
AN ANALYSIS OF INDIA'S FOREIGN TRADE POST-LIBERALIZATION

Dr.KalpanaAgrawal

Assistant Professor

Prestige Institute of Management and Research, Indore

ABSTRACT

One of the primary variables of an economy is Foreign Trade. Till recently, India was largely a primary goods exporting and industrial goods importing country. The trade barriers and investment restraints got on reducing after liberalization in India. In this paper, secondary data has been used to forecast the foreign trade of India by using an ARIMA model. Using a trade dataset aggregated at the all-India level for all sectors, post-liberalization periods were studied to examine whether India's exports showed growth. However, the magnitude of trade has grown with many cyclical as well as non-cyclical fluctuations. The model proposed in this paper incorporates all the fluctuations in the trade.

Keywords:Foreign Trade, Import, India, Export, Liberalization.

INTRODUCTION

According to Das(1936), Foreign Trade is one of the significant macro fundamental variable of an economy. India till recently was largely a primary goods exporting and mainly an industrial goods importing country. In 1950s, India's share in the world trade was 1.78% which was declined to 0.59% in 1990. India's share in world exports was 0.8% in 2006. The independence-era Indian economy (from 1947 to 1991) was based on a mixed economy neither pure capitalism of capitalism nor pure socialism, but combining features resulted in an inward-looking, interventionist policies and import-substituting economy that failed to take advantage of the post-war expansion of trade. This model contributed to widespread inefficiencies and corruption, and the failings of this system were due largely to its beggarly implementation.

According to RBI report India's external sector witnessed significant improvement during 2013-14. As compared to preceding year, trade deficit contracted significantly due to rise in exports and moderation in imports. Also depreciation of the rupee helped India's exports to grow in 2013-14 and some pick-up in growth of trade partner economies. India's exports started improving in July 2013 though the increment in exports which was temporarily abated in February and March 2014.

Imports also moderated since June 2013, largely because of calmness of gold imports and lower non-oil non-gold imports reflecting slowdown in domestic economic activities and decline in international prices of some commodities like metal. This led to mildness of India's trade deficit by about 28 per cent in 2013-14. Though the pace of export growth was largely uneven but India's merchandise exports improved in 2013-14. In an aggregated manner India's exports grew by 4.1 per cent to US\$ 312.6 billion in 2013-14 as against a decline of 1.8 per cent at US\$ 300.4 billion in 2012-13. If one observes, commodity-wise data show that the rise in total exports in 2013-14 primarily can be attributed to the turnaround in the exports of manufactured goods, particularly, engineering goods and textile products. Among other categories, exports of petroleum products grew at a moderate pace than in the corresponding period of 2012-13 while growth in exports of agricultural goods moderated owing to a decline in almost all the principal commodities excluding rice, tobacco and marine products.

Apart from improved external demand, recovery in the garment sector can be attributed to depreciation of rupee and improved competitiveness. Decline in exports of 'gems & jewellery' by 5.4 per cent in 2013-14 could partly be on account of softening of global prices of precious metals (e.g. gold) which are used as basic input in gems and jewellery sector. The improved export performance in 2013-14 can be attributed to a renewed export demand from some of the major trade partners, particularly; Belgium, Germany, Italy, UK, USA, Japan, China and Hong Kong. The share of the US and China in India's exports increased during the year. There was, however, considerable moderation in exports to UAE, Netherlands, Malaysia, Thailand, African and Latin American countries. Led by a rise in exports by 8.2 per cent in 2013-14

compared to a growth of 4.1 per cent in 2012-13, the US became the topmost export destination for India with an improved share of 12.5 per cent in total exports.

The economy of India is the seventh largest in the world by nominal GDP and third largest by purchasing power parity(IMF Report,2014).The country is one of the G-20 major economies,a member of BRICS and a developing economy among the top 20 global traders(WTO Report).India attracts lot of FDI,during 2011,FDI inflow was \$36.5 billion,51.1% higher than 2010.India has strengths in telecommunication infrastructure and other significant areas such as chemicals,apparels.

According to the Indian Finance ministry,the annual growth rate of the Indian economy is projected to have increased to 7.4% in 2014-15 as compared with 6.9% in the fiscal year 2013-14.There was a time when its manufacturing and agricultural sector had held a constant share of its economic contribution,but like developed countries the fastest-growing part of the economy has become service sector like Information technology, tourism,education,healthcare,travel, banking consultancy etc.The dominant role of services has started playing throughout the Indian Economy because of technology advancement,growth in skilled labour and competitiveness at global level.Our service exports doubled recently as they have become crucial in invigorating goods exports.Earlier U.S. used to be considered as world's premier exporter of services,but now India's IT export will loom larger.

Composition of India's foreign trade before Liberalization

Britishers had persistently contended that India was a country and will probably remain the classic instance, well suited to supply raw materials and other primary goods and a good market place for west manufacturers. So at the time of independence exports were largely of basic goods and imports were of manufacturers. They were overwhelmed by the wealth and magnificence of India.The time when their connection began,India was very rich and her trade was sought after for centuries by Britishers. At the time of independence agricultural commodities and light manufactured consumer goods were the major chunk of India's export basket. In 1947-48 the main items of India's import were petroleum, fertilisers, machine, oil,grains,cotton,cutlery,hardware implements, chemicals etc.They constituted 70% of India's imports. After that due to the emphasis on industrialization during the second five year plan necessitated the imports of capital goods. India's participation have been promoted by the opening of Suez Canal and speedy development of the ship building Industry, supplemented by the spread of Industrial revolution in Europe and quick expansion of Indian Railways. During the post independence period India's composition of exports got remoulded. In the beginning of the 21st century, India had advanced towards a free-market economy, with a substantial reduction in state control of the economy and increased financial liberalisation(Kumar,2005).

The combination of protectionist, import-substitution, and Fabian social democratic-inspired policies governed India for sometime after the end of British occupation. The economy was then characterised by extensive regulation, protectionism, public ownership of large monopolies, pervasive corruption and slow growth. Since 1991, continuing economic liberalisation has moved the country towards a market-based economy. Earlier our exports were confined to OECD and OPEC countries, but now Asian countries like China has become major partner.

India's foreign trade grew by an impressive 30.6% to reach \$792.3 billion (Exports-38.33% & Imports-61.67%).By 2008, India had established itself as one of the world's fastest growing economies. Growth significantly slowed to 6.8% in 2008-09, but subsequently recovered to 7.4% in 2009-10, while the fiscal deficit rose from 5.9% to a high 6.5% during the same period. India's current account deficit surged to 4.1% of GDP during Q2 FY11 against 3.2% the previous quarter. As of 2011, India's public debt stood at 68.05% of GDP which is highest among the emerging economies. However, inflation remains stubbornly high with 7.55% in August 2012, the highest trade (counting exports and imports) stood at \$606.7 billion and is currently the 9th largest in the world. During 2011-12,

India was largely and intentionally isolated from the world markets until the liberalisation of 1991. To achieve self-reliance and protect its economy and Foreign trade was subject to import tariffs, export taxes and quantitative restrictions, while foreign direct investment (FDI) was restricted by upper-limit equity participation, restrictions on technology transfer, export obligations and government approvals; these approvals were needed for nearly 60% of new FDI in the industrial sector. The restrictions ensured that FDI averaged only around \$200 million annually between 1985 and 1991; a large percentage of the capital flows consisted of foreign aid, commercial borrowing and deposits of non resident Indians (Srinivasan,2002). India's exports were stagnant for the first 15 years after independence, due to general neglect of trade policy by the government of that period. Imports in the same period, due to industrialisation being nascent, consisted predominantly of machinery, raw materials and consumer goods (Panagariya,2008).

Since liberalisation, the value of India's international trade has increased sharply,(Datt, Rudder; Sundharam, 2009) with the contribution of total trade in goods and services to the GDP rising from 16% in 1990–91 to 47% in 2008–10. (Panagariya,2008). Post liberalization India adopted liberal and free-market principles and liberalised its economy to international trade under the Prime Ministership of P.V.NarasimhaRao and Finance minister Manmohan Singh , who had eliminated Licence Raj, a pre- and post-British era mechanism of strict government controls on setting up new industry. Following these major economic reforms, and a strong focus on developing national infrastructure such as the Golden Quadrilateral project by former Prime Minister Atal Bihari Vajpayee, the country's economic growth progressed at a rapid pace, with relatively large increases in per-capita incomes. The south western state of Maharashtra contributes the highest towards India's GDP among all states. Mumbai (Maharashtra) is known as the trade and commerce capital of India (The Economist,2010).

India accounts for 1.44% of exports and 2.12% of imports for merchandise trade and 3.34% of exports and 3.31% of imports for commercial services trade worldwide. (WTO Report) India's major trading partners are the European Union, China, the United States of America and the United Arab Emirates (Datt, Rudder; Sundharam, K.P.M., 2009). In 2006–07, major export commodities included engineering goods, petroleum products, chemicals and pharmaceuticals, gems and jewellery, textiles and garments, agricultural products, iron ore and other minerals. Major import commodities included crude oil and related products, machinery, electronic goods, gold and silver.

In November 2010, exports increased 22.3% year-on-year to 850.63 billion (US\$14 billion), while imports were up 7.5% at 1251.33 billion (US\$21 billion). Trade deficit for the same month dropped from 468.65 billion (US\$8.0 billion) in 2009 to 400.7 billion (US\$6.8 billion) in 2010 (Ministry of Commerce and Industry,2010).

REVIEW OF LITERATURE

All the studies reviewed over here shows the India's foreign trade performance pre and post liberalization and these studies explain the reason behind growth of export and import of India and which were the commodities India used to import and what change has come post liberalization. India is a founding-member of General Agreement on Trade And Tariff (GATT) since 1947 and its successor, the WTO. While participating actively in its general council meetings, India has been crucial in voicing the concerns of the developing countries. Like, India has continued its opposition to the inclusion of such matters as labour and environmental issues and other non-tariff-barriers to the WTO policies (Embassy of India,2005). Import licensing on all intermediate inputs and capital goods were abolished in 1991. But 30 per cent of the tariff lines remained subject to licensing in consumer goods.

India was challenged by trading partners in the Dispute Settlement Body (DSB) of the WTO that these goods were freed of licensing a decade later in April 2001. Except for 300 tariff lines of goods subject to licensing on grounds of environment, health and safety considerations and few other items such as

fertilizers, cereals, edible oils, and petroleum products, continued to remain canalized (imported by the government only). All other goods could be imported without license or any other restrictions. The tariff rates were enhanced extensively during the 1980s to turn quota rents into revenue for the government. The tariff revenue share of imports rose from 20 per cent in 1980-81 to 44 per cent in 1989-90 (Government of India, 1993).

Winters (2002) gave the example of trade reform in the maize sector in Zimbabwe, where trade liberalization and the withdrawal of the government from the sector led to the disappearance of markets supplying of inputs for crops. McMillan, Rodrik and Welch (2002) made a similar point about the liberalization of the cashew nut sector in Mozambique, arguing that imperfect market structure took away some of the benefits from liberalization from the poor farmers and that higher export prices benefited traders and external buyers. The study of Goldberg et.al, henceforth GKPT, (2009)

The study of Goldberg found that reductions in trade protection led to higher levels of productivity. There are two forces drove this findings. One is increase in competition resulting from lower output tariffs caused firms to increase their efficiency. Second, the trade reform lowered the traffics on inputs which lead to an increase in the number and volumes of imported inputs from abroad. Firms were thus able to amass more and economic imported inputs which emanated firms-level productivity. This study estimates suggested that the input channel was a larger force in traversing the productivity compared to the pro-competitive channel.

It also documented heterogeneity in the impact of the reform across industries, firms and economic environments. The productivity impact varied across industries, with import-competing industries showing a much higher responsiveness to the decline in protection. Firms in industries that were particularly burdened by regulations at the eve of the reforms did not respond to the competitive pressures with enhanced productivity, as they did not have the freedom to adjust their production technology.

In early 1991, major economic crises emerged. The roots of the problem were mainly macroeconomic imbalances; the precipitating factor was sharp drop in foreign exchange reserves. It was coupled with cut-off in private foreign lending and decline of India's credit rating (Joshi and Little 1996). Despite the IMF loan in January 1991, the situation did not stabilize immediately. The new government was formed with P.V.Narasimha Rao as Prime Minister who had held the industries portfolio dismantled the Licence Raj. He was committed to structural reforms but first he and his government had to address macroeconomic imbalances. The IMF loan supported the reform package which included 19 per cent devaluation of rupee and abrogation of export subsidies, the import was constricted. The result was that dollar value of exports did not immediately increase. However, the tight fiscal situation, with the deficit dropping from 8.3 per cent of GDP in 1991-92 to 5.9 per cent of GDP in 1992-93, the decrement in GDP growth rate, and the rupee devaluation- all these factors contributed to a drop in imports, so that the current account deficit fell from 3.2 per cent to 0.4 per cent of GDP in the following year.

During 1980s it was felt that the FDI restraints have dampened foreign investment which could amplify efficiency by bringing superior technologies and better work practices. This led to some liberalization in the Industrial Policy Statements of 1980 and 1982. For example, 100% export-oriented foreign firms were exempted from 40% foreign equity restrictions and licensing procedures for MRTP companies were simplified. Also the production of leather footwear and other leather goods earlier reserved exclusively for the small-scale industries was also allowed in the large and medium-scale industries. By 1983, large industrial groups and foreign companies were no longer restrained from producing transport machinery and tools, electric equipment, chemical and pharmaceutical products, and industrial machinery. In October 1982, a formal agreement was signed between Maruti Udyog Ltd, a Government enterprise, and Suzuki Motor Company Ltd. of Japan for production of a car called the "Maruti". Under the agreement for the first time foreign capital participation in an Indian public enterprise was approved with Suzuki

authorized to acquire a 40% equity. In the past, foreign participation in public enterprise was permitted only in turnkey production of materials and services. By the mid 1980s, non-resident Indians (NRIs) were allowed to invest in Indian companies through equity participation. The establishment of four additional export-processing zones was announced in 1985 with a view to attract export-oriented FDI.

Abraham and K.J. Joseph (2009) study confined to the liberalization period of 1991 to 2004-05 indicated that in the pre-reform period, there was a decrease in employment growth by 0.39 per cent per annum during 1980-81 to 1989-90. However, during the same period it was observed India's exports showed higher growth of 18.72 percent and imports 8.7 per cent. The post-reform period shows that increased employment growth of 0.70 per cent per annum during 1990-91 to 2004-05. During this period export growth decremented and import growth has increased. When these periods are sub-divided all variables change. In the initial phase 1990-91 to 1996-97 employment has increased but in the latter period 1997-98 to 2004-05 it had declined to -0.63 (Shankaran et.al, 2009).

RATIONALE OF THE STUDY

All the studies reported above in review of literature which in turn motivated the researcher to carry out this research which deals with the India's foreign trade post liberalization. Also it is not clear why there were not many studies attempted to forecast the India's foreign trade as well as predicts the growth rates in various commodities from India. Although some studies attempted to forecast this macro variable only as point estimates which has very little help for the policy makers/ managers since variability is the key in decision making when a certain level of risk is involved.

OBJECTIVES OF THE STUDY

In the above backdrop, this study is a modest attempt to fill the gap by identifying the following two research questions with respect to India's foreign trade forecasting issues in India.

1. To study export and import of India, post liberalization.
2. What will be the year-wise forecasted India's export values in various forms over a period 2013-2025?
3. What will be the year-wise forecasted India's import values in various forms over a period 2013-2025?

METHODOLOGY:

The Study

This study was an attempt to forecast growth rates of India's foreign trade.

The Sample

For the study secondary data of trade dataset aggregated at the all-India level for all sectors, post-liberalization periods to examine if India's exports showed a growth have been used for the year 2008-2013.

The Tool

a) Data collection

The present research was secondary data based; data available on the government sites of were taken for the year 1990-2013.

b) Tools and techniques for data analysis

In this study, ARIMA model was used to forecast, which is in fact fitted on non-seasonal data by identifying autoregressive and moving average terms with the help of partial autocorrelation and autocorrelation functions.

ARIMAMODEL

The acronym ARIMA stands for "Auto-Regressive Integrated Moving Average." which was developed by Box and Jenkins (1976). Since then, this model has gained tremendous popularity due to its edge in many areas in business and in economics in particular. Further, several research studies confirm its power and flexibility to capture variability in any single variable collected over a period of time (Box et al. 1994; Enders 2004; Hoff 1983; Hossain et al. 2006; McDowall et al. 1980; Melard 1984; O' Donovan 1983; Pankratz 1983; Vandaele 1983).

Lags of the differenced series appearing in the forecasting equation are called "auto-regressive" terms, lags of the forecast errors are called "moving average" terms, and a time series which needs to be differenced to be made stationary is said to be an "integrated" version of a stationary series.

To uncover the hidden structure as well as to forecast India's export-import, the following equation has been taken:

ARIMA(0,1,0) = random walk: In models there are two strategies for eliminating autocorrelation in forecast errors. One approach, which we first used in regression analysis, was the addition of lags of the stationarized series. For example, suppose we initially fit the random-walk-with-growth model to the time series Y. The prediction equation for this model can be written as:

...where the constant term (here denoted by "mu") is the average difference in Y. This can be considered as a degenerate regression model in which DIFF(Y) is the dependent variable and there are no independent variables other than the constant term. Since it includes (only) a nonseasonal difference and a constant term, it is classified as an "ARIMA(0,1,0) model with constant." Of course, the random walk without growth would be just an ARIMA(0,1,0) model *without* constant

where = India's export in billion of Rupees at period t, regressed it with previous period
India's export in billions of Rupees at period (t-1),

And same for import...

Model Description

Model Description			Model Type
Model ID	Export	Model_1	ARIMA(0,1,0)
	Import	Model_2	Brown

TABLE: 1**Export and Import from India**

Dataset aggregated at the all-India level for all sectors, post-liberalization periods

(Value in US million \$)

Year	Export	Import
90-91	32552	43194
91-92	44042	47850
92-93	53690	63377
93-94	69751	73102
94-95	82675	89969
95-96	106354	122678
96-97	118816	138919
97-98	130101	154176
98-99	139775	178331
99-2000	159581	204890
2000-01	200891	227394
2001-02	208123	241528
2002-03	248652	2,91132.0
2003-04	287037	3,51995.0
2004-05	355684	4,78304.0
2005-06	456418	6,60408.0
2006-07	567558	8,10429.0
2007-08	655448	10,07823.0
2008-09	840754	1374434.0
2009-10	845533	136,373.50
2010-11	1142922	1,683466.9
2011-12	1465959.39.39	2,345,463.25
2012-13	1634319	2,669,161.95

Table 2
EXPORT

Autocorrelations

Series:Exports

Lag	Autocorrelation	Std. Error ^a	Box-Ljung Statistic		
			Value	df	Sig. ^b
1	.799	.196	16.693	1	.000
2	.599	.191	26.520	2	.000
3	.449	.187	32.322	3	.000
4	.350	.182	36.027	4	.000
5	.228	.177	37.681	5	.000
6	.133	.172	38.280	6	.000
7	.043	.167	38.347	7	.000
8	-.031	.162	38.383	8	.000
9	-.089	.156	38.708	9	.000
10	-.135	.150	39.514	10	.000
11	-.174	.144	40.964	11	.000
12	-.208	.138	43.233	12	.000
13	-.243	.132	46.621	13	.000
14	-.267	.125	51.191	14	.000
15	-.285	.118	57.013	15	.000
16	-.295	.110	64.147	16	.000

a. The underlying process assumed is independence (white noise).

b. Based on the asymptotic chi-square approximation.

Results clearly indicate that the autocorrelation coefficient between export and its one period lag is statistically significant. A correlogram of export series which deals with autocorrelation of exports is shown in above table.

Table 3
IMPORTS

Autocorrelations

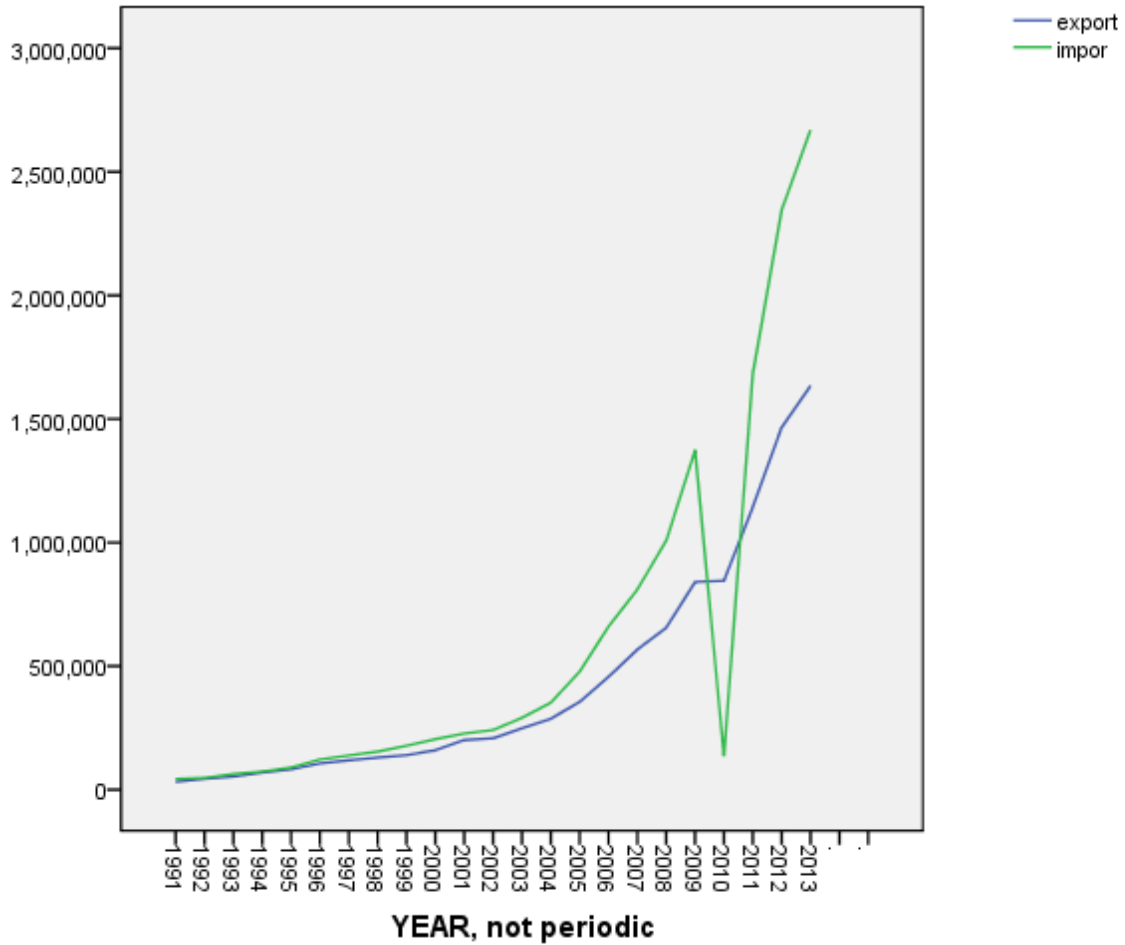
Series:Imports

Lag	Autocorrelation	Std. Error ^a	Box-Ljung Statistic		
			Value	df	Sig. ^b
1	.465	.196	5.654	1	.017
2	.231	.191	7.116	2	.029
3	.467	.187	13.396	3	.004
4	.356	.182	17.240	4	.002
5	.058	.177	17.347	5	.004
6	-.019	.172	17.360	6	.008
7	.004	.167	17.361	7	.015
8	-.047	.162	17.445	8	.026
9	-.080	.156	17.708	9	.039
10	-.103	.150	18.177	10	.052
11	-.119	.144	18.858	11	.064
12	-.141	.138	19.892	12	.069
13	-.156	.132	21.293	13	.067
14	-.168	.125	23.096	14	.059
15	-.181	.118	25.441	15	.044
16	-.188	.110	28.359	16	.029

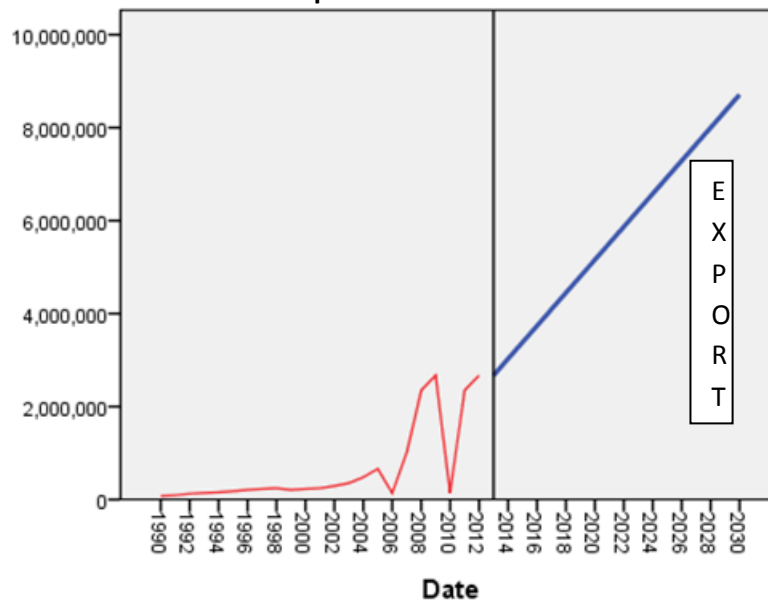
a. The underlying process assumed is independence (white noise).

b. Based on the asymptotic chi-square approximation.

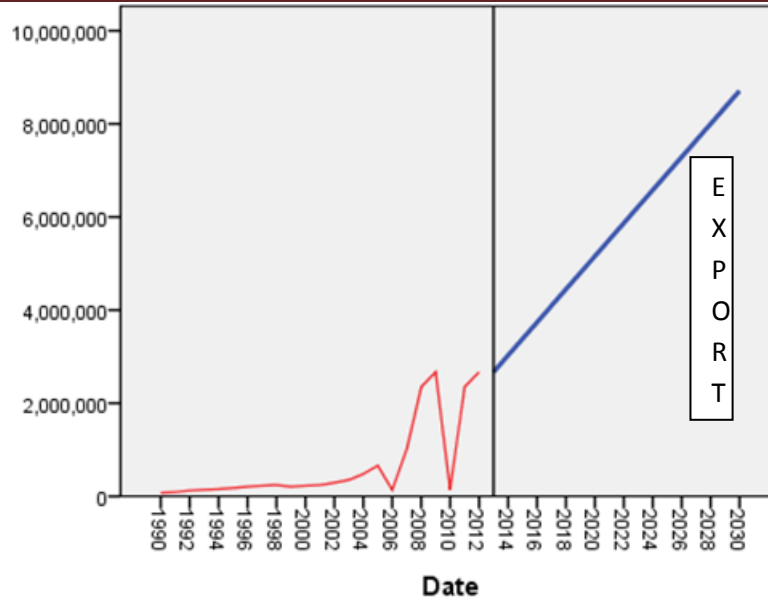
Results clearly indicate that the autocorrelation coefficient between import and its one period lag is statistically significant. A correlogram of import series which deals with autocorrelation of imports is shown in above table.



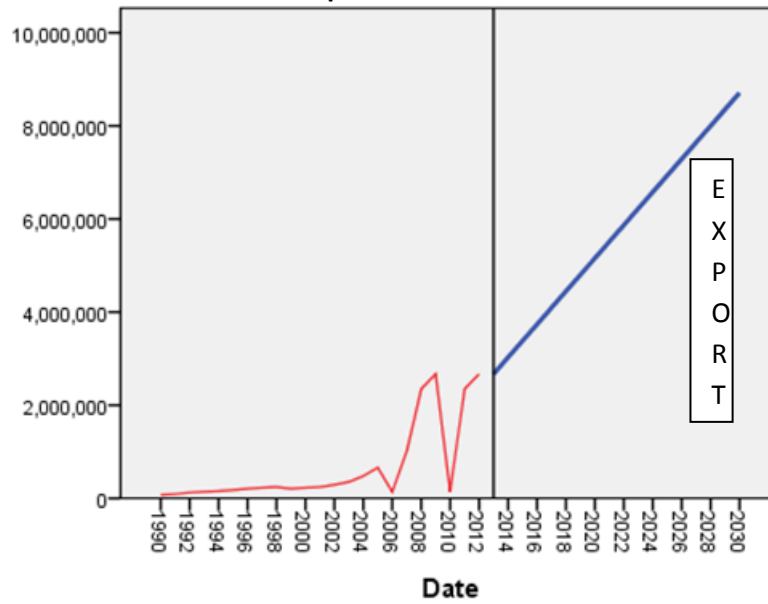
Graph No.1



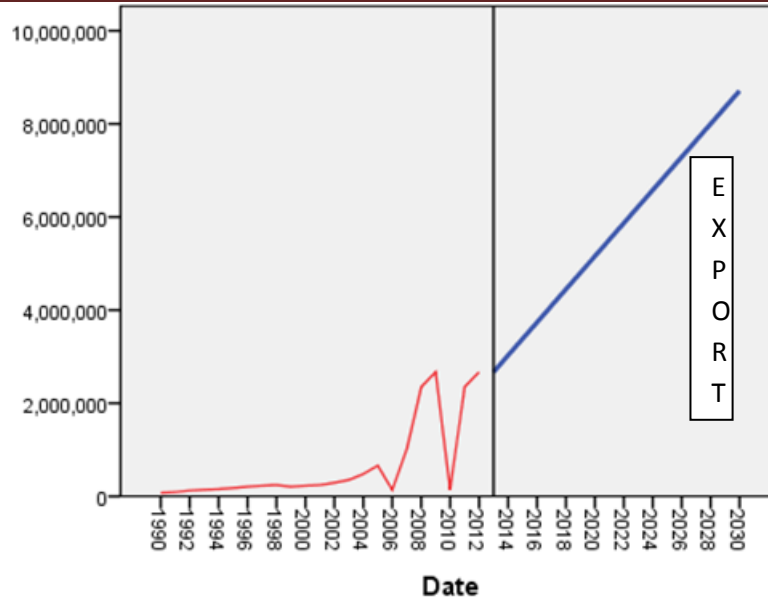
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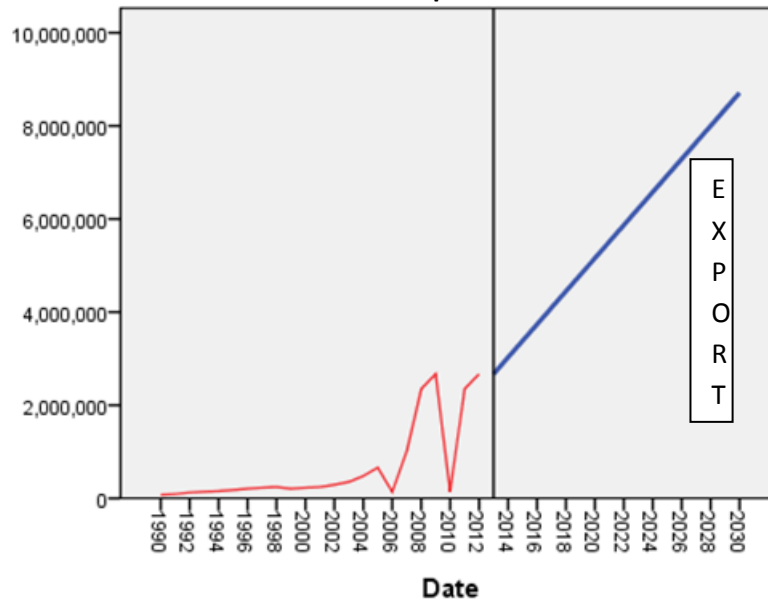
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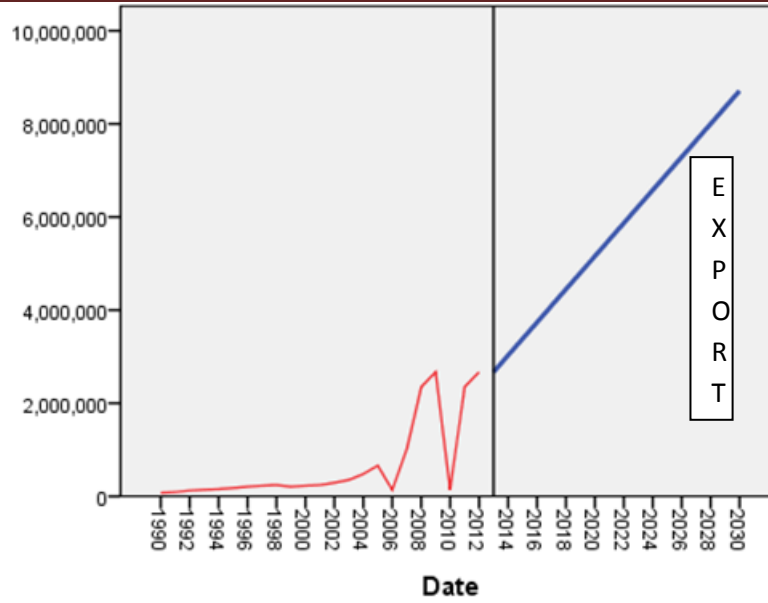
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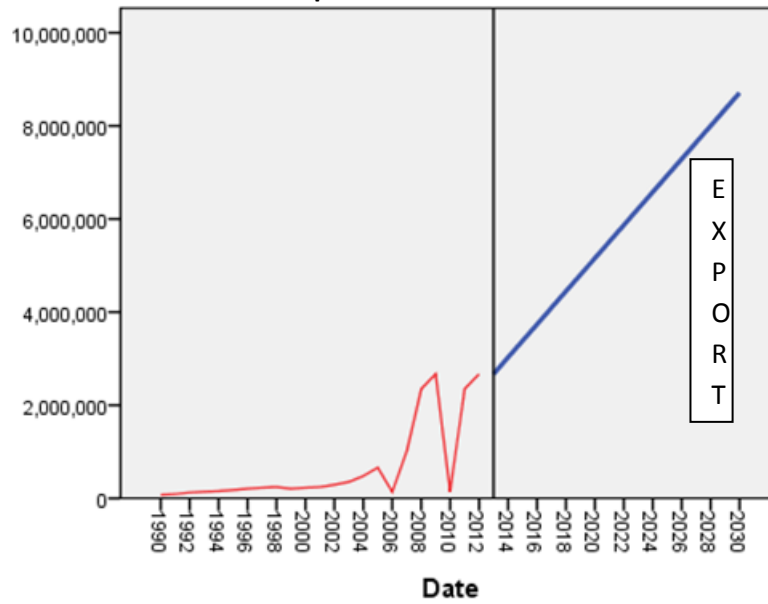
Graph No.5



Graph No.6



Graph No.7



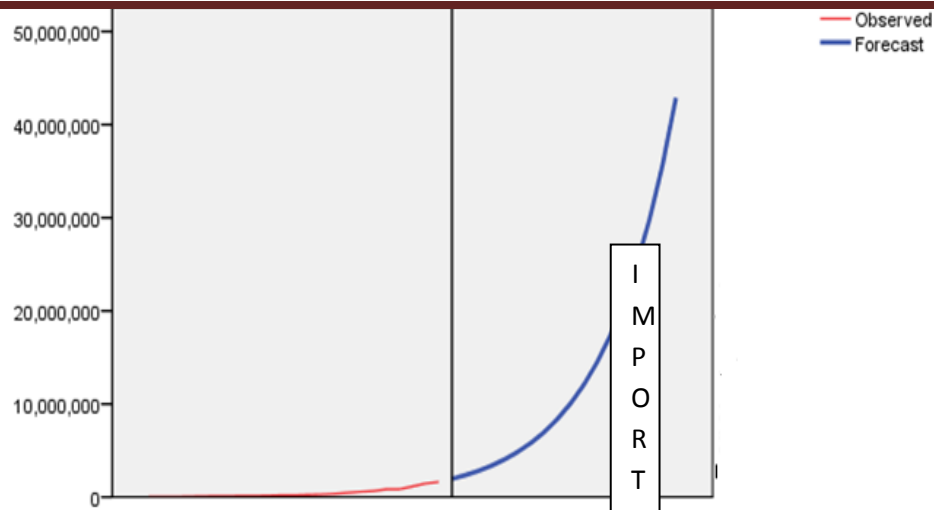


Table 3

Model	Export-Model_1				Import-Model_2			
	Forecast	% change	UCL	LCL	Forecast	% change	UCL	LCL
2013	1959588.997		2323977	1640802	2701690		3586970	1816411
2014	2349596.075	19.90249376	2984342	1824122	2982815	10.4055	4041427	1924203
2015	2817224.287	19.90249376	3768604	2062227	3263939	9.424805	4519772	2008107
2016	3377922.175	19.90249376	4717821	2351743	3545064	8.613042	5018561	2071567
2017	4050212.925	19.90249376	5873441	2696828	3826188	7.930026	5535283	2117094
2018	4856306.299	19.90249376	7283362	3104763	4107313	7.347377	6068092	2146534
2019	5822832.357	19.90249376	9004801	3585095	4388437	6.844487	6615599	2161276
2020	6981721.203	19.90249376	11106813	4149539	4669562	6.406027	7176730	2162393
2021	8371257.83	19.90249376	13673053	4812140	4950686	6.020361	7750633	2150740
2022	10037346.9	19.90249376	16805017	5589581	5231811	5.678495	8336609	2127012
2023	12035029.24	19.90249376	20625903	6501592	5512935	5.373369	8934079	2091792
2024	14430300.18	19.90249376	25285274	7571457	5794060	5.099361	9542546	2045573
2025	17302289.77	19.90249376	30964692	8826628	6075184	4.851943	10161585	1988784

DISCUSSION

Imports and exports may seem like prosaic terms that have little bearing on everyday life, but they exert a profound influence on the consumer and the economy. In current interlinked economy, consumers are used to see products and get from every corner of the world in their local malls and stores. These overseas products provide more varieties to consumers and help them manage strained household budgets. But too many imports in relation to can distort a nation's BOP and devalue its currency. So the present study was undertaken to predict the future India's trade. The objective of this research was twofold: (1) to uncover the hidden potential in the data on export of India and (2) to forecast export-import and its growth rates for a period of 13 years (2013-2025). First goal has been realized by estimating a parsimonious model of India's foreign trade, which reveals that India's foreign trade of present period is related to one period lag of its own value and one period lag of error term. To fulfill the second goal, India's foreign trade forecasted for 13 years has been estimated by this model. Results along with growth rates of export and import are shown above.

Graph –I in appendix signifies the growth forecast of exports as per Arima outcome the growth patterns of export units were mixed till 2012, however after 2012 the growth of exports was observed accelerating. This clearly indicates with extreme support of Government the economy will be nursed back to health to boost the economic framework of India. Although from the data, it is visible that there has been a consistent increase in the export from the country as well as imports by the country but there is gradual growth of exports while imports have observed fluctuations specially during the duration of Pre- and Post-US Subprime Crisis of 2008.

CONCLUSION

Imports and exports exert a major influence on the consumer and the economy directly, as well as through their impact on the domestic currency level, which is one of the biggest determinants of a nation's economic performance. From the above study growth trajectory of India's Exports as well as Imports Since 2014 can be observed. Although as per ARIMA outcome the growth pattern of export is not as high as Imports but at the later stages during 2025 onwards Exports may exceed Imports which is a good sign while over the duration between 2014 to 2025, India may face Balance of Trade Deficit. Hence to bridge the gap, Indian Government has to take effective measures to accelerate the growth of Exports at a higher Pace. While the entire analysis depicts clearly that Indian Government has facilitated the Indian economy by bringing LPG Policy to boost the economic framework of India and to improve the bilateral and multilateral relationship with the various countries of the world. data for 2015 depicts that imports in India will also accelerate till 2025 to 6075184 USD Million in 2025 from 2701690 USD Million in 2013 which envisages that the model is fit where it had incorporated all the fluctuations. Eventually from the forecasted Exports in India 19% average growth was observed i.e. increase from 2014, reaching an all time high of USD Million in 2025 and which was 32552 USD Million in 1991.

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