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Export Performance of India and Its Impact on GDP after Liberalisation Reforms

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INTRODUCTION

India has been at the forefront of growth economies among the emerging nations around the world. The government of India has introduced new economic reforms in July 1991 mainly for economic progress of the country. Thus the reforms highly influenced on exchange rate system, improving the efficiency of state enterprises, up gradation of Indian stock market, encouragement of foreign participation in the domestic tertiary sector are considered important dimensions of economic reforms in the nation. Prior 1991 economic reforms, the Indian economy were closed due to unfair trade practices and the extensive quantitative trade restrictions on imports and exports of various business activities. And also foreign investment was strictly restricted to only allow Indian ownership of business. After introducing new economic reforms and LPG (Linearization, Privatization and Globalization) system have changed the face of the Indian trade practices and facilitate to remove trade barriers which shown a significant impact on India's economy mainly due to increased foreign trade.

CRISIS IN 1991 PROPELS SYSTEMIC CHANG

While some tentative measures to open India's market were taken in the 1980s, a severe balance of payments crisis finally forced the country's policymakers to act in early 1991. Manmohan Singh, a distinguished economist, was appointed finance minister by Prime Minister P.V. Narasimha Rao. Quoting Victor Hugo, Singh said in his July 24, 1991 budget speech, "No power on earth can stop an idea whose time has come"—the idea being that India should take its rightful place in the world economy. The compelling power of crisis finally propelled systemic change. Under Singh's leadership, India devalued the rupee and moved toward a flexible exchange rate and current account convertibility.

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It extensively dismantled the license raj that had blocked imports and made exports uncompetitive, while unshackling constraints on domestic investment that limited competition. It also took steps to open the economy to foreign investment. Singh could not have done so without the political backing of Prime Minister Rao and a talented reform-minded team, including Commerce Minister P. Chidambaram, Principal Secretary Amar Nath Verma, and top civil servants, around him. This group prevailed despite howls of protest and attack from vested interests, intellectuals, and politicians.

RENEWED COMMITMENT NEEDED FOR FURTHER REFORMS

While India has continued to reform its policies since the early 1990s, including recent tax reforms by the Modi administration, the pace of reform is disquietingly slow. Red tape continues to stifle the economy, which has been battered by the COVID-19 pandemic, while insufficient attention has been paid to the pressing problems of disease control, pollution, rural poverty, and inadequate social services, such as education and health care. The country has been reluctant to partner with others in deeper trade agreements. As a result, India has missed important opportunities to continue to improve its economic performance. As a stark reminder of the stakes, the country's once much poorer neighbor—Bangladesh—has continued to reform and has overtaken India in per capita income, according to the International Monetary Fund.

INDIAN LIBERALIZATION REFORMS AND EXPORTS:

India formally started liberalization reform with the external sector reform in the light of balance of payment crisis in 1991. The initiation was taken with the measures; devaluation of the domestic currency, reduction in tariff rates, removal of restriction on import quota, capital inflows and FDI, and abolition of import licensing system. For example, Indian currency was devaluated by about 22.8 percent in July 1991 relative to a basket of currencies, meanwhile custom tariffs were reduced by more than 40 percent, a liberal policy was adopted for FDI with a mechanism of Foreign Investment Promotion Board (FIPB) to approve the FDI proposal, and virtually it was made more open in 2001. Public-sector reform was made removing the protection and involvement of private sector, private and financial sector also were made more competitive removing the varieties of the protections and restrictions. Trade reform initiated removing quota restrictions and tariff rate were reduced substantially; and licence raj system was eliminated in different phase of liberalization reform. Notably, tariff coefficients are reduced significantly lower level until 2008; however these coefficients are decreasing after early 1980s as explained in the Figure 1. The sharp reduction is found in 1991-1993 and 2004 to 2007. Similarly, figure 2 shows the trend of customs tariff rates reduction since reform policy adopted; tariffs have been reduced to 10% in 2008 while the rate was 150% in 1991. More sharp reduction in the tariffs was made until 1995.

CONCLUSION

Foreign trade had become more important to Indian economy in the past few years. Exports and imports of services and goods have grown rapidly in the post-reforms period in India. The present study had explored possible co-integration, and direction of causality between gross domestic products, number of export products, number of import products in India using annual data that ranges from 1991-2015. The results of the research strongly support that there is causal relationship between export products, GDP, import partners of the country and No. of tariff agreement. The Granger causality tests show that there is significant causality between export products to GDP, which leads to earn foreign currency and support the economic development of the nation. The study also found there is a causal relationship between the imports and exports,

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which result in boost the exports of the nation through importing of necessary raw material and purchase the innovative technology.

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