



# JOURNAL ON COMMUNICATIONS

ISSN:1000-436X

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## DIRECTIONAL CHANGE'S IN INDIA'S EXPORTS SINCE POST LIBERALIZATION

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### ABSTRACT:

This paper analysis the trends in India's Directional Change in Exports using the time series data for the period 1990-1991 to 2019- 2020. The Government of India introduced economic reforms since 1991 especially in the export import sector mainly concentrating on the trade avenue, therefore, in order to see the impact of economic reforms on export sector particularly in the regions and directional changes witnessed during the post reform period 1990-1991 to 2019-2020. The period has been divided into seven sub-periods 1990-'91, 1991-'96, and 1996-'01, 2001-'06, 2006-2011, 2011-2016, 2016-'20. In order to calculate the growth rate, the regression equation used was  $Y_t = Y_0 (1+r)^t$ , where,  $Y_0$ =the beginning value of Y,  $Y_t$  = Y's value at the time t,  $r$ =the compound rate of growth of Y. The study showed that the India's Directional Change in Exports during post –reform period improved significantly and there has been a perceptible change in volume and value paved a way for increased quantum of exports ,increase in directions, and a change and addition of new regions, However ,as it is seen from the study it reveals that India's Global Share of world exports not increased in directions and it is still not up to the planned expectations.

**Keywords:-** ICSSR, OGL, TRIPS, EPCGS, CVDS, FFYP, SFYP, NFYP, EFYP, DSB, MFNT, PTA, OPEC, CGR

*Opec: Oil and Petroleum Exporting Countries, CAGR: Compounded Annual Growth Rate, WTO-GATTS: World Trade Organization-General Agreement on Trade and Tariff Scheme, UNCTAD: United Nations Council of Trade and Development, ICSSR Indian Council of Social Science and Research, OGL: Open General Licensing, TRIPS: Trade related Intellectual Property Rights, EPCGS: Export Promotion Credit Guarantee Scheme. CVDS: Certain Value Duty Exemptions Scheme, DSB: Settlement Body, PTA: Preferential Trading Arrangement Guarantee Scheme.*

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## INTRODUCTION

-A major reform of economic reform and liberalization was introduced in 1991 with emphasize on external sector. The free trade new open policy reversed the direction of trade followed for decades. The tariff protection reduces, relaxed, and simplified the restrictive import licensing regime .Import licensing was totally abolished with respect to most items of machinery, equipment and manufactured intermediate products .Internal reforms included reduced control over locational restrictions and industrial licensing. In some sectors controls were reduced on administrative prices. The policy focus was primarily on liberalization of capital goods and inputs for industry, to encourage domestic and export-oriented growth. There has been change in structure of export incentives and subsidies. India's financial services are gradually being liberalized.

In 1990s reforms were accompanied by lifting of foreign exchange control that has served as an extra layer of restrictions on imports. As the part of 1991 reform, the Government devalued the Rupee by 22 percent against the dollar from 22.2 rupee to 25.8 rupee per dollar. In February 1992, a dual exchange rate system was introduced, which allowed exporters to sell 60 percent of their foreign exchange in the free market and 40 percent to the Government at lower official price. Importers were authorized to purchase in the open market at the higher price The exchange control. Within a year of establishing this market exchange rate, the official exchange rate was unified with it. From February 1994, many current account transactions including all current business transactions, education, medical expenses, and foreign travel were also permitted at market exchange rate. These measures culminated in India accepting the IMF Article VIII obligations, which made the rupee officially convertible on current accounts.

The major trade policy changes in the post -1991period included simplification of procedures, removal of quantitative restrictions and substantial reduction in tariff rates. A significant development in the current account of balance of payments in the 1990 s was the remarkable growth in the exports of invisible to the rest of the world. This was made possible by unfrequented growth in information and communication related services like computer software, hardware, internet, e-commerce and telecommunication sector. The economic process introduced in 1991 with focus on liberalization, openness, transparency and globalization has enabled increased integration of the Indian economy with the rest of the world. In this contest the Ninth Five Year Plan (1997-2002) observed," The process of Globalization is a reality which cannot be denied and also should not be avoided. However it needs to be managed so that we derive maximum benefits and advantages from the rest of the world markets." Reforms of trade exchange market, trade policy where a critical element in the process of structural reforms. Since initiation of economic reforms, India's directional change and regional expansion increased considerably. India's trade is increasingly dependent on

exogenous factors such as Global Directional change and regional expansion, followed by world trade growth (especially those of trade partners).The study showed that India's directional change and its trade growth has increased consistently during the post-reform period.

## OBJECTIVES AND METHODOLOGY OF THE STUDY

1. The main objectives of this present study is to make a comprehensive analysis of India's exports growth in terms of Directional, Regional Change in the post 1990-91 and 2019-2020 period. The sub objectives are as follows:-
2. To find out the trends in India's Directional, Regional change in exports in terms of trade, volume, value and price indices.
3. To find out the Directional, regional structural changes in commodity composition of India's exports.
4. To analyze the magnitude of change that has taken place in regional expansion with respect to share of exports in world trade.

To see the Directional, regional changes in India's exports regarding volume, value commodity composition during post-reform period (1990-1991 to 2019-2020).We have calculated Annual Compound Growth Rate. For the purpose of the calculation of Growth rate the following regression has been adopted:-

$$(1) Y_t = Y_0 (1+r)^t$$

Where,  $Y_0$ = the beginning of the value of Y

$Y_t$ =Y's value at the time of t

$r$ = the compound rate of growth of Y Taking the natural value log of above equation (1) on both sides we get:-

$$\ln Y_t = \ln Y_0 + t \ln (1+r) \quad (2)$$

Let  $b_0 = \ln Y_0$

$$b = \ln (1+r)$$

$$\text{Therefore the equation (2) can be written as } \ln Y_t = b_0 + b_1 t \quad (3)$$

Now if we add the error term U to the above equation, we obtain:-

$$\ln Y_t = b_0 + b_1 t + U$$

We know that,  $b_1 = \ln (1+r)$

Therefore,  $\text{Antilog}(b_1) = (1+r)$

$$R = (\text{Antilog } b_1 - 1)$$

And since the  $r$  is compound of rate growth, once we have obtained  $b_1$  (the slope co-efficient) we can easily estimate the compound rate of growth of  $Y$  by using the formula:-

Compound rate of growth =  $(\text{Antilog } b_1 = 1) \cdot 100$

Section I is devoted to study on previous literatures .Section II examines the trends in India's exports. Performances at aggregate level for the period 1990-1991 and 2019-2020. In III an earnest attempt has been made to analyze the India's export Directions/Regions. Section IV speaks largely about main conclusion of the study and policy implications emerging out of the study is presented.

## **I .SURVEY OF RELATED LITERATURE**

The literature on the role of global exports is considered to be one of deterministic factors of economic growth is a very old concept. The fathers of economics and famous authors Adam Smith and David Ricardo argued in favor of international trade as an engine of economic growth. Change in directions and regional expansion in exports is considered as a catalytic agent for sustaining and accelerating process of economic growth (Aggarwal, 1982). Countries devoted to home resources to exports because they can obtain more goods and services by international exchange than they would from the same resources devoted to home production. Depending upon marginal propensity to consume and propensity to import, exports have multiplier effect on Gross National Income (Bannock et al., 1992). Exports by fostering specialization help to benefit from comparative advantage; utilizing the full capacity of plant size where domestic demand is less than the full capacity production ; getting benefit of greater economies of large scale due to directional/regional change in the trade market; expanding aggregate global demand ; increasing the rate investment and technological changes ; enabling import of essential raw materials and capital goods, result industrialization and thus rapid economic growth in developing countries (Chennery,1979 ;Kavoussi ,1984 ; Ram, 1987 ;and Moon, 1998 ).Trade reforms :- free trade, openness, liberalization and removable restrictions formed an integral part of the overall structural reform process (RBI, 2001-02).The multilateral aspect of India's Trade policy refers to India's commitments to the World Trade Organization (WTO ) with regard to trade and services, Trade related investment measures (TRIMS ) ,Trade related Intellectual Property Rights (TRIPR ) .This open trade regime has been viewed as the least vulnerable form of globalization with enormous opportunities for higher growth emanating from higher exports ( Krueger ,1998 ). Exports being a major part of India's foreign trade ,have assumed a paramount importance and play a significant role in economic development process generating investible surplus and financing imports by earning foreign exchange ( Kaur, 1993 ).Declining from the respectable share of 2.00 percent to 0.50 percent in 1950-60.and hovering around 0.50 percent in 1960-90 ,India's world merchandise export has increased to 0.56 percent in 1991-92 and the same increased to 3.18 percent in 2019-2020.Trade policy reforms in recent past with their focus on liberalization. Openness, transparency and globalization as well as creation of WTO have provided an export friendly environment with simplified procedure for trade facilitation (Economic Survey, 2007-08).

## II. Trends in India's Exports

The progress of Indian economy in terms of exporting goods to different regions directions has been remarkable since the mid 1990s, especially compared with India's position in the early 1990s, with the outbreak of hostilities in the Persian Gulf in 1990 and the consequent of spiraling oil prices, there was tremendous pressure on India's foreign exchange reserves, aggravating on already weak balance payments situation. Result of this acute condition, the country plunged into deep economic crisis. The rate inflation rose to a much higher level than what India had witnessed in the last six months earlier. Foreign exchange reserves declined to a level covering only three weeks imports. To compensate for this decline, India entered into a standby arrangement, together with a supplementary loan with International Monetary Fund (IMF). As agreed in the IMF conditionality's, various reform measures were undertaken to raise the growth rate of India's exports and directions in a sustained way.

Reforms in domestic economy have been made mandatory to reduce excessive Government control of decision making. In the regional/ Directional arena, most of the reforms were undertaken and incorporated into the industrial licensing policy of 1991. The adopted policy was implemented subsequently through a series of Government notifications. It was only from 1991 that exports were seen as an integral part of industrial and development policy. The policy thereafter emphasized technological upgradation, increase in size of plants, freer imports and domestic and international competition for the entire industrial sector as a pre requisite for increase in directions /regional expansion resulted in export promotion. All these steps have helped the enlarged change in directions as well as regional expansions to meet new business environment immensely and propelled growth in India's exports. In this section we have discussed India's exports to different regions /directions in terms of value, volume and unit value indices during post –reform /liberalized trade policy reform period since 1991

### **Destination/Direction of India's Exports (1990-91 to 2019-2020)**

Direction of foreign refers to the relative share of various countries or country group in our imports and exports. Not only the composition of foreign trade has undergone substantial changes, there has also been a marked change in the relative share of our exports and imports to various countries signifying the emergence of new economic relationships. In the present

Section we have discussed the direction of India's Exports. The growth rate of India's exports to major regions /countries has been shown in the following table: 1.4





### 1.1 GROWTH RATE OF INDIA'S EXPORTS TO MAJOR REGIONS AND COUNTRIES PRE AND POST FREE TRADE /LIBERIZATION /REFORMS PERIOD

**ABLE: 1.1**

| Directions/Regions/Countries                                          | Compound Growth rate for Pre-reform period (1990-1991) | Compound Growth rate for Post-reform period (2019-2020) |
|-----------------------------------------------------------------------|--------------------------------------------------------|---------------------------------------------------------|
| <b>A-Organization of Economic Co-operation and Development (OECD)</b> | <b>16.1</b>                                            | <b>24.2</b>                                             |
| 1.European Union (EU )                                                | 17.4                                                   | 22.3                                                    |
| 2.North America                                                       | 22.5                                                   | 27.9                                                    |
| 3.Asia and Oceania                                                    | 12.1                                                   | 17.8                                                    |
| 4. Other OECD Countries                                               | 9.8                                                    | 15.6                                                    |
| <b>B. Organization of Petroleum Exporting Countries (OPEC)</b>        | <b>4.1</b>                                             | <b>39.7</b>                                             |
| <b>C.Eastern Europe</b>                                               | <b>10.6</b>                                            | <b>17.9</b>                                             |
| <b>D.Developing Countries</b>                                         | <b>19.2</b>                                            | <b>38.7</b>                                             |
| 1.Asia                                                                | 20.4                                                   | 36.5                                                    |
| 2.Africa                                                              | 3.1                                                    | 28.9                                                    |
| 3.Latin American countries                                            | 32.3                                                   | 41.3                                                    |

Source:-International Financial Statistics (Various Issues) and Authors own Estimation.

## **A. EXPORTS TO OECD COUNTRIES:-**

Twenty countries originally signed the convention on the Organization of Economic Cooperation and Development (OECD) on 14 December 1960. Since then the fourteen countries have become the members of organization. Today, there are 34 countries span the Globe from South America to Europe and Asia Pacific Region. They include most of the world 's advanced countries but also emerging countries like Mexico ,Chile and Turkey.OECD countries also working closely with the emerging Giants like China ,India, and Brazil and developing countries like Africa, Asia, Latin America and the Caribbean. In May 2007, OECD countries agreed to invite Chile, Estonia, Israel, Russia and Slovenia to open discussions for membership of the organization and offered enhanced engagement to Brazil, China, India Indonesia and South Africa. The C.G.R of India's Exports to OECD is found to be 16.1 percent in pre- reform period as well as post-reform period up to 2019-2020 it was found to be 24.2 percent. This implies that India's exports to OECD Direction showed a reasonable increase to a level of 24.2 percent. The negligible increase in the region is due to the reason that India's exports to other direction's such as E U, North America and Asia and Oceania within the Group. The C.G.R of India's Exports To EU is found to be 17.4 during the pre-reform period. Where as in the post-reform period it showed some increase to a level of 22.3 percent .The North America Region during pre and post reform period with statistics as 22.5 and 27.9 percent respectively with a slight increase. The directional change in Asia and Oceania regions India's exports to these sectors stood at 12.1 and 17.8 percent in the pre and post reform period. I t witnessed a slight increase in the analysis. When come to other OECD Countries the export percentile range were between 9.8 and 15.6 percentile during pre and post-reform period with reasonable increase.

## **B. EXPORTS TO OPEC COUNTRIES:-**

India had been constructively maintaining strong old relations with the OPEC Countries. In the 1950s it was India's turn to be placed in a more advantageous position where it had more to be offered to these countries than to buy them. The C.G.R of India's exports to OPEC region is found to be only 4.1 in the pre reform period and 39.7 in the post reform period. It indicates our trade with OPEC region improved a lot during the post reform period. Prevalence of high international crude oil prices and the consequent gains in terms of export trade have increased share of India's share with the OPEC region.



### **C. EXPORTS TO EASTERN EUROPE:-**

The C.G.R of India's exports to Eastern Europe is found to be only 10.6 percent in pre-reform and 17.9 percent in the post –reform period, with a slight increase to a mark of 7.3 percent. This implies that India's exports to Eastern Europe witnessed a turn-around, during post reform period mainly due to the institutional arrangements set up to improve the bilateral economic relations. In addition, a sharp increase in exports to Eastern Europe was associated with the repayment of technical credits as trade agreements which govern trade with countries drew to a close.

### **D. EXPORTS TO DEVELOPING COUNTRIES:-**

The C.G.R of India's exports to Developing countries is found to be 19.2 and 38.7 percent during pre and post-reform period with a jump of 19.5 percent during post-reform period. The rising share of Developing Countries in India's export basket in post reform period indicates a directional shift in exports from North to South. The increase in exports to Developing countries during post-reform period is mainly contributed by higher exports to Asia, Africa and Latin American Countries. The exports to Asia have shown a remarkable improvement during post-reform period as compared to pre-reform period mainly owing to the following reasons:-

1. The growing economic prosperity in South East Asia.
2. Greatest trade understanding and co-operation from Asian countries particularly South Asian Countries.
3. A greatest recovery from the East Asian Countries.
4. The series of FTAs/CECAs signed by India with countries from Asia Region. India's "Look East Policy" and sustained efforts to develop strong relations with Asian Countries.

The Table (1.1) further reveals that the C.G.R of Africa's import from India is found to be negative during pre-reform period and it was exemplary improvement during the post-reform period showing the C.G.R to a level of 28.9 percent. The amazing sharp rise to Africa's exports from India during post-reform period may be due to the "Focus Africa" program of the Government. Table (1.1) further shows that India's exports to Latin American Countries increased reasonably to a mark of 41.3 percent during post-reform period. With a definite plan to increase India's exports to Latin American Nations the Government of India has initiated a process for expansion of India- Chile Preferential Agreement Trade (PTA) and India – MERCOSUR (trade bloc of Brazil, Argentina, Paraguay and Uruguay) trade agreement. In addition to this, the "Focus" program was launched by Government of India with a view to increase our trade with Latin America and for supporting and encouraging Indian exporters to explore new markets in this region.

**FIGURE: 1. DIRECTION OF INDIA'S EXPORT**

Directional Changes in India's Exports performance enlarged significantly during the free trade policy announced in 1991 and followed by post –reform period and the activities in directions witnessed a perceptible change in the value, composition of commodities volume. Though the volume and value has increased manifold, India's share in the world export is not still up to the planned projections on Indian Planners. The share of manufactures goods as well as the proportion of high value and differential products, petroleum products has increased in India's export basket reflecting that Indian economy is being diversified and non-traditional items of



exports are gaining importance .The most remarkable in the direction of India's exports during post-reform era has been the increasing share of Developing Countries, OPEC, Latin America, Africa and Asia It is expected that the exports would grow at an average rate of around 30 percent over next few years. India's entry into new markets and robust performance in services sector, Engineering goods, Gems and Jewellery and Textile segments are the reason behind the growth spurt.

## POLICY IMPLICATIONS

The major policy implications emerging out of the present study are as follows:-

1. If India has to become a leading exporter in the world trade it will have to achieve at least five percent share of world exports by 2025 .Taking into account on the past trends in world trade and new developments in world economic scenario envisaged over the next few years ,aggregate world exports are likely to cross 35,000 billion dollars by 2025.India's exports directionally and regionally should therefore, exceed 700 billion dollars to accomplish this vision .However ,there seems to be a controversy between economists and policy –makers. For one group of economists this target might seem to be too ambitious to achieve and one might dismiss it as an excise in wishful thinking. We feel that this target can be achieved provided directional as well as regional expansion in tune to the global environment in external trade becomes favorable trade.
- 2 .Deepening of reforms into specific export sector would stimulate India's Directional expansion and regional widening in exports; the resulted in compositional and geographical diversifications; help to remove supply bottle-necks operating in the economy and help in improving export competitiveness. More emphasis on rapidly increasing regional markets in the context of the behavior of income and price elasticity's would positively affect the demand for export, and further would eliminate the negative market distribution and commodity composition effects.
3. The Government of India should make special efforts to increase the High Technology exports such as Aerospace, Computers-office Machine, Advanced Scientific Instruments, CNC type Electrical Instruments and related machinery, Pharmacy Products to meet COVID-19 Pandemic diseases, etc; as the performances on India's High –Tech manufacturing front is not up to /at par with the other exporting countries in the very fast moving sector of High –Technology products.
4. In order to achieve global share in export trade India must re-orient its patterns of exports by switching over to more-skill intensive and more knowledge- intensive goods and services succeeded as in the case of Computer and Soft-wares to meet the competitive international quality .Further diversification of exports and the development of new export markets should be considered as an area of India's foreign trade and expand commercial and economic reforms with other countries.

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**DIRECTIONAL/REGIONAL CHANGES IN INDIA'S EXPORTS: A SHARE IN SELECTED COUNTRIES 1990-1991-2019-2020.**

| Country              | 1990-'91 | 1991-'95 | 1995-'00 | 2000-'04 | 2004-'09 | 2009-'14 | 2014-'19 | 2019-'20 |
|----------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| China                | 2.0      | 2.9      | 3.9      | 6.6      | 9.7      | 12.5     | 17.2     | 25.1     |
| Hong Kong            | 2.8      | 3.4      | 3.1      | 2.9      | 2.6      | 5.1      | 7.2      | 10.4     |
| Malaysia             | 0.9      | 1.4      | 1.5      | 1.4      | 1.3      | 2.2      | 3.2      | 4.5      |
| Indonesia            | 0.8      | 0.8      | 1.0      | 0.8      | 1.0      | 1.5      | 1.7      | 2.1      |
| Singapore            | 1.6      | 2.3      | 2.1      | 2.0      | 2.2      | 2.7      | 3.1      | 4.2      |
| Thailand             | 0.8      | 1.1      | 1.1      | 0.8      | 1.1      | 1.7      | 1.8      | 2.1      |
| India                | 0.5      | 0.6      | 0.6      | 0.8      | 1.2      | 1.8      | 4.0      | 4.8      |
| Korea                | 2.0      | 2.4      | 2.6      | 2.8      | 2.9      | 3.2      | 3.7      | 4.2      |
| Developing Countries | 88.6     | 85.1     | 77.9     | 82.9     | 78.0     | 69.3     | 58.1     | 42.6     |
|                      |          |          |          |          |          |          |          |          |
| World                | 100.0    | 100.0    | 100.0    | 100.0    | 100.0    | 100.0    | 100.0    | 100.0    |

Source: International Financial Statistics ( Various Issues ) and Authors Own Calculations.