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Trade Liberalization And Its Impact On India's Manufactured Exports

T. Mathanraj, E. Abi Tharshini, C.Jasmin Jini

[1]Research Scholar, Department of Economics, Scott Christian College (Autonomous), Nagercoil-629003, affiliated to Manonmaniam Sundaranar University, Tirunelveli-12, Tamil Nadu, India, Emil Id- mtr.economics3@gmail.com

[2]Research Scholar, Department of Economics, Scott Christian College (Autonomous), Nagercoil-629003, affiliated to Manonmaniam Sundaranar University, Tirunelveli-12, Tamil Nadu, India.

[3]Research Scholar, Department of Economics, Scott Christian College (Autonomous), Nagercoil-629003, affiliated to Manonmaniam Sundaranar University, Tirunelveli-12, Tamil Nadu, India.

ABSTRACT

Manufacturing exports of a country plays a prominent role in the growth of an economy. The development of this sector is an indicator of the economic strength of a country. It helps in raising productivity, generating employment and also supports other sectors of the Indian economy. The main objectives of the present study are as follows: (i) To analyze the growth performance of India's manufactured exports during 1991-92 to 2016-17. (ii) To study the composition of India's manufactured exports. (iii) To examine the determinants of trade liberalization on India's manufactured exports. The present study is based on secondary data. The study focuses on the impact of trade liberalization on India's manufactured exports. The data for this study have been collected from secondary sources of information mainly from the journals, international trade data source such as United Nations Trade Data, Commodity Trade Statistics, World Trade Organization Trade Statistics, World Bank, Hand Book of statistics on Indian Economy, Reserve Bank of India (RBI). The study used multiple regression models mainly for examining the determinants of exports in the reform period and for assessing the impact of the trade reform on the India's manufactured export.

Keywords: Foreign trade, manufacturing export, multiple regression.

INTRODUCTION

International Trade was recognized as the most significant determinants of economic development of a country, all over the world. For providing, regulating and creating necessary environment for its orderly growth, several Acts had been put in place. 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 (Export-Import Bank, 2005). India had become one of the fastest growing economics in the world over the last two decades, undoubtedly aided in this performance by economic reforms. The striking aspect of India's recent growth had been the dynamism of the service sector, while, in contrast, manufacturing has been less robust (Planning commission Government of India). Exporting had been the most popular and fastest-growing form of international market entry, favored especially by small and medium-sized firms. Exporting, compared with other international strategy, doesn't need many resources and is associated with lesser. Exporting was crucial business

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activity for nations' economic health, as it significantly contributes to employment, trade balance, economic growth, and higher standard of living (Seyed Hossein Jalali 2002). Export performance was regarded as one of the key indicators of the success of a firm's operations. As per the study by Papadopoulos and Martin Martin (2010) export performance represents the outcome of a firm's activities in export markets. Export performance can also be defined as the results from the firm's international activities. From this viewpoint, export performance is the extent to which the firm achieves its objectives when exporting a product to a foreign market (Navarro et al., 2010). Manufacturing had the potential to emerge as one of the high growth sectors in India. The Prime Minister's 'Make in India' programme focuses on placing India on the world map as a manufacturing hub and gaining global recognition for the Indian economy. India had expected to become the fifth largest manufacturing country in the world by the end of 2020, and the government had set an ambitious target of increasing the contribution of manufacturing output to 25 per cent of gross domestic product (GDP) by 2025, this would be a 9 per cent point increase from the current level of 16 per cent (IBEF, March 2017).

SIGNIFICANCE FOR THE STUDY

International Trade is the engine of economic growth in any Country. Following the liberalization of Indian economy in 1991, exports and imports of India have been growing tremendously. But the value of imports is still larger than the value of exports Thus there is a need to boost the growth rate of India. The impact of trade reforms on exports enhances the level of exports of India. In 1991, Export performance is one of the key objectives of liberalization reforms in India. At present, global trade is a vital part of development approach and it can be valuable instrument of poverty reduction, create more employment, increases output, earns foreign currency, financial development, mobilizes of domestic resources and saving optimally so that the economic benefits reach to the wider group of people (Mathanraj.T 2019).Export is indispensible for the growth of economy as it leads to the earning of foreign exchange which helps in the growth of the economy. More growth of the economy leads to more prosperous nation. Exports in India have evolved a lot since independence. Export performance of a firm replicates a firm-specific performance in leveraging its resources and capabilities in an international frame at a particular point of time. Firm's export performance is regarded as one of the key indicators of the success of its operations, and as such, it has been an extensively studied phenomenon. Manufacturing exports of a country plays a crucial role in the growth of an economy. The development of this sector is an indicator of the economic strength of a country. It helps in raising productivity, generating employment and also supports other sectors of the Indian economy (Harpreet Kaur 2016). The study brings into light the impact of trade liberalization measures on India's manufactured exports. It would be helpful for the

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policymaker to enact suitable policies for encouraging trade. This study will also be helpful for the upcoming researcher in the field of International economics.

OBJECTIVES OF THE STUDY

The main objective of the present study is to make a comprehensive analysis of India's manufactured exports growth in the post-liberalization period.

1. To analyze the growth performance of India's manufactured exports during 1991-92 to 2016-17.
2. To study the composition of India's manufactured exports.
3. To examine the determinants of trade liberalization on India's manufactured exports.

RESEARCH METHODOLOGY

The present study is based on secondary data. The study focuses on the impact of trade liberalization on India's manufactured exports. The data for this study have been collected from secondary sources of information mainly from the journals, international trade data source such as United Nations Trade Data, Commodity Trade Statistics, World Trade Organization Trade Statistics, World Bank, Hand Book of statistics on Indian Economy, Reserve Bank of India (RBI). The analysis was done by the use of SPSS and Excel (Mathanraj.T, 2019). The study used multiple regression models mainly for examining the determinants of exports in the reform period and for assessing the impact of the trade reform on the India's manufactured export. The multiple regression model used for the present analysis are specified as follows

$$\log Y = b_0 + b_1 \log X_1 + + b_2 \log X_{2+}\ b_3 \log X_3 + \varepsilon_t$$

Where Y is the dependent variable selected for the analysis and X_{its} are the explanatory variables selected and ε_t is the error term.

TRADE LIBERALIZATION AND ITS IMPACT ON INDIA'S MANUFACTURED EXPORTS

The present study examines the trade liberalization and its impact on India's manufactured exports in 1991-92 to 2016-17. The annual average growth and the trend values are presented in Table No.1.1

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TABLE NO.1.1, INDIA'S MANUFACTURING EXPORTS DURING 1991-92 TO 2016-17

Year	Total Exports	Manufactured goods	AAGR (%)	Share
1990-91	18143	13229		72.9
1991-92	17865	13262	0.2	74.2
1992-93	18537	14099	6.3	76.1
1993-94	22238	16803	19.2	75.6
1994-95	26331	20602	22.6	78.2
1995-96	31795	23984	16.4	75.4
1996-97	33470	24938	4.0	74.5
1997-98	35006	26860	7.7	76.7
1998-99	33219	26096	-2.8	78.6
1999-00	36822	29153	11.7	79.2
2000-01	44560	35181	20.7	79.0
2001-02	43827	33792	-3.9	77.1
2002-03	52719	41070	21.5	77.9
2003-04	63843	49103	19.6	76.9
2004-05	83536	59324	20.8	71.0
2005-06	103091	74200	25.1	72.0
2006-07	126414	86730	16.9	68.6
2007-08	162904	104905	21.0	64.4
2008-09	185295	123110	17.4	66.4
2009-10	178751	120167	-2.4	67.2
2010-11	251136	173263	44.2	69.0
2011-12	305964	201237	16.1	65.8
2012-13	300401	190237	-5.5	63.3
2013-14	314416	199648	4.9	63.5
2014-15	310352	207076	3.7	66.7
2015-16	262004	191107	-7.7	72.9
2016-17	276547	203255	6.4	73.5

Source: Hand Book of statistics on Indian Economy (RBI)

It is observed from the Table No.1.1 that the manufactured export was the highest in 2014-15 and the lowest in 1991-92. The manufactured exports were gradually increased from $13,262 million US dollar in 1991-92 to $20,602 million US dollar in 1994-95 to $29,153 million US dollar in 1998-99 $74,200 million US dollar in 2000-01 to $2, 07,076 million US dollar in 2008-09, declined to $2, 03,255 million US dollar in 2016-17. Similarly, its share in Indian total exports also incessantly enlarged from 74.2 per cent to 78.2 per cent then to 79.2 per cent then fell down to 72.0 per cent and to 66.7 per cent finally reached to 73.5 per cent during the corresponding period. The annual growth rate of manufactured exports was gradually increased from 0.2 per cent in 1991-92 to 6.4 per cent in 2016-17.

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TABLE NO.1.2, COMMODITY-WISE INDIA'S MANUFACTURING EXPORTS

Year	Textiles Exports	Coir yarn Exports	Jute Exports	Leather Exports	Handicraft Exports	Gems & jewellery Exports	Chemicals and allied Exports	Machinery , transport metal Exports
1991-92	30.3	0.2	1.2	9.6	25.5	20.6	11.9	16.8
1992-93	30.6	0.2	0.9	9.1	26.8	21.8	9.8	17.4
1993-94	28.2	0.2	0.7	7.7	28.4	23.8	10.8	18.0
1994-95	30.8	0.3	0.7	7.8	25.9	21.8	11.8	16.9
1995-96	30.1	0.3	0.8	7.2	25.6	22.0	12.3	18.2
1996-97	31.4	0.2	0.6	6.3	22.7	19.1	12.9	19.7
1997-98	32.2	0.3	0.7	6.1	3.5	19.9	13.7	19.6
1998-99	32.4	0.3	0.5	6.1	4.5	22.7	12.9	16.8
1999-00	32.1	0.2	0.4	5.2	4.4	26.2	13.1	17.0
2000-01	25.8	0.1	0.6	5.5	3.2	21.0	14.2	19.8
2001-02	23.9	0.2	0.4	5.7	2.7	21.6	13.9	20.5
2002-03	22.0	0.2	0.5	4.5	2.9	22.0	14.3	21.9
2003-04	19.6	0.2	0.5	4.4	2.2	21.5	15.5	25.1
2004-05	15.9	0.2	0.4	3.9	1.6	23.2	16.4	28.0
2005-06	16.9	0.2	0.4	3.6	1.7	20.9	16.1	28.7
2006-07	15.1	0.2	0.3	3.5	1.5	18.4	16.4	33.9
2007-08	13.7	0.2	0.3	3.2	1.4	18.8	16.5	35.5
2008-09	12.2	0.1	0.2	2.8	0.9	22.7	15.1	38.3
2009-10	12.0	0.1	0.2	2.8	0.8	24.1	19.1	31.8
2010-11	8.4	0.1	0.3	2.3	0.7	23.4	16.7	28.8
2011-12	9.0	0.1	0.2	2.4	0.6	22.3	18.4	29.1
2012-13	10.8	0.1	0.2	2.6	0.6	22.8	24.2	32.8
2013-14	12.4	0.1	0.2	2.9	1.3	20.7	18.0	31.0
2014-15	12.7	0.1	0.2	3.0	1.3	19.9	18.0	34.3

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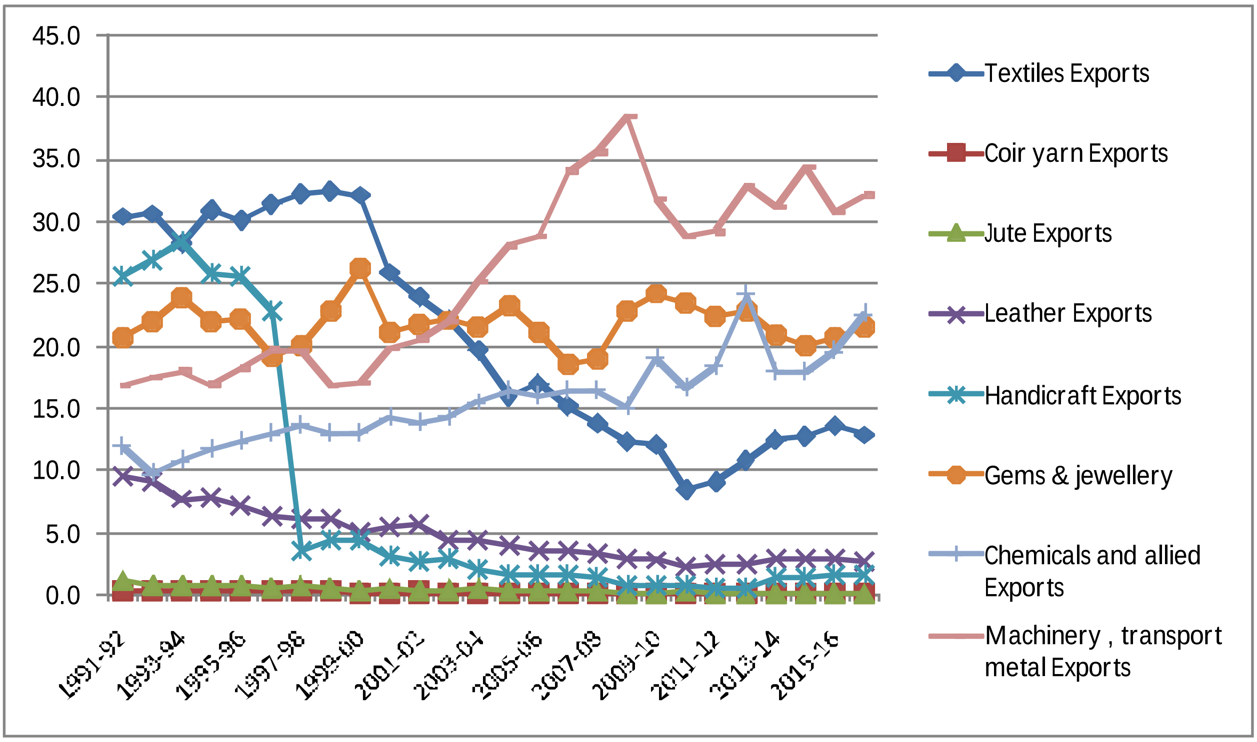
2015-16	13.5	0.1	0.2	2.9	1.6	20.6	19.6	30.7
2016-17	12.8	0.1	0.2	2.6	1.7	21.4	22.6	32.0

Source: Hand Book of statistics on Indian Economy (RBI)

The Table No.1.2 explains the principal commodities includes export of manufactured exports in the post reform period, Machinery, transport metal export has increased from US $2,234 million dollar in 1991-92 to US $65,087 million dollar in 2016-17. Similarly, share in Indian total exports increased from 10 per cent to 10.9 per cent. Chemicals and allied Export has increased from US $1583 million dollar in 1991-92 to US $46,001 million dollar in 2016-17. Similarly, share in Indian total exports increased from 11.9 per cent to 22.6 per cent. Gems & jewellery Exports was gradually increased from US $ 2738 million dollar in 1991-92 to US $43534 million dollar in 2016-17. Similarly, its share in Indian total exports also incessantly enlarged from 20.6 per cent to 21.4 per cent. The textile Exports was manufactured exports was increased from US $ 4024 million dollar in 1991-92 to US $26,034 million dollar in 2016-17. Therefore, its share in Indian total exports also declined from 30.3per cent to 12.8 per cent during the corresponding period.

FIGURE NO.1.1, SHARE COMMODITY-WISE EXPORT IN INDIA'S MANUFACTURED EXPORTS



Rank-wise India's manufacturing exports of major products in the years 1991-92 and 2016-17 showing positive and negative share values are shown in Figure.No.1.1.

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III. DETERMINANTS OF INDIA'S MANUFACTURED EXPORTS

The multiple regression result for determinants of manufactured exports was shown with demand factors in Table.No.1.3.

TABLE NO.1.3

DETERMINANTS OF INDIA'S MANUFACTURED EXPORTS WITH DEMAND FACTORS

Constant	REER	World Demand	Openness	Tariff rate	R-Square
11.835 (8.559)	-0.317 (2.651)*	0.701 (5.737)*	0.178 (4.219)*	-0.015 (3.196)*	0.986

Source: Calculated by the researcher

Note: Figures in bracket indicate t-value.

***Indicates that the t-values are statistically significant at 5 per cent level.

The above Table No.1.3 displayed the results of multiple regression analysis. All the variables in the model were statistically significant at the 5 per cent level. The explanatory variables REER, World demand and Openness had positively related with manufactured export. It indicated the one per cent increase in World demand, Openness would increase the manufactured export by 0.701 per cent and 0.178 per cent respectively. The REER and Tariff rate had favorable and significant impact on commodity that is one per cent decreases in REER and Tariff rate would result in increase manufactured export by 0.317 per cent and 0.015 per cent. The R^2 value fitted at the point 0.986 revealed that the model was 98 per cent good fit.

TABLE NO. 1.4

DETERMINANTS OF INDIA'S MANUFACTURED EXPORTS WITH SUPPLY FACTORS

Intercept	Relative Price	GDP	FDI	Domestic Demand	Openness	Tariff rate	R-square
0.317 (0.966)	-0.218 (4.147)*	0.876 (4.650)*	0.011 (3.054)*	-0.027 (-2.469)	0.669 (5.884)*	-0.054 (3.475)*	0.989

Source: Calculated by the researcher

Note: Figures in bracket indicate t-value.

***Indicates that the t-values are statistically significant at 5 per cent level.

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The Table No.1.4 highlighted the value of co-efficient of determination (R^2) was 0.989, indicating that the 98 per cent of variation in the manufactured export could be explained by the independent variables that were included in the function. Relative price, Capability to export, FDI and Openness had positively related with manufactured export. It indicated the one per cent increase in Capability to export FDI and Openness would increase the manufactured export by 0.876 per cent 0.011 per cent and 0.669 per cent respectively. The Relative price, domestic demand and Openness had negatively related with manufactured export that is one per cent decreases in Relative price, domestic demand and Openness would result in increase manufactured export by 0.218 per cent, 0.027 per cent and 0.054 per cent respectively.

CONCLUSION

Manufacturing exports of a country plays a major role in the growth of an economy. The development of this sector is an indicator of the economic strength of a country. It helps in raising productivity, generating employment and also supports other sectors of the Indian economy (Harpreet Kaur 2016). The Prime Minister's 'Make in India' programme focuses on placing India on the world map as a manufacturing hub and gaining global recognition for the Indian economy. India had expected to become the fifth largest manufacturing country in the world by the end of 2020, and the government had set an ambitious target of increasing the contribution of manufacturing output to 25 per cent of gross domestic product (GDP) by 2025, this would be a 9 per cent point increase from the current level of 16 per cent (IBEF, March 2017). The manufactured export was the highest in 2014-15 and the lowest in 1991-92. The Manufactured exports was gradually increased from US $ 13,262 million dollar in the year 1991-92 to US $2,03,255 million dollar in the year 2016-17. Similarly, its share in Indian total exports also incessantly declined from 74.2 per cent to 73.5 per cent during the corresponding period. The annual growth rate in manufactured exports was gradually increased from 0.2 per cent in the year 1991-92 to 6.4 percent in the year 2016-17. The machinery and transport metal manufactures product has contributed 32 percent share in India's manufactured exports followed by Chemicals and allied export with 22.6 per cent, Gems & jewellery exports with 21.4 per cent, Textiles exports with 12.84 per cent, Leather Exports with 2.64 per cent, Handicraft exports with 1.74 per cent, Jute exports with 0.24 per cent, Coir yarn exports with 0.14 per cent during the period of study.

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