



Impact of New Economic Policy on India's Foreign Trade

SACHIN N. MEHTA

Assistant Professor,

D. R. Patel and R. B. Patel Commerce College, Bharthan (Vesu), Surat
Gujarat (India)

Abstract:

This study examines the trend pattern of India's Exports, Imports and Total Trade during the before and after New Economic Policy for this using time series data from 1971 to 2013. Further, the study also analysed the effect of New Economic Policy on India's Exports, Imports and Total Trade using paired sample 't' test. The result revealed that India's Export, Imports and Total Trade was increased consistently before and after new economic policy but after new economic policy it was increased more before new economic policy. The result also suggests that the growth rate of imports was more than the growth rate of export. The result of paired sample "t" test suggests that there was positive effect of new economic policy on India's Exports, Imports and Total Trade. It means after the new economic policy India's Exports, Imports and Total Trade had increased significantly.

Keywords: Exports, Imports, New Economic Policy, Paired Sample "t" Test, Total Trade

Jel Classification: F1, F13, C02, C03.

1. Introduction

After the independence (1947 to 1991) Government of India was following a mixed economy combining the features of capitalism and socialism. This resulted in the interventions by the Govt., i.e. encouraging the exports and controlling or substituting the imports. But Foreign Trade is very crucial for a country's economic development as it has made an increasingly significant contribution to economic growth and substantially to the economic welfare of the people. The foreign trade of a country consists of inward and outward movement of goods and services, which results into outflow and inflow of foreign exchange from one country to another country. No country in the world possesses the adequate facilities for economical production of all the goods and services that are consumed by its people. This implies that no country is self-sufficient in the sense that no country can produce all the goods that it needs. Hence, the need to trade with each other arises. Economies of scale and international specialisation which is also the fruits of scientific and technological progress in the world would become more easily accessible through foreign trade. Developing countries like India need more goods to feed a rapidly growing population. Exports can be a leading sector in growth. It clearly implies that increased earnings from higher marketability of a country's commodities in the international market would stimulate the indigenous industrial activity within the country. This in turn brings many distinct benefits, viz., greater utilisation of resources, larger employment opportunities, more foreign exchange, etc. It was thus considered that foreign trade would make an impressive contribution to a country's development; hence it is considered not simply a device for achieving productive efficiency; but also an engine of growth. International trade has now become a vital part of development strategy and it can be an effective instrument of economic growth, employment generation and poverty alleviation in an economy.

India adopted liberal and free market oriented policy and liberalized its economy to international arena in 1991. With the Liberalization, Privatization and Globalization of the Indian economy and the government policies on exports and imports also changed. Many of the foreign countries which were

members of the trading blocks like SAARC, WTO entered into for doing in the international trade and made many, trade agreements with its neighbours. Indian economy has changed along with the changes in policies of the government. The government policies like the EXIM policy of the government put some products earlier in the restricted trade list now came into the open general list and more over the number of products in the restricted list has now brought down to somewhere around two hundred and placed in the open general list. With the liberalization in the licensing policy many of the Indian firms entered into business with individual or with joint ventures to do export and imports business. Many of the foreign countries which were members of the trading blocks like SAARC, WTO entered into India to do export and imports business. In this regard an attempt is made to find out the impact of India's International trade during this period.

2. Objective of the Study

1. To estimate trend and pattern of Export, Import and Total Trade before new economic policy.
2. To estimate trend and pattern of Export, Import and Total Trade after new economic policy.
3. To know the effect of new economic policy on Export, Import and Total Trade in India.

3. Hypothesis

Ho₁: There is no significant effect of new economic policy on Export.

Ho₂: There is no significant effect of new economic policy on Import

Ho₃: There is no significant effect of new economic policy on Total Trade.

4. Data source and Methodology

Basic methodology adopted in this study will be trend analysis and descriptive statistics. The study applies paired sample 't' test for impact of new economic policy on Export, Import and Total Trade. In this study annual data is used from 1970-71 to 2012-13. The all data have been collected from HAND BOOK OF INDIA (RBI).

5. Trend of India's Exports, Imports and total Trade

5.1 Trend of India's Exports

Graph 1: Trend of India's Exports before New Economic Policy

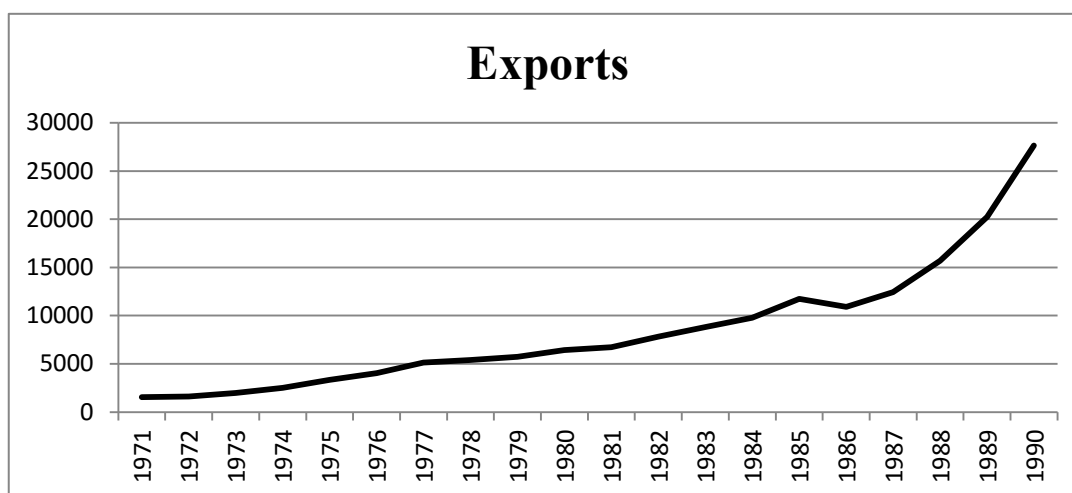


Table 1: Trend of India's Exports before New Economic Policy (Rs in crore)

| Year | Exports | Year | Exports |
|------|---------|------|---------|
| 1971 | 1535.3 | 1981 | 6710.7 |
| 1972 | 1608.2 | 1982 | 7805.9 |
| 1973 | 1971.5 | 1983 | 8803.4 |
| 1974 | 2523.4 | 1984 | 9770.7 |

| | | | |
|----------------|---------|----------------|---------|
| 1975 | 3328.8 | 1985 | 11743.7 |
| 1976 | 4036.3 | 1986 | 10894.6 |
| 1977 | 5142.7 | 1987 | 12452 |
| 1978 | 5407.9 | 1988 | 15673.7 |
| 1979 | 5726.1 | 1989 | 20231.5 |
| 1980 | 6418.4 | 1990 | 27658.4 |
| AVERAGE | 3769.86 | AVERAGE | 13174.5 |

It can be seen from above table and graph before the new economic policy India's exports has increased considerably. From 1535.3 rupees crore in 1971, exports rose to 6710.7 rupees crore in 1981 and further to 27658.4 rupees crore in 1990. Average exports in 1970's have to 3769.86 rupees crore and in 1980's it was 13174.5 rupees crore.

Graph 2: Trend of India's Exports after New Economic Policy

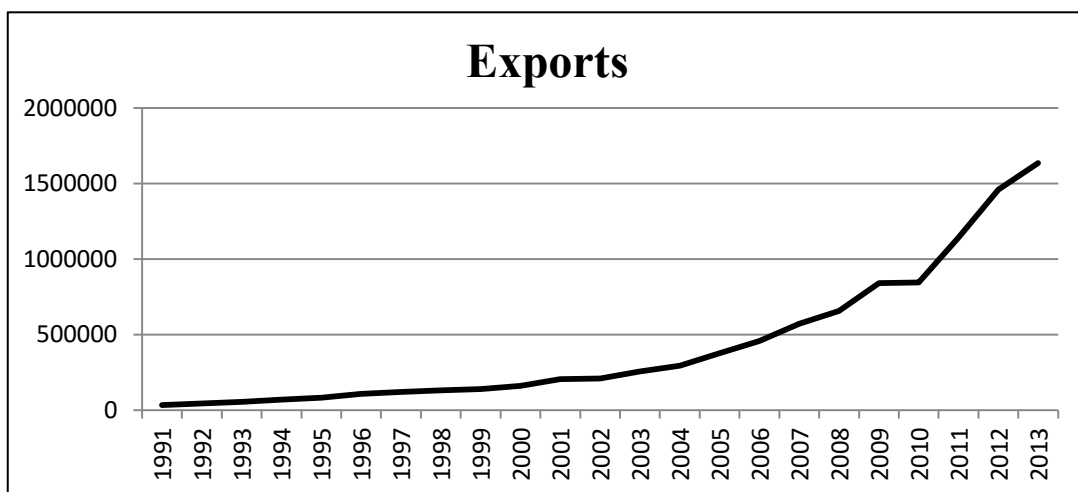


Table 2: Trend of India's Exports after New Economic Policy (Rs in Crore)

| Year | Exports | Year | Exports |
|----------------|----------------|----------------|----------------|
| 1991 | 32557.6 | 2001 | 203571 |
| 1992 | 44041.8 | 2002 | 209018 |
| 1993 | 53688.3 | 2003 | 255137.3 |
| 1994 | 69751.4 | 2004 | 293366.8 |
| 1995 | 82674.1 | 2005 | 375339.5 |
| 1996 | 106353.3 | 2006 | 456417.9 |
| 1997 | 118817.1 | 2007 | 571779.3 |
| 1998 | 130100.6 | 2008 | 655863.5 |
| 1999 | 139753.1 | 2009 | 840755.1 |
| 2000 | 159561.4 | 2010 | 845533.6 |
| AVERAGE | 93729.87 | 2011 | 1142921.9 |
| | | 2012 | 1459280.5 |
| | | 2013 | 1635261 |
| | | AVERAGE | 688018.9 |

From the above table and graph after the new economic policy India's exports has increased significantly. From 32557.6 rupees crore in 1991, exports rose to 203571 rupees crore in 2001 and further to 1635261 rupees crore in 2013. Average exports in 1990's have to 93729.87 rupees crore and in after 2000 it was 688018.9 rupees crore.

5.2 Trend of India's Import

Graph 3: Trend of India's Import before New Economic Policy

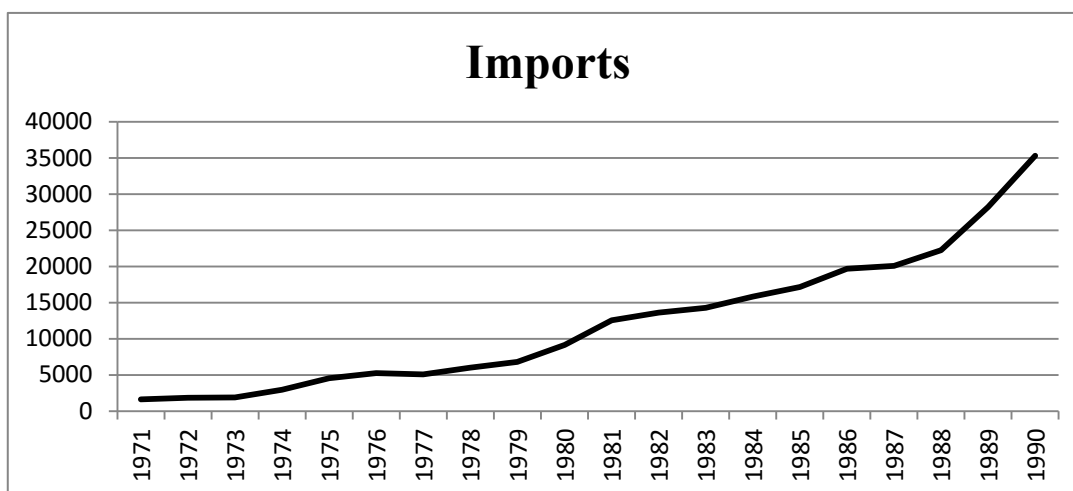


Table 3: Trend of India's Imports before New Economic Policy (Rs in Crore)

| Year | Imports | Year | Imports |
|----------------|---------|----------------|---------|
| 1971 | 1634.2 | 1981 | 12549.2 |
| 1972 | 1824.5 | 1982 | 13607.6 |
| 1973 | 1867.4 | 1983 | 14292.7 |
| 1974 | 2955.4 | 1984 | 15831.5 |
| 1975 | 4518.8 | 1985 | 17134.2 |
| 1976 | 5264.8 | 1986 | 19657.7 |
| 1977 | 5073.8 | 1987 | 20095.8 |
| 1978 | 6020.2 | 1988 | 22243.7 |
| 1979 | 6810.6 | 1989 | 28235.2 |
| 1980 | 9142.6 | 1990 | 35328.4 |
| AVERAGE | 4511.23 | AVERAGE | 19897.6 |

It can be concluded from the above table and graph before the new economic policy India's imports has increased substantially. From 1634.2 rupees crore in 1971, imports rose to 12549.2 rupees crore in 1981 and further to 35328.4 rupees crore in 1990. Average imports in 1970's have to 4511.23 rupees crore and in 1980's it was 19897.6 rupees crore.

Graph 4: Trend of India's Import after New Economic Policy

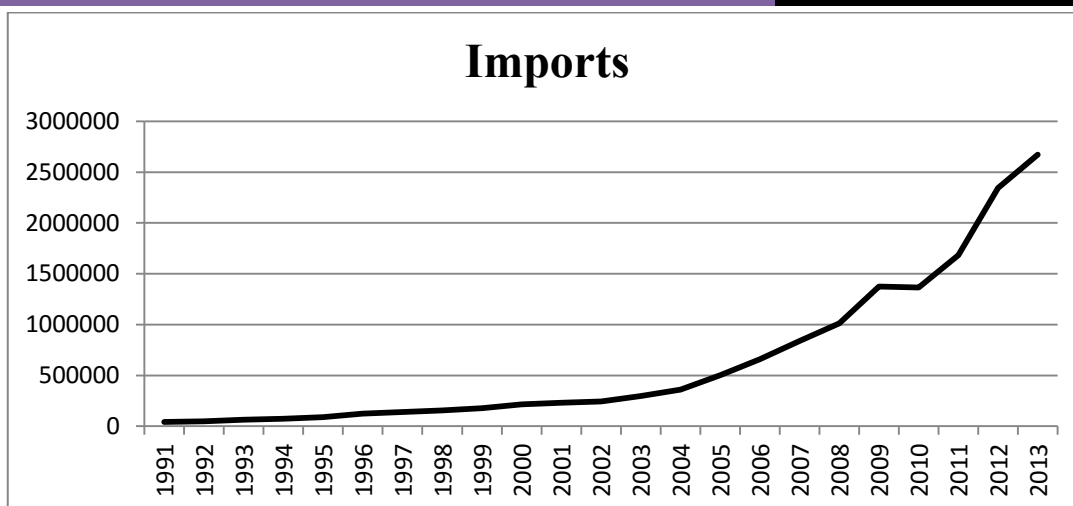


Table 3: Trend of India's Imports after New Economic Policy (Rs in Crore)

| Year | Exports | Year | Exports |
|----------------|----------|----------------|-----------|
| 1991 | 43192.9 | 2001 | 230872.8 |
| 1992 | 47850.8 | 2002 | 245199.7 |
| 1993 | 63374.5 | 2003 | 297205.9 |
| 1994 | 73101 | 2004 | 359107.7 |
| 1995 | 89970.7 | 2005 | 501064.5 |
| 1996 | 122678.1 | 2006 | 660408.9 |
| 1997 | 138919.7 | 2007 | 840506.3 |
| 1998 | 154176.3 | 2008 | 1012311.7 |
| 1999 | 178331.9 | 2009 | 1374435.6 |
| 2000 | 215236.5 | 2010 | 1363735.5 |
| AVERAGE | 112683.2 | 2011 | 1683466.9 |
| | | 2012 | 2345972.7 |
| | | 2013 | 2673113 |
| | | AVERAGE | 1045185 |

From the above table and graph after the new economic policy India's imports has increased considerably. From 43192.9 rupees crore in 1991, exports rose to 230872.8 rupees crore in 2001 and further to 2673113 rupees crore in 2013. Average imports in 1990's have to 112683.2 rupees crore and in after 2000 it was 1045185 rupees crore.

5.3 Trend of India's total Trade

Graph 5: Trend of India's Total Trade before New Economic Policy



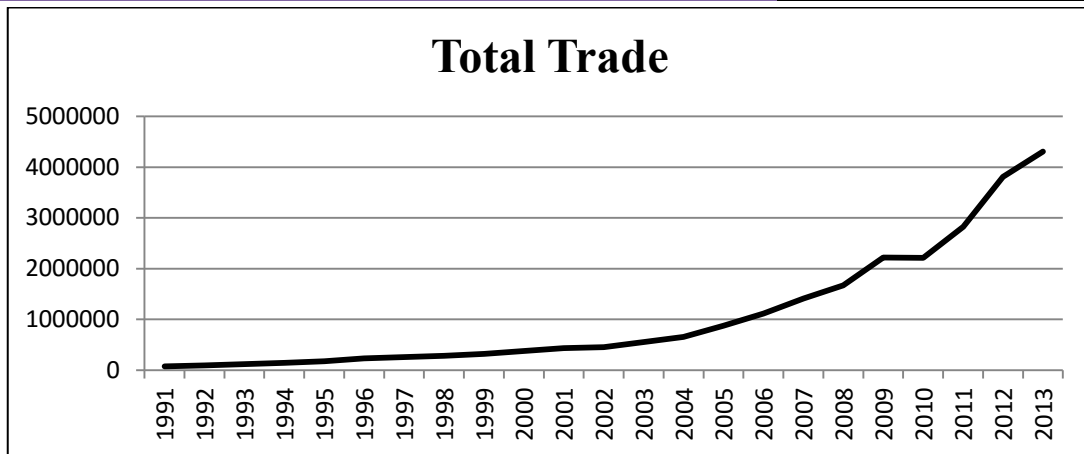
Table 5: Trend of India's Total Trade before New Economic Policy (Rs in Crore)

| Year | Total Trade | Year | Total Trade |
|----------------|-------------|----------------|-------------|
| 1971 | 3169.5 | 1981 | 19259.9 |
| 1972 | 3432.7 | 1982 | 21413.5 |
| 1973 | 3838.9 | 1983 | 23096.1 |
| 1974 | 5478.8 | 1984 | 25602.2 |
| 1975 | 7847.6 | 1985 | 28877.9 |
| 1976 | 9301.1 | 1986 | 30552.3 |
| 1977 | 10216.5 | 1987 | 32547.8 |
| 1978 | 11428.1 | 1988 | 37917.4 |
| 1979 | 12536.7 | 1989 | 48466.7 |
| 1980 | 15561 | 1990 | 62986.8 |
| AVERAGE | 4511.23 | AVERAGE | 33072.06 |

It can be seen from the above table and graph before the new economic policy India's total trade has increased extensively. From 3169.5 rupees crore in 1971, total trade rose to 19259.9 rupees crore in 1981 and further to 62986.8 rupees crore in 1990. Average total trade in 1970's have to 4511.23 rupees crore and in 1980's it was 33072.06 rupees crore.

From the below table and graph after the new economic policy India's total trade has increased considerably. From 75750.5 rupees crore in 1991, exports rose to 434443.8 rupees crore in 2001 and further to 4308374 rupees crore in 2013. Average total trade in 1990's have to 206413.1 rupees crore and in after 2000 it was 1733204 rupees crore.

Graph 6: Trend of India's Total Trade after New Economic Policy



**Table 6: Trend of India's Total Trade after New Economic Policy
(Rs in Crore)**

| Year | Total Trade | Year | Total Trade |
|----------------|-------------|----------------|-------------|
| 1991 | 75750.5 | 2001 | 434443.8 |
| 1992 | 91892.6 | 2002 | 454217.7 |
| 1993 | 117062.8 | 2003 | 552343.2 |
| 1994 | 142852.4 | 2004 | 652474.5 |
| 1995 | 172644.8 | 2005 | 876404 |
| 1996 | 229031.4 | 2006 | 1116826.8 |
| 1997 | 257736.8 | 2007 | 1412285.6 |
| 1998 | 284276.9 | 2008 | 1668175.2 |
| 1999 | 318085 | 2009 | 2215190.7 |
| 2000 | 374797.9 | 2010 | 2209269.1 |
| AVERAGE | 206413.1 | 2011 | 2826388.8 |
| | | 2012 | 3805253.2 |
| | | 2013 | 4308374 |
| | | AVERAGE | 1733204 |

6. Empirical Results

6.1 Descriptive Statistics of Exports, Imports and total Trade

Table 7: Descriptive Statistics for Exports, Imports and Total Trade

| Year | Exports | | Imports | | Total Trade | |
|-----------------|-----------|-------|----------|-------|-------------|-------|
| | Average | C.V | Average | C.V | Average | C.V |
| 1971-80 | 3769.86 | 48.53 | 4511.23 | 54.70 | 4511.23 | 54.70 |
| 1981-90 | 13174.5 | 48.98 | 19897.6 | 36.02 | 33072.06 | 41.08 |
| 1991-00 | 93729.87 | 46.47 | 112683.2 | 51.98 | 206413.1 | 49.34 |
| 2001-13 | 688018.9 | 69.20 | 1045185 | 77.03 | 1733204 | 73.89 |
| OVER ALL | 233743.89 | | 347868 | | 581611.8 | |

Table 7 expresses the descriptive statistics for India's exports, imports and total trade for the sub period and overall period of time. From the above table we can say that India's exports, imports and total trade have increased significantly during the overall period of time. The result revealed that imports are increased more than exports, therefore India's trade deficit has increased significantly overall period of time. Co-efficient of variation expresses the fluctuation in data. Exports, imports and total trade fluctuate more in period 2001-13. From the result we conclude that Import series is more fluctuating than exports series.

6.1 Descriptive Statistics of Exports Growth Rate, Imports Growth Rate and Total Trade Growth Rate

Table 8: Descriptive Statistics for Exports Growth Rate, Imports Growth Rate and Total Trade Growth Rate

| Year | Exports Growth Rate | | Imports Growth Rate | | Total Trade Growth Rate | |
|----------|---------------------|-------|---------------------|--------|-------------------------|-------|
| | Average | C.V | Average | C.V | Average | C.V |
| 1971-80 | 17.67 | 61.17 | 22.67 | 94.66 | 20.01 | 69.63 |
| 1981-90 | 18.73 | 76.27 | 22.37 | 100.37 | 19.85 | 77.60 |
| 1991-00 | 19.47 | 47.96 | 20.08 | 43.58 | 19.70 | 35.52 |
| 2001-13 | 20.03 | 52.04 | 22.02 | 58.31 | 21.14 | 51.95 |
| OVER ALL | 18.52 | | 20.01 | | 19.16 | |

Table 7 expresses the descriptive statistics for India’s exports growth rate, imports growth rate and total trade growth rate for the sub period and overall period of time. From the above table exports growth rate was mild increase, imports growth rate was constant and growth rate of total trade was slight increased. Growth rate of exports, imports and total trade was more volatile in sub period 1981-1990. Growth rate of exports, imports and total trade was less volatile in sub period 1991-2000. Result revealed that imports growth is more volatile than exports growth rate.

6.3 Paired Samples ‘t’ test for Exports

When the attempt was made to measure the impact of India’s foreign trade making a comparison between the before new economic policy exports – imports trade with the after new economic policy imports and exports by using a statistical tool like paired ‘t’ test the result shows that.

H₀₁: There is no significant effect of new economic policy on Export.

H₁: There is significant effect of new economic policy on Export.

Table 9: Paired Samples ‘T’ test for export before and after new economic policy

| Paired Samples Statistics | | | | | |
|----------------------------|----------------|-----------------|-------------|------------|------------|
| | Mean | N | S.D | S. Error | |
| Before new economic policy | 8472.160 | 20 | 6677.7479 | 1493.1898 | |
| After new economic policy | 282204.035 | 20 | 259200.7994 | 57959.0607 | |
| Paired Samples Test | | | | | |
| Mean | Std. Deviation | Std. Error Mean | t | df | Sig. Value |
| -273731.875 | 252767.2330 | 56520.4715 | -4.843 | 19 | 0.000 |

The probability value is less than 0.05 and hence the null hypothesis “There is no significant effect of new economic policy on Export” is rejected leading to the conclusion that the exports after new economic policy has been significantly higher than the before new economic policy. Thus new economic policy on Export is effective in significantly increasing the export of the India.

6.4 Paired Samples ‘t’ test for imports

H₀₂: There is no significant effect of new economic policy on Export.

H₂: There is significant effect of new economic policy on Export.

The probability value is less than 0.05 and hence the null hypothesis “There is no significant effect of new economic policy on Imports” is rejected leading to the conclusion that the imports after new economic policy has been significantly higher than the before new economic policy. Thus new economic policy on imports is effective in significantly increasing the imports of the India.

Table 10: Paired Samples ‘T’ test for imports before and after new economic policy

| Paired Samples Statistics | | | | | |
|----------------------------|----------------|-----------------|-------------|------------|------------|
| | Mean | N | S.D | S. Error | |
| Before new economic policy | 12204.415 | 20 | 9461.5009 | 2115.6559 | |
| After new economic policy | 400584.050 | 20 | 425904.6342 | 95235.1714 | |
| Paired Samples Test | | | | | |
| Mean | Std. Deviation | Std. Error Mean | t | df | Sig. Value |
| -388379.635 | 416929.8506 | 93228.3488 | -4.166 | 19 | .001 |

6.5 Paired Samples ‘t’ test for total Trade

H₀: There is no significant effect of new economic policy on Total Trade.

H₃: There is significant effect of new economic policy on Total Trade.

Table11: Paired Samples ‘T’ test for total trade before and after new economic policy

| Paired Samples Statistics | | | | | |
|----------------------------|----------------|-----------------|-------------|-------------|------------|
| | Mean | N | S.D | S. Error | |
| Before new economic policy | 20676.575 | 20 | 16055.4344 | 3590.1043 | |
| After new economic policy | 682788.085 | 20 | 684489.9127 | 153056.5975 | |
| Paired Samples Test | | | | | |
| Mean | Std. Deviation | Std. Error Mean | t | df | Sig. Value |
| -662111.510 | 669021.8028 | 149597.8229 | -4.426 | 19 | .000 |

The probability value is less than 0.05 and hence the null hypothesis “There is no significant effect of new economic policy on Total Trade” is rejected leading to the conclusion that the Total Trade after new economic policy has been significantly higher than the before new economic policy. Thus new economic policy on Total Trade is effective in significantly increasing the Total Trade of the India.

7. Conclusion

This study investigates the effect of New Economic Policy on Exports, Imports and Total Trade for India using time series data from 1971 to 2013. Further, the study also analysed the trends and patterns of India’s Exports, Imports and Total Trade. The result revealed that the India’s Export, Imports and Total Trade increased consistency before and after new economic policy but after new economic policy it was increased more than before new economic policy. The result also suggests that the growth rate of imports was more than the growth rate of export. The result of paired sample “t” test suggests that there was a positive effect of new economic policy on India’s Exports, Imports and Total Trade. It means after the new economic policy India’s Exports, Imports and Total Trade had been increased significantly.

References

1. Aggrawal, M. R. (1984). "Devaluation, Determination of International Trade Flows and Payments Imbalances", *Indin economic Journal*, VoL 31, pp 24-77
2. Agrwal, A.N. (2013). “Indian Economy Problems of Development and Planning” Delhi New Age International Publishers New Delhi
3. Ahmed, S. K. K, Hoque A. and Jobaer S.M (2013). “Effects Of Export And Import On GDP Of Bangladesh An Empirical Analysis” *The International Journal of Management*, 2(3), pp. 28-37.
4. Bhagwati, J. and T. N Srinivasa. (1976). *India Foreign Trade Regimes and Economic development*, Delhi Macmillan
5. Chen, P. P. and Gupta, R.(2006). *An Investigation of Openness and Economic Growth Using Panel Estimation*, Working Paper.

6. Gujarati, D. N., Basic Econometrics (2003), New York, Mc Graw Hill Book Co.
- Mishra and Puri, (2012). Indian *Economy*, Mumbai Himalya Publishing House
7. Nilanjan, Banik (2001).“An Analysis of India’s Exports during the 1990s”, Economic and Political Weekly, Vol. 36, pp.4222-4230.
8. Purna, Chandra Parida (2002). Currency Devaluation, Trade Balance and the Balance of Payments in India, University of Mysore, Mysore
9. Shinde, B.K. (2009).“Trends in India’s Foreign Trade Policy since Planning Period”, International Research Journal, Volume – II, Issue – 11 - 12, pp.61 - 63.
10. Singh, Sumanjeet (2009). “Depreciation of the Indian Currency: Implications for the Indian Economy”, Business and Economics Working Paper series,
11. Veeramani, C (2007).“Sources of India’s Export Growth in Pre- and Post- Reform Periods”, Economic and Political Weekly, Vol. 42, No. 25, pp. 2419-2427.