely and intentionally isolated from world market to protect its economy and achieve self reliance. Foreign trade was subject to import tariffs, export taxes and quantitative restrictions, while foreign direct investment was restricted by upper limit equity participation, restriction on transfer of technology, export obligations and government approvals. Since liberalization, India's international trade increased rapidly with the contribution of total trade in goods and services to the GDP rising from 16 per cent in 1990-91 to 48.8 per cent in 2014-15. India's major trading partners are the European Union, China, United States and United Arab Emirates. Major export commodities included gems & jewellery, textiles & allied products, chemical & related product, petroleum crude & products, agriculture & allied products etc. Major import commodities included petroleum crude & products, electronic items, gems & jewellery, chemical & related product, machinery & base metals etc. After economic liberalization, India achieved 6 to 7 per cent average GDP growth annually. Nowadays, Indian economy became world's fastest growing major economy.

- **Sushil Kumar Rai & Purvashree Jhala (2015)** made an attempt to find out the dependence of growth rate on the exports and imports during the period 2000 to 2013. To find out a proper relationship between the considered variables (Exports, Imports and Growth Rate), statistical tools like Unit Root test (to check the stationary of economic variables), Pair wise Granger Causality Tests (to investigate the unidirectional and bidirectional relationship between variables), Co-integration test (to find out a long-term or equilibrium relationship between variables) and regression analysis have been used. A multiple linear regression model is considered and exports and imports are regressed upon growth rates for India. It has been observed that in the determination of growth rate of Indian Economy during the reform period exports and imports have contributed significantly. From the result of regression equation, it is observed that the growth rate is more affected by imports rather than exports. The pair-wise Granger Causality test also provides the same result that exports are affected by imports.
- **Govindan, P (2020)** in his study tried to main investigates that the growth of Exports, Imports and Trade Balance from 1949-50 to 2018-19 in India. It also reveals that the India's export profile state wise share for 2016-17 to 2018-19. The study furthers study on India performance in global trade 2011-2017 and finally examines that the India's exports and imports by destination for 8 digits HS code level 2016-17 to 2018-19.The research data were processed with help of descriptive statistical and inferential statistical techniques applied such as correlation, regression, ANOVA and Paired t test were tested for various hypotheses. India's exports by destination 2016-17 to 2018-19 revealed that the first position secured by USA, followed by United Arab Emirates and third rank secured by China. Imports by destination 2016-17 to 2018-19 revealed that the first position secured by China, followed by USA and third rank secured by United Arab Emirates. Top ten exports destinations were secured by during the years 2016-17 (50.83 per cent), 2017-18 (50.78 per cent) and 2018-19 (50.78 per cent). Top ten destinations imports were secured by during the years 2016-17 (50.82 per cent), 2017-18 (50.32 per cent) and 2018-19 (52.86 per cent). The paper concluded that the India has passed amendment successfully different most important commercial, legal and economic reforms in the past two decades. It shows constructive impact on improving the business environment for international trade into India it will be golden opportunity for strengthening positive trade balance position of India in future.

Trends and Composition of India's Foreign Trade

The impact of trade reforms is apparent from the changing structure of India's Foreign Trade in terms of trend and diversity of market and products. Table 1 presents the growth rates of total exports and total imports measured over the period 1990-91 to 2020-21. During the 1990s, Indian exports have performed well in certain years, and not so well in some other years. The growth rate was high in 1991-92, 1993-94 and 1995-96 at 35.3 per cent, 30 per cent and 28.6 per cent respectively, but declined sharply in 1996-97 to 11.7per cent, and continuously till 1998-99 on account of the South East Asian crisis and Worldwide recession. It again recovered to 14.2 per cent in 1999-2000 and reached the highest growth rate at 28 per cent in 2004-05. However, the growth rate of export again dropped to 0.57 per cent in 2009-10 in view of the global meltdown. But in 2010-11, the growth rate of export made a jump to 35.2 per cent and 28.3 per cent 2011-12. However, the export of India recorded a negative growth rate continuously from 2014-15 to

2020-21 except 2016-17, 2017-18 and 2018-19. Finally, the cumulative value of export in 2020-21 was the Rs. 13512740 crore and registered a growth rate of -7.25 per cent.

On the other hand, the growth rate of import which was 17.7 per cent in 1990-91 rose to 36.3 per cent 1995-96. However, it declined to nearly 11 per cent in 1997-98 but again rose to 20.7 per cent in 1999-2000 and thus it reached the highest growth rate of 39.5 per cent in 2004-05. Again in 2006-07, it dropped to 24.5 per cent as against 33.8 per cent in 2005-06. However, the growth rate of import rose to 35.7 per cent in 2008-09 and again it dropped to -0.78 per cent in 2009-10. Finally, the cumulative value of import in 2020-21 was the Rs. 2909937 crore and registered a growth rate of -13.4 per cent.

Trend of Export and Import in India

Year	Gross Domestic Product	GrowthRate (%)	Exports	GrowthRate (%)	Imports	GrowthRate (%)	Trade Balance
1990-91	2514549	5.53	32558	17.72	43193	22.26	-10635
1991-92	2541123	1.06	44042	35.27	47851	10.78	-3809
1992-93	2680438	5.48	53688	21.90	63375	32.44	-9687
1993-94	2807779	4.75	69751	29.92	73101	15.35	-3350
1994-95	2994747	6.66	82674	18.53	89971	23.08	-7297
1995-96	3221584	7.57	106353	28.64	122678	36.35	-16325
1996-97	3464798	7.55	118817	11.72	138920	13.24	-20103
1997-98	3605116	4.05	130101	9.50	154176	10.98	-24075
1998-99	3828072	6.18	139753	7.42	178332	15.67	-38579
1999-20	4166694	8.85	159561	14.17	215237	20.69	-55676
2000-01	4326736	3.84	203571	27.58	230873	7.26	-27302
2001-	4535456	4.82	209018	2.68	245200	6.21	-36182

02							
2002-03	4707984	3.80	255137	22.06	297206	21.21	-42069
2003-04	5078049	7.86	293367	14.98	359108	20.83	-65741
2004-05	5480380	7.92	375340	27.94	501065	39.53	-125725
2005-06	5914614	7.92	456418	21.60	660409	31.80	-203991
2006-07	6391375	8.06	571779	25.28	840506	27.27	-268727
2007-08	6881007	7.66	655864	14.71	1012312	20.44	-356448
2008-09	7093403	3.09	840755	28.19	1374436	35.77	-533681
2009-10	7651078	7.86	845534	0.57	1363736	-0.78	-518202
2010-11	8301235	8.50	1142922	35.17	1683467	23.45	-540545
2011-12	8736329	5.24	1465959	28.26	2345463	39.32	-879504
2012-13	9213017	5.46	1634318	11.48	2669162	13.80	-1034844
2013-14	9801370	6.39	1905011	16.56	2715434	1.73	-810423
2014-15	10527675	7.41	1896445	-0.45	2737087	0.80	-840642
2015-16	11369493	8.00	1716384	-9.49	2490306	-9.02	-773922
2016-17	12308193	8.26	1849434	7.75	2577675	3.51	-728241
2017-18	13144582	6.80	1956515	5.79	3001033	16.42	-1044518
2018-19	14003316	6.53	2307726	17.95	3594675	19.78	-1286949
2019-20	14569268	4.04	2219854	-3.81	3360954	-6.50	-1141100
2020-	13512740	-7.25	2154339	-2.95	2909937	-13.42	-755598

21							

Source: Directorate General of Commercial Intelligence and Statistics

India's Trade Openness

The year 1991 has been a critical period for the Indian economy with huge burden of Balance of Payments deficit situation and current account deficit along with a fall in almost all the macro variables of the country determining growth and development. The study observes the performance of India's Trade Openness Indicator. The Trade Openness Index is an economic metric calculated as the ratio of country's total trade, the sum of exports plus imports, to the country's gross domestic product. The larger the ratio, the more the country is exposed to international trade.

The exports and imports growth trend of India. The growth trend in exports and imports continued except for a few years, the year 2009 again saw a negative phase owing to US subprime crisis and for the years 2015 and 2016 owing to huge inflationary trend in the international market for oil and gold.

India's Growth rate of Exports, Imports & GDP

The East Asian Economies were the main beneficiaries of globalization during the post-war period as they had adopted the export-oriented economic strategies and were able to capture the new markets created by rapidly expanding imports of manufactured goods by the developed countries. Indian economy owing to the experience of many world economies including China and its East Asian neighbours, integrated its economy with the world economies with the policy reforms of 1991. The average TOI indicator for India is at 31.012 which is less when compared with the other Asian partners. For the initial period the TOI indicator is at 19.701 and there was a gradually increase till the year 2008 which is at 42.142 and their there was a significant increase by the year 2017 which is at 30.378, except for the years 2014 (31.622) and 2015 (31.622). The gradual increase in the integration of the economy is a result of series of policy implementations trade liberalization measures taken up to liberalize the economy, the country could be seen moving up the ease of doing business index to 77th position in the year 2019.

Conclusion

Although India is facing a continuous deficit in its balanceof payment but the overall prosperity is unbounded. Inspite of fluctuations in GDP growth rate, the volume of trade is increasing day by day. The share of imports of petroleum and crude products and other non-bulk items have increased significantly while the imports of food grains and export-related items have declined. The study also indicates that post liberalization era has certainly helped India in achieving high growth in the economy as there has been a rapid growth of imports of capital goods and technical raw materials to meet the requirement of industrialization and growing imports of petroleum products for meeting industrial and consumption requirement. It is also found that though import hasa negative influence on economic growth, the volume of trade reflected by economic openness has a positive impact on the economic growth of India and its magnitude is increasing continuously.

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