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IMPACT OF NEW ECONOMIC POLICY ON EXPORT PERFORMANCE OF INDIA: AN EVALUATION

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ABSTRACT

In early 1991, a major economic crisis surfaced in India which was the worst that this country had experienced since Independence. The origin of the crisis is directly attributable to the cavalier macro management of the economy during the 1980s which resulted in large and persistent macro-economic imbalances. The growing fiscal deficits had to be met by borrowing at home. The growing difference between the income and expenditure of the economy as a whole resulted in huge current account deficits in the balance of payments which were financed by borrowing from abroad. The gulf crisis in that late 1990 sharply accentuated macroeconomic problems Besides, there was also political instability in the country at this juncture. All these developments together eroded international confidence in the Indian economy which resulted in decline in country's credit rating in the international capital market. The fiscal imbalance led the country fall into debt trap. The balance of payments position put the country on the brink of disaster. The mounting inflationary pressure was attributable to the large deficits which were inevitably associated with a monetization of budget deficits and an excessive growth of money supply The New Economic Policy was launched in 1991 to get rid of all the above three problems. A number of measures have been announced for liberalizing the economy. Out of many structural reforms trade policies one often one have been announced by the Government. Through this paper an effort has been made to assess the impact of new economic policy on export performance of the country.

Keywords: *Macroeconomic, Monetization, Liberalization, Imbalance, Promotion.*

Introduction

New Economic Policy was launched in 1991 which entails privatization, liberalization, globalization and disinvestment. The period after 1991 has been marked by a substantial liberalization of the trade policy including exports. Some liberalization measures were the result of conviction among government circles to make exports more competitive in the international market while some other liberalization measures were undertaken under the pressure of the international agencies, as a part of the stabilization and structural adjustment programme. For the promotion of the exports 16 export items have been decanalised. The new economic policy also permitted the setting up of trading houses with 51% foreign equity for the purpose of promoting exports. Under the 1992-97 trade policy, export houses and trading houses were provided the benefit of self certification under the advance license system which permits duty free imports for exports[1].

The Third Supplement to Foreign Trade Policy, 2004-09, annual in April 2007 divided export houses into five categories:- **(i)** Exports House, **(ii)** Star Export House, **(iii)** Trading House, **(iv)** Star Trading House, and **(v)** Premium Trading House. The exporters were granted such status on achieving exports of Rs. 20 crore, Rs.100 crore, Rs.500 crore, Rs.2500 crore and Rs. 10000 crore respectively[2]. The Export Houses and Trading Houses have been granted a number of benefits and concessions. Further, a scheme for setting up Special Economic Zone (SEZs) in the country to promote exports was announced by the Government in the EXIM Policy on March 31, 2000. The SEZs are to provided an

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internationally competitive and hassle-free environment for exports and are expected to give a boost to the country's exports. To instil confidence in investors and signal the Government's commitment to a stable SEZ policy regime, the Special Economic Zones Act, 2005 was passed by the Parliament in May, 2005 Which supported by SEZ rules, came into effect on February 10, 2006. The main objectives of the SEZ Act are generation of investment from domestic and foreign sources so as to create employment opportunities and develop infrastructure facilities. Various incentives and facilities have been granted to the industrial units in SEZs to attract investments into SEZs so that infrastructure and productive capacity may be developed resulting in increase in exports[3].

The Export Oriented Units (EOUs) introduced in early 1981, is complimentary to the SEZ scheme which offers a wide option in locations with reference to factors like source of raw materials ports of export hinterland facilities, and availability of technological skills, existence of an industrial base and the need for a larger area of land for the project, The EOUs have put up their own infrastructure. The EXIM Policy 2001 which is a constituent of New Economic Policy introduced the concept of Agri Export Zones (AEZs) to give primacy to promotion of agricultural exports and effect a reorganization of country's exports efforts on the basis of specific products and specific geographical areas.

Market Access Initiative Scheme was launched in 2001-02 for understanding marketing promotion efforts abroad. Under the scheme in-depth market studies for select products in chosen countries to generate data for promotion of exports from india were conducted. Now the focus is also on service exports. To boost exports 5 thrust sectors have been identified viz, Agriculture, Handicrafts, Handloom, Gems & Jewellery and Leather and Footwear sector. A large number of tax benefits and exemptions have been granted to promote exports. The Government formally devalued rupee by 18-19 % in july 1991 to restore India's international competitiveness. This was followed by a liberalization of the foreign trade regime through dismantling of some physical controls. A large number of export items have been decanalised which is an important step towards opening of more areas of the external sector to the private sector. Under industrial deregulation limit on the size of the companies which was earlier enforced under the MRTP Act has now been scrapped. The industrial units may now grow to optimum size and enjoy the benefits of economies of scale. The requirement of industrial licensing has been abolished for all but 5 product categories viz, alcohol, cigarettes, hazardous chemicals, industrial explosives and electronics aerospace and defense equipment[4]. The number of industries reserved for the public sector has also been reduced from 17 to 3.

Objectives of the Study

The main objective of the present study is to evaluate the impact of new economic policy on export performance of India.

The subsidiary objectives of the study are:

- To evaluate different measures adopted to boost exports.
- To establish relationship among endogenous and exogenous variables contributing export performance.

Scope of the Study

The present study is limited to the export performance of India for the post reform period. The exports cover both traditional and non-traditional items. The export performance has been evaluated with regard to composition and direction of exports.

Research Methodology Applied

The present study is based heavily on secondary data. The data have been collected from authentic sources viz, Report on Currency & Finance issued by Reserve Bank of India and Annual Reports of Ministry of Commerce. To assess the impact of new economic policy on exports views of Exports Houses and Trading Houses as well as government agencies like STC, MMTC, HHEC, PEC, CCI, TTCI etc. also have been taken into account. For the collection of primary data a structured questionnaire has been used. For in depth study, personal interviews of persons engaged directly or indirectly in foreign trade also have been conducted.

Analysis and Interpretation of Data Collected

The following table reveals exports of India for post reform period:

Table 1: India's Exports in Post Reform Period

Year	Exports (in US million $)	Change in Percentage (+) Increase (-) Decrease	Fixed Base Index No.
1991-92	17865	-	100.00
1992-93	18537	(+) 3.76	103.76
1993-94	22238	(+) 19.97	124.48
1994-95	26330	(+) 18.40	147.38
1995-96	31797	(+) 20.76	177.98
1996-97	33470	(+) 5.26	187.35
1997-98	35006	(+) 4.59	195.95
1998-99	33218	(-) 5.11	185.94
1999-2000	36822	(+) 10.85	206.11
2000-01	44076	(+) 19.70	246.72
2001-02	43827	(-) 0.56	245.32
2002-03	52719	(+) 20.29	295.10
2003-04	63843	(+) 21.10	357.36
2004-05	83536	(+) 30.85	467.60
2005-06	103091	(+) 23.41	577.06
2006-07	126414	(+) 22.62	707.61
2007-08	163132	(+) 29.05	913.14
2008-09	185295	(+) 13.59	1037.20
2009-10	178751	(-) 3.53	1000.57
2010-11	251136	(+) 40.49	1405.74
2011-12	305964	(+) 21.83	1712.64
2012-13	300401	(-) 1.39	1681.51
2013-14	314405	(+) 4.67	1759.89
2014-15	310338	(-) 1.29	1737.13
2015-16	262291	(-) 15.48	1468.18
2016-17	275852	(+) 5.17	1544.09
2017-18	303526	(+) 10.04	1699.00
2018-19	330078	(+) 8.75	1847.62
2019-20	313361	(-) 5.06	1754.05
2020-21	291826	(-) 6.87	1633.51

Source: Director General Commercial Intelligence & Statistics, Kolkata

By the analysis of the data gives in table 1, it may be concluded that country's exports declined in the years 1998-99, 2001-02, 2009-10, 2012-13, 2014-15, 2015-16, 2019-20 and 2020-21 in comparison to previous year over a span of three decades. The rate of increase in exports has been recorded between 3.76 - 40.49% if expressed in terms of fixed base index numbers, the exports were highest in the year 2018-19 recording index to be 1847.67 which further reduced to 1633.51 in the year 2020-21. It may be roughly put the during a span of 30 years the exports increased by more than 16 times. Since July 1991, the Government has undertaken both macro economic stabilization programmes and structural reforms as two components of the economic reform package. The reforms undertaken under the New Economic Policy has resulted in success in external sector as foreign exchange reserves crossed the level of $ 603 billion in 2022.

Preparation of Score Chart FOR Measures Promoting Exports

Several measures being used as tools under New Economic Policy have contributed to the export performance of the country. Here it is quite difficult to evaluate or assess the impact of each measure on exports. Hence, Rensis Likert's 5-point scale has been used to assess the contribution of these measures. As the contribution is of qualitative nature, a score chart has been developed for which 14 export promotion practices have been identified.

Rensis Likert's 5-Point Scale has been used as under:

Level of Export Measure Used	Very High	High	Average	Low	Very Low
Scores	5	4	3	2	1

The executives of trading houses/exports houses under study failed to provided quantitative data relating to export measures adopted. This is why the scoring technique was found to be more appropriate and relevant for qualitative data. Although, this approach is not free from bias of the analyst and criticism, yet under the given circumstances it was not possible to avoid it. This is why maximum precaution has been taken to avoid subjectivity and bring objectivity. The scores are reliable in relative terms only as these put the performance in varying grades showing relative importance. Based on the degree of these export measures, the appropriate as well as rational scores have been allotted to each selected export practice variable of the export houses/ trading houses under study. The total export scores thus obtained have been divided by 14 - The total number of export practice variables- to compute the mean or average score as given in Table 2.

Table 2: Name of Export House / Trading House

	Export Practices	A	B	C	D	E	F	G	H	I	J
1.	Knowledge of international market	4	3	4	3	2	3	4	1	2	1
2.	Improvement in quality of products	3	3	3	2	1	2	3	1	1	1
3.	Absence of government interference	4	4	3	4	3	3	4	3	3	3
4.	Liberalized export policy	4	4	3	3	4	3	4	3	3	2
5.	Use of propagation methods	3	2	2	2	3	2	2	1	2	1
6.	Development of export production base	4	3	3	4	2	2	3	1	2	1
7.	Strengthening of competitive power	3	2	2	3	2	1	1	1	2	1
8.	Availability of fiscal measures	4	4	3	3	4	3	4	3	3	3
9.	Level of monetary stabilization	3	4	3	4	4	4	3	4	3	3
10.	Stage of structural reforms	3	3	4	3	3	2	3	2	2	2
11.	Decanalisation	4	3	3	3	2	2	1	2	1	1
12.	Market promotion measures	3	3	3	3	2	2	2	1	2	1
13.	Dismantling of physical controls	2	2	2	2	2	1	2	1	1	1
14	Expansion of deregulation	4	4	3	3	4	3	3	2	3	1
	Total Scores	48	44	41	42	38	33	39	26	30	22
	Mean Scores	3.43	3.14	2.93	3.00	2.71	2.36	2.79	1.86	2.14	1.57

Relationship between Export Practices and Performance

The mean scores of export practices and the growth rates in export turnover of sample expert houses / trading houses have been correlated to find the relationship between exports practices and performance. Rank Correlation Coefficient (R) has been used for computing the degree of correlation between the two variables given as under:

Table 3: Correlation Between Export Practices and Performance

Name of Export House /Trading House	Export Practices Mean Score	Ranks	Annual Growth Rate	Ranks	Ranks Difference	Squares of Ranks Difference
	X	R_x	Y	R_y	$D=R_x-R_y$	D^2
A	3.43	1	18.42	4	-3	9
B	3.14	2	17.68	5	-3	9
C	2.93	4	22.94	2	+2	4
D	3.00	3	19.36	3	0	0
E	2.71	6	12.74	7	-1	1
F	2.36	7	16.79	6	+1	1
G	2.79	5	23.41	1	+4	16
H	1.86	9	6.27	9	0	0
I	2.14	8	11.93	8	0	0
J	1.57	10	4.76	10	0	0
N = 10					$\sum D = 0$	$\sum D^2 = 40$

$$\rho = 1 - \frac{6\sum D^2}{N(N^2-1)}$$

$$1 - \frac{6 \times 40}{10\,(10^2 - 1)}$$

$$1 - \frac{240}{990}$$

$$1 - \frac{0.242}{0.758}$$

It is observed that there is high degree positive correlation (R= 0.758) between export practices and performance of Export Houses / Trading Houses under study. Here, it is noteworthy to express that Rank Correlation Coefficient is more suitable where number of observations is small and the facts between which correlation is to be established may not be put quantitatively. If the data collected are more reliable in relative rather than in absolute terms as it is in present case, Rank Correlation Coefficient is a better measurement of relationship.

Conclusion

The export performance of India is the collective result of export promotion measures undertaken under New Economic Policy. The period of implementation of New Economic Policy is termed as 'Post-reform period'. The Exim policy announced time to time by the Government is the part of Trade Policy of the Government and the trade policy is one of the constituents of Economic policy. The Economic Policy of 1991 is known as 'new' because of fundamental structural changes like Liberalization, Disinvestment deregulation etc. so as to reduce the share of public sector and the economy be linked to the economies of the world which is called 'Globalization'. The export performance of the country may be termed as satisfactory but still India is far behind from its due share in world trade specifically in exports.

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