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Management

INTERNATIONAL TRADE AND ECONOMIC DEVELOPMENT OF INDIA - AN EMPIRICAL ANALYSIS

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ABSTRACT International trade refers to the cross-border trade between national boundaries. The increase in the volume of the international trade and the accelerated flow of Foreign Direct Investment (FDI) is the key factor behind the economic development of any country. Foreign direct investment (FDI) can boost industrial development and economic growth of the country. India is a developing country and needs support from external world for capital, technology and innovation. India has good relation between neighbouring countries but face challenges in attracting FDI. FDI can be a major source of capital inflow into the country and can make the economy stronger and more competitive. It can accelerate the export activities as well as to support the employment generation. India witnessed a significant change in its foreign policy after WTO agreement in 1995. It liberalized the international trade, capital mobilization, technology transfer, industrial licencing and made the economy wide open to the external world. This paper made an attempt to study about the international trade and development of Indian economy after the introduction of new economic policy.

KEYWORDS : Foreign Direct Investment, Economic development, international trade

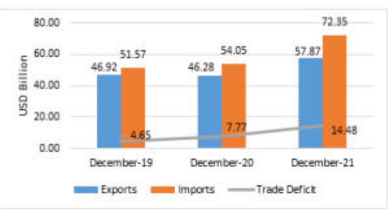
Introduction

Indian economy is the third largest economy in the world in terms of Purchase power parity and fifth largest based on nominal GDP. India is the sixth largest consumer market in the world with fastest growing e-commerce markets.

In India, around 59% of country's workforce engaged in agriculture and accounted for 23% of GDP. India is world's largest producer of milk, pulses and jute. India is also accounted for its production of sugarcane, cotton, groundnuts, rice and wheat. Nearly 6 million people engaged in fisheries industry and it is the sixth largest fishing industry in the world. The manufacturing sector in India contributes 26% of GDP and around 22% of the workforce engaged in this sector.

India is the largest manufacturer of generic drugs and fulfils around 50% of global vaccine demand. The Indian IT sector employs around 4.47 million people and is one among the major exporters of IT services in the world. The service sector remains the fastest growing sector in India while agriculture sector and industrial sector absorbs majority of the labour forces.

India's foreign Trade as on December, 2021



Source: Ministry of commerce and Industry, dated January, 2021

This leads to extreme income disparity between the urban and rural population. India's largest trading partners were USA, UAE, China, Saudi Arabia, Switzerland and Malaysia as of 2020.

India accounted among the largest number of billionaires but faces extreme income inequality. The demonetization introduced in 2016 hardly hit the economy and witnessed economic slowdown in 2017. The economy was again shocked with the complete lock down of 2020 due to covid pandemic situation.

Background of the study

India has been signed WTO agreement in 1995, thereafter the country witnessed a paradigm shift in its international trade relations. The agreement proposes to reduce the tariff rates and lift ban on various products which is prohibited previously. The country witnessed liberalization, Privatization and globalization and almost all parts of its markets opened to the external world. On the other hand, it opens FDI inflows from external world and accelerate capital mobilization, technology transfer and liberalize the international trade. Initially, India faced setbacks, but very soon the country bounce backed to tap the opportunities offered by the new economic policy.

The Indian IT industry initially take advantage of the new economic policy followed by telecommunication industry, pharmaceutical sector and Automobile industry. The vibrant young workforce of the country prepared for the challenges and opportunities offered by the new economic policy. Today, the growth of Indian economy remains positive due to several factors including its vibrant young population, savings and investments, low dependency ratio, government spending and domestic private consumption.

Review of literature

Al-Khulaifi (2013)[1] conducted a study on the relationship between international trade and economic growth for Qatar during 1980 to 2011. The study found that there is long-term relationship between international trade and economic growth.

Bakari and Mabrouki (2016)[2] examines the relationship between international trade and economic growth of Turkey from 1960 to 2015. Their results revealed that the economic growth is positively affected by international trade.

Benedict & John (2017)[3] studied about the correlation between Foreign Direct Investment and nation's economic growth. The hypothesis framed on whether or not FDI has positive and significant impact on economic growth in the Nigeria economy. The results revealed that FDI flows can accelerate economic growth. They also suggested to reframe the FDI policy of the country.

Hassan (2020)[4] examined the relationship between overseas trade and economic growth of South Asian countries during the period of 1990 to 2018. The results obtained from the study confirmed that there is equilibrium relationship between the export variables and economic growth.

Kibria and Hossain (2020)[5] investigated on the relationship between international trade and economic growth for Bangladesh from 1980 to 2018. The study undoubtfully proved that there is a direct corelation between exports and economic growth.

MacDougall (1960)[6] examined the relation between FDI and its direct impacts on multinationals such as additional capital brought into the country, the creation of jobs and the effects on the BOPs. The study provides positive results.

Raghuramapatruni and Surya Chaitanya (2020)[7] investigated on the impact of exports and imports on economic growth for India from 1991 to 2017. The results indicated that international trade has a positive impact on economic growth.

Yahaya Y Magret, and Oluoch O (2017)[8] conducted study to find the effect of foreign direct investment and financial performance of the listed manufacturing firms. The results showed there is a positive corelation between FDI and financial performance of firms.

Objectives of the study

The following are the objectives of the study.

- To study about the international trade between India and other countries.
- To study about the tariff concessions and FDI flow from other countries.
- To study about the Economic growth of India after new economic policy.

Limitations of the Study

The study mainly focuses on the development of International Trade and its impact on the growth of the Indian economy after the introduction of new economic policy introduced from 1995. Initially, the country faces so many setbacks but slowly it revived. But the demonization in 2016 and the Covid pandemic lock down in 2020 severely affected the economy. Data during these periods will not give a true picture of the economic development of the country.

Research methodology

This study is descriptive and analytical in nature. The study conducted mainly on the secondary data available from reliable sources. For the purpose of the study, both published as well as unpublished relevant literature has been used.

Data published by Ministry of Finance, Ministry of Industries and commerce, Department of Foreign Investment, Central Bureau of Statistics and National Planning Commission were the major sources of statistical information. Apart from this, reports published by World Bank, International Monetary Funds (IMF), UNDP etc. were also used.

Data Analysis and findings

The growth of FDI shows unbalanced during the study period. It is the evident from the statistics that the numbers of projects as well as total FDI under joint ventures have been improved every year. The study reveals the importance of new FDI policy and the need of accelerating exports. The FDI can solve the issue of capital inadequacy, supply of capital goods, advancement of technology and can address the issue of unemployment in an efficient way. On the other hand, improved exports will increase the foreign currency reserves in turn will strengthen the economy. The following are the major findings and recommendations of the study

- The increase in FDI flows can promote export business, develop institutional capabilities, effective implementation of strategies and can strengthen the economy as a whole.
- The government should frame new policies and procedures to attract foreign investors.
- The rules, regulations and foreign policies must be in harmony with the Foreign Investment and Technology Transfer Act.
- In order to attract FDI effectively, one needs a comprehensive approach of economic diplomacy and law conceptualized by a powerful inter-agency board of investment working closely with the ministries of commerce, finance and foreign affairs.

Conclusion

Foreign Direct Investment, International trade and Economic development are closely related factors which are directly corelated to employment, financial stability, export promotion and foreign currency reserves of a nation. The developed countries and the countries in transition have larger FDI inflows and it act as a major source for economic development and modernization. Moreover, beyond the strict economic benefits, FDI may help to improve environmental and social conditions of the host country. In addition, FDI can trigger technology spill overs, international trade integration, assist human resource formation and also helps to create more competitive business environment and enhances enterprise development.

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