

**EXPORT PROMOTION AND IMPORT SUBSTITUTION EFFORTS OF GOVERNMENT OF INDIA IN THE MANUFACTURING SECTOR SINCE 2011 TILL 2020: A LITERATURE REVIEW**

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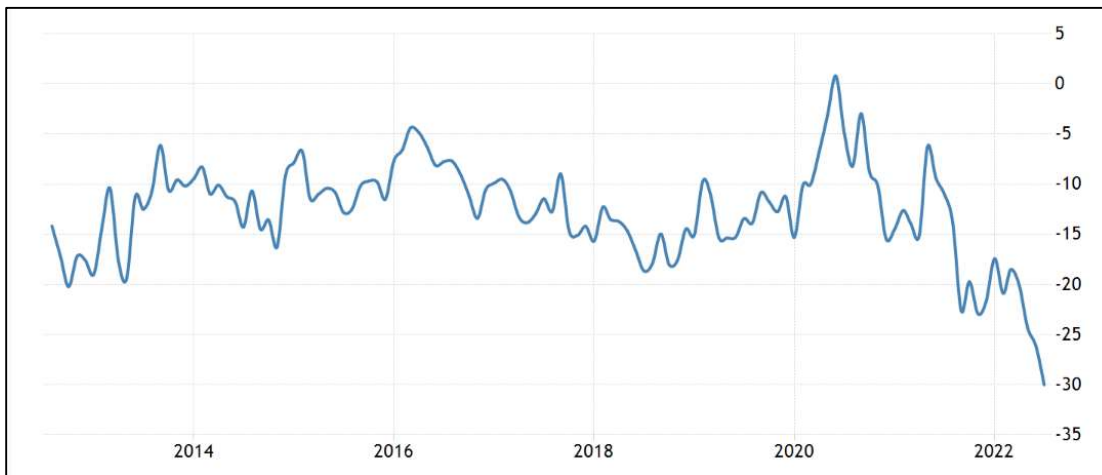
**Abstract**

A research entitled “Export promotion and import substitution efforts of Government of India in the Manufacturing sector since 2011 till 2020” was undertaken with the objective of evaluating if the efforts of Government of India in the last 10 years have to promote exports and substitute imports in the manufacturing sector. A look at the Indian trade deficit for the last ten years shows that India’s trade balance has always been below the zero line, meaning, the imports have been more than the exports. In very recent times the trade deficit has touched record new lows up to USD 30 billion. While we are proudly celebrating 75<sup>th</sup> anniversary of India’s independence, the foreign trade deficit figures shows that India is still heavily dependent on imports which are not offset by commensurate exports. This paper presents review of select literature related to the topic.

**Keywords:** *Export promotion, Import substitution, Manufacturing sector, Literature review*

**Introduction**

A look at the Indian trade deficit for the last ten years shows that India’s trade balance has always been below the zero line, meaning, the imports have been more than the exports. This data is given in the following figure.



**Figure 1: India’s foreign trade balance**

(Source: Tradingeconomics.com, 2022)

In very recent times the trade deficit has touched record new lows up to USD 30 billion. Figures of 2022 are a bit abnormal due to the Russia-Ukraine war and so are the figures of 2020, and 2021, courtesy the COVID-19 pandemic. But even in earlier years up to 2020, India trade deficit has been in the range of USD 5 – 20 billion. While we are proudly celebrating 75<sup>th</sup> anniversary

of India's independence, the foreign trade deficit figures shows that India is still heavily dependent on imports which are not offset by commensurate exports. This calls for some serious introspection and it is against this backdrop a research was undertaken under the title "Export promotion and import substitution efforts of Government of India in the Manufacturing sector since 2011 till 2020." This paper presents the relevant literature that was reviewed.

### Literature Review

- 1) Kanagsabapaty et al. (2013) have stated that over the last decade, India's foreign trade – exports and imports – has undergone a significant transformation both in terms of commodity composition and direction. However, foreign trade grew during this period with import growth prevailing over export growth, resulting in a deepening of the negative trade balance. The trade policy announced on 27 August 2009 against the backdrop of the economic crisis maintained the short-term objective of halting and reversed the downward trend in exports and sought to provide additional support to those sectors that had been hit hard by the recession in the developed world. Accordingly, a policy target was set to achieve 15% annual export growth by March 2011 with a target of US\$ 200 billion in annual exports and within three years. In 2014, the country was expected to return to the path of high exports and growth of around 25% per year. Unfortunately, the growth target set for the years beyond 2012 proved too ambitious as exports declined sharply in the financial year (FY) 2012-13. It is also recognized that in a rapidly growing economy, a rapid increase in exports is the only option available to keep the current account deficit at a reasonable level.
- 2) Jana et al. (2020) seeks to support fresh empirical evidence on how FDI is relevant to foreign trade growth in India under a time-varying parameter model with vector autoregressive specification. Johansen's cointegration test documents a significant and positive long-run co-movement between FDI and foreign trade in India. The vector error correction model suggests unidirectional long-run causality from foreign trade to foreign direct investment. However, the Granger causality test confirms a bidirectional short-term causal relationship between these variables. Furthermore, the variance decomposition analysis confirms the strong exogeneity of foreign trade. Analysis of the impulse response function again reveals that the responses generated by a positive foreign trade shock to FDI and vice versa are small and initially negative and then remain persistently positive at a constant level. The study finally concludes that the absence of long-run causality between FDI and exports is a result of foreign investors' high domestic market orientation and less emphasis on export-oriented sectors in India.
- 3) Mehta (2015) has examined the trend pattern of India's exports, imports and total trade during pre- and post-New Economic Policy periods using time series data from 1971 to 2013. Further, the study also analyzed the impact of New Economic Policy on India's exports and imports and Total Trade using a paired sample 't' test. The result revealed that India's export, import and total trade increased continuously before and after the new economic policy, but after the new economic policy increased more than before the

new economic policy. The result also indicates that the growth rate of imports was higher than the growth rate of exports. The result of the paired 't' test indicates that the new economic policy had a positive effect on India's exports, imports and total trade. It means that India's exports, imports and total trade have increased significantly after the New Economic Policy.

- 4) Ganguly and Pardesi (2009) have carried a macro review of India's foreign trade policy. This paper provides an overview of India's foreign policy from 1947 to the present. It is divided into three distinct historical sections. It will also attempt to explain the underlying rationale behind these policies, the initial orientation of India and the subsequent changes that have taken place over time. The first part deals with the period from 1947 to 1962, the second from 1962 to 1991 and the third from 1991 to the present. The choice of these three segments is far from arbitrary. The first period represented the most ideal phase of Indian foreign policy under the leadership of India's first Prime Minister, Jawaharlal Nehru. The second began with the disastrous defeat of India in 1962 in the Sino-Indian border war. This period saw a gradual shift away from the early idealism that characterized the country's foreign policy and the adoption of an increasingly "self-help" approach to foreign policy while retaining elements of Nehruvian rhetoric. The third phase began with the end of the Cold War and the adoption of a more pragmatic foreign policy that was closely focused on the principles of realism.
- 5) Ray (2013) states that India's foreign trade has seen good growth in the last 20 years of the LPG era. There has been a multifold increase in both imports and exports. There are significant changes in both the composition and direction of India's foreign trade. India's dependence on traditional major partners like the US has reduced. New emerging regions such as Africa and Latin America are becoming potential business destinations. The agreement with the ASEAN trade bloc is delivering the desired result. The global slowdown has taken its toll on India's exports and imports, but India has been relatively less affected and could reverse the downward trend. With commendable growth in foreign trade, India is also afflicted with a huge trade deficit. The trade deficit was the highest in the last financial year in India. Traditional export-oriented industries such as textiles have lost their luster in recent years. In this context, this study tries to monitor current trends in foreign trade and the trade deficit within the framework of the last five-year foreign trade policy.
- 6) Singh (2016) has stated that foreign trade contributes significantly to the economic growth of a country. The political regime in India with regard to the liberalization of the external sector has brought tremendous changes in India's foreign trade. The total value of India's exports of goods and services reached approximately USD 470 billion in 2013-14. India's share of world exports is 1.7% for goods and 3.2% for services. The present study attempts to analyze the trend and composition of foreign trade since 2005. It reveals that although both exports and imports have increased, the growth rate of imports is higher than the growth rate of exports. It is also observed that manufactured

goods form the major part of the export goods while oil and petroleum form the major part of the imported goods. There is huge untapped potential for India's foreign trade in the coming years.

- 7) Singh and Singh (2021) have written that in today's world of value chains, where the focus of global trade and commerce has shifted from nations to firms, the formulation of trade policies has become increasingly complex. In India, the Directorate General of Foreign Trade (DGFT) under the Ministry of Commerce and Industry is formulating a new Foreign Trade Policy (FTP), which is expected to be rolled out in April 2022 and applicable for the next five years. The design process requires a huge effort to gather and analyze a diverse range of inputs – from export promotion councils, trade associations, chambers of industry, commodity councils and trade policy specialists. Based on the results of these consultations, the DGFT must then design a coherent FTP that takes into account both national and international complexities. In addition, the outcome of the previous FTP must be evaluated to address any gaps and deficiencies in its stated objectives. These included ensuring a stable and sustainable political environment and regime; linking export and import rules, procedures and incentives with other initiatives such as Make in India, Digital India and Skill India; diversification of Indian exports; strengthening the governance structure for India's global trade commitments; and correcting the trade imbalance in India's external liabilities.
- 8) Nisa (2017) has assessed the impact of GST on India's foreign trade. GST will be rolled out sometime between April and October 2017. The implementation of the law is expected to ease India's cumbersome tax system, help goods move smoothly across national borders, curb tax evasion, improve compliance, increase revenue, promote growth, promote exports, and attract investment by making it easier to do business in India. In short, GST is expected to do wonders in implementation. But the question is - can it really bring about such radical changes?
- 9) Gupta (2011) has stated that India signed up for outward orientation in July 1991, and in the last eighteen years a gradual process of liberalization has been implemented both in the domestic sector and in foreign trade policy. Over the years, India has gradually integrated itself into the world trading system. This study examines the changes that have taken place in foreign trade policy in the post-reform period and attempts to provide direction for policy formulation on the unfinished reform agenda regarding foreign trade growth in the long term.
- 10) Pillania (2008) has stated that Indian economy and foreign trade are on a growth trajectory. Since independence in 1947, Indian exports have come a long way in value terms. Total value of India's merchandise exports grew from \$1.3 billion in 1950-51 to \$63.8 billion in 2003-04 – a compound rate of 7.6 percent. Trade growth accelerated after liberalization in 1991. The composition of trade is now dominated by industrial goods and services. The share of India's services exports in global exports is more than double that of India's manufacturing exports. East Asian countries, especially China,

have become an important trading bloc. There is huge untapped potential for India's foreign trade in the coming years.

### Conclusion

A study critically looking at role of foreign trade policy in both promoting exports and import substitution is not seen on record. Such a study is desirable especially in the wake of “Make in India” campaigns of the Government. Hence this study was undertaken to address the following research questions:

- RQ1 – Are the efforts of Government of India enough in last 10 years in order to promote exports and substitute imports in the manufacturing sector?
- RQ2 – What are the domestic factors responsible for the reduced exports and increased imports relating to manufacturing sector?
- RQ3 – What are the specific concerns and views of exporters and importers related to the policies of manufacturing sector of the Government of India implemented in the last 10 years?
- RQ4 – Is there need of any common Information Technology platform, which can regularly collect feedback from all stakeholders which can subsequently be used for the policy formulation for manufacturing sector?
- RQ5 – What is the level of effectiveness of new structural and institutional changes like faceless customs assessment, Risk management system, and advance authorization scheme etc. adopted by Indian Customs and DGFT to promote international trade?

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