ABSTRACT

India inherited the debt of 37 crores upon independence from the British Raj. Since then India has been trying to boost its domestic economy to increase its exports and minimize its imports to tackle the trade deficit and balance of payment problems. In this article we would discuss the India trade history, current international trade scenario of India, India trading partners, external debt and steps taken towards self reliant economy.

Keywords: India Imports; India’s Exports; External Debt of India; Free Trade Agreement

OBJECTIVES

1. To discuss India's international trade post-independence and its effect on external debt.
2. To discuss the post liberalization developments for boosting export and other reforms

INTRODUCTION

India has a rich heritage of international trade in its textiles, silk, jute and cotton related small cottage industries. Its fine silk and cotton textiles and were known world over since early ages. There was heavy demand for Indian textiles and other Indian commodities. Earlier ‘Barter’ exchange was the mode of carrying out trade activities, but even after introduction of different currency formats – from varieties of coins (silver, gold, bronze) to paper currencies – India had been at the helm of international trading activities/affairs.

It was these high quality standardized products which not only caught the attention of many countries to enter into trade pacts, but also attracted them, lured them to visit India for getting first-hand information in person, India always had a trade surplus. As history goes, although the basic intentions of countries like Great Britain, France and Portugal was only to carry out trade with India. The covert ulterior motives of these countries became clear very soon and the then powerful Great Britain ruled India for around three hundred years (considering East India Company period also). It is a well-known fact that the British rule with their only aim to reap/extract maximum benefits from the Indian soil, unleashed a total havoc on its small village cottage Industries, agricultural strongholds and its rich and abundant natural resources. The destruction of Indian economy’s strongholds was so widespread, deep and its impact so far reaching that India had nowhere to look upon to stand on its own.

However, with its centralized economic planning for self-reliance, Indian economy limped back to normalcy though it could not attain the same economic strength of its golden era.

Since independence, India adopted a policy of self-reliance, self-sufficiency and import substitution. This policy had an in-built trade restrictions for exports and imports both. Even with the policy of self-reliance the building up of infrastructure sector from scratch required imports of heavy technical machineries and its spare parts. So the international trade picked up once again but with soaring import costs and sluggish export growth.
India owed sluggish export growth to its restrictive trade policies and the intermittent global economic slowdown. However, China facing the same global slowdown surged ahead of India in its global share of merchandise exports. Comparing export composition with its major competitor reveals that for India, services sector scales major world export share while China, Brazil and South Africa continue to earn close to 90 Per cent of their export revenue through merchandise exports alone.

The exponential growth in services exports and its rising invisible receipt are the positive results of liberalization, for without liberalization the avenues of exports for services sector would not have opened. Hence this was a post liberalization phenomena.

The policy of self-reliance and self-sufficiency implied—as already stated in the beginning—a move away or negation of International trade as source of income. This policy adopted immediately after Independence on one hand developed, catalyzed growth of India’s manufacturing sector through building up of infrastructural sector while on the other raised import costs manifold.

Simultaneously the export lost its world market share from 1.4% to 0.5% from 1951-1990 (Economic Policy Reforms and the Indian Economy p-13 (2002). With this back drop of export performance and the consequent, precarious, dwindling balance of payments and foreign exchange reserve position, India’s economic planners made an all-out effort to promote exports by floating various schemes of subsidies.

However because of many reasons like:

The Sino war of 1962

The first oil Shock of 1972-73

Two India–Pakistan wars and severely affected international trade of India lost its ground in mopping the global market share to a great extent.

The Second Oil Shock of 1979-80 gave major setback to India’s overall trade because import costs more than doubled in the wake of sudden and phenomenal rise in crude oil prices. Thus India’s International trade bore the brunt of rising oil prices on one hand and on the other hand continuous rupee appreciation eroded export competitiveness and the revenues thereon.

This status–quo continued till late 1980s and the huge trade imbalances continued to soar. Consequently, to cover the trade deficits, to maintain comfortable balance of payments and to build up forex reserves India turned to reckless incessant borrowing with harder, tougher terms. Many short-term external loans were availed with higher rate of interest. The repayment burden so incurred ballooned and burst into the worst ever balance of payment crisis of 1991.

The unsustainable debt and repayment burden, the ever continuing severe balance of payments crisis downgraded India’s credit rating by world rating agencies. Subsequently, all the countries and lending agencies world over refused to lend funds to India. The IMF then offered bailout package against gold mortgage with stringent conditionality and India was put under Structural Adjustment Program (SAP).

Such deep and wounding was the impact of the adverse international trade that all the economic parameters, indicators took a turn for worse and pushed India into a debt-trap.

Once SAP was imposed, India liberalized its policy restrictions and opened its economy for global trading.

The rupee was again devalued by around 23% in July 1991 as part of reform process which subsequently boosted exports. Thus India’s international trade again picked up. The hitherto trade barriers had hampered the growth of Indian exports especially the ever protected agriculture sector which still remains protected.
In the pre-reform period Quantitative Restricted share was as high as 93% in total tradable GDP. After liberalization, share of exports in India's GDP increased from 7.13% to 23.48% in 1990 to 2008, and the share of imports in GDP rose from 8% to 29% for the same period.

One thing is clear from the above that imports have always been higher than exports so far as India’s international trade is concerned.

The slowly picking exports again posted a negative growth of 2.33% in the wake of East Asian crisis of 1997. The floating exchange rate of many of the ASEAN currencies devalued against dollars and India rupee got automatically appreciated.

As such the East Asian crisis had put India’s exports growth on retardation the rupee appreciation increased export prices and thus exports faced two pronged attack in the global market.

The US economy slowdown in 2001-2002 the Indian exports badly. Again trade imbalances were witnessed.

Post liberalization, India reformed its foreign trade policy. The most benefited from opening up of the global markets for India has been the services sector. The IT and IT enabled services sector registered exponential rise and contributed in an unprecedented manner in invisible receipts thereby providing a major cushioning effect for high rise trade - deficits and worsening balance of payments.

Even with all these, barring services sector India posted a dismal performance of export since 1991 – post liberalization.

Indian government has taken several measures to promote exports of electronics goods and IT hardware. The soaring domestic demand of electronic goods has lured many foreign investors to invest their money in this sector.

Several other steps taken to boost trade - especially exports after liberalization - are regional arrangements under Free Trade Area Agreements wherein the countries involved agree to abolish tariffs, quotas and preferences on most of the goods. Countries choose an FTA if their economical structures are complementary and not competitive.

India has signed FTA (Free Trade Area) agreements with Sri Lanka (December 28, 1998) and Thailand (October 9, 2003), with Mauritius Chile and SAARC. Preferential trade agreements wherein only certain products are traded by dropping tariffs (without abolishing them completely). Likewise many agreements, arrangements are being and have been made currently to boost exports. Many previously – pre-liberalization post-independence – floated schemes have been revamped. These include:

- Duty Drawback Scheme (1954)
- Replenishment licenses (1957) - import entitlement scheme revamped and given a new name Import Replenishment Scheme.
- Market Development fund- (MDF in 1960) for identified Export Houses. The criteria for identifying these export houses are under continuous upgradation to adapt to global and domestic requirements.
- Free trade zones or Export Processing Zones (1965)
- Cash compensatory Support (1966)- up graded and modified till 1986 but abolished in 1991 as after liberalization the same became redundant.
- 100 Percent export oriented units (EOUs) various reimbursements, exemptions and facility to retain 100 percent of export earnings in Export Earner’s Foreign Currency (EEFC) accounts.
- Export Import Passbook Scheme (Oct 1985) replaced by Duty Entitlement Pass Book (DEPB) scheme (1997 - 2002) permitting export oriented units to avail duty free imports with some conditions as per the scheme.

- Some export promotion schemes were introduced after liberalization also. These include – to name some – Export Promotion Capital Goods scheme (EPCGS1991) and Special Economic Zones (SEZs 2000). As for SEZ as per EXIM Policy of 2001 - 2002 announced FDIs will be allowed via automatic route for all manufacturing sectors. With the same concept, Agriculture export Zones (45) were identified to promote agricultural exports.

- Countless schemes were floated to boost international trade especially exports to create favorable terms of trade, to make exports more competitive in the global market while taking cognizance of the latest developments on the global horizon –for product quality and pricing.

- For catalyzing growth in services sector exports, lots of schemes were floated to hand them over a duty free regime to flourish. Promoting Technology Parks was also one of the steps in this direction.

- India still faced export stagnation. Barring services sector the growth in India’s export has always been negligible considering the Himalayan efforts put in by the government and the policy makers. For India, international trade has always meant more of imports than exports.

- The discussion on India’s international trade would remain incomplete and fruitless without the mention of GATT (General Agreement on Trade and Tariff) and WTO (World Trade Organization) and Uruguay round, Doha Round of talks for international trade activities.

- The Uruguay Round was the eighth round of multilateral trade negotiations (MTN) conducted within the framework of the General Agreement on Tariffs and Trade spanning from 1986 - 1994 involving 123 countries as party to it. The Round led to creation of the WTO (World Trade Organization) with GATT remaining as an integral part of the WTO agreements.

- The basic purpose was to liberalize earlier exempted areas of trade –agricultural and textiles - and to include trade in services, intellectual property, and investment policy trade distortions.

- The historical background of UR goes back to the 1982 Ministerial declaration identifying structural deficiencies of certain countries’ policies on world trade and its impact on global trade which GATT was unable to manage.

- A package, a dispute settlement system and Trade Policy Review Mechanism were the steps taken to assist developing and underdeveloped nations to undertake comprehensive, systematic and regular reviews of national trade policies and practices of GATT members. Hence the eight round of GATT- named as Uruguay round –was launched in September 1986. It was the biggest negotiating mandate on trade ever agreed and as said earlier the talks were going to cover services intellectual property and to reform trade in sectors of agriculture and textiles.

The Uruguay round was supposed to end in December 1990 but the US and EU (European Union) disagreed on how to reform agricultural trade and the talks got extended. Finally in November 1992 the US and EU agreed to settle the issues and on April 15 1994, the deal was signed by ministers from all the 123 countries involved. Under this agreement WTO was established and WTO came into force from January 1-1995 to replace GATT system. The Uruguay Round Agreement brought agricultural trade completely under GATT. This Agreement imposed rules and discipline on agriculture export subsidies and domestic subsidies.

However UR was criticized for neglecting ignoring the needs of developing countries. It was further argued that since developing countries are inexperienced in WTO negotiations and could not foresee the after -effects of the agreement on their economies these countries are being exploited by advanced countries like US who have a major controlling power and say in the policy decisions of GATT And
WTO. Structure of WTO - it was argued by Oxfam, NGOs like Health Gap and Global Trade Watch – itself has destroyed the tradition of consensus decision making which was prevalent in GATT. Again the UR included Trade Related Aspect of Intellectual Property Right (TRIPS) in the agreement which the developing countries argue was not mutually beneficial for them unlike direct liberalization.

- The much talked about Doha Round is the latest round of trade negotiations among WTO members. Its main objective was to achieve major reform of the international trading system by introducing lower trade barriers and revised trade rules. The Doha Round covers twenty trading areas with an aim to improve the trading prospects of developing countries. However the Doha Round Agenda could not be moved further when the July 2008 negotiations failed in the wake of disagreements concerning agriculture industrial tariffs and non tariff barriers, services and trade remedies. The differences arose between developed nations led by European Union (EU), the United States (USA) and Japan and the major developing countries led and represented mainly by India, Brazil, China and South Africa. Till date there is no further progress in Doha Round nations and many of the member countries and world economists opine that now the issues involved have been rendered redundant because such a long period has elapsed after that. Hence the policies envisaged, formulated at the international platform for trading did little to help expand India's exports. Besides it is evident that the policies, schemes announced at domestic level for boosting exports involved a tremendous fiscal burden on Indian economy by way of subsidies duty exemptions and numerous concessions.

- Thus India’s international trade – during pre and post liberalization – it appears may have been beneficial products wise but could have proved to be a burden economically.

- Firstly as the trade figures indicate, the imports have always been more than exports. In its efforts to promote and help export units, the duties /tariffs have either been abolished or settled by the government costing it financially. While allowing duty free imports for export oriented units governments is parting away with a major chunk of trade revenue on one hand and inadvertently increasing import costs on the other. Besides the sluggish export growth and increasing imports have always widened the trade deficit and balance of payments gap.

- Again the funds for financing the subsidies and foregoing tariff revenues were and are still being arranged by availing external loans. Thus it appears that there is a two pronged attack or double pressure exerted on the domestic economy. First, by way of widening international trade gaps and second by way of financing for subsidies and foregoing tariff revenues. It is evident that government has made and is still making all out efforts for promotion of exports. However, import costs have always surpassed export earnings. The slow, sluggish export growth can be attributed to much global financial upheaval.

The western and European countries' recessionary trend since 2008 is still continuing intermittently showing signs of minor recovery. The euro crisis is still continuing and has deeper roots and is more severe than expected. Greece, Italy, Spain and Portugal are still not out of the financial crisis Germany and France were the first one to post meagre recovery and real GDP growth rate of 0.56% and 0.21% respectively for the fourth quarter of the year 2014. The deep fall in oil prices have hit the oil exporting gulf countries and Russia very badly. The oil exporting gulf countries owe their economic prosperity to high oil prices and the consequent rich export revenues. Their trade surpluses are fully driven by oil exports. Russia, though presently not a developed/advanced economy, also depends heavily on oil exports.

The Chinese economy is on the verge of collapse on account of rebalancing and usually heavy capital flights (out flow) of around US $600 billions in the past several months. China being emerged as the most strong and world's largest powerful economy after US in the past two decades- is still able to sustain the unprecedented capital out flow. However if this spate of outflow continues the Chinese economy is bound to crash in the very near future. Even if the capital out flows are controlled by some
timely measures the reverberations or the aftermath of the present happening have already been reflected in the substantial slowdown of exports and imports of China.

Again the slowdown of US, Brazil and some other European economies has hit the global exports in general and Indian exports in particular very badly. In short India’s major trading partners US, China, ASEAN Countries, European countries like France, Germany, Portugal and other countries like Indonesia, Thailand, Brazil are all going through recessionary phase and hence the sluggish export growth. International trade itself is undergoing a tough and near stagnant is undergoing tough and near stagnant phase currently with around more than 80 per cent of the countries world over being engulfed by recessionary trends.

The tremors of the 2008 global financial crisis are still being felt, pulling down the World Economic Outlook’s growth estimates. As per the latest World Economic Outlook (April 2016) there is a substantial slowdown in investment and trade, declining capital inflows indicate a much weaker global growth. In the wake of continuance of such global trends and volatility IMF may have to further revise the downward growth trend. Therefore the international trade –export and import –of India point towards grim prospects and further decline in exports at the back drop of near stagnant global demand. Export and imports will pick up only when most of the countries are able to survive and sustain the present financial crisis faced by them and are able to put their economies back on track of growth and prosperity. Therefore considering the above existing and projected global slowdown, Indian exports are expected to be further hit rendering Indian economy more vulnerable susceptible to foreign capital outflows. This may further induce external borrowing spree on part of India. Rising import costs and near stagnant exports may widen the trade deficit gap, thereby drawing down foreign exchange reserves which in turn would require replenishment through external borrowings/loans which remains the only recourse in such prevalent conditions. The other measure which has already been taken by India is to put a curb on its gold imports. Electronic goods and gold are the major import constituents accounting for the rising import bills thus limiting import of electronic goods and especially gold would control import costs to a great extent.

Source: Balance of Payments Manual (Fifth Edition), International Monetary Fund.
Economic Survey 2012-13 & 2014, Ministry Of Finance

The above graph shows the comparison between percentages of merchandise export, invisible receipts, Imports to GDP from 1975-2014.

The SAP format of IMF was accepted by India to get out of trade deficit and current account deficit problem. However, the Indian industries and manufacturers, now exposed to global market, started to
import high quality raw material in an effort to survive in the Qualitative Market, resulting in rising Import costs. As can be seen from graph above, the import is seen rising exponentially. The exports did rise to a marginal extent during 1992-1998 but came down again. The advent of IT and software sector in the same time period saved India form another crisis. The invisible receipts (from IT and Software sector) are showing good growth rate since 1991 and has assisted India to maintain trade deficit at manageable level.

CONCLUSION

India’s international trade has always registered deficits barring some positive trends in between therefore India is always having higher trade deficits and precarious balance of payments position.

This implies that India’s exports are not globally competitive because China has emerged as fastest growing economy owing to its exponential rise in exports faced with the identical global market conditions.

A serious directed effort is required with an extensive global market research. Although India’s economic planners policy makers at government level have made an all out effort but it has not yielded the desired results. Therefore, it appears that total overhauling of policies with regards to international trade, especially exports is the need of the hour.

The post –independence approach of planned development towards socio-economic self –sufficiency had triggered import demand in the wake of heavy industrial and infrastructural build- up. Even after adopting restrictive trade policies for around three to four decades India could not succeed in curbing rising import costs. Simultaneously the export promotional policies did not help to expand its export base beyond certain level.

The consequential trade deficits and ever uncertain, precarious balance of payments position have become a trade mark of Indian economy. It is an issue to ponder upon and needs some concrete, directed steps to rectify some concrete, directed steps to rectify what is being wrong.

It appears, though that every time, any measures are taken to revive export growth have proved to be triggering import demand thereby further ballooning trade deficits. Therefore a studied, cautious approach while formulating policies or measures for export growth is essential.

India has been over borrowing to cover the trade deficits, the arising balance of payment crisis and drawing down of foreign exchange reserves. It would not be an overstatement to suggest that India owes its rising external debt to adverse international trade.

India can attribute its below average export performance to global slowdown but China has outperformed every nation with its fast and exponential economic growth on account of extremely high export revenues and the resultant trade surpluses. The point is that China or even a small country like Singapore has favorable trades which have yielded high trade surpluses facing or surpassing all the global market hurdles.

India has always proved to be a lucrative market for other countries and therefore India should guard itself against becoming a dumping market. Thus anti-dumping measures are crucial for India. However, amidst the China’s financial crisis and global growth slowdown, IMF has projected 7.3%GDP growth rate for the fiscal year 2017. India has therefore overtaken China since 2014-2015 to become fastest growing large economy in the world. While projecting robust GDP growth rate for India, IMF has cautioned that India will have to continue its financial consolidation. IMF has further warned countries world –over-saying the global growth is too slow for too long – for the prevailing, unfavorable, adverse international trade conditions.

The above warning from IMF points to the imminent danger for all the economies/countries-that is susceptibility to foreign capital flight and the subsequent reckless, unsustainable external borrowings.
It is essential at this juncture to again analyze and decide what is best and advisable to each country's individual economy. To remain totally dependent on export oriented growth—as suggested by IMF and its Structural Adjustment Programs which do not consider, take into account each individual country's uniqueness its pros and cons—or to formulate its own economic strategy to its full advantage and at the same time marching towards global financial integration.

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