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Impact Of Trade Reforms On India's External Trade

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Abstract: The liberalization process, which started in 1980s, had become intensive by 1991 due to severe BOP crisis coupled with changing external economic environment. To get over the crisis The Government of India enunciated economic reforms and undertook macro stabilization and structural adjustment programme.The basic objective of stabilization and structural adjustment programme was firstly to reduce fiscal deficit, secondly to liberalize the domestic economy by relaxing the restrictions on production, investment, etc., and thirdly to liberalize the external front by relaxing the restrictions on international flow of goods and services, technology and capital. In the liberalization process the third aspect, i.e. reforms in trade sector assumes greater significance due to the emergence of WTO and globalization.

Keyword: Trade Reforms , liberalization process , economic environment , Methodology.

INTRODUCTION:

Under trade reforms, The Government of India announced several measures from time to time in order to be in tune with external environment. The Government of introduced liberal exchange rate system by allowing convertibility at market rate and set up trading houses to promote exports. Exim policies were announced to liberalize trade sector and allow several tax benefits. Five-year exim policies of 1992-97 and 1997-2002 made efforts to streamline the liberalized trade sector with an emphasis on export promotion. It is firmly believed that once the export sector takes off and earns sufficiently, it can easily tackle the growing deficits on the external front. Hence in this paper an attempt is made to analyze some important external variables and their performance before and after the trade reforms so as to draw some meaningful conclusions.

METHODOLOGY

Relevant data for the study was collected through secondary sources. The study made use of various economic surveys published by The Government of India, Annual Reports of RBI and CMEI Reports. The study selected some important external variables such as exports, imports, trade deficits, current account deficits, gross fiscal deficit, external assistance (loans and grants), and foreign exchange reserves and analyzed them in relation to gross domestic product. The data related to different variables were collected for the period 1991-92 to 1099-2000. The performance of external variables was analyzed through certain key indicators making use of ratio analysis, marginal analysis, marginal effects and growth rates. Firstly seven different ratios were constructed to analyze behavior of external variables. Secondly, incremental values of selected variables were analyzed. Fourthly, the performance of external variables was analyzed (1) through simple growth rate using the formula (Yt) – (Yt-1)/ (Yt-1)*100, where (Yt) is the current value and (Yt-1) is the preceding year value, and (2) through linear growth rate using the formula Y= a+bt, where Y is the dependent variable, a is the intercept and b is the coefficient. Growth rate is calculated as coefficient over mean of dependent variable multiplied by 100.

RESULTS

Ratio values: Table 1 represents the value of seven ratios. The ratios were constructed to analyze the performance of different variables. The ratios are: (1) export to imports, (2) trade deficits to gross domestic product (3) current account deficits to gross domestic product (4) gross fiscal deficit to gross domestic product (5) foreign exchange reserves to gross domestic product (6) external assistance to gross domestic product (7) exports to external assistance

Year	E/M	TD/GDP	CAD/GDP	GFD/GDP	FER/GDP	EA/GDP	Ex/EA
Post reform							
1991-92	0.92	0.006	0.004	0.065	0.043	0.021	3.791
1992-93	0.847	0.015	0.02	0.063	0.048	0.017	4.888
1993-94	0.954	0.004	0.004	0.075	0.075	0.014	5.92
1994-95	0.918	0.007	0.011	0.061	0.084	0.011	7.598
1995-96	0.867	0.014	0.017	0.054	0.067	0.009	9.649
1996-97	0.855	0.015	0.012	0.051	0.073	0.009	9.918
1997-98	0.833	0.017	0.014	0.062	0.081	0.008	10.752
1998-99	0.783	0.023	0.01	0.07	0.085	0.008	10.556
1999-2000	0.796	0.023	0.01	0.06	0.085	0.008	11.31

Source: Table A1.

Exports to imports ratios indicate the extent of dependence on export earnings to finance import bill. A glance at the table reveals that the ratios are on the rise indicating a better performance of exports. In the pre-reform period the ratio varies from 0.534 to 0.782. It means export earnings could reach to a maximum of 78% to foot the import bill. However, in the post-reform period the minimum itself is 0.783 and the maximum being 0.954 in 1993-94. In subsequent years the ratios varied between 0.783 and 0.918. Relatively post-reform period recorded better performance on export front.

Trade deficit as a proportion of gross domestic product has declined in post-reform period. In the pre-reform period the ratios varied from 0.018 to 0.047, but in post-reform period the ratios for almost all years were only around 0.01except in 1998-99 and 99-2000 where it was 0.023. This indicates an improve performance in exports.

One of the most important indicators is that of current account deficit to gross domestic product. The ratios varied between 1 to 3% in the pre-reform period. In fact it was more than 3% in 1988-89, and in 1990-91, 3.2% and 3.6% respectively. However, in the post-reform period the ratio has come down drastically. In 1991-92 themselves the ratio recorded less than 1%, i. e. 0.4% against 3.6% in 1990-91. Subsequently from 1994-95 onwards the ratio was around 1% only. Hence it may be said that post-reform period saw a positive trend in current account deficits, which might have been to certain extent influenced by growing exports.

Another important indicator of better performance is that of a declining ratio of gross fiscal deficit to gross domestic product. The ratio can reveal how far the growing GDP has influenced the reduction in fiscal deficit. The post-reform period saw a declining trend of this ratio. In pre-reform period the ratio varied between 6% and 10%. In more number of years the ratio recorded 8% or 9%. The post-reform period saw fluctuating low ratios between 5.1% and 7.5%. One of the major objectives of economic reforms was to contain growing fiscal deficit and this objective appears to have been realized to a great extent.

A rise in the ratio of foreign exchange to gross domestic product can be interpreted as a positive impact of economic reforms. If we look at the table, the ratio values in the pre-reform period were between 0.015 and 0.045 and in post-reform period they are between 0.043 and 0.085. This means the post-reform period saw an increase in foreign exchange reserves.

This ratio of external assistance to gross domestic product shows a declining trend in pre and post-reform periods alike. In the pre-reform period the ratio declined from around 0.02 to 0.01, between 1980-81 and 1990-91. In the post-reform period also the ratio declined from 0.021 in 1991-92 to 0.008 in 1999-2000. However, from 1995-96 onwards a continuous decline is seen and indicates an improvement in the performance in the export.

The ratio of exports to external assistance shows a rising trend. Better performance on the part of export should indicate an increasing ratio. This implies more export earning in relation to loans and grants received from external sources. During the pre-reform period the ratio values fluctuated between 3 and 4. But in the post-reform period the ratios have higher values with an increasing trend. In the post-reform period the ratio values rose from 3.7 in 1991-92 to 10.75 in 1997-98, 10.55 in 1998-99 and 11.31 in 1999-2000. This implies that the performance of the external sector is on the right track.

CONCLUSION

The study on the impact of trade reform on external variables has brought out the following aspects:

1.Ratio analysis points the positive impact of trade reforms and a better performance of export sector in the post-reform period. This was indicated through rising E/M ratios, declining deficit ratios and rise in the FER to GDP ratio in the post reform period.

2.The analysis incremental values show that exports have grown much better in post-reform period, but imports also has grown with higher incremental values. The case CAD was not that alarming but GFD have higher values in the post-reform period. This implies that, even though exports are growing they are not sufficient to nullify the growing imports and resultant deficit in the in the post-reform period. However, the silver lining is the increasing trend in the incremental values of GDP.

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