A NEW BRAVE ECONOMY OF INDIA

B. Kayumov

University of World Economy and Diplomacy, Uzbekistan
54, Buyuk Ipak Yuli, Tashkent 100077 Uzbekistan
kayumovbezhod@gmail.com

Abstract. This paper examines the effects of Indian foreign trade policy on its economic development. Examining the evolution of the Indian foreign trade since the 1990s, it is found out that trade reforms in India have had a strong positive impact on total economic growth. The analysis suggests that India should stimulate high effective and export oriented production by technological up-gradation of industry. The overall finding is that while industrial labor productivity has had major positive effects on efficiency in Indian manufacturing, they may not have had similar positive effects on provision of permanent export growth.

Key words: economic development, manufacture sector, trade policy, labor productivity, special economic zones, R&D, GDP, export and import operations.

Introduction

During the years of independent economic development India has made substantial progress. The strong hi-tech industrial base which makes production that is capable to compete in the world market has been created. Structural transformation in economy, creation of new workplaces and ensuring stable economic growth depend on economic policy of the country. By considering features of current trends in world economy, studying India’s experience and specifics of economic policy on many aspects is expedient.

Economic Potential and Growth Tendencies of India

Today India is not only the country with the semi-milliard population, but also a large industrial center and Technology Park, where qualified labor force is engaged. India has strengths in telecommunication, information technology and other significant areas, such as mining, auto components, chemicals, ferrous and nonferrous metallurgy, electricity, apparels, pharmaceuticals, textile and agriculture (2013, p. 67).

The purposeful economic policy and powerful inflow of foreign investments to their economy have become the main determinants of stable rapid growth of India’s economy. The impact of more than a decade of economic reforms has removed some of the major economic distortions that have handicapped former economic performance.

Table 1

<table>
<thead>
<tr>
<th>Economy</th>
<th>Average Growth (1998-2013)</th>
<th>Five-Year-Ahead Forecast Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>2.9</td>
<td>3.5</td>
</tr>
<tr>
<td>Russia</td>
<td>4.4</td>
<td>3.5</td>
</tr>
<tr>
<td>India</td>
<td>6.9</td>
<td>6.7</td>
</tr>
<tr>
<td>China (PRC)</td>
<td>9.6</td>
<td>7.0</td>
</tr>
<tr>
<td>South Africa</td>
<td>3.2</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Total BRICS</strong></td>
<td><strong>5.4</strong></td>
<td><strong>4.8</strong></td>
</tr>
</tbody>
</table>

This table shows that in the next 5 years rates of economic growth will be about 6.7 percent that much surpasses average values of the countries of BRICS. According to the forecasts of the World Bank, the total world production for this period will grow on the average 3.5-3.6 percent annually that is nearly two times less than in India. Experts note that in the near future economic development in India will be provided by the expense of the demographic potential and labor productivity growth.
By 2022, India will have overtaken PRC to become the most populous country on the planet. There is a significant shift occurring in age structures: while the past has seen labor forces consistently grow across all regions, this is becoming a shrinking trend in many cases (2012, p. 8). In order to remain a stable employment policy India, during the first decade of XX century, created about 67 million nonfarm jobs – enough to keep pace with labor force growth (2011, p. 3).

**Export-oriented foreign trade policy**

Till the early 1990s, India was a comparatively closed market economy. For example, average tariffs were about 200 percent; there were substantive non-tariff restrictions on imports and stringent restrictions on foreign investment. The country started gradual and careful reforms in its foreign policy in the 1990s, liberalizing only under conditions of extreme necessity. Since that time, trade reforms have produced considerable results. According to World Bank statistics, India’s total share in goods and services trade was 0.92 percent in 2003 and it increased to 1.64 percent in 2008. Trade to GDP ratio has increased from 15 percent to 55 percent of GDP between 1990 and 2013.

Since 2005 the government of India, at the head the prime minister of Manmohan Singh, has conducted the implementation of reforms on liberalizations of economy and carrying out policy of the General Program, according to which the government defined perspective and strategic objectives of economic reforms, including need to provide constant economic growth at the level of 7-8 percent per annum within a decade. Due to these measures India will have become the developed country by 2020 (1998).

Today the government of India pays huge attention to development of foreign trade in economic reforms. Minister of Commerce and Industry Government India, Anand Sharma, says, “By 2014, we expect to double India’s exports of goods and services. The long term policy objective for the Government is to double India’s share in global trade by 2020” (Sharma, 2009).

The government of India appreciates constantly updated (or improved) export-import policy that intends to achieve the planned objectives in foreign trade. Legal base of the external economic strategy is EXIM policy of 1962 and Foreign Trade (Development and Regulation) of 1992, which coordinates external trade operations of India. In accordance with these documents, government makes up and adopts law projects. The core objectives of them are:

- Creation an atmosphere of trust and transparency for foreign investors;
- Simplification procedures of documentations in registration of new firms;
- Identification special focus areas to generate additional employment opportunities, particularly in semi-urban and rural areas;
- Up-gradation the logistic infrastructure network related to the entire foreign trade chain to international standards;
- Activation Indian Embassies as key players in the trade policy.

Overall, carried-out reforms are directed to eliminate procedural restrictions, simply access to the import accessory and raw materials, and also increase technological level of production and quality of goods.

One of main priorities in India is a development of special economic zones. The government has brought a number of changes and an order in functioning of SEZ. They treat permission of duty-free import to production territory of the country for development of infrastructure in export, cancellation of obtaining the license at creation of small enterprises in SEZ, increase in term of return of export revenue from 180 to 365 days and increase in term of depreciation for fixed assets from 5 to 8 years and etc.

More recently, India passed a controversial SEZ law that is estimated to add another 250 zones and 150,000 workers (Murayama and Yokota, 2008, p. 23). At the same time, zone models have expanded from being manufacturing assembling-type operations, to ones that are dedicated to services such as high-tech, finance, logistics, and even tourism (2008, p. 2).

In order to enlarge its export potential India has signed bilateral and regional trade agreements with its neighbors and other countries:

- Trade Agreements with Bangladesh, Bhutan, Sri Lanka, Maldives, China and South Korea;
- India - Sri Lanka Free Trade Agreement and India - Nepal Trade Treaty;
- Comprehensive Economic Cooperation Agreement (CECA) with Singapore;
- Framework Agreements with the Association of Southeast Asian Nations;
- Preferential Trade Agreements with Afghanistan and MERCOSUR countries.
Taking into account the process of development Indian economy in formation of strategy to create or improve integration blocks on South East Asia, it becomes clear that it is an important aspect of foreign policy. It is necessary to consider the fact that implementation of integration projects will promote not only volume of commodity turnover but also increase its investment appeal and geopolitical weight within introduction of uniform foreign policy with the participating countries of regional agreements.

**Results of Policy**

In his review of India as an emerging power, Stephen Cohen acknowledges that India’s current demographic and economic size already place it fairly high in terms of international power rankings but goes on to point out that a “growing economy … will add teeth to a foreign policy that has been long on rhetoric but short on resources” (Cohan, 2002, p. 103).

Nowadays India reached big results in respect of economic welfare, growth of foreign trade and others. For the last 40 years India increased the gross domestic product more than 25 times, the volume of export and industrial production – 152 and 31 times respectively. Moreover, India occupies about 1.7 percent of world volume of trade with goods and services (Author’s Own Work Based on The World Bank Data).

![Fig 1. Main Sectors Growth (current US dollars).](image1)

![Fig 2. India’s Top Commodities of Foreign Trade 2013-2014](image2)

(source: Ministry of Commerce and Industry of India, http://dgft.gov.in/)
It should be noted that the export and import nomenclature also has changed. The share of high value added production in export shows a positive tendency. For example, for the last 10 years, the share of agricultural production has reduced while the shares of services and hi-tech products have grown about 2 times.

**Export Decreasing Problems and its Solutions**

In spite of the Indian governments make all efforts to stimulate industrial sector and production of export-oriented production, dynamic of export growth, since 2004 constantly decreases, except a post-crisis rising in 2010.

![Graph: Export Growth and Industrial Labor Productivity](image)

**Fig 3.** Export Growth and Industrial Labor Productivity  
(Author’s Own Work Based on The World Bank data)

Fig. 3 assigns, labor productivity has strong correlation with dynamics of export growth. Therefore, labor productivity is considered as the main factor which negatively influences country export. However, there are other problems, holding back export growth. As the major hurdles which faced Indian exporters are:

- Unprecedented Rupee Appreciation by about 12 percent in the year 2007-08;
- Global Economic Slowdown and Recession in Developed Economies during 2008-2010 and its continuing impact;
- High Interest Rates which in 2014 is on level 8 percent;
- Non-availability of trade credit to foreign entrepreneurship in India;
- Ban on exports of certain food products since 2007 by developed countries and etc.

The specific purposes for which funds allocated under the Scheme can be sanctioned and utilized are as follows:

- Creation of new Export Promotion Special Zones and augmentation facilities in the existing ones;
- Promotion equity participation in hi-tech production projects;
- Development of complementary infrastructure such as, roads connecting the production centers with the logistics multimodal ports;
- Diversification of export markets by using bail-out mechanisms of international corporations;
- Encouraging value added manufacture by supporting technological up-gradation of industry technology base, especially through import of capital goods and equipment;
- Stabilizing exchange rate of national currency and interest rate to attract more direct investments and others.
Conclusions
The impact of international trade and foreign direct investment on a country’s economic development has remained issues of considerable interest and controversy both in the academic literature and in policy circles. Examining the evolution of the Indian manufacturing sector since the mid-1970s, we find that Indian manufacturing showed consistent growth in all indicators from the early 1980s to the mid-2000s. There has been strong growth in labor productivity and real value added since the early 1980s. With respect to manufacturing exports, though labor-intensive commodities comprise the bulk of the latter, there has been a relatively small increase in the share of these commodities in total manufacturing exports, with human capital intensive exports showing more dynamism. However, if the Indian government and industrial sector continue work in tandem we will be able to ensure that the Indian exports become globally competitive and India will be able to achieve all targets which were set before.

References