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India: A Rapid Globalizer

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Abstract

There have been many changes that have been witnessed post adoption of the Foreign Trade Policy Reforms (FTPRs) by Indian Government in the year 1991. These policy changes and the changes done thereafter, have brought changes in stance of India pertaining to the foreign trade practiced by India. Present paper discusses the changes, which were taken by the Indian government after the adoption of reforms and adoption of the policy of liberalization, privatization and globalization in India and make it a rapid globalizer. It specifically discusses the directional changes in the international trade of India as result of these policy changes.

Keywords: Foreign trade, India, export, import, Foreign Trade Policy Reforms 1991, direction of trade etc.

Introduction

India started very late in the area of International trade and was not able to compete with the developed nations of the world in terms of the quality of products they manufactured and the competitive prices they offered. It was late because it was under the foreign rule of British and could not take its own decisions pertaining to the foreign trade done by it. When ultimately it gained independence it adopted its Foreign Trade Policy but was unable to have trade relations with different nations, as it had to mainly trade with Britain and its allies. But as the time passed by, it gained experience and developed trade ties with many nations of the world. However, India had to adopt many protectionist policies, and very high imports tariffs to save its indigenous industries, but this deterred many nations from trading with India and India faced problem in earning foreign exchange through exports.

Looking at this perspective India finally adopted the Foreign Trade Policy Reforms 1991under the able leadership of the then Prime Minister Shri P V Narasimha Rao and the then Finance Minister Dr. Manmohan Singh. The adoption of these policies by India led to many basic changes in the trade structure and the trade norms along with practices followed by it in terms of exports and imports done by it. The trade was greatly liberalized, and India slashed down its high import tariffs in addition to the adoption of practices, which greatly reduced the protectionist policies. This helped India to develop trade ties with many nations and undertake many bilateral and multilateral trade relations. And, India began to trade with nations with which it was not trading before. This brought about many changes in the direction of trade practiced by India.

It has been three decades after the adoption of the Foreign Trade Policy Reforms 1991, and it is imperative to take a stock of the measures and the changes in the direction of trade India has witnessed since then.

Aim of the Study

The paper endeavors to provide insight into the directional changes that have taken place in the foreign trade of India after the adoption of economic reforms.

Review of Literature

There is plethora of literature available in this present field, and some of the most relevant studies are given as under:

The study of Singh in the year 2000 studied the performance of Indian trade and growth of other Asian nations. According to his study, there has been a trend of increased growth for the developing countries and their growth is expected to be higher in the coming years. GDP growth for these countries during 1999 was 2.7% and is expected to increase by 0.5 percentage points during 2000- 2001. In most of the developing countries slower growth in recent years was the result of slackening of export markets, loss of momentum in policy reforms, political instability and fall out of East Asian financial crisis. However, India's growth performance of 6.4% was much better than other developing countries (Singh, 2000). This shows India has made good progress in its foreign trade.

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There has been a need for the assessment of the forecasting methods for taking a stock of the financial markets and study the directional changes. The study of Douglas and Sutton in 2010 studied the alternative approach to the physical time scale. The majority of forecasting methods use a physical time scale for studying price fluctuations of financial markets, making the flow of physical time discontinuous. Therefore, using a physical time scale may expose companies to risks, due to ignorance of some significant activities. In this paper, an alternative and original approach was explored to capture important activities in the market. The main idea was to use an event-based time scale based on a new way of summarizing data, called Directional Changes. Combined with a genetic algorithm, the proposed approach aimed to find a trading strategy that maximizes profitability in foreign exchange markets. In order to evaluate its efficiency and robustness, the study ran rigorous experiments on 255 datasets from six different currency pairs, consisting of intra-day data from the foreign exchange spot market. The results from these experiments indicated that the proposed approach is able to generate new and profitable trading strategies, significantly outperforming other traditional types of trading strategies, such as technical analysis and buy and hold (Douglas & Sutton, 2010).

The study of Dattatraya Matore & Sagar Matoshree Velbai in 2015, studied the globalization and the characteristics of it pertaining to India. The major program of economic reform was introduced in 1991 with emphasize on external sector, wherein the protective tariffs were reduced and the restrictive import licensing regime was relaxed and simplified.The policy focused primarily on liberalization of capital goods and imports for industry, to encourage domestic and export oriented growth. Their paper intended to explain the meaning of globalization in terms of the genesis, the evolution, and the characteristics of globalization with respect of India. The methodology adopted for this research was the Historical Analysis of the globalization process since 1991 the year become a sovereign nation till 2014. The analysis included the study of Export and import of the government of India, responses of the trade and investment policies of the Government of India. The study revealed that globalization with reference of India has been rather shallow in its characteristics. It has been more of *globalization in India* and less of *globalization of India*. The study further concluded that, the exports are increasing at a decreasing rate but the imports are increasing at an increasing rate. As a result, the balance of trade is becoming unfavorable to India during the post globalization period. Finally the study concluded that It is a remarkable achievement that India transformed ourselves from a predominantly primary goods exporting country into a non-primary goods (manufactured goods) exporting country (Dattatraya Matore & Sagar Matoshree Velbai, 2015).

The changing production structure of the Indian economy and the march from a backward, primary sector dependent economy to a more vibrant industrial economy have a significant impact on the structure and commodity composition of its foreign trade. The paper of Dasgupta (n.d.) attempts to measure the factor content of India's foreign trade during the reform period with the objective to find out whether the factor intensity of trade has been in tune with comparative advantage of the country as determined from its endowment of factors or there are some other factors which have also affected its foreign trade. As a labour abundant country, India enjoys natural comparative advantage in labour intensive commodities and the study confirms it by revealing India's exports to the rest of the world to be more labour intensive than its import replacements. However, India's exports to the OECD, the largest trading partner, are found to be more capital intensive than imports during later years of the reform period, producing an instance of Leontief Paradox. The Paradox has also been witnessed in cases of India's trade with the EU, North America and Japan (Dasgupta et al., n.d.).

The article of Burange et al., (2019) analyzed a causal relationship between trade openness and economic growth for the member countries of BRICS by using an econometric technique of time series analysis. Member countries of BRICS adopted a series of liberalization reforms, almost simultaneously, from the late 1980s. The article attempted to study the impact of trade openness on their growth in GDP per capita. It captures structural composition of GDP and openness of trade in four aspects, that is, merchandise exports, merchandise imports, services export and services import. In India, the study found growth-led trade in services hypothesis. The article supports the growth-led export and growth-led import hypothesis for China and export- and import-led growth for South Africa. However, no causal relationship was evident for Brazil and Russia (Burange et al., 2019)

The study of Roy (2020) seeks to examine the impact of foreign trade policy on economic growth and thus, annual data regarding export, import and GDP are collected from the annual report of the Reserve Bank of India (RB) over a period from 1970 to 2018 and crossed checked with the data posted on the official website of the RBI. Johansen cointegration test was applied to measure the long run relationship between the variables and the short run dynamic is examined by VECM. Here, dummy variable was used to examine the impact of new economic policy on economic growth for foreign trade policy and it was evident that adoption of NEP in 1991 has positive impact on Indian economic (Roy, 2020)

Direction of Trade

When any country undertakes trade its trade is described in two basic terms one is the composition

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of trade and the other one is the direction of trade. While composition of trade refers to the items of trade, direction of trade refers to the nations any country trades with. This can be also understood as the nations to which a nation exports and imports from.

Direction of Trade in India

Before India was subjected to foreign rule or the rule of British, it had rich trade ties with different nations but after the infliction of foreign rule Indian trade mainly got confined to the United Kingdom and its allies. When India got Independence, it gradually and steadily developed trade relations with different nations and developed trade ties with different neighbouring and far off nations.

The countries, which did not belong to the empire controlled by British, were seldom included into trade with India. On the eve of the World War II, exports of the value of Rs. 947 million were undertaken with the nations British Empire approved of, which amounted to almost half of the exports of the value of imports of Rs. 1792 million. Similar trend was visible in imports of India also, and of the total imports of Rs. 1630 million, Rs. 920 million worth of imports came from the countries belonging to British Empire. Japan, Germany, U.S., the Soviet Union, and China were some other major trading partners of India. However, other neighbouring countries were not in any case trade partners with India. later on India developed good and healthy trade relations with nations like OECD, OPEC and European nations along with other developing and developed nations, which can be put under following categories:

1. OECD Countries: (Organization for Economic Co-operation and Development),
2. OPEC: (Organization of Petroleum Exporting Countries),
3. Eastern Europe
4. Other Developing Countries, and
5. Others

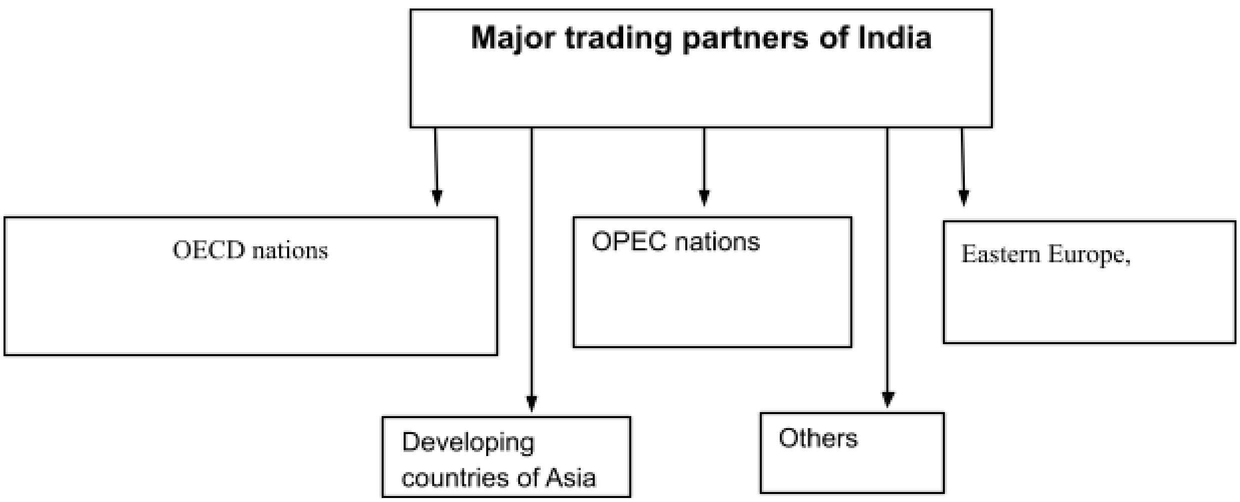

Figure 1: Different categories of nations India Trades with

Table 1 which can be seen below gives the direction of trade India had trade relations with after the adoption of the trade policy reforms.

Table No. 1: Direction of India's Trade in Post Trade Policy Reforms Period (Percent)

S. No.	Commodities	Imports					Exports				
		1990-91 to 1995-96	1995-96 to 2000	2000-01 to 2005	2005 to 2010	2010 to 2014-15	1990-91 to 1995-96	1995-96 to 2000	2000-01 to 2005	2005 to 2010	2010 to 2016-17
1.	OCED of Which	54.00	54.00	39.90	32.40	37.9	53.50	53.50	52.60	36.90	28.1
(i)	E.U.	29.40	29.40	20.80	13.30	17.2	21.80	21.80	23.40	20.20	10.8
	(a) Belgium	6.30	6.30	5.70	2.10	2.0	3.90	3.90	3.30	2.10	1.7
	(b) Germany	8.00	8.00	3.50	3.60	2.6	7.80	7.80	4.30	3.00	3.0
	(c) U.K.	6.70	6.70	6.30	1.50	3.1	6.50	6.50	5.20	3.50	1.0
(ii)	U.S.A.	12.10	12.10	6.00	5.90	15.3	14.70	14.70	20.90	10.90	5.8
(iii)	Switzerland	1.10	1.10	6.20	5.80	0.3	1.20	1.20	1.00	0.30	4.5
(iv)	Japan	7.50	7.50	3.60	2.30	1.4	9.30	9.30	4.00	2.00	2.5
2.	OPEC of which:	16.30	16.30	5.40	30.90	16.4	5.60	5.60	10.90	21.10	24.1

	(a) UAE	4.40	4.40	1.30	6.80	11.3	2.40	2.40	5.80	13.40	5.6
	(b) Indonesia	0.30	0.30	1.80	2.30	--	0.60	0.60	0.90	1.70	--
	(c) Saudi Arabia	6.47	6.47	1.20	5.90	1.9	1.30	1.30	1.80	2.20	5.2
3.	Eastern Europe of Which :	7.80	7.80	1.70	2.30	1.00	17.90	17.90	2.90	1.00	2.4
	Russia*	5.90	5.90	1.00	1.20	0.7	16.14	16.14	2.00	0.50	1.4
4.	Developing Nation of Which:	18.60	18.60	22.00	32.60	43.5	17.10	17.10	29.20	39.90	43.2
	Asia	14.00	14.00	16.70	25.70	32.0	14.40	14.40	22.50	29.90	34.8
	(a) China	0.10	0.10	-	10.70	3.7	0.10	0.10	-	6.50	16.0
	(b) Hong Kong	0.70	0.70	1.70	1.60	5.1	3.30	3.30	5.90	4.40	2.1
	(c) South Korea	1.50	1.50	1.80	3.00	1.5	1.00	1.00	1.00	1.90	3.3
	(d) Singapore	3.30	3.30	2.90	2.20	3.5	2.10	2.10	2.00	4.20	1.9
	(e) Malaysia	2.30	2.30	-	1.80	1.9	0.80	0.80	-	1.60	2.3
	(v) Others	0.00	0.00	-	1.80	1.2	2.90	2.90	0.20	2.60	2.2
	Total	100.00	**100.00**	**100.0**	**100.00**	**100.0**	100.00	**100.00**	**100.00**	**100.00**	**100.0**

*Refers to former USSR before 1992-93.

Source: Computed from (i) Reserve Bank of India, Report on Currency and finance, Various issues, and (ii) Reserve Bank of India, Handbook of Statistic on the Indian Economy, 2009-10, (Mumbai, 2010), Handbook of Statistics on the Indian economy, 2016-17 (Mumbai, 2017), Table 134, p. 211.

Table shows that the major trading partners of India are OCED, U.K, U.S.A, Switzerland, Belgium, Germany, OPEC, Russia, China, Hong Kong, Singapore, and Malaysia, and some other countries as well.

Table 2 which can be seen in the following section gives details pertaining to the rank the trading partners of India acquire in its imports and exports.

Table 2: Share of India's Major Trading Partners in Total Trade Percentage Share in Total Trade (Exports + Imports)

S.No.	Country	1990-91 to 1995-96	1995-96-2000-01	2000-01-2005-06	2005-06 to 2009-10	2010-11 to 2016-17
1.	USA	13.00	10.60	7.00	7.80	21.1
2.	UK	5.70	3.60	3.50	2.30	4.1
3.	Belgium	4.60	3.00	1.40	2.10	3.7
4.	Germany	3.90	3.80	7.00	3.40	5.6
5.	Japan	3.80	2.60	4.8	2.20	3.9
6.	Switzerland	3.80	2.80	2.10	3.30	4.8
7.	Hong Kong	3.70	2.70	3.40	2.70	7.2
8.	UAE	3.40	5.10	2.20	9.30	16.9
9.	China	2.50	7.00	3.30	9.10	19.7
10.	Singapore	2.50	3.50	2.70	3.00	5.4
11.	Malaysia	1.90	1.40	2.10	1.90-	4.2

Source: DGCI & S, Kolkata.

India has developed very good trade relations with the following nations and figure 2 presents the trading partners and the percentage of trade they have with India.

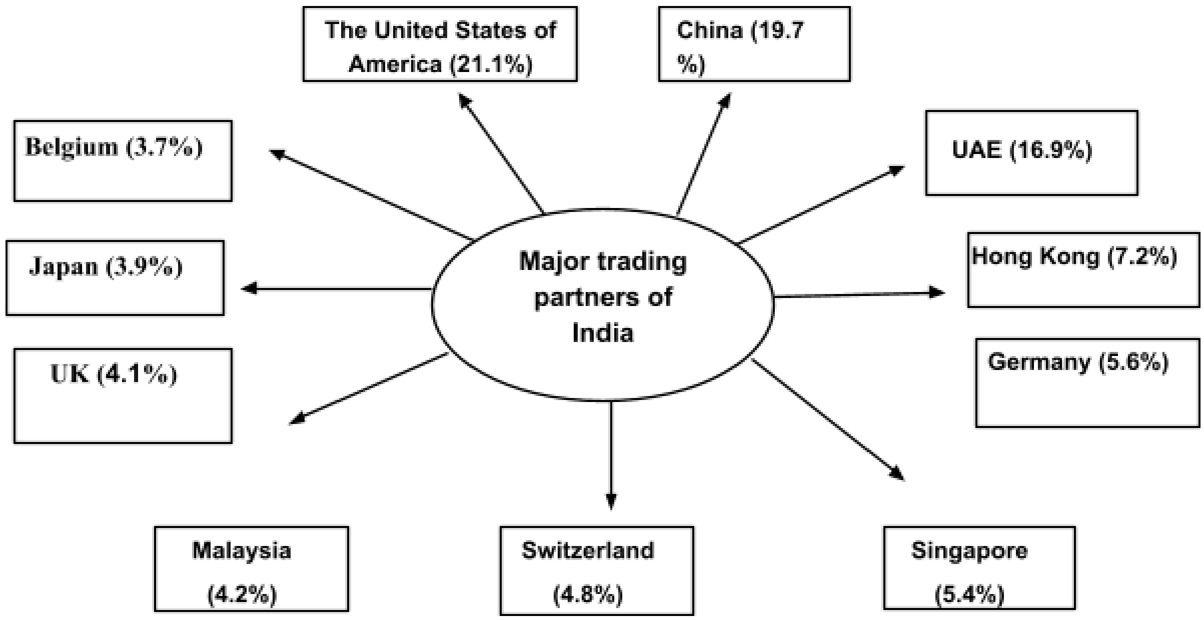

Figure 2: Major Trading Partners of India in descending (clockwise) order of Trade Volume in Terms of Imports and Exports done with India in the year 2016-17

It can be seen that the trade of India is concentrated mainly to 11 nations, which gives out following observations:

1. Indian trade is not diversified.
2. It needs to find new destination to trade with.
3. It needs to focus on the trade policy reforms.

Latest Developments in the Direction of Trade of India

India has taken several other measures which can be put as under:

1. In the month of March of year 2021 there was an announcement made by the agency of APEDA for the launch of first Virtual Trade Fair (VTF) to boost trade.
2. In March 2021, India and Norway announced to conduct marine spatial planning in the oceanic space for the next five years in Lakshadweep and Pondicherry.
3. Kuwait and India announced to strengthen the bilateral trade relations in 2021.
4. In 2021 India and Bangladesh announced extend helping hands in the gamut of water resources.
5. In March 2021, the Union Cabinet approved a MOU for the development of sports and expand the trade opportunities.
6. A virtual summit by Prime Minister, Mr. Narendra Modi, was held with other nation as regards the trade expansion.
7. Many new policies for agriculture and the welfare of farmers were initiated.
8. On February 5, 2021, a MoU for product launch technology was signed.

Conclusion

As a corollary it can be said that although India started late on its journey of International trade it has adopted several measures to make it a leading player in terms of trade in the International platforms. Its policies pertaining to relaxing the protectionist measures have led to many directional changes in the trade practiced by India and the trade of India both in terms of exports and imports is flourishing.

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