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An Empirical Study In The Trends Of India's Foreign Trade

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ABSTRACT

Green shoots have already started to appear on the trade perspective in FY17 and fair growth is expected in FY18. This confidence rise of further expected improvement in FY18 of Exports in the Global economic set-up. Hence, rise of consumption demand in urbanized economies. In 1991 India embraced an external alignment and a steady procedure of liberalization was executed in foreign trade policy for the last quarter-century. A vital sector of India's national economy is the Foreign Trade and it does significantly contribute to the economic welfare of the public with the enlargement of resources. A Foreign Trade Policy (FTP) was released at the start of FYI 15-16 by the Government of India (GOI). This FTP would run until 31.Mar.2020 and was pre-arranged for a redevelopment, which was coming in for the "Enhancement of the complete Trade Structure". Except for the oil imports, the remaining India's imports are estimated to see an upsurge with a great expected revival in the domestic economy. A limited breather in the Gold imports precincts. Prospects of growth in the venture environment and the considerable demand for capital goods would upshot the imports of the same.

1.0 Introduction

The survey did contain some cheer for the export sector, saying that green shoots have started to appear on the trade horizon with world trade growth projected at 3.8% and 3.9% in 2017 and 2018, respectively, and India's trade growth also picking up. The growth of the India's Foreign Trade Policy can be studied within the content of peripheral dynamics and native priorities. Post the independence in the year 1947 the major focus of the India's international trade policy was to focus primarily on 'Economic Nationalism'. For the next close to half a decade (1947 -1990) , India's economic development plans were steered by an inward looking progress strategy based on the light of self-containment and start up industry policy. This directly meant to target the growth of the indigenous industries and import substitution and with nominal dependence on international trade. The ISI – Import Substitution Industrialization lessened imports by assisting home-grown production and giving at most priority to native use in the production. These trade policy quests had the restrictive consequence on the nature of assimilation with the world economy.

2. REQUISITE OF THE STUDY

The result of range long unfortunate economic performance under protectionist policies, various emerging countries including India began eradicating their hurdles to international trade in late

1980s with a target to progress economic development of India. Through the spell of India's independence, the India's Foreign Trade was emblematic of that of a foreign and agronomic economy and the trade relations were predominantly narrowed to Britain and added republic countries. Through the period 1950 -1990, India's Foreign Trade was writhed from stern governmental and flexible controls. Even though the Indian foreign liberalization era was on track in 1970's nevertheless merely in early 1990's, sweeping changes had begun getting started as far as India's Foreign Trade was apprehensive.

In the year 1991, the Indian Government announced sequence of economic restructurings to slacken and globalize the Indian economy. Since, the commencement of economic restructurings, India's external alignment had begun cumulating. The India's Trade Policy saw numerous changes time to time subsequently its introduction and the key changed incorporated simplifying of measures, exclusion of quantitative constraints and considerable reduction in the 'tariff rates'. The policy command in India with respect to liberalization of the peripheral sector has conveyed marvelous changes in India's Foreign Trade. Therefore, with this connection this study's objectives are to analyze the development and structure of the India's Foreign Trade Policy.

3. 0 OBJECTIVES OF STUDY

a) To analyze the fashion and composition the India's Foreign Trade Policy.
b) To scrutinize the role of the Foreign Trade in growth of the Indian economics.

4.0 STUDY METHODOLOGY

This study is centered on the secondary data got from Statistical Handbook which is published by the RBI. To observe the trend and structure of the Foreign Trade policy in India subsequently the New Economic Policy of 1991- meek statistical tools like percentage share calculations, simple diagrams and growth rate were used.

Note ** : Exports growth rate (ΔX/ X) , Imports (ΔI /I) and GDP (ΔI /Y)

$$Gr_t = \frac{Y_t - Y_{t-1}}{Y_{t-1}} \times 100$$

Here, Grt represents growth rate of Y variable for tth time in comparison with its preceding year, which is percentages representation. To examine the India's economic growth keeping the role of the Foreign Trade, using of linear regression model. Here the GDP is considered at the factor cost at the constant price to measure the economic growth also the measurements of export, import and economic openness in financial standings are considered to be the variables of the analysis. Prior placing Ordinary Least Squares (OLS) methods the static of the related variables are verified by Augmented Dickey Fuller (ADF) Test.

$$Y_t = \alpha + \beta_1 X_t + \beta_2 M_t + \beta_3 O_t + u_t \ , \qquad t = 1,2,3,\ldots\ldots\ldots\ldots, 22.$$

Here, α and βs' are co-efficients and ut is the error notation that tracks normal distribution with mean = 0 and variance denoted by $\sigma 2$.
Yt is representation of Gross Domestic Product in time t, Xt is the export in period t. Krueger (1997) treasures a solid connotation midst export and economic growth. Mt represents the import in period t. Ahmed et.al (2013) discovers a negative influence of imports on GDP. Li et. al (2003) as of their study advise that imports of services have a substantial positive impact on economic growth on established countries and a negative impact on emerging countries. Ot is the economic openness in period t. Exports and imports are divided by GDP [O = (X + M)/GDP] to measure the openness variable. This is projected to have a positive result on growth as work analysis collected from numerous works that have been studied (Grossman and Helpman, 1992, Chen and Gupta, 2006).

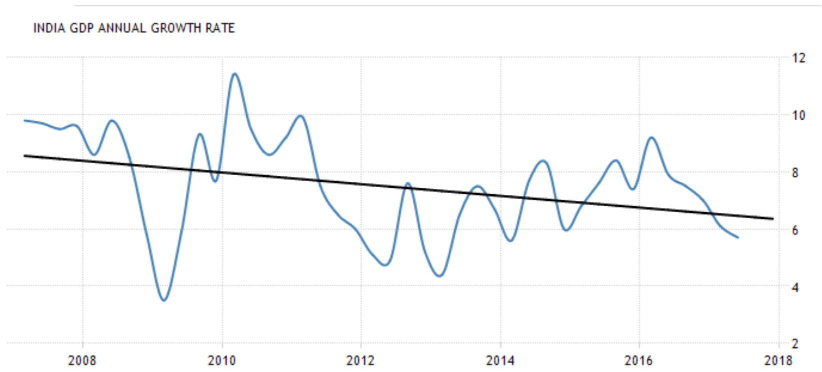
5. STUDY ANALYSIS

The results of the study are subjected into two sub-sections based on the objectives of the study.

5.1 Trends and Composition of India's Foreign Trade

Apparently the impression of the trade reforms is from the structural changes of the India's Foreign Trade w.r.t to the trends and diversity of products and market. The representation in Fig1 is about the growth rates of the GDP, complete Exports and Imports being measure during the time frame 2008 until 2018. 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 1993-94 and 1995-96 at 29.9 per cent and 28.6 per cent respectively, but declined sharply in 1996-97 to 11.7 per 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 for the decade at 27.6 per cent in 2000-01. However, the global economic slowdown and the events of September 11, 2001 led to a steep fall in the rate of growth of exports during 2001-02 (2.7 per cent). The period since 2002-03 has recorded a steady export growth rate up to 2008-09 (28.8 per cent).

India's exports reached Rs. 8407.00 billion in 2008-09. But in 2009- 10 exports increased upto Rs.8455.00 billion only. Thus, the growth of exports declined to 0.6 per cent in 2009-10 in view of the global meltdown. But in 2010-11, exports made a remarkable increase upto Rs. 11429.00 Billion hence; the growth rate of the exports recorded the highest of 35.2 per cent.



The actual GDP growth of India (keeping the 2011-2012 prices) for the year 2016-17 was easily estimated at 7.11 percent in comparison to the growth rate of 7.93 percent for the FY 2015-16. The growth rates of Industry, Agriculture & allied, and Services sector were at 4.37%, 5.77%, and 7.87%, respectively. The manufacturing growth was at 7.7%. It is registered clearly that India has seen extensively the highest growth of 11.2% in 'Public Administration, defense and other services' sector with the lowest of 1.3% in 'Mining & quarrying' sector.

The GDP growth rates for year 2016-17 is at 11.52% and the GVA growth rates stand for Agriculture & allied, Industry, and Services sector at 9.64%, 8.32%, and 11.87%, respectively. With the consistency prices the GVA (Gross Value Added), GNI (Gross National Income), NNI (Net National Income) growth of India is estimated at 6.67%, 7.17% and 7.24%, respectively. The GDP growth rate of India in 2016 was at 7.6% with the silver lining India is 4th fastest growing nation of the world. The average growth rate from the year 1980 to 2017 stands at 6.32%, reaching the highest of 10.26% in 2010 and recording the lowest of 1.06% in the 1991.

2011-12 series

Year	Growth at 2011-12 prices				Growth at current prices			
	GDP	GVA	GNI	NNI	GDP	GVA	GNI	NNI
2016-17	7.11	6.67	7.17	7.24	11.52	10.43	11.60	11.61
2015-16	7.93	7.83	7.93	7.96	9.99	8.56	10.00	10.24
2014-15	7.18	6.94	7.25	7.17	10.65	10.65	10.72	10.71
2013-14	6.54	6.21	6.46	6.16	12.97	12.61	12.89	12.90
2012-13	5.48	5.45	5.17	4.59	13.86	13.55	13.52	13.28

Fig2 – Price comparison between the growth at 2011-2012 prices and at current prices.

The bulk consumption goods does include cereals and cereal preparations, pulses, domestic oil that is edible etc. , the bulk imports is a collection of petroleum, crude and products. While the non-bulk imports are of capital goods, export related items this includes precious stones, pearls, organic and inorganic chemicals, textile yarn etc., and finally other imported non-bulk items. The share of non-bulk imports to total import is greater than the share of bulk imports to total imports. In the bulk imports share of petroleum, crude and products is the succeeded by other bulk items. The lowest in this group is the bulk consumption of goods being the lowest. Under the non-bulk imports, capital goods share is the largest succeeded by the share of other items. The bulk consumption goods has recorded the lowest share in total imports.

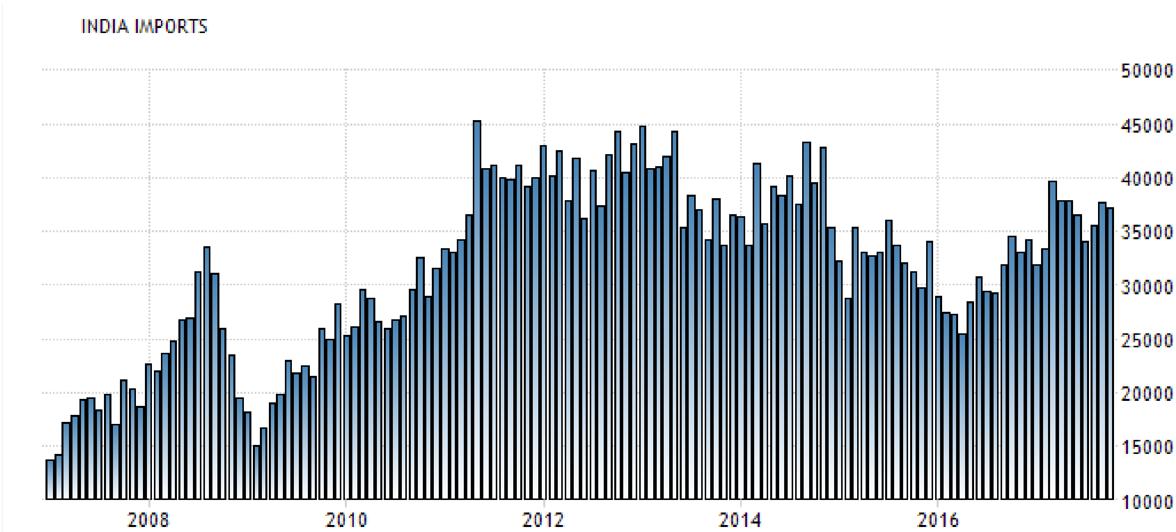


Fig : Trend of the imports in India over the years.

5.2 Economic Growth being impacted by trade

To understand the impact the first step is to define if the variables have unit roots, i.e. whether it's stationary and its order of integration. With respect in identifying the stationary of the variables under study Augmented Dickey-Fuller (ADF) test is applied.
In the below table the result of unit root test and the order of integration, it's seen that all the variables are stationary.

Variables	ADF Test Statistics	Critical Values			Order of Integration
		1 %	5 %	10 %	
GDP	4.439	-3.750	-3.000	-2.630	I(0)
Export	5.155	-3.750	-3.000	-2.630	I(0)
Import	5.004	-3.750	-3.000	-2.630	I(0)
Economic Openness	2.666	-3.750	-3.000	-2.630	I(0)

Table 1: Unit Root Test Summary Statistics - Augmented Dickey Fuller

Below table represents the result of the regression analysis portraying the impact of India's Foreign Trade on economic growth. R 2's value in the model is 0.99 this shows that 99% of the variation in the dependent variable is described by the independent variables of the model. The 1% variation in the dependent variable remains unexplained by independent variables of the study.

Variables	Co-efficient	*t*-values	Prob. value	ANOVA
Intercept	8505.06*	6.619472	0.00000	R^2= 0.987
Export	4.396539*	2.961271	0.00836	Adj. R^2= 0.985
Import	-3.45091*	-4.23555	0.000497	F Stat.= 460.549*
Economic Openness	96288.33*	7.340794	0.00000	

Table 2 - Impact of trade on GDP

With the adjustments R2 displays that asymptotically the variables can describe approximately 98% of total variation. In the F-statistic tests the overall importance of the model under study. Having a negative impact on GDP is import while the export and economic openness have a significant positive impact is the result of regression analysis. Results confirm the prominence of foreign trade on expansion and growth of Indian economy. While, import is negatively related with GDP, the overall impact of trade on economic growth denoted by economic openness is positive and highly momentous.

6 Conclusions

During the research study it has been pragmatic that total exports of India has increased after the adoption of New Economic policy in India. Although India is facing continuous deficit in its balance of payment but the overall prosperity is unbounded. Though there were fluctuations in GDP growth rate, the volume of trade is increasing day by day. Composition of India's exports has matured significantly. Petroleum export has shown an extensive increase in the trend. Majority of Indian exports is in manufactured goods. Petroleum and crude products and other non-bulk items' share of import have increased significantly but the imports of food grains and export related items have declined. The post liberalization era has undoubtedly helped India in triumphing high growth in the economy because of rapid growth of imports of capital goods. Spite that, import has a negative influence on economic growth, the volume of trade returned by economic openness has a positive impact on the economic growth of India and its magnitude is increasing continuously.

References:

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