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DIRECTION OF INDIAN TRADE: AN ANALYSIS OF THE CHANGES IN THE CONTEXT OF GLOBAL ECONOMIC CRISIS

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The world economy is grappling with a severe financial crisis. India has so far avoided a banking or financial crisis of the proportions witnessed in the United States and some other economies. However, there are definite indications of a recession in the Indian economy. This paper examines the extent to which India's foreign trade is affected by the global crisis. Even fast growing India has begun to show signs of slowing down. Paper explores the impact of the global financial crisis on India's exports and imports with different regions of the world with the help of statistical tool *t*-test. Research also finds ways to raise India's global competitiveness through fiscal and non-fiscal measures to limit the costs of the global crisis to the Indian economy.

Introduction

Foreign trade plays a vital role in the Indian economy. As the country need to import diverse products so foreign trade is extremely important to country. India exports vast number of products and also imports an equal amount of other. products. Although India has steadily opened up its economy, its tariffs continue to be high when compared with other countries, and its investment norms are still restrictive. This leads some to see India as a 'rapid globalizer' while others still see it as a 'highly protectionist' economy.

Till the early 1990s, India was a closed economy: average tariffs exceeded 200 percent, quantitative restrictions on imports were extensive, and there were stringent restrictions on foreign investment. The country began to cautiously reform in the 1990s, liberalizing only under conditions of extreme necessity.

Since that time, trade reforms have produced remarkable results. India's trade to GDP ratio has increased from 15 percent to 35 percent of GDP between 1990 and 2005, and the economy is now among the fastest growing in the world.

Average non-agricultural tariffs have fallen below 15 percent, quantitative restrictions on imports have been eliminated, and foreign investments norms have been relaxed for a number of sectors.

India however retains its right to protect when need arises. Agricultural tariffs average between 30-40 percent, anti-dumping measures have been liberally used to protect trade, and the country is among the few in the world that continue to ban foreign investment in retail trade. Although this policy has been somewhat relaxed recently, it remains considerably restrictive.

Nonetheless, in recent years, the government's stand on trade and investment policy has displayed a marked shift from protecting 'producers' to benefiting 'consumers'. This is reflected in its *Foreign Trade Policy for 2004/09* which states that, "For India to become a major player in world trade ...we have also to facilitate those imports which are required to stimulate our economy."

India is now aggressively pushing for a more liberal global trade regime, especially in services. It has assumed a leadership role among developing nations in global trade negotiations, and played a critical part in the Doha negotiations.

Impact of Global crisis on Indian Trade

The global financial and economic crisis even though originating in the western world has affected the developing countries very badly. The crisis, which has roots in the closing years of the 20th century but has become more apparent throughout 2007 and 2008, has passed through various stages exposing pervasive weaknesses in the global financial system and regulatory framework. The impact of global slowdown was felt more severely on India's external demand evident in the negative growth of merchandise exports that set in the third quarter of 2008-09. Imports growth also witnessed sharp slowdown in tandem as domestic activity slowed down rapidly. India's merchandise exports, which remained buoyant till August 2008 decelerated in September 2008 and thereafter recorded continuous negative growth till February 2009, under the impact of the global economic slowdown. With the result, exports during 2008-09 (April-February) recorded a lower growth of 6.4 per cent than 28.4 per cent a year ago. Imports during 2008-09 (April-February) also recorded a lower

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growth. Data released in April 2009 showed 33% drop in exports-the steepest in 14 years to $ 10.73 billion compared to $16 billion in April 2008. Exports remained in negative zone for the seventh straight month as a result of demand shrinkage in West due the ongoing economic slowdown. Imports too shrink by 36% during the month at $15.74 billion compared to $ 24.82 billion in April 2008. In May 2009 exports decreased 29% to $11 billion compared to $15.5 billion in May 2008. Imports register a sharper fall of 39.2% dropping to $16.2 billion during the month compared to import worth $26.68 billion in May 2008. As a result trade deficit halved $5.2 billion in May 2009 compared to a deficit of $11.13 billion in May 2008.

RESEARCH METHODOLOGY

Research Objectives

The primary aim of the study is to find out the impact of global meltdown on direction of India's foreign trade and to find out ways of increasing India's trade competitiveness. For this purpose following two secondary objectives are formulated:

To find out the impact of global crisis on region wise exports of India

To find out the impact of global crisis on region wise imports of India

Hypothesis of the Study

Study undertaken has following two hypothesis:

Null Hypothesis

H_{01}: There is no significant impact of global crisis on region wise exports of India.

H_{02}: There is no significant impact of global crisis on region wise imports of India.

Alternate Hypothesis

H_{11}: There is a significant impact of global crisis on region wise exports of India.

H_{12}: There is a significant impact of global crisis on region wise imports of India.

Data

Data for this study comprises of two sets: one for export sector and other for import sector and this data is secondary one that is collected from the website of GOVERNMENT OF INDIA Ministry of Commerce and Industry, DEPARTMENT OF COMMERCE. Study period chosen for the paper is April 2005 to December 2008.

Methodology

Both two sets of data i.e. Export data and Import data are categorized into two parts before crisis data and after crisis data. Before crisis data includes data for two years beginning from April 2005 to March 2007 but because of non availability of data from January 2009 to March 2009 after crisis data only includes data from April 2007 to December 2008. Export and import data comprises of data of different countries of the world that is categorized into 17 different regions. India's Trade with each region is separately analyzed and tested by using paired comparison *T*-Test to find out the impact of global crisis. India's overall import and export data are also tested along with separate region wise data. *T*-test in this study is used at 5% level of significance.

Following formula for computing *t*-value is used in this study:

$$t = \frac{\bar{d}}{S^{\wedge}/\sqrt{n}}$$

Where

d stands for average of the difference between the before crisis export/import data and after crisis export/import data.

S^ stands for standard deviation of the difference between the before crisis export/import data and after crisis export/import data.

n stands for number of countries in the region.

Computed *t*–value will follow approximately *t*–distribution with $v = n–1$ degree of freedom.

Data Analysis

Table 1 shows the region wise India's export in lakhs of rupees from April 2005 to December 2008 and also the computed paired observation *t*–value.

Table 2 shows the region wise India's import in lakhs of rupees from April 2005 to December 2008 and also the computed paired observation *t*-value.

RESULTS AND INTERPRETATIONS

Table 3 clearly shows the computed and table values of *t*-test for export data. From that it is clearly evident that for major regions i.e. EU Countries, Southern Africa, West Africa, East Africa, ASEAN, WANA, NE Asia, South Asia, computed t-values are greater than table values, so null hypothesis for these regions are clearly rejected which means there is significant impact of global crisis on Indian export with these regions. For rest of the regions i.e. Other WE Countries, East Europe, Central Africa, North America, Latin America, East Asia, CARs Countries, other CIS

Countries, Unspecified calculated values are smaller than table values which accepts the null hypothesis for these regions that means there is no major or significant impact of global crisis on Indian export with these regions. Null hypothesis is accepted for total export which means global meltdown has no impact on overall export.

Table 1
Direction of India's Trade: Exports

(in lakhs of Rupees)

		Before Crisis		*After Crisis*		
S. No.	*Region*	*2005-06*	*2006-07*	*2007-08*	*2008-09*	*t-Value*
1.	**EU Countries**	10,284,222.21	12,129,554.80	13,885,980.05	12,795,133.54	**2.12**
2.	**Other WE Countries**	723,072.81	897,895.05	1,063,852.72	881,273.01	**1.95**
3.	**East Europe**	21,354.27	36,423.34	42,702.32	44,258.87	**1.55**
4.	**Southern Africa**	858,913.96	1,275,365.91	1,452,388.30	1,084,696.07	**2.35**
5.	**West Africa**	840,747.21	1,105,621.20	1,399,029.14	1,090,433.27	**2.43**
6.	**Central Africa**	73,171.70	92,069.67	103,622.96	112,510.05	**1.41**
7.	**East Africa**	636,398.19	1,333,123.76	1,691,300.64	1,653,964.23	**2.81**
8.	**North America**	8,135,095.26	9,039,298.93	8,848,207.42	7,479,117.80	**1.12**
9.	**Latin America**	1,325,313.25	1,931,255.14	2,277,856.91	2,288,232.31	**1.39**
10.	**East Asia**	444,725.14	674,228.49	567,316.53	568,054.06	**0.07**
11.	**ASEAN**	4,609,447.09	5,707,646.82	6,593,187.48	6,162,885.59	**2.42**
12.	**WANA**	7,387,124.43	10,432,866.48	12,222,002.82	12,449,572.54	**1.86**
13.	**NE Asia**	7,183,860.64	8,767,067.47	10,643,745.86	8,084,883.99	**3.69**
14	**South Asia**	2,456,137.13	2,927,404.86	3,871,968.09	3,014,660.14	**2.57**
15	**CARs Countries**	74,585.94	86,678.31	93,479.40	87,344.48	**1.15**
16	**Other CIS Countries**	477,780.60	582,159.17	606,099.33	569,590.80	**1.79**
17	**Unspecified**	109,836.69	159,268.95	223,612.06	290,128.19	**0.21**
	Total Export	**45,641,786.98**	**57,177,926.53**	65586352.04	**58,656,738.94**	**2.3**

Table 1
Direction of India's Trade: Imports

(in lakhs of Rupees)

			Before Crisis		*After Crisis*	
S. No.	*Region*	*2005-06*	*2006-07*	*2007-08*	*2008-09*	*t-Value*
1.	**EU Countries**	11,510,317.60	13,499,002.57	15,465,610.68	13,972,368.27	**2.25**
2.	**Other WE Countries**	3,119,532.81	4,626,537.47	5,294,693.85	5,806,711.13	**2.02**
3.	**East Europe**	15,878.06	26,921.93	14,397.69	8,542.04	**0.65**
4.	**Southern Africa**	1,167,184.57	1,323,243.79	1,945,810.92	2,629,075.29	**1.52**
5.	**West Africa**	514,451.92	3,710,042.41	3,921,607.45	4,504,335.45	**0.12**
6.	Central Africa	8,570.32	13,135.99	19,718.21	61,472.65	**1.63**
7.	East Africa	99,055.49	105,506.80	128,504.55	105,083.88	**1.06**
8.	North America	4,593,203.57	6,114,810.59	9,256,530.70	7,011,872.00	**1.16**
9.	Latin America	1,178,890.52	2,769,522.74	2,640,237.62	3,642,545.56	**1.36**
10.	East Asia	2,337,970.82	3,432,445.52	3,372,658.41	3,668,490.35	**1.07**
11.	ASEAN	4,818,583.74	8,191,877.58	9,124,477.47	9,053,351.82	**2.26**
12.	WANA	4,805,398.50	23,164,281.97	28,940,125.14	31,937,716.60	**2.98**
13.	NE Asia	10,245,460.01	14,261,978.78	18,010,028.54	19,330,109.96	**1.49**
14	South Asia	625,723.75	682,066.16	850,063.39	648,307.80	**1.05**
15	CARs Countries	31,942.17	64,691.24	45,104.03	96,811.01	**1.31**
16	Other CIS Countries	1,275,280.25	1,683,381.36	1,476,078.92	2,403,341.85	**1.36**
17	Unspecified	19,693,446.63	381,184.54	725,522.50	393,552.95	**0.045**
	Total Imports	**66,040,889.34**	**84,050,633.03**	**101,231,170.10**	**105,273,688.63**	**1.395**

Table 3
Direction of India's Trade: Exports

S. No.	*Region*	*No. of Countries in the Region (n)*	*Degree of Freedom (v = n–1))*	*Table Value at 5%*	*Computed Value*	*Null Hypothesis Accepted / Rejected*
1.	**EU Countries**	27	26	1.71	2.12	**Rejected**
2.	**Other WE Countries**	5	4	2.13	1.95	**Accepted**
3.	**East Europe**	5	4	2.13	1.55	**Accepted**
4.	**Southern Africa**	9	8	1.86	2.35	**Rejected**
5.	**West Africa**	23	22	1.72	2.43	**Rejected**
6.	**Central Africa**	7	6	1.94	1.41	**Accepted**
7.	**East Africa**	10	9	1.83	2.81	**Rejected**
8.	**North America**	2	1	6.31	1.12	**Accepted**
9.	**Latin America**	43	42	1.64	1.39	**Accepted**
10.	**East Asia**	11	10	1.81	0.07	**Accepted**
11.	**ASEAN**	10	9	1.83	2.42	**Rejected**
12.	**WANA**	19	18	1.73	1.86	**Rejected**
13.	**NE Asia**	8	7	1.89	3.69	**Rejected**
14	**South Asia**	7	6	1.94	2.57	**Rejected**
15	**CARs Countries**	5	4	2.13	1.15	**Accepted**
16	**Other CIS Countries**	7	6	1.94	1.79	**Accepted**
17	**Unspecified**	37	36	1.64	0.21	**Accepted**

As is shown in Table 4, null hypothesis is rejected for EU Countries, ASEAN, WANA because table value is less than the computed value. It means that global melt down has impact on imports of India from these regions. For the rest of the regions it is accepted which means global meltdown has no impact on imports of India .Null hypothesis is again accepted for total imports which means global meltdown has no significant impact on overall Import of India.

Table 4
Direction of India's Trade: Imports

S. No.	*Region*	*No. of Countries in the Region (n)*	*Degree of Freedom (v = n–1))*	*Table Value at 5%*	*Computed Value*	*Null Hypothesis Accepted / Rejected*
1.	EU Countries	27	26	1.71	2.25	rejected
2.	Other WE Countries	5	4	2.13	2.02	accepted
3.	East Europe	5	4	2.13	0.65	accepted
4.	Southern Africa	9	8	1.86	1.52	accepted
5.	West Africa	22	21	1.72	0.12	accepted
6.	Central Africa	7	6	1.94	1.63	accepted
7.	East Africa	10	9	1.83	1.06	accepted
8.	North America	2	1	6.31	1.16	accepted
9.	Latin America	43	42	1.64	1.36	accepted
10.	East Asia	11	10	1.81	1.07	accepted
11.	ASEAN	10	9	1.83	2.26	rejected
12.	WANA	19	18	1.73	2.98	rejected
13.	NE Asia	8	7	1.89	1.49	accepted
14	South Asia	7	6	1.94	1.05	accepted
15	CARs Countries	5	4	2.13	1.31	accepted
16	Other CIS Countries	7	6	1.94	1.36	accepted
17	Unspecified	33	32	1.64	0.045	accepted
	Total Imports	**17 regions**	**16**	**1.75**	**1.395**	**accepted**

CONCLUSION AND SUGGESTIONS

Exports are facing its biggest challenge since independence in wake of global slowdown.

World trade which grew by 6.5% in 2005, 8.5% in 2006 and 6% in 2007 decelerated to 2% in 2008 and is slated to contract by 9% in 2009. According to few economists India is not a major player in global trade and therefore such meltdown has no impact on exports but according to this study global meltdown has significant impact on exports with various major regions. While government and exporters can not generate demand overseas, both can initiate measures to increase competitiveness. Following are the measures that should be taken to increase the Indian trade competitiveness:

- Exporters require effective zero rating of taxes, internationally competitive interest rate and power at best bench marked tariff rather than any direct fiscal support.
- Goods and services tax should provide full rebate of all indirect taxes including those at state and local levels.
- Govt. should exempt exporters from fringe benefit tax as these taxes discourage exporters from seeking new markets.
- Export credit should be given at 7% without linking it with the PLR.
- Exporting units should be given 200% deduction on investment made in plant and machinery for expansion and modernization.
- Govt. should provide fuel at international prices to exporting units that have power plants or use their own generators.
- An Export Development Fund should be created for MSME Exporters with a minimum corpus of Rs. 5,000 crore for diversification of exports.
- A conscious effort is required to provide marketing exposure to MSME units so as to increase their share in direct exports.
- Exports should be treated as national priority.

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