

Impact of international trade on economic growth: An Indian Evidence

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Abstract

The main aim of the study is to examine the relationship between international trade and economic growth during the 1999-2019. Paper is based on secondary data which is obtained from various sources. Study also uses the growth indicator and know the trend pattern of international trade. For this purpose average, percentage, CAGR used. Study revealed that throughout the study period, import is greater than export and trade balance was negative but in increasing trend. Growth indicator are also evaluating the condition of the country properly, but the government should enhance state export (in which particular state in best condition) by using policies properly so that export growth can increase.

Keywords- export, import, economic growth

JEL classification- C32, O1

Introduction: The economy takes interest in such those factors, which enhance the growth. Trade plays a vital role in an economy. India is an Open Economy that is the reason India treats trade as a trade engine because it creates development strategy, job creation, market expansion income enhancement and knowledge potential. Ever since the FDI policy came into India the growth opportunity has increased. Trade strengthen the economy not only internal but also give the recognition at the global level and strengthen the relationship with other nations. This has been the experience of India since the 1991, even composition of trade and direction of trade has changed over the past years. Trade is not only the area of interest of the importer and exporter but also the area of interest of policy maker and economist when it comes to economy growth, we cannot forget the challenges, whenever an economy move towards Globalisation and trade

openness, challenges will stand in its way because inadequate system of transportation, logistics, poor connectivity in telecommunication, complicated macro environments and anti-competitive behaviour by major market player but the World bank group has always supported whether it is to reconstitute the economy or to formulate the balance of payment. World Bank give assistance on trade facilitation, border Management, aid for trade and encouraging growth and shared prosperity by opening and transforming markets in and out movement of visible goods and invisible services from one nation to another nation. Foreign trade facilitate the flow of foreign expenditure which leads to economic growth. In this era no country is self reliant in the world, but India is moving towards Atam Nirbhar Bharat.

Literature Review:

There is many studies about the supervision of the Foreign Trade and Economic Growth Following are here: Alagidede,et al, (2011) study uses augmented dickey fuller (ADF) test, Phillips and Perron [1988] and KPSS), Granger causality test, and Non-parametric causality test and found that ADF and PP confirm that all the data are stationary. And the Granger causality from exchange rates to stock prices is found for Canada, Switzerland, and UK and weak causality found only in Switzerland. Ahmed,et al, (2015) found that ARDL fails us to explain the direction of causal relationship between variables in long run either unidirectional or bidirectional and found that time series is stationary and macro economic variables continuously to influence the Nigerian stock market. Bakari,et al, (2017) examines that long run, investment and exports affect negatively on economic growth. Investment and exports are compulsory engine in Gabon's economy but they are not treated with adequate manner, which offer new insights for Gabon's economic growth. Chaudhary ,et al, (2016) found that ARDL model depicts that long run relationship between exchange rate and exports exist in many countries, but relationship between exchange rate and imports exist only in one country, and error correction model shows the relationship between exchange rate and exports for only Srilanka and Bangladesh and shows insignificant relationship between other sample countries. Dash(2009) found that direction between variables is exist and shows positive and significant relationship with each other. And long run relationship is present between output and export and export is the key factor of economic development in post liberlization period. Elbeydi,& et.al, (2010) found that growth has postive and significant impact on economic growth in both the short and

long run. And Vector error correlation model proves that bi directional relationship is present in variables and study suggest that country should enhance export through various policies. Gokmenoglu, et.al(2015) suggest that Pakistan should enhance the comparative power on exports and strong the financial system through various policies and get sustainable macro environment. Pakistan should invest more in private sector so that economy can benefited and activily participate in development process. kaur, et.al(2017) found that bivariate relationship between GDP and export and the null hypothesis for the variables are reject and exports causes economic growth and export led growth hypothesis can enhance the causality between the variables. Study conclude that bidirectional relationship is present between GDP and export. khan, et.al(2018) examines that higher economic activity enhance the demand for money which shows the higher impact on the investment culture and inflation rate, exports and economic process is irrelevant with the stock prices and inflation rate shows a negative impact on stock prices while exports shows positive impact.

Research gap : many academicians researchers analyse the foreign trade and in its impact on Economy. however, no study has taken place that analyse foreign trade with growth indicator by taking five year policy as a reference and 20 years as a study period 1999 to 2019.

objective of the study:

the study has following objective

- to examine the impact of foreign trade on economic growth
- to study the latest foreign trend in India.

Methodology:

The present paper is mainly based on the secondary data which is obtained from Ministry of Commerce and industry, Central statistical organisation(CSO), RBI, Press Information Bureau, Economic Survey of India, World Bank group and some journals and data related to foreign trade and GDP growth indicators have been collected for the period of 20 years to examine the impact of foreign trade. The growth indicator is GDP current annual growth, percentage annual growth trade, per capita income is taken as a measure of economic growth and volume of export -import in monetary terms. To know the impact of trade on economic growth statistical tools like- Average, percentage, growth rate, compound average growth rate (CAGR) used.

Growth rate are calculated with the help of following formula-

$$\text{Growth rate} = \frac{\text{previous value} - \text{current value}}{\text{previous value}} * 100$$

To calculate CAGR the following formula are used-

$$\text{CAGR} = \left[\frac{\text{End value}}{\text{Beginning value}} \right]^{1/n} - 1$$

Result and Analysis :

Referring to table 1 - furnish the details of foreign trade in India during 1999 to 2019. In 1999 - 2000 a positive growth was recorded in India's economy. However, the trade balance was negative, and the following years again a positive growth was recorded since 1999 and increase in percentage growth in trade was recorded except 2010 and 2016. All the trade balance has been negative because imports have always been high while in 1973 and 1977 there has been a trade surplus. due to high Exports. The reason for this was the industrial policy 1973 because at the same time FERA was launched. Whereas in 1977 the concept of tiny Enterprises had arrived recommended by Janata government and In this phase foreign investment was promoted through technology transfer. After 1991 since LPG policy came even though there has been a trade deficit, but the trade growth has been positive. In 2003 the growth percentage was high in comparison of 2002. The main reason was 9th five year policy because the growth with equity concept came about as well as to accelerate pace of economic development by keeping the price stable and under control. After this, the growth that was seen in 2005 compared to 2004 was 34%. This was followed by growth in percentage negative in 2010 for the first time Since 1991 growth was seen in negative. The reason for this was that the government focus on reducing the poverty, in 10th five year plan government did not focus too much on growth. After that there was a boom in growth in 2012 with 34% because in 11th Five Year Plan faster sustainable development has implement point was talked about by Rangarajan committee. The main focus was on in hands and maintained GDP and double the per capita income in twelfth five year plans, but the target growth could not be achieved in the end of 2016 and the growth was second time in negative -9.1 % and the government made the visit in 12th Five Year Plan was GDP 8%

agriculture 4% with this version of rapid sustainable and more in inclusive growth than the growth rate increasing 2016, but the rate was slow down consecutive year.

Table 1- Foreign Trade of India between 1999-2019

S.n	year	Export	% of growth	Import	% of growth	Total trade	% of growth	Trade balance
1	1999	139753.10	7.42	178331.9	15.67	318085	11.89	-38578
2	2000	159561.40	14.17	215236.5	20.69	374797.9	17.83	-55675
3	2001	203571	27.58	230872.8	7.26	434443.8	15.91	-27301.8
4	2002	209018	2.68	245199.7	6.21	454217.7	4.55	-36181.7
5	2003	255137.3	22.06	297205.9	21.21	552343.2	21.60	-42068.6
6	2004	293366.8	14.98	359107.7	20.83	652474.5	18.13	-65740.9
7	2005	375339.5	27.94	501064.5	39.53	876404	34.32	-125725
8	2006	456417.9	21.60	660408.9	31.80	1116826.8	27.43	-203991
9	2007	571779.3	25.28	840506.3	27.27	1412285.6	26.46	-268727
10	2008	655863.5	14.71	1012311.7	20.44	1668175.2	18.12	-356448
11	2009	840755.1	28.19	1374435.6	35.77	2215190.7	32.79	-533680
12	2010	845533.6	0.57	1363735.5	-0.78	2209269.1	-0.27	-518201
13	2011	1142921.9	35.17	1683466.9	23.45	2826388.8	27.93	-540545
14	2012	1459280.5	27.68	2345972.7	39.35	3805253.2	34.63	-886692
15	2013	1635261	12.06	2673113	13.94	4308374	13.22	-1037852
16	2014	1905011	16.50	2715434	1.58	4620445	7.24	-810423
17	2015	1896348	-0.45	2737087	0.80	4633435	0.28	-840739
18	2016	1716377.99	-9.49	2490298.03	-9.02	4206676	-9.21	-773920
19	2017	1841314.39	7.28	2550926.19	2.43	4392240.5	4.41	-709611.8
20	2018	1952168.75	5.56	2962897.7	14.94	4915066.45	11.9	-1010728.9
21	2019	2314429.08	18.29	3548004.48	18.23	5862433.56	19.2	-1233575

Source- world bank data base, press information bureau

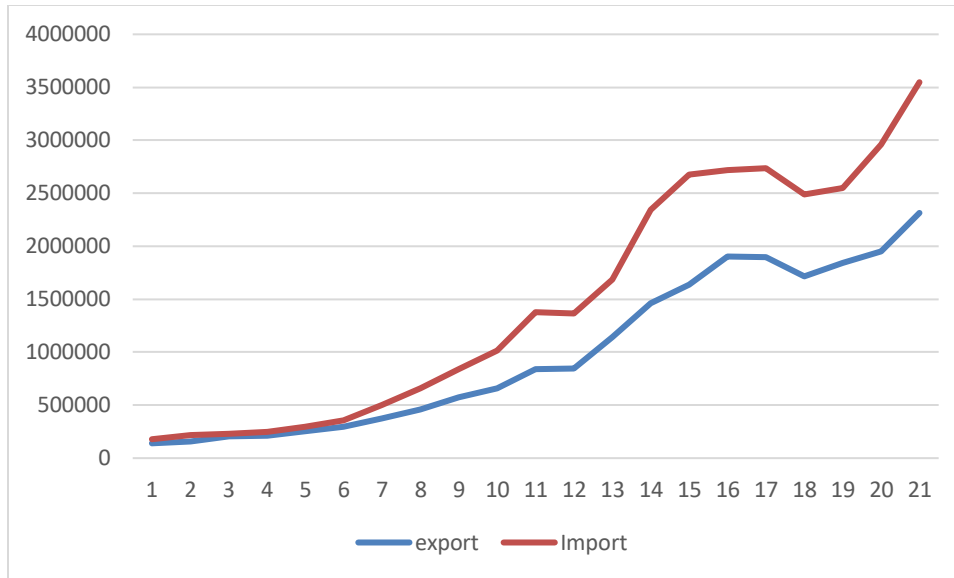


Fig. 1 : Foreign Trade

GDP per capita income of India is increased between the 1999 to 2019 because the agenda of 9th five year policy was growth with equity and accelerate pace of economic development by keeping the price stable and to ensure better life, improve living of standard of people and to create a liberal market in private investment. Whereas the agenda in 10th five year plan was to provide gainful and high quality employment with addition to labour force, reduce gender gap in literacy. So for this reason the GDP was 6.51 and per capita was 692. Whereas in 2009-19 the major impact of Niti Aayog 11th five year plan Policy was implement because the point of inclusive growth was kept in the 11th plan ,70 million new work opportunities were created. Poverty has to reduced by 10% . While Niti Aayog (2015) decided to make Cooperative and completely federalism, decentralized planning harmonization, knowledge and innovative hub, and also planned 7 year midterm strategy. The point was made to give additional Employment opportunity to the unorganized sector due to which the per capita income in enhanced.

Table 2- Growth Indicator of India between 1999 to 2019

Indicator	1999 -2009	2009-2019
GDP (current annual growth %)	6.51	6.75
Annual growth (trade)	20.82	10.41

Per capita income \$	692	1615.86
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Source- world bank data base

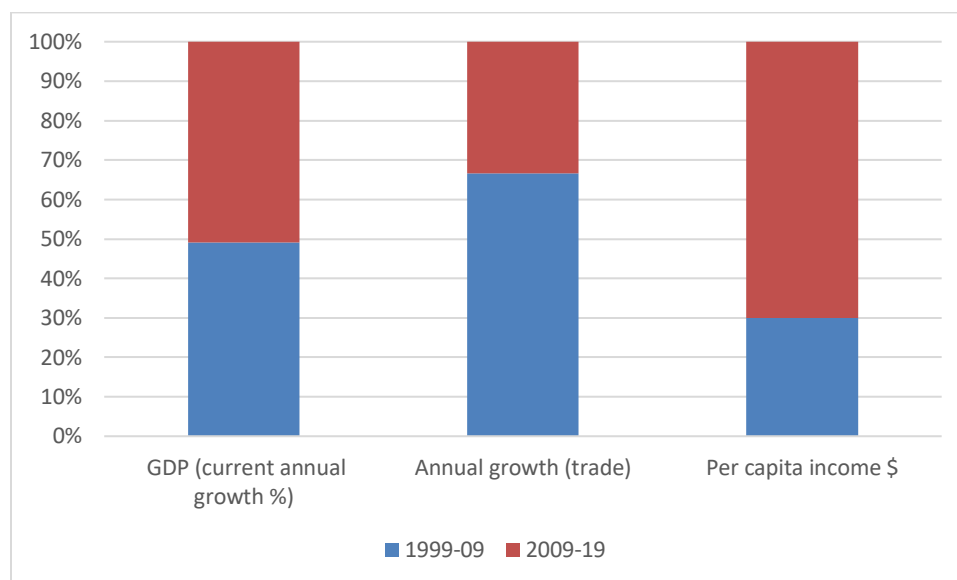


Fig. 2 : Growth Indicator

Referring to table 3 - India's trade balance is approx constant between 2000 to 2003 but GDP decrease in 2000 but increase by 26% in 2001. However country's GDP was constant between 2003 to 2005 but slightly increase in 2006. But trade balance was -65740 in 2004 and trade growth was 4.55%. GDP was increased in 2010 by 7.5% but trade was -518201 and growth was -0.27% after 2012 increasing trend was recorded in GDP. Trade balance was always negative thorough out the study. The negative effect of conflict on all economic indicator of the country is evident.

Table 3- Foreign Trade Balance and GDP of India between 1999-2019

Year	Trade balance	GDP
1999	-38578	8.8
2000	-55675	3.8
2001	-27301.8	4.8
2002	-36181.7	3.8
2003	-42068.6	7.9

2004	-65740.9	7.9
2005	-125725	7.9
2006	-203991	8.1
2007	-268727	7.7
2008	-356448	3.1
2009	-533680	7.9
2010	-518201	8.5
2011	-540545	5.2
2012	-886692	5.5
2013	-1037852	6.4
2014	-810423	7.4
2015	-840739	8
2016	-773920	8.3
2017	-709611.8	6.8
2018	-1673871.8	6.5
2019	-1522778.4	3.7

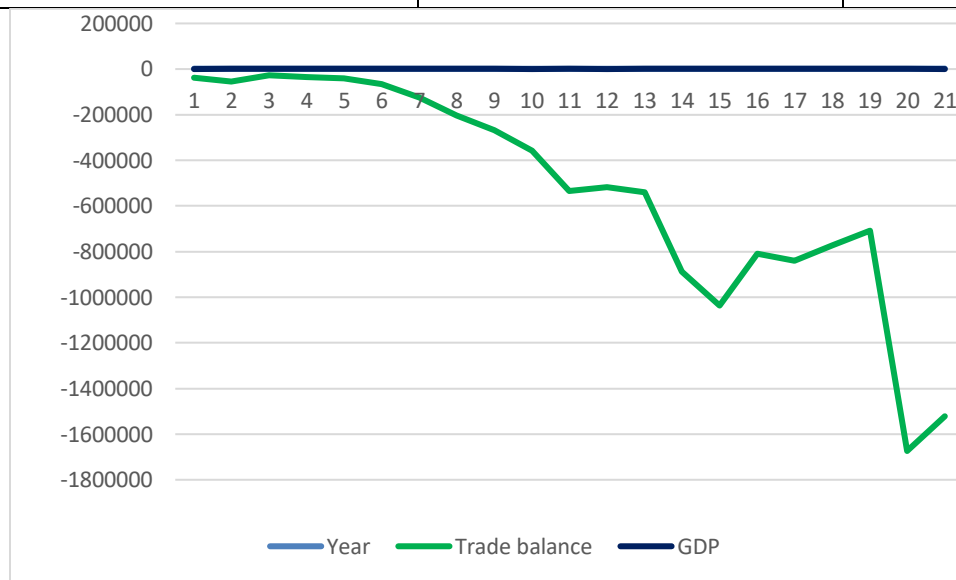


Fig 3 : Foreign Trade Balance

Conclusion & Recommendation:

Studies showS that export and import play important roles for the economy. Imports remained more than exports throughout the study, hence the trade balance was always negative. While the growth in 2000 was 17.83,% the LPG policy of 1991 became its reason. After that the percentage growth was high in 2003, main Reason was 9th Five Year Plan, because it came with the Growth with Equity concept. While the trade balance was -42068.6, the %growth was high at 89.29% in 2005. Trade and GDP were increasing continuously. The positive and increasing trend in growth indicator was also observed. Due to this, exports increased in the country, while imports had a negative impact. Trade balance was negative through out the study, but trade balance has a positive impact on the economic development. Exports, import, GDP are increasing during the study period. Imports are more than exports, due to this the trade deficit has increased .The government should promote exporters to increase export.

Various policy should be made, to export the product which is best in the state of the nation. Manufacturing, services, and the goods which have specialised in the state should be promoted. Product enhancement should be done by using new technology, so that the product can survive in the world market and create the demand in the foreign country, due to which India's exports would increase.

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