Chapter-3

India's Export Profile

India's international trade during independence focused on being self-sufficient, which also implied minimal reliance on international trade as a source of income. A large number of people were living below the poverty line and the government required improving the well-being of people by adopting the strategy of 'import-substituting' industrialization. In early first and the second five-year plans, exports were largely neglected, which was justified on the ground that demands for Indian exports were inelastic. Further, the country failed to make the best use of the trade possibilities available during the 1950s and 1960s [Singh, (1964) Bhagwati and Srinivasan, (1975) Nayyar, (19761).

In the early eighties, the government adopted expansionary fiscal and monetary policies. A growing deficit, coupled with high inflation and the Gulf war led India to a balance of payment crisis in 1991. Following the crisis, the Indian economy was opened up to foreign participation for the first time, in an attempt to improve the efficiency and competitiveness of Indian industries. Such policy reforms created a favorable environment for India's exports to develop into an engine of social and economic growth (Mukherjee, 2012). Hence, the last two decades have witnessed India transform from a closed economy to a considerable player in the global market.

However, the financial disorder of 2008 had a dampening effect on India's export sector. This had a large effect on overall economic growth, as India's GDP growth rate fell from 9 percent in 2007-08 to 7.1 percent in 2008-09. Though India had experienced a negative growth in its exports, such a prolonged period of decline had not been witnessed in over two decades. Over time, the export sector has grown to be a significant earner of foreign exchange and a major contributor to India's national income. Further, the performance of this sector is highly dependent on domestic as well as global factors. As a consequence of this, domestic as well as international economic policies have a bearing on the overall export performance of India.

In this chapter, we will focus on foreign trade policy of India. This paper highlights growth and structure of India's exports, Index numbers of foreign trade, composition of India's export, Share in world merchandise exports of selected countries.

3.1 Government Initiativestowards Foreign Policy in India

Over the last six decades, there has been a significant change in the policy relating to foreign trade in India. The Government announced various export promotion measures and incentives. The laws and facilitations announced by the Government were not only related to export and import of goods and services, but also directed to up gradation of technology and integration of all the sections by using the latest technologiesavailable (Hand book of foreign trade policy, 2008). In the early fifties, the Indian Govt. took several measures to build an industrial base in the country. At that time period, Govt. focused on heavy industry and allocated substantial resources for infrastructure building such as steel plants and developing the core sector. Early fifties, the Govt. Issued the Imports Control Order 1955 allowing most of the imports only against an import license.

Till the mid seventies, India's policy was restrictive and focused on developing the domestic industry, while tightening control of foreign trade .High levels of protection joined with an overvalued domestic currency resulted in a growing demand for imports and discouraged exports. Further, Due to the occurrence of two major oil shocks in the seventies, India experienced a rise in the import cost of oil and thus a shrinking foreign exchange reserve position. The pressure to earn foreign currency led the government of India to adopt export promotion policies in the form of export subsidies such as duty drawback, subsidized credit and direct subsidies(Sharma.K, 2003).Additionally, a few export promotion councils were established along with commodity boards and specialized service institutions. This was also the time when the government allowed a 25 percent increase in the capacity of manufacturers without any license (Joshi, V. and Little, I.M.D, 1994)**.**Moreover, the asset limit under the MRTP Act was raised from Rs. 20 crores to Rs. 100 crores. During this period, the government also introduced several export incentives which included a reduction of foreign exchange controls to import raw material from foreign countries and also a provision of Replenishment (REP) licenses to exporters, which permitted the import of goods from the restricted list.

In 1991, the Central Govt. initiates economic reforms in the country. One of the basic aims of the reforms process was to more and more integrate the Indian economy with the rest of theworld. Meanwhile, in 1995, the World Trade Organization was established and India became one of the founder members of the WTO. As per the commitments under the Agreements of the WTO, India could maintain quantitative restrictions i.e. import licensing only under certain exceptions namely on public health, safety, security etc. India, however, continued to maintain quantitative restrictions on grounds of Balance of Payments (BOP) difficulties. The quantitative restrictions were dismantled in April 2001 when the Balance of Payment difficulties had eased. The restrictions now in place are compatible with the commitments undertaken by India under the Agreements of the WTO (Hand book of foreign trade policy, 2008)**.** After this, the new Foreign Trade Policy came into force from 1st September 2004 to 31st March 2009. Some of these provisions include the liberalization of theEPCG Scheme by a reduction in duty from 5% to 3% additional duty credit under the Focus Product Scheme for export of sportsgoods and toys; additional credit under the VKGUY for exports of fresh fruits, vegetables and flowers; interest relief for exportsaffected by the appreciation of the rupee etc.

In recent years, the Indian government has acceptedstrictness of this issue and taken an important policy initiative in 2011 by approving the New Manufacturing Policy. This policy is aimed at building the capacity of the sector, as well as improving the international competitiveness of the manufacturing sector.

3.2 Growth and Structure of India's Exports

In early First year Plan the value of Indian exports had collapsed from its Korean War peak in 1951 and had stagnated and this stagnation continued until 1961, implying a falling Indian share in world exports and a falling annual growth rate of exports of goods and services (Jagdish N. Bhagwati,T.N Srinivasan, 1975). At the same time, India is among the developing countries, whose economic development programmed since 1951 has largely dependent upon the availability of foreign exchange reserves. The average annual growth rate of export and import have been presented in table 3.2 which shows that exports of goods and services registered a negative (-0.06) average annual growth during the period of 1951 to1960.Moreover, the share of export in GDP also declined (6.3) percent annually as compared to import (9.0) in the same period of time.

The table below reveals that the period between 1961 and 1970 had higher imports 7.0 (as a share of GDP), compared to exports which may have contributed to a growing foreign exchange shortage. Additionally, high levels of inflation and budget deficits coupled with the India-Pakistan war severely affected foreign aid and led to a foreign exchange crisis, which resulted in the devaluation of the rupee in 1966 (Mukherjee, 2012)**.**Additionally, till the mid seventies, India's policy was restrictive and focused on developing the domestic industry, while tightening control on foreign trade by using quantitative restrictions as a tool. High levels of protection coupled with an overvalued domestic currency resulted in a growing demand for imports and discouraged exports.

Table 3.2: India: Export and Import growth Since 1950-51 to 2011-12

Period	Average annual growth rate of Export and import goods and Services over period(%)		Percentage of GDP	
	Export	Import	Export	Import
1951-1960	-0.06	5.0	6.3	9.0
1961-1970	2.14	-1.4	4.2	7.0
1971-1980	8.23	6.8	6.0	6.1
1981-1990	4.76	6.9	6.9	8.7
1991-2000	12.07	14.4	9.8	12.7
2001-2012	14.76	15.4	20.7	25.1

Source: Handbook of statistics on the Indian Economy, RBI report.

Due to the occurrence of two major oil shocks in the seventies, India experienced a rise in the import cost of oil and thus a decreasing foreign exchange reserve position. The pressure to earn foreign currency led the government of India to adopt export promotion policies in the form of export subsidies such as duty drawback, subsidized credit and direct subsidies(Sharma, Kishore, 2002).During this time, the end of the Bretton Woods system led to a depreciation of the floating pound sterling. The Indian rupee, which was pegged to the British pound at the time also depreciated, a fact which probably contributed to the rise in growth of Indian exports relative to global exports (Srinivasan, T.N,2001).We can see in the above table, average annual growth rate of exports increased 2.14 in 1961-70 to 8.23 in 1971-80.India's overall trade, however, experienced a setback between 1979 and 1981, as the import cost of crude oil more than doubled, following the oil-price shocks. But till the eighties, the Indian rupee steadily appreciated by almost 20 percent between 1979 and 1986 and had an adverse impact on its export competitiveness. However, the situation reversed in 1987 with a gradual decline in the value of the rupee, though it remained overvalued till l991 in terms of the real effective exchange rate. The table reveals that India's average annual growth of exports declined 4.76 as compared to 1971 to 1980.

The liberalization of the Indian economy following the balance of payment crisis resulted in major policy and exchange rate changes, which had a favorable impact on India's trade. The table also highlights that the average annual share of exports in GDP increased from 6.9 to 9.8 percent during1981-90 to 1991-2000 time periods, while the average annual growth rate of exports rose from 4.76 to 12.07 in the same period. On the other hand, trade in services in India has been growing rapidly since the beginning of the last decade, following significant domestic liberalization on one hand, and access to a growing overseas market for services, on the other hand. Due to such rapid growth in services exports, India has succeeded in raising its access in global markets more rapidly for services than for goods.

In 2001-02, India faced another setback in its exports, at large, due to the semi-recession faced by the US one of India's biggest trading partners. The terrorist attack on the World Trade Centre caused a net loss of 0.25 percent of US GDP and also had an impact on India's growth of exports (Mukerjee, 2012).The next major slow down for India's exports was the global crisis of 2008. The collapse of large investment banks around the world coupled with high oil prices and rising inflation led to a global recession. Exports average annual growth rate remain gradually declined and registered 14.76during 2001-2012. Though, this may be in part due to the unusual development model followed by India. Despite all of these in recent year, Indian Economy has traditionally developed a strong manufacturing base and over time moved towards a capital and skills- oriented services sector. The rapid growth of service sector observed in the domestic economy has been associated with an increased competitiveness in world markets.

3.3 Index Numbers of Foreign Trade

The construction of the leading index for exports is based on the premise that peaks and troughs in the business cycle or growth rate cycle in the domestic economy are likely to be associated with exports to and imports from respective trading partners (RBI Report).The below table highlights that export Prices in India increased to 223Index Points in 2011 from 196 Index Points in 2010. Export Prices in India is reported by the Reserve Bank of India. India Export Quantum averaged Index 125.0 Points from 2000 until 2011, reaching an all-time high of 304.0 Index Points in June of 2011. Whereas in 1970, India's export unit index was 45.0 points and its quantum index was just 59.0 points from 1970.In India, Export Prices correspond to the rate of change in the prices of goods and services sold by residents of that Country to foreign buyers. Export Prices are heavily affected by exchange rates.

Table: 3.3 Index numbers and terms of foreign trade

(Base: 1978-1979 = 100)		
Year	**Unit Value Index**	
	Exports	**Imports**
1970-71	45.0	35.3
1971-72	46.0	32.8
1972-73	51.2	34.2
1973-74	62.2	48.9
1974-75	78.0	84.5
1975-76	83.9	99.1
1976-77	89.4	96.3
1977-78	100.3	88.0
1978-79	100.0	100.0
1979-80	105.4	114.1
1980-81	108.5	134.2
1981-82	124.1	133.1
1982-83	132.0	136.3
1983-84	151.0	125.8
1984-85	169.8	161.7
1985-86	170.8	158.8
1986-87	179.4	139.4
1987-88	195.4	160.0
1988-89	232.2	185.5
1989-90	276.6	228.4
1990-91	292.5	267.7
1991-92	369.5	309.1
1992-93	421.5	331.0
1993-94	474.1	327.2
1994-95	494.6	324.6
1995-96	484.2	351.0
1996-97	504.7	399.8
1997-98	589.4	404.2
1998-99	611.7	407.8
1999-00	604.0	450.0
2000-01	624.0	487.0
2001-02	618.0	493.0

2002-03	620.0	546.0
2003-04	672.0	545.0
2004-05	732.0	663.0
2005-06	798.0	592.0
2006-07	863.0	608.0
2007-08	939.0	575.0

Source: Handbook of statistics on the Indian Economy, RBI Report

(Base: 1999-2000 = 100)

Year	Unit Value Index	
	Exports	Imports
1999-00	100.0	100.0
2000-01	102.0	109.0
2001-02	103.0	112.0
2002-03	106.0	128.0
2003-04	114.0	132.0
2004-05	131.0	157.0
2005-06	139.0	179.0
2006-07	158.0	206.0
2007-08	166.0	210.0
2008-09	194.0	239.0
2009-10	196.0	215.0
2010-11	223.0	243.0

Source: Handbook of statistics on the Indian Economy, RBI Report

3.4 Composition of India's exports

Over the last six decades, the commodity composition of export baskets has altered in the face of structural changes in the Indian economy. Emphasis on heavy industrialization to a large extent was responsible for this change (T.P Bhat, 2011). In the 1950s, agricultural and allied commodities, including farm processed products dominated the export basket. The below table shows that the average annual share of food and live animal exports was27.64 to its total exports in 1970-79 and 23.18 to its total exports since 1980-87. Tea, fruits and vegetables, feeding stuff for animals, cashew kernels, cereals, fish, sugar and honey, coffee, tobacco were the main items of exports which constituted a large per cent of India's total exports during the period of 1970 to 1987.The annual average share of these commodities gradually declined from post and pre liberalization period when our economy integrated the world economy and government maintained a large interest to build a strong industrial base in India. This trend is consistent with shrinkage in the share of the sector in GDP of India. At the product level, share of tea, unmanufactured tobacco and spices declined in India's total exports and world exports.Products such as coffee, cereals, and vegetables and fruits indicated a fall in their share in India's exports and rise in world exports.

Table 3.4: Exports of major commodity (1970-71 to 2011-12)

Average Annual share of India's export commodities (% of total export)									
Years	Food and live Animals	Crude materials	Manufactured goods	Others	Years	Primary products	Manufactured goods	Petroleum products	Others
1970-79	27.64	12.75	39.42	20.19	1988-95	22.81	73.20	2.54	1.48
1980-87	23.18	9.90	33.31	35.61	1996-2003	19.53	76.49	2.27	1.71
					2004-2012	15.20	67.31	13.62	3.87

Source: Handbook of statistics on the Indian Economy, RBI report.

At a more detailed level, marine products, oil meals, rice, tea, cotton, sugar and molasses, allied products shares rise annually in total exports. The export share of ore and minerals declined and that of their share of world exports increased. On the other hand the table describes that the average annual share of crude materials was 12.75 per cent of its total exports in 1970-79 which was declined during the period of 9.90 per cent

Its total exports in 1980-87.But its average annual share gradually increased during pre and post liberalization period and recorded high growth rate over a different period of time. This was on account of expansion of the steel industry in China and Japan.

Beside this,The share of the manufactured goods in the total exports was nearly 39 per centof its total exports in 1950-51 which composed of cotton piece goods, gunny bags and gunny clothes (T.P Bhat, 2011)**.** These were basically agriculture-based products .In the above table mention that the average annual share of 39.42per cent in 1970-79 and 33.31 percent of its total exports in 1980-87. Basically, Share ofjute, cotton, leather, pearls, metals, iron and steel products increased, both in total exports and in world exports during the 1970s to 1987 time periods. The product composition has changed to some extent from 2000-01 to 2010-11.In the period of post liberalization, manufactured recorded average annual growth rate 76.49 per cent of total exports since 1988-95. But we can see in the table, the share has been declining 67.31 percent during 2004-2012 periods. Even in the manufactured category, the traditional goods exports were made the way for new products. The structural change was relatively minor in the first decade of the post-reform period. Changes occurred in the second decade with engineering products and chemicals leading the way. The Petroleumproducts became an important segment of exports. India has become one of the leading petroleum refining centers in Asia. As per table highlights petroleum and other products increased sharply 2.54 (petroleum) and 1.48 (other commodities) per cent to its total exports in 1988-95 and these products future recorded average annually grow during 2004-2012.Besides all of these, other commodities represents machinery and electrical machinery, transport equipment, foot were and clothing recorded a higher average annual share to its total exports during 1970-79 to 1980-87.On the other hand after liberalization most of these commodities included in manufactured goods i.e. machinery and instruments, transport equipment, clothing etc.

On the other hand, if we move towards the direction of India's foreign trade than we will find that exports were highly concentrated in OECD countries. India's contribution in total exports towards OECD countries was just Rs. 92.34 in 1987-88 and it has increased up to Rs 4935.72 billion in 2011-012.One the other hand Eastern Europe is the second large importer countries over a period of time. The share of EU also increased 25.94 billion in 1987-88 to 410.39billion in 2011-2012 (RBI, annual data sources). Even with the expansion of EU countries U.K., Germany and France were the major export destinations. Many new economies emerged as trade partners, prominent among them being China, United Arab Emirates, Korea, Malaysia, Singapore, Indonesia, Italy and Spain etc. The global link with the production process was evident after 2000-01. Dependence on developing countries continues to remain strong due to supply of intermediates and India emerged as an exporter of simple capital goods and tools and equipments. This means some of the import substituting industries of the past turned to exports. There has been a change in the export destination in 2010-11 as compared to 2000-01.Moreover, thelook East policy of the government yielded some positive results.

3.5 world merchandise exportsof selected countries

In table 3.5 shows share in world merchandise exports of India and Selected countries during 2000 to 2011.The share of merchandise export of the selected Emerging and developing Economies has increased to 41 per cent with a change in the share of 15.6 per cent over 2000 while the performance of China with its share of World exports increased by 3.9 percent in 2000 to 11.2 per cent in 2011.

Table 3.5: Share in world merchandise exports of selected countries since 2000 to 2011

Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
China	3.9	4.3	5.1	5.9	6.6	7.4	8	8.8	8.9	9.7	10.5	11.2
Indonesia	1	0.9	0.9	0.8	0.8	0.8	0.9	0.9	0.9	1	1	1
Thailand	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.3	1.3
India	0.7	0.7	0.8	0.8	0.8	1	1	1.1	1.2	1.3	1.5	1.6
Developing Countries	37.1	36.8	37.8	38.8	40.7	43.8	45.3	35.9	37.9	37	39	41.7
World	100	100	100	100	100	100	100	100	100	100	100	100

Source: Economic survey 2012-13, 2008-09, 2003-04 reports

India’s share in world merchandise exports also increased by 0.7 percent in 2000 to 1.6 percent in 2011.Though, the gap started wideningsince the 1990s, the period of India’s reforms. In 1990, the share in world exports of China and India were 1.8 per cent and 0.5 per cent respectively in 2008, their respective shares stood at 8.9 percent and 1.1 percent. This growing gap between

India and China calls for greater introspection on the part of India and partly reflecting the effect of global recession and partly the higher base effect due to lagged export data of 2008-09.

In addition of this, India's share in world merchandise exports, after remaining unchanged at 0.8 per cent between 2003 and 2004, reached 1.0 per cent in 2005, and remained there in the first eight months of 2006. India's significant export growth in recent years was on account of a host of favorable external developments and domestic policy initiatives. Improved global growth and recovery in world trade aided the growth of Indian exports. The opening up of the economy and corporate restructuring has enhanced the competitiveness of Indian Industry. There is a far greater export orientation of domestic manufacturers, and the corporate sector has been pursuing new growth strategies in response to economic reforms. Currently, India is the 31st leading exporter and 24th leading importer in world merchandise trade.

In addition to this, the study includes information from RBI Report 2013-2014 Q1 which shows the current situation of India's external sector.

According to RBI 2013-2014 Q1 Report, The trade gap widened during Q1 of 2013-14 compared with Q1 of 2012-13.Exports contracted in Q1, while gold imports increased significantly. With uptrend in US yields, portfolio outflows since mid-May 2013 have caused the rupee to depreciate sharply against the US dollar. This was, however, broadly in line with other EMDE currencies, which also weakened as financial markets across the globe re-priced risks. Going forward, the CAD is expected to moderate in 2013-14. However, volatile markets and the potential tapering of quantitative easing in the US pose a risk to CAD financing. External sector policies would need to be carefully calibrated over the short to medium term with a view to containing the CAD within manageable levels and financing it through more stable flows.