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Role Of International Trade For The Growth Of The Economy: A Study On The Export Habits Of India

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Abstract:-

India has been focusing on improving exports but, the growth of India is stagnant and there is no major improvement in trade lines. This Paper studies the impact of export in Gross Domestic product and efforts have been made to know about what percent of GDP is influenced by export using Regression Analysis Model. The study focused on revealing the present trade trajectory and the ANOVA test has been conducted to test the null hypothesis. The research unveiled the importance of proper implementation of plans and policies and found the existence of positive relation between Export and Economy.

Keywords:- Economic Development, Gross Domestic Product, Growth, Export, Trade, Development.

1. <u>Introduction:-</u>

In the 16th century, India was known for its textiles and as a result it was the core product in the export list. India also exported spices and cotton which was majorly imported by the Arab countries from Gujarat. However, during the British era, the country's export declined as the East India Company took over the global market. But, Comparing to other under developed countries, India was in far better position in terms of foreign trade in the 18th century. India's Trade Composition both imports and exports included manufactured goods as well as primary articles in export basket and the import basket were consists of metals and luxury products. But mass increase in the rate of import of manufactured goods devastated the balance of trade position. This was definitely the sign of prosperity. India's business was not sufficiently expanded in the huge market of Latin America, Africa and South Asian Countries. Items like cotton, textile, jute, tea were some of the major exported products of India during the British era. But due to some unavoidable circumstances, India had to shift its focus from the west with a view to upgrade the economy and consequently, in 1991, the Indian Government launched the Look East Policy. Before 1991, India's trade was restricted to be in the open market. All efforts were efficiently made to revive its trade relationship with the South East Asian countries as it appeared to be fruitful and bilateral trade agreements were entered into the serve the purpose. With a view to modify and to some extend amend the Look East Policy, in 2014, Government of India launched 'Act East Policy' which focused on making the NER region of India as the focal point.

For the fact that Export leads to economic development mainly for the developing countries, India has been is leaving no stone unturned to boost its balance of trade. Policies, strategies and schemes are being continuously provided by the official, but the results are not upto the mark of expectation. Increase in exports helps the economy to reduce its poverty by increasing employment. India being a country with most geographical advantages and also being endowed with natural resources, it has the potentiality to grow eventually in the global market. Developing infrastructure and road connectivity, the government is trying to fix the connectivity issue with its neighbouring countries. However, India's export is seen to be declining for last few years which may have some impact on the economy as a whole. This Paper tries to study the impact of export in the growth of the economy taking GDP as the proxy variable of measuring the economy. And also efforts has been made to present the prevailing export trend the country.

2. Review of Literature:-

Bakri & Mabrouki (2017) has studied the effect of export and import on the economy of Panama by using Johansen co-integration analysis of Vector Auto Regression Model and the Granger-Causality tests. The study stated about different strategic advantages of Panama that directs easy and smooth export-import flows between countries. The Researcher earmarked the advantage of availability of diversified portfolio of items in catering the world market and also it is concluded that extension of prohibition of subsidy has been marked as the most opportunistic situation of the country.

Velnampy & Achchuthan (2013) in their study tried to find out the association between import, export and economic growth in Srilankan perspective. The study using Regression Analysis, revealed that 13% of the economic growth is influenced by Import rate of the country and 10% of the economic growth of the country is influenced by its import rate. The major role of import and export being dominated by textile and its related raw materials has been discussed by the researcher. It was advised that the Sri Lankan country must give importance to the small and medium enterprises and also Entrepreneurship development is mentioned to be the major way to economic growth and development.

Uddin, Khan & Alam (2010) empirically studied the casual relationship between export, import and GDP (Gross Domestic Product) of Bhutan. Using Granger Casualty Test, the researcher examined the association between the variables. It was found that Export plays an important role in growth and development of Bhutan by affecting its annual GDP rate, whereas, the study also revealed that Import does not have any impact on GDP rate of the Country as it imports consumer durable goods but not capital goods.

Turan & Karamanaj (2014) have analysed the integration between import, export and rate of Gross Domestic Product (GDP) in Albania. The study using Time Series Regression Model shows that export has positive while import has negative impact on the economy. It stated that an annual increase by 1% in the rate of exports would increase the GDP by 0.58%. On the other hand, 1% increase per annum in Imports will result in descending GDP by 0.23%.

Mukherji & Pandey (2014) have ascertained whether the growth is anyway impacted by the export rate of India. Vector Auto Regression (VAR) and Gregors Casualty Test and Impulse Response Function were being used to serve the purpose. The hypothesis of export led growth came out to be false as India mainly revolves around domestic firms and market and exporting contributes a minor portion of the GDP. It revealed that, the higher the GDP, the higher the export rate and the vice versa. Growth in the GDP rate would result in increase in more exporting as it helps the domestic firms to grow in size and increase productivity which would directly increase the export rate.

3. Statement of the Problem:-

Despite of the efforts put in by the Government, the trade report of India is still stagnant. India shifted her attention towards South East Asian countries by launching the Look East Policy in 1991 which meant mainly to strap her connection with the neighbouring countries through bilateral trade. Since then, different policies have been adopted to boost the trade flow of the country by improving infrastructures, establishing LCSs at the border points and also have been entering into bilateral trade agreements with the other countries. Considering the relevance of trade in today's world, the study examined the importance of international trade for the growth of the economy and how far the export rate has been contributing to its rate of Gross domestic Product. Efforts have been made to study the present scenario of India's Import and Export worldwide and also has mentioned the importance of Government's policies in regard to international trade of the country.

4. Objectives:-

- To analyse the cointegration between Export, Exchange Rate and annual growth of the economy of India

5. Research Hypothesis

H_1 :- Growth of Export and exchange rate is Simultaneous

H_2:- Growth of export and growth of GDP is simultaneous

H_3:- There is a positive relationship between exchange rate and GDP of India.

6. Research Methodology:-

The study was based on secondary data published by Directorate General of Foreign Trade and Ministry of Commerce and Industry, Department of Commerce, Government of India and the reports published by the World Bank. Discussion with different researchers and academicians has also been done for better understanding of the area of study. World Bank's data warehouse has been the source for collecting data on annual GDP growth of India. Reserve Bank of India's data warehouse has been accessed to gather data of Gross Value Added at Basic Price and also the yearly exchange rate on an average and the Global Economy page has been used to collect data of contribution of export in GDP of India. Moreover, journals, articles, thesis and books have also been used to serve the purpose of the study.

Data for 10 years has been considered for the purpose of analysing and Regression Analysis Model has been developed to know the average relationship between export and growth of the economy of India and also ANOVA n test has been conducted to test the Null Hypothesis. Further, tables and charts have been used to depict the current scenario of exporting of the country.

7. Analysis and Interpretation: -

7.1 Recent Trends in India's Export world wide[1]

Export has been considered to be one of the four major components of GDP of India. Increasing trade deficit is the major drawback for India which has been prevailing since a decade now. Though the share of service in exports grown from 32% to 38%)[2] in the previous periods, but the share of merchandise is still buffering. In 2018-19, the exports grew by 9 per cent to USD 331 billion from USD 303.5 billion in 2017-18. India's exports have been floating at around USD 300 billion also to be noted that during April-November 2019-20.However, looking into a brighter side, India's exports increased by 13.4% for manufactured products and 10.9% for total merchandise and imports increased by 12.7% for manufactured products[3].

Table 1:- Showing Export record of India worldwide from 2010-11 to 2020-21

Year	Total Export (lakhs)	Percentage of Growth (in%)
2010-11	113696426.38	34.47
2011-12	146595939.96	28.94
2012-13	163431828.96	11.48
2013-14	190501108.86	16.56
2014-15	189634841.76	-0.45
2015-16	171638440.44	-9.49
2016-17	184943355.34	7.75
2017-18	195651452.80	5.79
2018-19	230772619.38	17.95
2019-20	221985418.10	-3.81
2020-21	215433924.30	-2.95

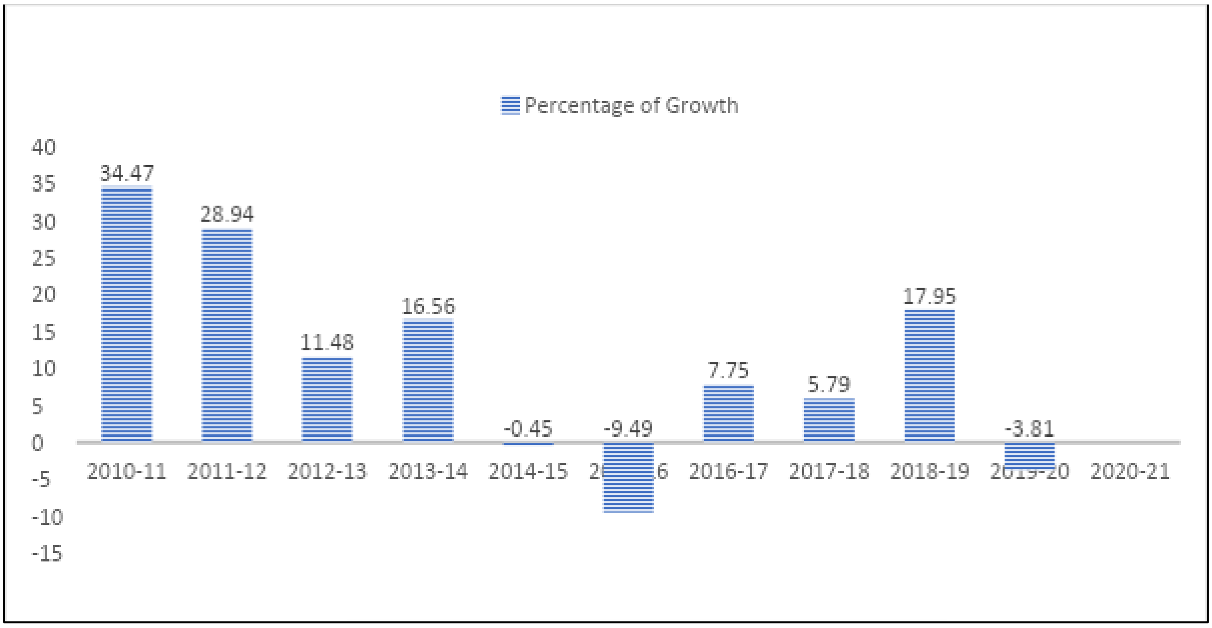
Source:- Ministry of Commerce and Industry, Department of Commerce, government of India

[1] (GOVERNMENT OF INDIA, MINISTRY OF COMMERCE AND INDUSTRY, DEPARTMENT OF COMMERCE)

[2] (BUSINESS TODAY, 2019)

[3] (INDIA BRAND EQUITY FOUNDATION, 2020)

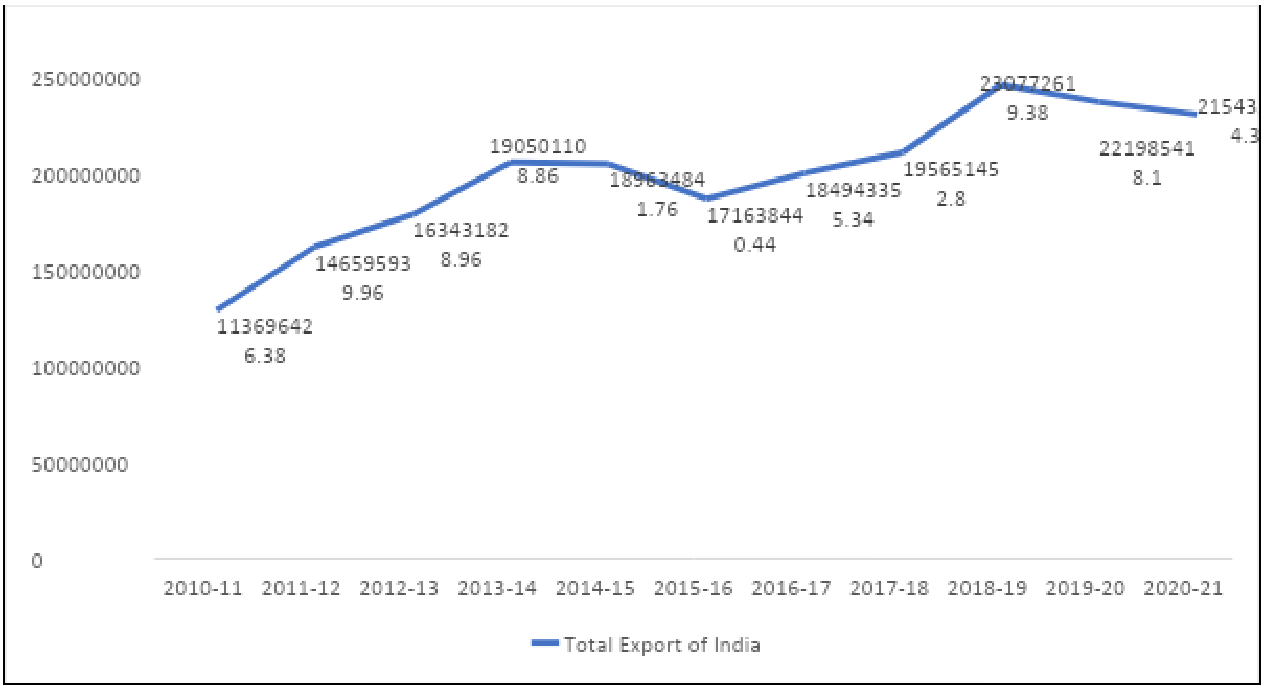
Figure 1:- Showing percentage of Growth in Export of India



The figure above shows the growth rate of export every year from 2009-10 to 2018-19. The growth in export is highest in the 2010-11with 34.47% which is majorly comprised of exporting merchandise goods accounting for $246 billion[4]. Spread of global supply chains and the composition of trade helped goods to cross national boundaries while the production was processing that raised world trade flows in comparison to previous era. But due to the Global slowdown, export growth was again affected in the year 2011-12 and 2012-13 as the major markets of Europe, the US, China and Japan were in the grip of uncertainty. Moreover, there was a positive growth in the year 2013-14 followed by a negative percentage of growth in the next two years. Fall in Global demand and prices of petroleum crude resulted in consequent decline in export of petroleum products which happens to be the major items of export for India. EU countries that account for nearly 16% of India's export were facing stagnation[5]. Export growth is seen to be increasing onwards after 2015-16 with the new trade policy were introduced.

Figure 2:- Showing Total Export graph of India from 2010-11 to 2020-21

[4] (Reuters, 2011)
[5] (Press Information Bureau, Government of Inia, 2016)



The figure above depicts the slowdown of export after highest rise in the 2010-11which majorly comprised of exporting petroleum products. However, during 2014-15 and 2015-16 due to some obvious reason that majorly involves global slowdown in that particular period. Moreover, appreciation of rupee against dollar is also considered to be one of the reasons behind huge fall in India's export value. However, export started rising positively onwards till 2018-19.

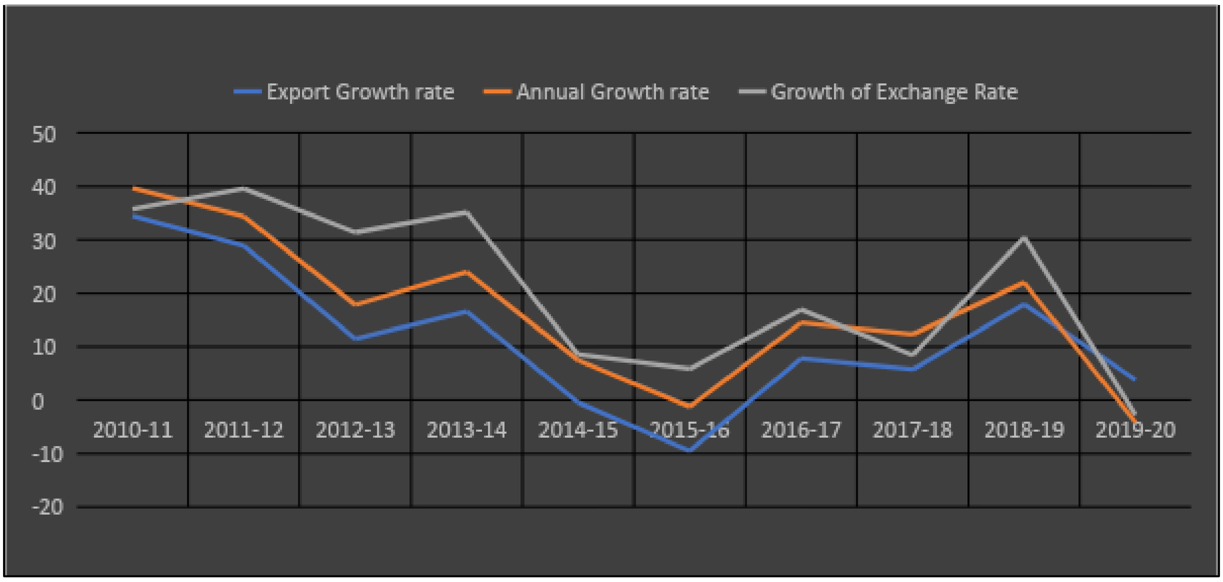
7.2 Impact of Export in the Economy

In order examine the impact of Export in the Growth of the economy, the researcher have considered annual growth in GDP of the country as the substitute variable for economic growth in India. Regression Analysis Model has been used to study the relationship between the two factors i.e export and growth and also Analysis of Variance Test have been conducted to test the Null Hypothesis of the study.

Table 2:- Showing contribution of export on GDP and Annual Growth in GDP of India.

Year	Growth Rate of Export (%)	Annual Growth Rate of India (%)	Fluctuation of Exchange rate (%) (rupee to US dollar)
2010-11	34.47	5.24	-3.96
2011-12	28.94	5.46	5.18
2012-13	11.48	6.39	13.54
2013-14	16.56	7.41	11.19
2014-15	-0.45	7.9	1.06
2015-16	-9.49	8.26	7.08
2016-17	7.75	6.76	2.44
2017-18	5.79	6.53	-3.91

2018-19	**17.95**	**4.04**	**8.49**
2019-20	**3.81**	**-7.96**	**1.39**



The table shows the contribution of export in Gross Domestic Product (GDP) of India. Despite of the global economy slowdown, in the year 2011-12 24.54 of the GDP was contributed by exporting mainly the petroleum and engineering products. In the year 2014-15, export percentage descended which is considered to be due to lack of diversification of the basket of items which was dominated by 10 principal products which recorded contribution of 78% of the total export as well as the major products recorded negative growth rate in that particular year. Compulsion made by the US government for APIs (Active Pharmaceutical Ingredients) for producers of formulation stood as a barrier for India's export. Again in the year 2015-16, due to Demonetisation announced by the Prime Minister of India affected export in a big way. Export of the country continues to fall till date despite of the efforts and strategies made by the Government.

Following tests shows the impact of Export in the economy:-

Regression Analysis Model:-

Regression Analysis model is used to establish cause and effect relationship between two or more variables where one variable is taken as independent and the other as dependent. Regression indicates the average relationship between two variables and from this average relationship, the average value of one variable is estimated corresponding to the given value of the other variable. The model consists of an independent variable denoted as 'X' and dependent variable as 'Y'.

Now, taking percentage of export in GDP as (X) as independent variable and Percentage of Annual Growth in GDP as (Y) as dependent variable, we fit the following. In this model Y is a function of X i.e , Y = f (X) where, X denoted GVA and Y denotes Export.

A regression equation of Y on X is framed as follows-

Y = a + bx, where, a and b are two parameters.

Table showing the results of Regression Analysis Model

The Regression Analysis Model									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.651[a]	.424	.352	.90262	.424	5.887	1	8	.041
a. Predictors: (Constant), Percentage of Export in GDP									

Here, we get R^2=0.424, which is indicates Low and positive relationship between X and Y. That concludes existence of positive relationship between export and economy. According to the output in the regression analysis, the adjusted R – squared value indicates that 35% of variation has been found which implies 35 % of the GDP growth rate has been influenced by the export sector. Moreover, 35percent of the influence or impact is in the significant level (P < 0.05). And also we can conclude that 65% of the GDP growth has been influenced by other factors of the economy.

Analysis of variance (ANOVA) Test:-

It is a test that is used to check if the means of two or more groups are significantly different from each other. ANOVA examines the impact of one or more factors by comparing the means of different samples. Here, the researcher has used the ANOVA test to verify the Null Hypothesis (H_0).

H_0 = The growth of Export and Gross Domestic Product is not simultaneous
H_1 = The growth of Export and Gross Domestic is simultaneous.

Using level of significance at 0.05,

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.796	1	4.796	5.887	.041[b]

	Residual	6.518	8	.815		
	Total	11.314	9			
a. Dependent Variable: Percentage of Growth of GDP						
b. Predictors: (Constant), Percentage of Export in GDP						

Conidering, the degree of freedom (df) for Regression as V_1 and for Residual as V_2, we get $V_1 = 1$ and $V_2 = 8$. The table value of F for (V_1, V_2) = (1,8) at 5% level of significance is 5.32. Since the calculated value of F (= 5.887) is greater than the tabulated value of 5.99, we conclude that the growth of export and growth of GDP is simultaneous. Moreover, the significance value came out to at 0.041 which is less than 0.05 and hance, we reject the null hypotheis and we accpet $\mathbf{H_1}$. Since, the growth of GDP is considered as a representative of the growth of economy, we conclude that growth of export and economy is simultaneous.

8. Suggestions:-

- Efforts must be done in spreading awareness amongst entrepreneurs about the export process and schemes and benefits that is availed by the government. Information available should reach the young entrpreneurs that would encourage them to expand their market globally.
- Though the focus is shifted towards the neighbouring countries of South East, efforts should be made to ensure smooth functioning of the land borders that is currently taking almost 30hrs to complete the processing at the LCS (Land Custom Stations).
- Improving road shortes connectivity won't help unless the clearance process is also shortened. Steps should be taken to fasten the clearance at the border points.
- Products those are rich in India should be given more weightage in increasing productivity which would help in mass demand and supply like the agricultural products.
- Youth must be encouraged to start up export houses by providing easy access to the schemes and benefits that would obviously boost up the export growth of the economy and also unemployment will be reduced accordingly.
- Stable governance will be helpful in functioning of the policies and strategies taken up for export promotion.
- Local products must be given due importance as that would attact the consumers of global market in a higher scale. Local farmers. Weavers, etc should be considered for expanding market internationally.
- Gems and Jewellery exporters, Leather sector exporters, engeneering sector exporters, etc must be aware of various schemes available for them like Export Promotion Capital, Goods Scheme, Focus Product scheme and Market Linked Focus Products, Focus Product and Market Scheme and not aware regarding Market Linked Focus Products Scrip and Advance Authorization Scheme, etc.
- Workshops, seminars, etc. can be organised for delivering informations to the interested groups.
    - Diversification of export items would help in enhancing the rate of export as the percentage of risk factor will get divided amongst the items.

9. Conclusion:-

Based on the overall study it is found that more export would result in higher growth in GDP which will ultimately help in economic development of the country. Increase in outflow of domestic goods and services brings in foreign currency that makes the financial condition of a country strong. Rate of growth in GDP is considered as factor of the economic growth of the country. In the study, the Regression Model shows that export has positive impact on the economy as it creates higher demand from global market that would encourage local firms and manufacturers to improve productivity and also will be helpful in reducing unemployment of the country at a bigger rate. Firms who undertakes exporting achieves the potentiality to expand their market in the international level which makes more incoming of foreign currency for the economy. India has the potetiality to capture the global market fully by making certain changes in the policies and tactics. The study showed that export has positive impact on the growth of the economy and so, steps must be taken to boost the export potentiality of the country. It is revealed that the annual growth in GDP is impacted by the rate of export by 35%. Government should undertake scrutiny of proper implemenation of the policies and strategies for better result. Current scenerio of exporting reveals that the graph is going downwards mainly due to the global slow down, other factors remaining constant. Trade conflicts or Trade war between countries are also can be considered as barriers to exporting in this era. Efforts of the Government is the positive sign to the situation and that would definitely help in overall growth and development of the Country.

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