IMPACT OF LIBERALIZATION AND GLOBALIZATION ON INDIA’S FOREIGN TRADE

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ABSTRACT

In 1991, when the Indian economy was facing a financial crisis, the Indian Government decided to introduce economic reforms. The package of reforms included: liberalization of industrial policy and inviting foreign investment through privatization of industries; liberalization of Export and Import Policy; devaluation of the Rupee; reform of the banking sector; withdrawal of restrictions and government interference in investment. The country has witnessed a spurt in exports barring the years 1997, 2001-02 and 2008. The Government of India has been bringing out five year Trade Policies, since the introduction of Reforms. The basic objectives have revolved around promotion of exports and increasing India’s share in world trade. Liberalization and Globalization has had its positives as well as negatives. The positives include injecting a sense of competitiveness, widening of the size of the market and generation of sustained growth. The negatives are related to defeat of the objective of welfare, increase in unemployment, interdependence among countries can have adverse monetary repercussions, undue emphasis on materialistic way of living and possibility of loss of independence. The introduction of reforms no doubt has led to an increase in GDP with India being termed as one of the ‘fastest growing emerging economy’. However, her international standing in exports and imports is very low ranking of 19th and 10th respectively. This has to be changed if India has to make her mark in the International trade sector.

Keywords: Reforms; Trade Policy; Trends in Trade

INTRODUCTION

In the early post-independence period - that is between 1947 and 1991, India adopted the mixed economy framework, which combined elements of capitalism and socialism. The government intervened by way of encouraging exports and controlling the substitution of imports. With liberalization the government policies on exports and imports changed. Further, the establishment of WTO (World Trade Organization) on 1st January 1995 saw, many countries including India joining it.

In this Paper an attempt has been made to look into the concepts of liberalization and globalization, to briefly discuss the reforms introduced by India, to examine the trends in exports and imports and to touch on the foreign trade policies adopted in the Post Reform period.

OBJECTIVES OF THE STUDY

Indian introduced economic reforms in 1991. This marked the introduction of a new chapter in Indian economic history. This Paper has the following objectives:

1. To understand the concepts of Liberalization and Globalization particularly from the Indian perspective
2. To study the package of reforms introduced in 1991
3. To discuss the trends in the growth of exports and imports in India
4. To examine the various trade policies that has been introduced in the country

Concept of Liberalization and Globalization

Liberalization is a broad term that refers to fewer government regulations and restrictions in the economy, in exchange for greater participation of private entities. From the view point of developing countries, liberalization refers to further opening up of the economy to foreign capital and investment.

Thus liberalization implies elimination of state control over business activities. It gives greater autonomy to business enterprises in decision making and in removal of global interference.

Globalization essentially refers to integration of the national economy with the world economy. It implies free flow of information, ideas, goods and services, capital and technology across different countries and societies. According to IMF: ‘Globalization is growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows and also through more rapid and widespread diffusion of technology’.

Introduction of Reforms in India

Indian economy faced major policy changes in early 1990s. The introduction of reforms in July 1991 has led to the beginning of a new chapter. Apart from having a tremendous impact on all the major sectors of the economy, it marks the advent of real integration of the Indian economy with the global economy. Liberalization abolished licensing Raj, reduced tariffs and interest rates and ended public monopolies allowing automatic approval of Foreign Direct Investment in many sectors.

The new economic policy provided freedom to the entrepreneurs to establish any industry, trade or business venture. The entrepreneurs need not get any approval for starting of new ventures. What is required is fulfillment of certain conditions to get into a line of one’s choice. The Indian government has made the economy more market oriented.

In the age of globalization, India initiated some changes in its strategy on trade, foreign investment, tariffs and taxes popularly termed as new economic reforms. The volume of trade has subsequently increased and manufacturing sector has become the major contributor to India’s export growth. India has made strong foreign trade policies and reformed these from time to time with the process of globalization and liberalization.

The package of reforms introduced by the government included:

1. Liberalization of industrial policy and inviting foreign investment by privatization of industries and abolishing the licensing system;
2. Liberalization of Export and Import Policy;
3. Reducing the value of money in terms of Dollar;
4. Reforming the banking system;
5. Establishment of market economy by withdrawing restrictions and government interference in investment.

Trends in India’s Trade in the Pre and Post Liberalization Period

There is a close relation between Indian economy and foreign trade. The introduction of economic reforms in 1991 marks the initiation of a new era of India’s foreign trade.
### Table 1. Trends in Exports and Imports

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Percentage of change</th>
<th>Imports</th>
<th>Percentage of change</th>
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<th>Percentage of change</th>
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<td></td>
<td>9143</td>
<td></td>
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<td>42095</td>
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<td>89971</td>
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<td>215529</td>
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<td>2001</td>
<td>201356</td>
<td>26.56</td>
<td>228307</td>
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<td>429663</td>
<td>14.69</td>
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<tr>
<td>2002</td>
<td>209018</td>
<td>3.81</td>
<td>245200</td>
<td>7.40</td>
<td>452188</td>
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<td>2003</td>
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<td>39.53</td>
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<td>2006</td>
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<td>660409</td>
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<td>1161023</td>
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<tr>
<td>2007</td>
<td>571779</td>
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<td>838048</td>
<td>26.90</td>
<td>1409827</td>
<td>26.24</td>
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<tr>
<td>2008</td>
<td>655864</td>
<td>14.71</td>
<td>1005159</td>
<td>19.94</td>
<td>1661023</td>
<td>17.82</td>
</tr>
<tr>
<td>2009</td>
<td>840755</td>
<td>28.19</td>
<td>1374436</td>
<td>36.74</td>
<td>2215191</td>
<td>33.36</td>
</tr>
<tr>
<td>2010</td>
<td>845534</td>
<td>0.57</td>
<td>1363736</td>
<td>-0.78</td>
<td>2209270</td>
<td>-0.271</td>
</tr>
<tr>
<td>2011</td>
<td>1142922</td>
<td>35.17</td>
<td>1683467</td>
<td>23.45</td>
<td>2826389</td>
<td>27.93</td>
</tr>
<tr>
<td>2012</td>
<td>1459281</td>
<td>27.68</td>
<td>2345973</td>
<td>39.35</td>
<td>38005254</td>
<td>34.63</td>
</tr>
</tbody>
</table>
Indian economy and foreign trade have come a long way in value terms from the time of gaining independence in 1947. There has been a spurt in exports after liberalization with the manufacturing and service sectors dominating. However, the trade deficit has widened.

The financial crisis of 2008 has had a dampening effect on India’s economic performance. In 1997 India’s export growth was affected by the East Asian Crisis. In 2001-02 again India faced a setback due to semi-recession faced by the US, one of India’s largest biggest partners. Although exports contribute a major share of India’s GDP it has a poor standing in the international market.

Export Import Policy in India

Export promotion is a major thrust area and accordingly the government has been coming out with various policies, from time to time. These policies are known as ‘EXIM Policy’. EXIM Policies contain policies in the sphere of foreign trade with respect to import and export from the country and more particularly export promotion measures, policies and relevant procedures. Let us briefly examine these policies from the post liberalization period.

<table>
<thead>
<tr>
<th>Table 2. India’s Major Trading Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
</tr>
<tr>
<td>USA</td>
</tr>
<tr>
<td>UAE</td>
</tr>
<tr>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>Hong Kong</td>
</tr>
<tr>
<td>China</td>
</tr>
</tbody>
</table>
The table clearly shows USA to be the largest trading partner.

**Table 3. Share of Trade in India’s GDP**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>22.5</td>
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<tr>
<td>2000</td>
<td>26.4</td>
</tr>
<tr>
<td>2005</td>
<td>41.3</td>
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<tr>
<td>2010</td>
<td>48.3</td>
</tr>
<tr>
<td>2013</td>
<td>49.6</td>
</tr>
</tbody>
</table>

The graph is an upward rising one with a steep rise between 2000 and 2005, subsequently followed by a steady increase in the share of trade in India’s GDP.

**Foreign Trade Policy 1991**

This Policy had the following objectives:

1. Promotion of exports and liberalization of imports;
2. Introduction of convertibility on current account;
3. Rationalization of tariff structure and introduction of scheme of value based advanced licensing system.

**Export–Import Policy of 1997-2002**

The Policy aimed at:

1. Maximization of benefits from expanding global opportunities;
2. Provision of raw materials, intermediaries, consumable and capital goods for enhancing production;
3. Improvement of technological strength and efficiency of Indian agriculture, industry and services;
4. Provision of good quality products to consumers at reasonable prices;
5. Simplification of procedural formalities.

**Exim Policy 2002-2007**

The objectives of this Policy were:

1. To achieve at least a share of 1% of global merchandise trade, by facilitating sustained growth in exports;
2. Stimulation of economic growth, by providing access to essential raw materials, intermediate goods for production and production services;
3. Enhancing technical strength and efficiency of industry and services;
4. Providing consumers with good quality goods and services at internationally competitive prices.

The Policy measures adopted include:
1. Comprehensive package for creation of Special Economic Zones – SEZ;
2. Decontrol and Deregulation of agriculture sector;
3. De-reservation for small scale industries;
4. Reduction of peak custom duties from 35% to 20%.

Foreign Trade Policy 2004-2009

The following were its salient features
1. Pushing exports so as to achieve 1.5% of world share;
2. Grant permission of 100% FDI for the development of infrastructure;
3. Foreign Direct Investment permitted up to 100% to establish free trade and warehousing zone;
4. Liberalization of imports of seeds, bulbs and fibres;
5. This new Policy exempts export of goods and services from service taxes.

Foreign Trade Policy 2009-14

This Policy has the following objectives:
1. To achieve an export growth of 15%, this would increase further to 25% in 2014;
2. Double exports of goods and services by 2014;
3. To double India’s share in global trade by 2020.

The Policy measures to be adopted include:
1. Up gradation of technology;
2. Relaxation of EPCG Scheme;
3. Improvement of Marine Sector;
4. Improvement of the Agricultural Sector.

Foreign Trade Policy 2015-2020

This Policy provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition to the country. The focus would be on the manufacturing and service sectors.

Objectives of the Policy
1. To enable India to respond to challenges of the external environment in tune with rapidly evolving international training architecture; and
2. To make trade a major contributor to the country’s growth and development.

Under the Policy two new schemes were introduced:
1. MEIS – Merchandise Exports from India Scheme for specified goods to specified markets;
2. SEIS – Service Exports from India Scheme for increasing exports of notified services.

As can be seen the aims of all the Policies was furthering the liberalization of the economy so as to promote exports and improve India’s standing in world trade. It is believed that trade integration ensures resource allocation according to comparative cost advantage. India is a labor abundant country and has comparative cost advantage in labor intensive goods and openness to international trade stimulates growth in low-skilled labor intensive sector and hence accelerates job creation.

Liberalization has both its positives and negatives. Let us quickly touch on them:

**Positives**

One, it injects a sense of competitiveness and hence domestic business units tend to become more efficient. Entrepreneurs have easy access to technology and innovation;

Two, Indian goods become more competitive as they have to compete on a global scale;

Three, It widens the size of the market as a greater variety of goods both Indian and foreign are made available to the consumers;

Four, Liberalization can lead to sustained economic growth. This can best be illustrated by the growth of India’s GDP in the Post reform period.

**Negatives**

Firstly, with commercialization under liberalization profit motive becomes the main objective and ignores the all-important welfare objective;

Secondly, it could have a negative impact on unemployment on account of inflow of skilled and unskilled workforce from developed countries as they seek cheap labor force;

Thirdly, because of integration monetary commotion in one country can have its impact on other countries;

Fourthly, liberalization has an effect on the mindset and lifestyle as it leads to materialistic way of living;

Fifthly, it is results in undue dependence on foreign nations which can national and individual independence.

**CONCLUSION**

It is a well-known fact that India is one of the fastest growing emerging economies, but ranks low in terms of exports and imports, 19th and 10th respectively. However, the future of India economy apparently is good. Today there is a lot of optimism among investors – both domestic and foreign. India can realize its potential if the stakeholders from all over the world play a constructive role.

**REFERENCES**


