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India's Foreign Trade and Socio-Economic Development (Trio of WTO compliance, Currency Depreciation and Global Crisis

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Abstract

It can be observed from the present literature and the data that India's exports as well as imports, measured in US Dollars, have steadily increased over the past 23 years. However, the rate of increase has fluctuated from year to year, a couple of times being negative. Trade balance has mostly been in the negative. Literature Review points out the several reasons for the trade movements, of which this paper attempts to consider the three major reasons viz India's complying with the WTO agreement and reducing its trade barriers and globalising in the true sense; depreciation of Rupee vis-a-vis US Dollar, thereby swelling the import bill while also raising the exports; and the recent global crisis namely the US sub-prime mortgage crisis, the European debt crisis. Japan too has been in a liquidity trap and perpetual recession for the past many years while UAE, our trading partners have had a political turmoil. Although the South-east Asian miracle countries achieved their goals by following the outward orientation model, going forward, various countries especially India, will need to choose between the 'inward-looking' approach to economic development and the 'outward orientation'. Inward-looking approach is more likely to help India achieve the much-desired inclusive growth and uplift the masses at the bottom of the pyramid thereby reducing the sharp contrasts between the rich and poor leading India on a true 'development path', not just high growth trajectory. Needless to say, economic well-being is the stepping stone towards social development.

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Keywords: Export; Imports; Trade deficit; WTO; Depreciation; global crisis; socio-economic development

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1. Introduction

It is evident from the literature available, specifically books on Indian Economy, that India was a closed economy till the 1980s and attempted to attain growth and development through import substitution rather than export promotion, which is known as the 'inward-looking approach'. Subsequently India had to open up to foreign competition and adopt the outward-looking approach wherein we allowed freer imports while boosting and incentivizing exports. But once again time has come to re-consider the anti-thesis of the retrogressive protectionist environment. There seems to be a gap in the literature in the various developmental models various countries have followed successfully, and the need of the present turbulent times. With most crisis-hit countries, including the US adopting protectionist measures, others too may follow suit.

The present paper attempts to trace the causes of fluctuations in India's exports and imports, connect them with Rupee depreciation over the years and offer recommendations to ease the problem of rising trade deficit.

2. BoP Crisis of 1991 and the LPG Model

India faced a Balance of Payment crisis with its foreign exchange reserves dwindling down to as low as $ 2.2 Bn by 1991, barely adequate to cover a week's imports. This was a result of the fiscal imbalance, fragile BoP situation and mounting inflationary pressures. India's revenue deficit had increased from 0.2% of GDP in 1981-82 to 3.3% in 1990-91 while the debt to GDP ratio had gone up from 35% of GDP in 1980-81 to 49.8% in 1990-91. This was due to huge and rising government expenditure and an unjustifiably low tax structure. Our Current account deficit increased from 1.35% of GDP to 3.69% in 1990-91. This growing CAD had to be financed by borrowing from abroad, raising India's external debt from 12% of GDP to 23% in 1990-91. The mounting strains of the 1980s stretched to a breaking point in 1991 due to the Gulf crisis. BoP was close to disaster in 1991, the level of forex reserves dropped to $ 2.2 Bn, unable to finance even a week's imports!

The government could avert a default only by using last-resort measures, such as using stocks of confiscated gold to obtain foreign exchange, borrowing under special facilities from IMF. In return, IMF and other advanced donor countries, especially USA, imposed certain conditions on India. In compliance with these conditions and in response to the 1991 crisis, government introduced economic policy of two mutually complementary strands: macroeconomic stabilization and structural reforms. The former involved returning to low and stable inflation and sustainable BoP and fiscal situation. The latter involved trade and capital flows reforms, industrial deregulation, public sector reforms, disinvestment and financial sector reforms. This later came to be popularly known as the New Industrial Policy 1991, leading to the 'LPG' (Liberalisation, Privatisation, Globalisation model with which the Indian economy took a U-turn and set out on a high-growth trajectory.