CHAPTER-IX

CONCLUSION AND POLICY RECOMMENDATIONS

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The study begins with an introductory chapter wherein the theme and the objectives for carrying out the present study are stated. It also explains the hypothesis of the study and methodologies. The period of study pertains to duration of more than two decades corresponding to the pre and post-reform periods.

The second chapter explains various trade theories that give the answer to the question: Why trade is necessary? The important theories, which explain trade, are Absolute advantage theory, Comparative cost theory, Reciprocal demand theory, Factor endowments theory, Availability approach, Opportunity cost theory, National competitive advantage and Krugman's theory each of these theories have been examined..

The second part of this chapter gives the background as to why India initiated the economic reforms in 1991.These reforms in 1990s, mainly dealt with industry and trade policy. These policies do have its impact on the economy in general and on external sector in particular. These are analysed in the third chapter.

As per the analysis undertaken in this chapter it is evident that the trend in economic growth rate in terms of various components GDP is showing a rising tendency during the latter part of the reform period. This period coincides with the post-adjustment period. From this, one may conclude that reforms have influenced economic growth positively. This trend of rising growth is associated with number of sectors such as a Services (C7), Construction (C8), Trade, Hotel, Transport and Communication (C9), Financing, Insurance, Real estate and Business Services (C10), Community, Social and Personal Services (C11). However, it is pertinent to know that this growth is accompanied with higher instability. Therefore, in the long run growth may not be sustainable.

It was also found that reforms had a favorable effect on exports and other external sector variables. Here again higher export earnings is associated with higher instability. Thus, the issue of instability requires an analysis. In the subsequent chapters, this has been undertaken.

In chapter four country group wise export growth and instability has been examined. It was found that opening of economy has made India more vulnerable to external shocks. Further, more than 50% of Indian exports go to OECD group. It can also be noticed that there is a change in the direction of export from OECD to OPEC and Developing countries. This chapter also suggests that in order to improve the growth and stability of the export earnings, than Indian should concentrate to exploit the fast expanding markets of OPEC group in general and markets of U.A.E in particular.

In the fifth chapter, a similar exercise has been undertaken in terms of commodity group. It is clear from the chapter that the share of traditional commodities in the export basket has declined and that of non-traditional commodities has increased.

This diversification was mainly because of rise in exports of Iron and steel, Manufacture of metals, Machinery and instruments, transport equipments and Electronic goods. From the result of this chapter, we can say that by concentrating on the production and exports of the commodities such as Tobacco, Basic chemicals, Manufacture of metals exports earnings can be enhanced at the same time stability can be maintained.

The commodity and country wise joint analysis has been undertaken in chapter six. Six commodities were identified that not only can enhance the export earnings but also bring stability if these commodities are exported to selected countries. For instance, it will be advantageous to export Gems and jewellery to Switzerland. In case of Engineering goods and Readymade garments, export to Italy should be more. As far as Chemicals are concerned, it will advantageous to export to U.S.A and C.I.S. For Cotton, South Korea market could be explored. Lastly, the export of Leather manufacture to France, Portugal and U.S.A will prove to be advantageous in terms of export growth and lower instability.

In chapter seven, direction as well as composition of import are examined. During post-adjustment period the source of our imports, have changed form OECD to Developing group of countries such as China, Thailand, Benin and Tanzania.

However, the imports from Developing countries show a destabilising effect as compared to imports from OECD group. The imports from countries such as Belgium, Netherlands, Canada, Japan, Indonesia, Romania, C.I.S, China, Malaysia, Singapore, Thailand and Sudan have shown stabilising effect. Further, the study suggests that imports from Eastern Europe are more favorable as it has indicated the best possibility of lower imports and lower instability.

As for the imports of commodities are concerned, the imports of Non-ferrous, Paper and paperboard, Crude rubber, Manufacture of metals, transport equipments, Textile yarn that has shown the best possibility.

Although the reforms have brought about a change in the direction as well as in composition of commodities traded, these structural changes some how failed to improve the deteriorating trend in the terms of trade. The deterioration in the terms of trade is a result of higher growth of imports unit value index as compared to exports unit value index. This is evident in chapter eight.

From the above, we can sum up and say that the libralisation has allowed the Indian economy to attain a higher degree of integration with global economy during post-reform as well as in post-adjustment period. This openness has brought the desired growth. But, at the same time has made the economy more vulnerable to external shocks.

1. As per this study, it is advantageous to export more to U.A.E and O.P.E.C countries. Therefore, there is a need to explore the possibility of exporting more to the markets of these countries. In this direction, India has already started negotiating a Free Trade Agreement with the Gulf Cooperation Council (GCC) countries. Some of the OPEC group of countries and the UAE are the members of the GCC. Thus, the signing of Free Trade Agreement (FTA) should be expedited.

2. Study also indicated that it is beneficial to concentrate on the export of cotton to the S.Korean markets. In August 2010, India and S. Korea signed the Comprehensive Economic Partnership Agreement (CEPA) opening up trade and investment between the two countries.

3. Similar kind of Free Trade Agreement is required between India and other countries to further boost up our exports. These countries are Italy, France, Portugal and C.I.S. This will not only increase the export earnings but also stabilise the exports earning. This will providing us the new markets which will further diversify our exports and ultimately helps in reducing the instability in export earnings.

4. Instability can be eliminated by removing the structural weakness of the export sector. The structural weakness of this sector lies in low efficiency and productivity in resource use, lack of modern technology, marketing, information, planning and decision-making.

5. Policy should aim at market penetration as well as market expansion. More stress should be given on the market penetration. This can be done by making a broad based policy, consisting of close co-operation between the state and the private sector.

6. Exports can be enhanced by improving competitiveness of Indian industry to meet global market requirements. This requires special attention on two sectors of the economy. These sectors are agricultural sector and industrial sector. Though the relative role of primary sector has been falling, there is still a possibility for increasing exports of this sector by concentrating on the commodities such as Tobacco, fruits and vegetables. This requires development of special infrastructure and technology.

7. On the imports side, contribution of imports in export expansion should be evaluated. Libralisation of imports must take in account its effect on the Indian industry. It must, therefore, be based on careful planning and should aim at improving and strengthening the growth and productivity of Indian industries.

   The Indian industries must be given sufficient opportunity to improve their productive capacity and competitiveness to be fully prepared for the ultimate goal of completely free international trade, which is one of the objectives of the World Trade Organisation (WTO).

8. In order to stabilise the import prices, planning and timing of imports are important. The time factor of clearing of imported goods in Indian port is significantly contributing for price fluctuation in the domestic market .The average time for clearing of goods has to be reduced from the current level, which will have positive impact on the domestic market i.e. timely arrival of material in the domestic market will control the price speculation.

9. Warehouse facility also to be enhanced to the level of global standards. Meticulous planning and timely market intervention can be an effective tool to control pulses prices.

10. The study shows that by increasing the existing refining capacity the import instability can be reduced to a greater extent. For this foreign direct investment may be considered as one of the options. The Government may consider to enhance FDI limit in the refining sector from 49 percent.