"An Analysis Of Growth Of India's Exports And It's Determinants Since 1991"

Md. Yasir Arafat*

Abstract-The information technology (IT) sector has contributed significantly to the economic growth in India and is one of the fastest-growing export-oriented sectors in India. The objective of this article is to explore the determinants of exports of IT companies of India from 2000 to 2012 using company-level data. Applying ordinary panel data regression, the article finds that world demand and real effective exchange rate have expected signs on company exports. Surprisingly, foreign capital, which played a crucial role in IT sector development in India, has a negative coefficient, highlighting substitution relation between export and domestic demands. The dynamic panel data regression exhibits persistence of exports which acts as a moderating factor on demand fluctuations and its high impact. Further, the dynamic panel estimations clearly show the predominant influence of past exports on gross domestic product (GDP) growth in India, which makes world demand, standardized as relative to India's GDP, inconsequential for its future exports.

Keyword:- IT, GDP,

I Introduction-The strategic objective of Indian policy makers at the outset of independence was the creation of a self-reliant economy and the reduction of the high levels of poverty that existed, all within a democratic political framework. ln order to achieve these objectives, the authorities steadfastly pursued a Socialist strategy of state-directed, heavy industry based industrialization complemented by an across-the-board import substitution policy and financial repression. Notwithstanding some notable successes, the highly statist and interventionist development policies adhered to during this period of insulation led to a severely distorted production structure (Rajan and Marwah, I998). While growth did pick up in the latter half of the l970s, the Indian economy was generally

***(Research Scholar) Dept. of Commerce B.R.A Bihar University Muzaffarpur**

mired in a vicious circle of low productivity/product obsolescence and slow growth. Not only was the performance of the Indian economy well below the targets set by the planning authorities, the country was left lagging in terms of economic growth and development relative to its East Asian neighbors such as China and Korea which had broadly similar levels of per capita income at the time of lndia's independence (Kelkar, 2001). Jagdish Bhagwati (1992) rationalizes lndia's development failure as follows:"I would divide them into three major groups: extensive bureaucratic controls over production, investment and trade; inward-looking trade and foreign investment policies; and conventional confines of public utilities and infrastructure. The former two adversely affected the private sector's efficiency. The last, with the inefficient functioning of public sector enterprises, impaired additionally the public sector enterprises contribution to the economy. Together, the three sets of policy decisions broadly set strict limits to what lndia could get out of its investment". Although some tentative steps were taken in 1985 to liberalize and unshackle the economy by delicensing a few industries, these partial and rather ad hoc measures Contributed to the creation of severe and unsustainable macroeconomic imbalances in the Indian economy, particularly with regard to escalating fiscal deficits (Joshi and Little,1994). The imbalances corresponded to a period of severe political instability and uncertainty following three successive minority governments during 1989-91.While the fragilities in the lndian economy were largely homemade, the shock of the 1990 Gulf war was the single factor, which "broke the camel's back" as lndia was brought to the brink of an international default, something that had never occurred in its post-independence history. Faced with a severe balance of payments crisis as foreign exchange reserves plummeted to US$l billion in late June l99l, barely sufficient to cover a fortnight worth of imports, lndia entered into an IMF structural adjustment program (Cerra and Saxena, 2000). In addition to the conventional expenditure switching and reducing policies, as part of the IMF agreement, a range of far-reaching economic policy reforms was launched in July l99l in the external, industrial, and financial and public sectors (Desai, 1999 and Srinivasan, 1996).

II. Literature Review-These reforms appear to have paid significant dividends at a macro level. The Indian economy recovered smartly from the crisis, real GDP growing at an annual average rate of 6.8 percent during eight plan, 5.5 percent during ninth plan, and then at about 7 percent during 2002-05. Not only was this a marked improvement from lndia's own past, it was the second highest rate of growth in the world behind China. Of equal importance is the quality of growth. As Desai (2000) has noted, "the lndian economy appears to be sound, something has changed; we are no longer in the boom-and-bust mode of the 1960s, 1970s or l980s". This in turn may be partly attributable to the fact that post-1991 growth was driven principally by an expansion of private investment while national savings simultaneously rose, thus ensuring that there was no significant pressure on the balance of payments position (compared to the consumption-led growth of the mid to late 1980s).On export front, too, the country experienced remarkable success. During the reform period (I992 to 2012) the export increased at reasonably high rate. India's export increased at compound rate of 10% per annum from 1992 to 2000, then at l8.2% from 2000 to 20l0, and at 11% from 2010 to 2013, in dollar terms.lt is in this context the study aims at analyzing the behavior of India's exports since1991. The study would also examine the factors particularly the domestic factors like- GDP, exchange rate, etc that have contributed to the growth of exports during reform period and compare it with the reform period. In order to assess the performance of export sector during the reform period, a comparative analysis in terms of growth of exports, export, penetration, index export orientation index, would be made between pre-reform and reform period. it is argued that increase in GDP of a country causes increase in the demand for goods including exportable thus reducing the supply of the same. This may retard a country's export growth. On the other hand, growth in GDP may also be due to more output in all sectors including the export sectors. This may positively affect a country's export growth. Thus there is two-way relationship between country' national income and growth of exports. The study seeks to analyze the functional relationship between exports and economic growth. An attempt would be made to know the impact of GDP growth on growth of exports, both on aggregate basis as well as sector wise.

What kind of changes that have taken place in the structure of our export will also form the subject matter of the study. Further, the study would also make an attempt to know to what extent changes in the structure of export reflects the changes in structure of national income. Another important factor that affects the growth of a country's exports is exchange rate. In order to boost export, India from time to

time devalued its currency. In the very first week of July 199l, the rupee was devalued by 22.8 percent relative to basket of five currencies, viz the US dollar, the Deutschmark, the British pound, the French franc and the Japanese yen. The purpose was to bridge the gap between the real and the nominal exchange rates that had emerged on account of rising inflation and thereby to make exports competitive. By August 1994, the entire current account earnings came to be convertible at market rates under Article Vlll of the International Monetary Fund (IMF).The study seeks to analyze the effect of depreciation of rupee on India's exports.

Finally in the light of the above observation, the study would try to find out the problem and challenges being faced by India's merchandise exports and give - possible recommendations.

III. Methodology-The process of reform started since July l99l has made far-reaching impact on different sectors of the economy. Of these, export has been one of the important sectors. Which is cited as a successful example under this new trade regime? There are number of factors, both internal and external. Which seem to have contributed to growth of India's exports? Growth in real GDP, real effective exchange rate, terms of trade, relative rate of inflation are some of the important domestic factors that influence the export performance of a country. During the reform period, India's exports have risen consistently. After an initial rise in exports until 1996, the rate of growth slowed down in next few years. In new millennium, the rate of growth of exports rose again. It is in this context, the study seeks to enquire into the reasons for such fluctuations in export growth. It is high time to examine, whether the fluctuation in these domestic factors have led to fluctuation in exports. The study can be justified on the ground that an analysis of nature and causes of such fluctuation in exports may help in finding out the reasons for slowdown in exports. This would also help in giving suitable policy recommendations, so that necessary measures can be taken at the earliest. The theoretical principle involved in the study is that any policy that leads to decrease in cost of production and makes the products competitive in the world market causes increase in the demand for the products and. hence exports of a country. In India with liberalization of economy, depreciation of real exchange rate, access to cheap and better inputs, increasing competitiveness etc increase export capability of a country. In this perspective, the study intends to examine determinants of lndia's export since 1991. The study would make comparative analysis of behavior of India's exports between pre-reform and post reform period and also between different periods of both the periods. Suitable quantitative technique would be used to quantify the impact of different variables on export growth. An appropriate model would be developed to estimate, using Ordinary Least Square (OLS) method, the relationship between exports and its determinants. The appropriateness of the model would then be examined by suitable diagnostic tests like serial correlation hetroskedasticity, model specification test etc. Further in the light of above observations, a comprehensive policy will be formulated providing a guideline to India's exports under the new trade regime and International Economic Order The study will be based on the data and information collected from secondary sources. Different documents published by Govt. of India and international Organizations- like Economic Survey, World Bank, International Financial Statistics published by IMF, international Trade Statistics Yearbook, Handbook of International Trade and Development Statistics published by United Nations and other official and unofficial published data will also be used.

Conclusion-Foreign Trade plays a unique role, as it is considered to be the core component for the process of country's growth and employment generation. Therefore it becomes a matter of paramount importance to study the various options for improving the foreign trade relationship with various countries and developing countries in particular. The focus of the thesis is to establish a quantitative relationship between exports and economic growth and to find out the existence of a long-run equilibrium relationship between exports and economic growth The research study aimed and analyzed the following areas1. Studied the significance of foreign trade for economic growth. 2. Analyzed India's aggregate exports and imports and its contribution towards development. 187 3. Proved that there is a long-run equilibrium relationship between the countries exports, imports. 4. Examined the trend in India's foreign trade from the fiscal year 1970-1971 to 2011-2012. The research study made an attempt to analyze that for India's foreign trade –
Export is the main incentive for a countries economic growth.

Economic variables were used in this study - Exports, Imports, Trade Deficits, Current Account deficits, Foreign. Exchange Reserves and External Debt. GNP is also taken into account in order to analyze the growth and development process in relation to external variables.

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