

Current Trends in Indian Export Earnings: Comparative Analysis

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Abstract: This paper analyzes the trends in India's exports using the time series data. The Government of India introduced economic reforms since 1991 especially in the trade sector; therefore, in order to see the impact of economic reforms on India's export behavior, the whole time period has been divided into two sub-periods pre-reform period and post-reform period. According to the study, India's performance in exports has improved expressively during the post-reform period and a perceptible change in the value which can be noticed in composition and direction of India's exports. Though the volume and worth of exports has augmented manifold, India's stake in the world exports is still not up-to the expectation. This paper tries to scrutinize the linking between economic growth and exports. In order to achieve this purpose, annual data was tested. According to the result of the analysis, it was determined that there is no relationship between exports and economic reforms.

Keyword: *Economic Reforms, Economic Growth, India's Exports, Liberalization, Openness*

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I. INTRODUCTION:

It has been tentatively debated that both export and import may play a vital role in economic progress. The theoretical and empirical studies mainly focus on either the relationship between export and growth or between import and growth or the association between Exports, Imports and economic growth.

We can say that the exports of goods and services plays a role of catalyst in economic and social development for a number of reasons, also the exports that require companies to revolutionize and improve to uphold market share. On the other hand, exports endorse increased sales and profits. Otherwise, they lessen dependency on local markets since, in the progression of expansion in foreign markets, the market base increases, leading to a decline in local customers only. Otherwise, exports have the ability to diminish the impact of market instability, by working in global markets, companies become more captive to economic changes, changing customer demands and seasonal fluctuations in the local economy. Finally, and with regard to the advantages of exports, it can be summarized that an increase in exports leads to an increase in the access to the currencies, which increases the national income, the turnover and the surpluses of the state. This leads to an improvement in the standard of living. Having these assistances for exports, and then the expected lucrative results are not produced and which ultimately fails to contribute to higher economic growth of the nation, and this is due to numerous reasons, amid them: unlike predicted, the presence of competition is superior, the products are either unpopular or popular in the markets, instability in the target nation due to wars or civil encounters, fragile media publicity and classified exported product or other similar reasons. Similarly, in case of imports, it is commonly reflected the state's limitation in achieving its needs itself and forces them to be dependent and at the mercy of foreign countries. Imports unlike exports lead to the exit of the local currency and weaken the trade balance, thus weakening economic growth. However, and in some cases it is considered the import source of economic growth, especially if it includes hardware and electronic equipment to help and contribute to the increase and improvement of the investment, or include products that require a production value of more than imported. Due to these reasons, the export and import remain a controversial topic for their ability to influence the social and economic growth of the countries.

Exports have acquired added significance in the wake of liberalization wave sweeping across the world. Almost all the nations across the globe augmented the role of exports in efforts towards growth and the inclination towards market economy. Therefore, exports constitute a key factor in economic development of a country. For a developing country, it is essential to build up a sizeable export surplus. The rate of economic growth is largely determined by the rate at which a country can expand its export capacity. Higher rates of economic growth tend to be associated with higher rates of export growth. A country that tries to promote growth while ignoring its export performance may succeed in the short-run, but it will be hard-pressed to sustain growth over a long period of time. Thus, it can be concluded that exports are a key factor in the growth process, not one of political astrology but of empirical fact.

The major concern of the government in the past was restriction of imports with a view to controlling the trade deficit and protection of domestic industries against foreign competition. Imports were, therefore, very much restricted by prohibition of imports of many few items, import licensing, very high import duties and foreign exchange restrictions. The foreign trade policy was characterized by the overtone of negativism. Beginning mid-1991, the Government of India introduced a series of reforms to liberalize and globalize the Indian economy. Reforms in the external sector of India were intended 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 reality 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". Reforms of trade and exchange rate policy were a critical element in the process of structural reforms. Since the initiation of economic reforms, India's outward orientation has increased considerably.

The major trade policy changes in the post-1991 period 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 1990s was the remarkable growth in the exports of invisibles to the rest of 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 reforms process introduced since 1991 with focus on liberalization, openness, transparency and globalization has enabled increased integration of the Indian economy with the rest of world. The growth rate of India's trade is increasingly dependent on exogenous factors such

as world trade growth (especially those of the trading partners), international price changes and development in the competitor nations. Due to cross currency exchange rates and dollar rupee exchange rate the performance of India's trade gets reflected. India's approach towards to openness has been vigilant, reliant on

achieving definite pre-conditions to ensure an systematic process of liberalization and ensuring macro-economic steadiness. With the financial crisis in the world economy, this approach has been justified. In addition to, the entire policy system in India with respect to liberalization external sector has witnessed noticeable transformation in the post-reform phase.

OBJECTIVES AND METHODOLOGY OF THE STUDY:

The main objective of the present study is to make a comprehensive analysis of India's exports growth in the pre and post-reform period. The sub-objectives are as follows:-

1. To scrutinize the development in India's exports in provisions of value, volume and price indices.
2. To analyze the magnitude of changes that has taken place with respect to share of India's exports in world exports.
3. To examine the structural changes in composition of India's exports.

To notice the modifications/alterations in India's exports concerning value, composition and direction regarding pre-reform period and post-reform period we have calculated the compound growth rate. In order to calculate the growth rate the following regression equation has been used:-

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

Where,

Y_0 = the beginning value of Y

Y_t = Y's value at time t

r = the compound rate of growth of Y

Taking the natural log of above equation (1) on both sides we obtain:-

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

$$\text{Let, } b_0 = \ln Y_0$$

$$b_1 = \ln (1 + r)$$

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 above equation, we obtain:-

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

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

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

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

Since r is the compound rate of growth, once we have obtained b_1 (the slope coefficient) we can simply estimate the compound rate of growth of Y by using the following formula:-

$$\text{Compound Rate of Growth} = (\text{Antilog } b_1 - 1) \cdot 100$$

This paper has been alienated into five sections. Section-I is dedicated to survey of literature. Section-II examines the trends in India's exports performance at aggregate level for the period. In section-III an effort has been made to study the exports composition pattern. Section-IV studies the direction of India's exports. The main conclusions and policy implications rising out of the study are presented in section-V.

II. Literature Review:

The literature on role of exports as one of the deterministic factors of economic growth is a very old concept. Adam Smith and David Ricardo argued in favor of international trade as an engine of economic growth. Export sector is considered as a catalyst agent for sustaining and accelerating process of economic growth (Aggarwal, 1982). Countries devote home resources to exports because they can obtain more goods and services by international exchange than they would from the same resources devoted to direct 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 as compared to the full capability production; receiving advantage of superior economies of scale due to large market; increasing aggregate demand; escalating the rate of investment and technological changes; allowing import of vital raw materials and capital goods, result industrialization and thus speedy economic development in emergent economies (Chennery, 1979; Kavoussi, 1984; Ram, 1987; and Moon, 1998). Trade reforms shaped an essential part of the structural reform process as a whole (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 in goods and services, Trade Related Investment Measures (TRIMs), Trade Related Intellectual Property Rights (TRIPs). Globalization with huge opportunities for superior growth originating from higher exports (Krueger, 1998). Exports, being a major part of India's foreign trade, have assumed a place of supreme importance and play an important role in economic growth process through producing investible surplus and financing imports by earning foreign exchange (Kaur, 1993). Declining from respectable share of 2.00 per cent to 0.50 per cent during 1950-60, and hovering around 0.50 per cent during 1960-90, India's share in world merchandise export has increased from 0.56 per cent in 1991-92 to 1.0 per cent in 2005-06 and 1.6 percent in 2010-11. The recent trade policy modifications with their spotlight on liberalization, openness, clearness and globalization as well as formation of WTO have provided an export friendly environment with simplified procedure for trade facilitation (Economic Survey, 2007-08).

III. Trends In India's Exports

The progress of Indian economy in terms of exporting goods has been remarkable since the mid 90s, especially compared with India's position in the early 90s, with the outbreak of hostilities in the Persian Gulf in 1990 and the consequent spiraling of oil prices, there was tremendous pressure on India's foreign exchange reserves, aggravating an already weak balance of payments situation. Following this, the country plunged into deep economic crisis. The rate of inflation rose to a level much higher than what India had witnessed six months earlier. Foreign exchange reserves declined to a level covering only three weeks of imports. To compensate for this decline, India entered into a stand-by arrangement, together with a supplementary loan with International Monetary Fund (IMF). Following the IMF

conditionality, various reform measures were undertaken to raise the growth rate in a sustained way.

Reforms in domestic economy have been able to reduce excessive Government control of decision making. In the manufacturing sector, most of the reforms were incorporated into the

VARIABLE	COMPOUND GROWTH RATE FOR PRE-REFORM PERIOD (1980-81 TO 1991-92)	COMPOUND GROWTH RATE FOR POST- REFORM PERIOD (1992-93 TO 2010-11)
India's Exports	7.9%	14.8%
India's Volume indices of Exports	6.1%	11.1%
India's Unit Value Indices of Exports	10.6%	5.5%

industrial licensing policy of 1991, implemented subsequently through a series of Government notifications. It was only from 1991 that exports were being seen as an integral part of industrial and development policy. The policy, thereafter emphasized technological up-gradation, increase in size of plants, freer imports and domestic and international competition for the entire industrial sector as pre-requisite for export promotion. All these steps have helped the business environment immensely and propelled growth in India's exports. In this section, we have computed the growth rate of India's exports in terms of value, volume and unit value indices pre and post economic reforms period.

TABLE: 1.1 GROWTH RATE OF INDIA'S EXPORTS PRE AND POST ECONOMIC REFORMS PERIOD

The above table (1.1) shows that Compound growth rate of India's exports is found to be 7.9 % during the pre-reform period but it is found to be almost double i.e. 14.8 % during the post-reform period. This implies that India's exports exhibited a sharp turnaround during the post-reform period. Buoyancy in world demand, revival of world trade reflecting East Asian recovery, bottoming out of some global commodity prices, coupled with trade policy

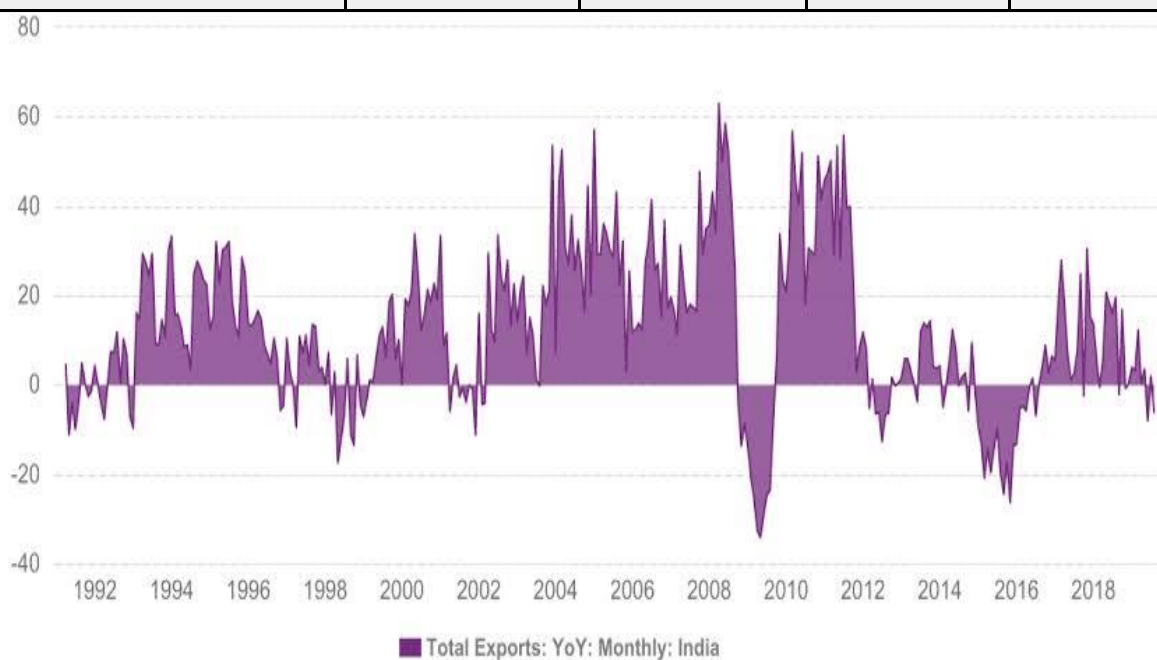
initiatives taken by the Government, inter alia, contributed to this export increase. A stable domestic macroeconomic environment including low inflation and a relatively stable exchange rate in real effective terms, may have also contributed to this turnaround in exports. The compound growth rate of volume indices of India's exports is found to be 6.18 % during the pre-reform period but it is found to be almost double i.e. 11.18 % during the post-reform period. It implies that the volume indices of exports have registered an upward trend during the post-reform period mainly because of the following facts:- Recovery in international commodity prices, movements in the cross currency exchange rates, a faster repatriation of exports proceeds, various policy initiatives for export promotion and market diversification contributed to upsurge in export volume in post reform period. But the Unit value indices of India's exports registered a sharp downward trend during post-reform period mainly due to resurgence in international crude oil prices. This further implies that competitiveness of Indian industry has increased in post-reform period.

Related Indicators for India Total Exports Growth

<u>Trade Balance</u> (USD mn)	-11,014.5 Oct 2019	10,787.8 Sep 2019	Monthly	Jan 1957 - Oct 2019 Updated on 2019-12-03
<u>Total Exports</u> (USD mn)	26,377.2 Oct 2019	26,109.6 Sep 2019	Monthly	Apr 1990 - Oct 2019 Updated on 2019-12-03
<u>Aluminum: Exports</u> (USD th)	4,332- ,558.209 2018	2,932- ,328.533 2017	Yearly	1995 - 2018 Updated on 2019-11-28
<u>Forecast: Exports of Goods Growth</u> (%)	9.000 2024	9.000 2023	Yearly	1980 - 2024 Updated on 2019-11-01

<u>Exports: Medic- ament</u> (USD th)	13,31- 5,323.268 2018	12,04- 7,027.382 2017	Yearly	1995 - 2018 Updated on 2019-10-25
<u>Exports: Medicinal and Pharmaceutical Product</u> (USD th)	2,440- ,020.982 2018	2,228- ,957.754 2017	Yearly	1995 - 2018 Updated on 2019-10-25
<u>Trade Balance</u> (INR mn)	-782,- 461.700 Oct 2019	-769,- 534.677 Sep 2019	Monthly	Apr 1990 - Oct 2019 Updated on 2019-12-03
<u>Trade Balance: USD</u> (USD mn)	-11,0- 14.480 Oct 2019	-10,7- 87.814 Sep 2019	Monthly	Apr 1990 - Oct 2019 Updated on 2019-12-03
<u>Exports: INR: TA: Ready Made Garments Cotton incl Acces- sories</u> (INR mn)	43,90- 6.138 Oct 2019	44,15- 0.367 Sep 2019	Monthly	Apr 2013 - Oct 2019 Updated on 2019-11-25
<u>Exports: INR: Gems & Jewellery: Pearl, Precious, SemiPrecious Stones</u> (INR mn)	157,2- 85.688 Oct 2019	148,8- 92.930 Sep 2019	Monthly	Apr 2013 - Oct 2019 Updated on 2019-11-25
<u>Exports: INR: Gems & Jewellery: Gold & Oth Precious Metal Jewelry</u> (INR mn)	98,94- 3.227 Oct 2019	91,37- 5.061 Sep 2019	Monthly	Apr 2013 - Oct 2019 Updated on 2019-11-25
<u>Exports: INR: CP: Drug Formulations, Biolo- gicals</u> (INR mn)	93,39- 4.999 Oct 2019	99,20- 1.254 Sep 2019	Monthly	Apr 2013 - Oct 2019 Updated on 2019-11-25

<u>Exports: INR: Quick Estimates: Petroleum Crude and Products: Petroleum Products (INR mn)</u>	334,7-60.500 Oct 2018	317,7-22.200 Sep 2018	Monthly	Apr 2013 - Oct 2018 Updated on 2018-11-15
<u>Terms of Trade Index: Net (1999-2000=100)</u>	73.000 2018	71.000 2017	Yearly	2001 - 2018 Updated on 2018-08-28
<u>Exports Quantum Index (1999-2000=100)</u>	322.000 2018	313.000 2017	Yearly	2001 - 2018 Updated on 2018-08-28
<u>Exports Unit Value Index (1999-2000=100)</u>	376.000 2018	372.000 2017	Yearly	2001 - 2018 Updated on 2019-03-21

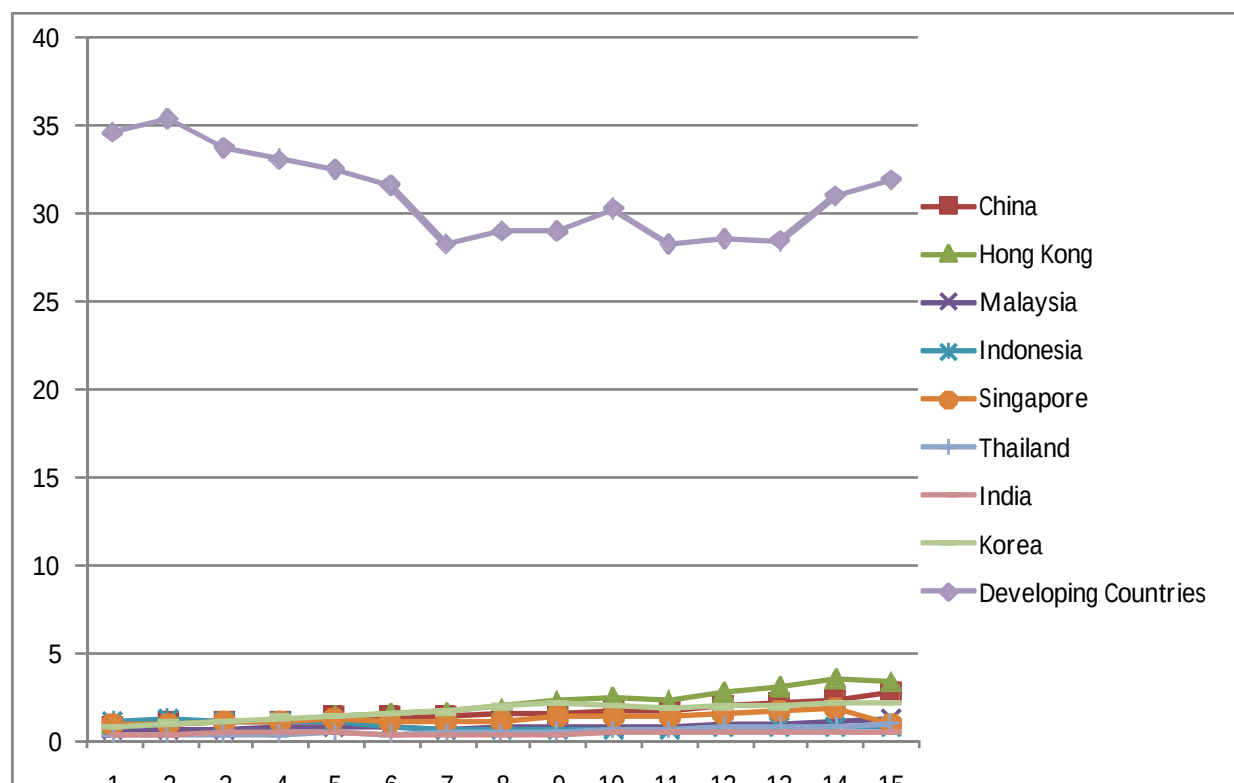


SOURCE: WWW.CEICDATA.COM | CEIC Data

INDIA'S SHARE IN WORLD EXPORTS VIS- A- VIS INTERNATIONAL COMPARISON

The Annexure (1) & Fig (1) shows that India's share in world merchandise exports has increased from 0.4% in 1980 to 1.7 % in 2011. India's share in world merchandise exports has started rising since 2007 albeit a very slow 0.1 % point so as to reach 1.21 % in 2008 and 1.25% in 2009. This was mainly due to the relatively slow rise or greater fall in world export growth than India's. Recently, announced Foreign Trade Policy also set the long-term policy, objective to double India's exports share in global exports by 2020. The annexure further shows that India's share in the total world exports is not so good as compared to china which is the outcome of the lack of competitiveness of Indian goods in the international market. The increase in China's share of world exports between 2000 and 2008 at 5.1 % points is slightly less than one half of the total increase in the share of developing countries over this period. Hong Kong, South Korea and Singapore, with higher values of exports than India in absolute terms also registered high share in world exports as compared to India.

FIG:-1 INDIA'S PERCENTAGE SHARE IN WORLD EXPORTS VIS-À-VIS OTHER COUNTRIES (1980-2011)



IV. Composition of India's Exports

The changing structure of India's exports throws some interesting light on both the demand pattern and supply factors that are increasingly influencing India's exports and the manner in which its production structures, institutions, and policies are responding to it. Regarding changes in the composition of exports since 1980s, it may be observed that the share of agriculture and allied products has been declining while that of ores and minerals has remained more or less steady. Share of manufactured goods has increased generally. Although the opening up of the Indian economy since the early 1990s provided impetus for higher growth for most of the commodities, some products gained more than the others. India's merchandise exports are predominated by the manufacturing sector which accounted for more than three- fourth of its total exports during post-reform period.

VI. Conclusions & Policy Implications

India's exports performance improved significantly during the post-reform period and there has been a perceptible change in the value, composition and direction of India's exports. Though the volume and value of exports has increased manifold, India's share in the world exports is still not up-to the expectation. The share of manufactured 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 change 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 exports would grow at an average of 25% over the next few years. India's entry into new markets and robust performance in 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. For India to become a leading exporter in the world trade it will have to achieve at-least 2 percent share of world exports by the year 2020. Based on the past trends in world trade and new developments in global economic scenario envisaged over the next few years, aggregate

world exports are expected to cross 25,000 billion dollars by 2020. Therefore, India's exports are supposed to exceed 500 billion dollars to achieve this vision. However, there seems to be a disagreement between economists and policy-makers. For one group of economists this target might appear to be too ambitious to achieve and one might dismiss it as an exercise in wishful thinking. We sense that this objective can be achieved provided global atmosphere in external trade becomes encouraging.

2. Deepening of reforms into specific export sectors would stimulate India's exports; result compositional and geographical diversification; help to remove supply bottlenecks operating in the economy and help in improving export competitiveness. More emphasis on rapidly increasing markets in the context of the behavior of price and income elasticity's would positively affect the demand for export, and further would eliminate the negative market distribution and commodity composition effects.

3. The Government ought to make exceptional efforts to augment the High Technology exports such as aerospace, computers-office machine, scientific instruments, electrical machinery, pharmacy etc. as India's presentation on high tech manufacturing trade front is not at par with other principal exporters of high technology products.

4. India desires to reorient the prototype of its exports to toggle extra skill-intensive and more knowledge-intensive goods and services of competitive international class. Further, diversification of exports and the development of new export markets should be viewed as part of a wider effort to enlarge the country's foreign trade and expand commercial and economic relations with other countries.

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Annexure:

SHARE IN WORLD EXPORTS OF SELECTED COUNTRIES (1980-2011)

Country	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
China	0.9	1.1	1.2	1.2	1.4	1.4	1.5	1.6	1.7	1.8	1.8	2.0	2.2	2.4	2.8
Hong Kong	1.0	1.1	1.1	1.2	1.5	1.6	1.7	2.0	2.3	2.5	2.3	2.8	3.2	3.6	3.5
Malaysia	0.6	0.6	0.6	0.8	0.8	0.8	0.6	0.7	0.7	0.8	0.8	0.9	1.0	1.2	1.3
Indonesia	1.1	1.3	1.2	1.2	1.1	0.9	0.7	0.7	0.7	0.7	0.7	0.8	0.9	0.9	0.9
Singapore	1.0	1.0	1.1	1.2	1.3	1.2	1.1	1.2	1.4	1.5	1.5	1.6	1.7	1.9	2.2
Thailand	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.4	0.5	0.6	0.6	0.8	0.8	0.9	1.0
India	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Korea	0.9	1.1	1.2	1.4	1.5	1.6	1.7	2.0	2.2	2.1	1.9	2.0	2.0	2.2	2.2
Developing Countries	34.5	35.3	33.7	33.0	32.5	31.6	28.3	29.0	29.0	30.3	28.3	28.6	28.5	31.0	31.9
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0