

TRADE LIBERALIZATION AND ITS IMPACT ON THE EXPORTS OF MANUFACTURES

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Abstract : The international trade regime in India has undergone significant changes since 1991, with a reduction in quantitative restrictions accompanied by a gradual shift from an inward- looking import substitution policy to an outward- looking export promotion strategy.

Over the past more than two decades many less developed countries have liberalized their trade regimes. An important plank in the advocacy of trade liberalization is the belief that a more liberal regime will lead to increase exports which in turn will have a favourable effect on economic growth and employment generation. On the background of the far reaching changes in the State policy concerning manufacturing sector since 1991, an attempt is made in this paper with a specific objective to examine whether the impact of trade liberalization on the exports of manufactures is favorable or not. For this, fourteen years time period i.e. from 2000-01 to 2013-14 is selected for the purpose of the study.

Keywords: Trade Liberalization, Manufactures, Exports

INTRODUCTION

In July 1991, Government of India started to liberalize the economy with great intensity by adopting a coherent programme focusing on the investment regime, trade policies, financial sector reforms; deregulation of domestic industry, reforms in taxation policy-makers successfully engineered a thorough transformation of India's economic policies by paying full attention to liberalization and globalization. In order to impart more vitality and growth to the manufacturing sector an industrial policy was announced for small, tiny and village enterprises on 26th July, 1991. The policy statement proposed some path-breaking measures to mitigate the handicaps that were faced up by enterprises in retrospect. The new industrial development policy signified the importance of competition to achieve the greater degree of efficiency and growth momentum in manufacturing sector. In the post-1991 period, the Government of India introduced a large number of promotional measures to uplift the growth of manufacturing sector. On the whole, a distinct shift from protection to competitive promotion has been noticed in the State policy for enterprises during nineties (Peattie, 1995).

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METHODOLOGY OF THE STUDY:

The present study is based mainly on the secondary data collected from published and unpublished records. The data gathered is organized in tabular form and analyzed in order to draw meaningful conclusion.

Following a brief review of the literature available on the effects of international trade policy reforms on the manufacturing sector, the impact of trade liberalization on the exports of manufactures is examined in section I. Concluding remarks and policy recommendations are given in section II.

SECTION - I

The Asian countries provide empirical evidence of the benefits of external trade liberalization policies. With its continued growth in external trade, the region continues to generate the highest rates of economic growth in the world in the early 1990s and early 2000. Through external trade, the region has been further integrated into and benefited from the global economy.

In most Asian economies, SMEs are considered the engine of economic growth by virtue of their numbers and their significant economic and social contributions. The role of such enterprises in industrial development is more pronounced in Asia than it is in the West. SMEs in developing Asia account for about 80 per cent of all non-agricultural enterprises, and generate about the same percentage of total employment. In addition, they contribute between 40 and 70 per cent of total value added (Tambunan 2008).

Theoretically, it is argued that trade liberalization will lead to improve export performance. The critiques of import substitution also argue that protectionist policies discourage exports. This critique has a number of stands.

First, there is the incentive effect of protection on production for export vis-a-vis production for the domestic market, which is sometimes referred to as relative anti-export bias (Balassa, 1982). Secondly, protection can also negatively affect the competitiveness of exports vis-a-vis the production of other countries. Because inputs cost more than world market prices, protection puts exporters at a competitive disadvantage in international markets (Milner, 1990). A third argument which is sometimes made is that under restrictive trade regimes, potential exporters may not be able to acquire certain key imported inputs or capital goods which they require in order to produce for export. Thus trade liberalization not only reduces the cost of imported inputs but can also increase their availability (Dornbusch, 1992: 74).

In view of these theoretical arguments, what evidence is there that trade liberalization does in practice lead to improved export performance?

A number of recent studies have analysed the impact of trade liberalization. The World Bank has found that exports, particularly manufactured exports, tend to increase following liberalization (Michaely et al., 1991: Ch. 12; Thomas et al., 1991: Ch. 3), and that reforming countries have performed better than non-reformers (Thomas et al., *ibid*). On the other hand, three studies for UNCTAD find little evidence to support a link between liberalization and export performance (Agosin, 1991; Shafaeddin, 1994; UNCTAD, 1989: Part I, Ch.V.B), a conclusion that is supported by Clarke and Kirkpatrick (1991).

RESULT:

The export performance of manufacturing sector of a country can be measured through growth of exports, the change in market shares and commodity composition of that sector. The impact of trade liberalization on the performance of exports of manufactured goods can be judged in the following way.

1.GROWTH OF EXPORTS:

The India's exports of manufactures increased enormously during 2000-01 to 2013-14. The following Table No. 1 shows increasing trends in exports of manufactures.

Table No. 1 India's Exports of Manufactures
(Rupees Billion)

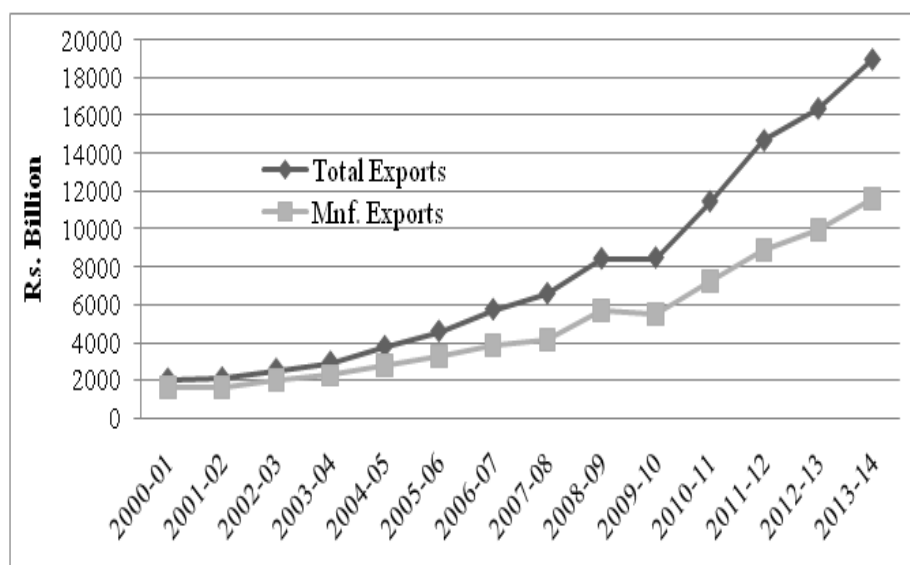
Commodity / Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8
*. Manufactured Goods	1568.58	1591.46	1947.65	2228.29	2728.72	3212.61	3842.61
A. Leather and Manufactures	88.83	91.10	89.45	99.39	108.81	119.44	136.50
B. Chemicals and Related Products	268.89	288.62	360.80	434.06	559.11	653.90	784.42
C. Engineering Goods	311.50	331.83	437.15	570.05	779.49	961.57	1337.90
D. Textile and Textile Products	515.55	486.77	562.21	587.79	609.06	726.18	786.13
E. Gems and Jewellery	337.33	348.45	437.01	485.86	618.34	687.53	722.95
F. Handicrafts (excluding Handmade Carpets)	30.22	26.18	38.01	22.96	16.96	20.45	19.82
G. Other Manufactured Goods	16.26	18.52	23.02	28.18	36.96	43.55	54.89
Commodity / Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
	9	10	11	12	13	14	15
*. Manufactured Goods	4145.99	5664.02	5464.56	7198.63	8885.99	9954.41	11623.83
A. Leather and Manufactures	141.01	163.55	159.46	178.18	229.72	265.97	345.17
B. Chemicals and Related Products	853.28	1044.42	1086.87	1315.44	1778.16	2126.69	2503.25
C. Engineering Goods	1504.35	2174.82	1815.72	2648.91	3250.72	3556.99	4207.27
D. Textile and Textile Products	782.09	920.62	941.89	1103.75	1343.12	1488.82	1904.37
E. Gems and Jewellery	792.28	1285.75	1375.68	1844.20	2148.89	2361.62	2484.65
F. Handicrafts (excluding Handmade Carpets)	20.46	13.84	10.67	11.71	13.32	11.10	17.13
G. Other Manufactured Goods	52.52	61.02	74.27	96.45	122.07	143.22	161.99

Source: Directorate General of Commercial Intelligence and Statistics.

DATA ANALYSIS:

The above table shows that the exports of manufactures which were Rs. 1568.58 billion in 2000-01 increased to Rs. 5664.02 billion in 2008-09. However it fell down marginally to Rs. 5464.56 billion in 2009-10. This is mainly because of meltdown of global economy; the exports to USA and Europe declined significantly which had adversely affected the India's exports of manufactures. Indian economy is increasingly integrating with the global economy. Hence, whatever changes take place at the global level has deep repercussions on the functioning of the economy as well as on the working of the manufacturing sector. But this impact was temporary. Due to strong support to the manufacturing sector the exports again increased more rapidly to Rs. 11,623.83 billion in 2013-14. The share of India's manufactured exports in total exports was 77.08% in 2000-01 which continuously fell down to 61.36% in 2013-2014.

Figure No. 01. Performance of India's Total Exports & Exports of Manufactures



The above figure reflects that there is an increasing trend in India's exports of manufactures during 2000-01 to 2013-14 except 2009-10.

2.CHANGE IN MARKET SHARES:

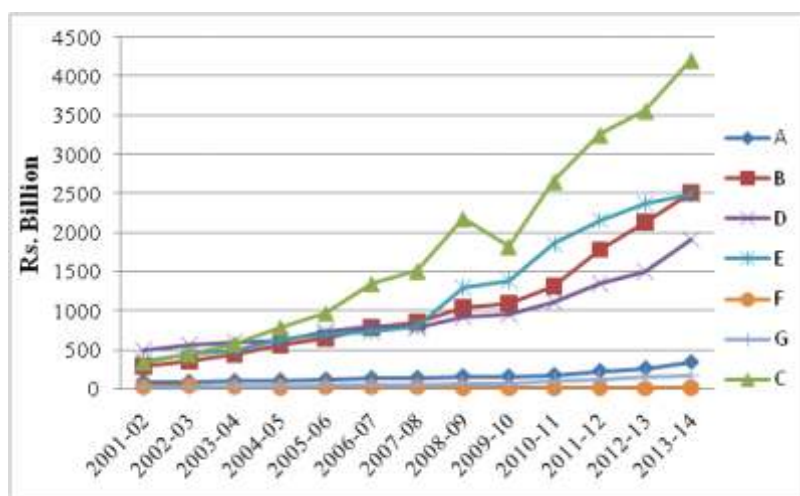
The most important implication of the impact of trade liberalization is India's share in world exports of manufactures. According to WTO's International Trade Statistics 2014, World's exports of manufactured goods were \$ 11848 billion and its share in World merchandise exports was 64.7%. On the other hand India's exports of manufactured goods were \$ 186 billion and its share in the World's exports of manufactures was 0.7% in 2000 which consistently increased to 1.6% in 2013-14.

The annual percentage change in the share of World's exports of manufactured goods was 15% in 2011. However the financial crisis in Europe adversely affected world's exports and it fell down to 0% in 2012. But it further increased to 3% in 2013. On the other hand the share of India's exports of manufactured goods in the World's exports of manufactured goods was 34% in 2011 which fell down to -2% in 2012 and further increased to 3% in 2013. The average annual growth rate of world's exports of manufactures was 6% and India's average annual growth rate of exports of manufactured goods was 13% during 2005 – 2013 which was much higher than the growth rate of world's exports of manufactured goods. This is a good sign of emerging Indian economy in the world.

3.COMPOSITION OF MANUFACTURES:

Since manufactured goods constitute a majority of India's merchandise exports, it is important to analyze the composition of manufactured exports to identify India's key export commodities. The following figure shows the distribution of top manufactured goods exports and reveals certain changes in its composition over time.

Figure No. 2. Composition and Change in Exports of Manufactures



Textile and textile products which was occupied first position with a share of 32.86% in 2000-01 has lost its position and occupied fourth position by contributing 16.38% in 2013-14. It shows that its importance has declined over the years. Gems and jewelry has been an important export commodity throughout the period, its share in manufacturing has remained more or less stable over a period of time. Engineering goods has emerged as the most important item in India's manufactured exports and occupied first position with a highest share of 36.19% in 2013-14. The contribution of chemical and chemical products was 17.14% in 2000-01 increased continuously to 21.53% and occupied second place in 2013-14. This clearly shows a structural change in India's composition of exports of manufactured goods over the years. The performance of India's exports of manufactures is fairly satisfactory in the liberalization and globalization era.

MAJOR FINDING:

It is important to note that, the above clearly indicates that, "Trade Liberalization" has a positive impact on the growth performance of exports of manufactures during 2000-01 to 2013-14. The process of trade liberalization has not only increased the exports of manufactured goods but also succeeded to provide more and more employment opportunities to the people in the country. The process of liberalization and economic reforms initiated since 1991, created tremendous opportunities for the growth of exports and employment in manufacturing sector. Manufacturing sector has succeeded to take the benefits of opportunities and accepted the challenges posed by the liberalization and globalization.

IMPLICATION:

The general impression of secondary data clearly reveals that, the manufacturing sector has succeeded to register high growth of exports on the liberalization and globalization front.

**SECTION- II
CONCLUSION :**

Under the changing economic scenario especially in the era of liberalization, a paradigm shift in the policy of the Government from protection to promotion would infuse the required resilience in manufacturing sector for combating the challenges of new world trade regime. It is believed that, the strategy of development of MSMEs is suitable to achieve the objective of high growth of exports for the development of India.

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