

India's Foreign Trade and Impact of Exports on Foreign Exchange Reserves in India

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ABSTRACT

With the advent of World Trading Organisation [WTO] India, entered into the era of trade reforms in 1991 and is moving towards an open economy. It is widely believed that export and import growth is crucial in providing the impetus for economic growth in developing countries and imports provide the important 'virtuous' link between trade and output growth. Therefore, our aim here, is to address the export/import-led growth and growth-driven export/import hypotheses for India. In spite of some ambiguity, the results clearly show that exports and imports granger cause GDP, both individually and jointly, lending support to the export/import lead's to growth hypotheses. There is also some indication of GDP and exports jointly granger causing imports, and GDP and GDP and import jointly granger causing exports, but the growth driven export/import hypotheses seem implausible. A possible reason for the results is the favourable trade environment of India. In India, both Export and Import plays a major role in Indian Economy. We also found that the evidence of unidirectional causality running from export to import, it means in long term export lead to import does not lead to export. This study has determined the relationship between both exports and imports. This study also develops the methodology for the comparative analyse of foreign trade. This study suggests that exports and economic growth of Indian Economy in last years. The purpose of this research was to explore exports in India. This paper has examined the various impacts of exports on foreign exchange rate of India. Findings leads to conclude the relationship between foreign exchange and exports in Indian economy.

Keywords: Exports, Imports, Economic Growth of India, Unit root, Cointegration, Causality, Trade policy reforms, Indian Economy, Trade Balance, Business Strategy.

INTRODUCTION

No country is self-contained to produce the goods and services that it calls for, which leads to trade among nations and acts as an engine for economic growth as exports are imperative to earn foreign exchange and availability of wider market while imports facilitates the nation by providing the goods and services not available within the country itself. The Indian Economy has gained considerable momentum for the last one decade for achieving the sustaining annual GDP growth rate over 7 percent. The high growth rate can be in part attributed to the growing

contribution of the export sector in the economy. Export is pre-eminent for the growth and the development of our country and it's led to the earning of valuable foreign exchange which says in the growth of the economy. The main objective of any economy is development. Export and Import plays important role in the economy. It is widely believed that exports are crucial impetus for economic growth in developing countries. Import also plays positive influence in the growth of economy, Imports of capital goods are especially important for developing countries which dependent on foreign capital for their economic development programs .However the beneficial imported capital must be productively engaged in the production of goods and services .So the current study is for the modern attempt to investigate the relationship between Exports,Imports of India and GDP growth ,and to re-address the export - led growth (ELG),import-led growth (ILG), and growth driven export and import(GDE and GDI) hypotheses.

OBJECTIVES OF THE STUDY

- To determine the relationship between export and import in the Indian Economy.
- To examine the impact of exports on the foreign exchange reserve of the country.
- To ascertain the growth of GDP in Indian Economy.

RESEARCH METHODOLOGY

The present study is descriptive as well as analytical in nature as it provide the description of current state of the country's foreign trade . The study is analytical one as strives to establish the relationship among variables and to know the impact of a change in exports on foreign exchange reserves of the economy

SECONDARY DATA

This study is mainly based on the secondary data collections which is collected through various sites journals, internet and other related sources.

IMPORTANT TERMS AND POLICIES OF IMPORTS AND EXPORTS IN INDIA

India's exports and import plays an important role in the increasing of GDP rate. We can also say that it helps in the overall development of economy, not only India many other countries also dependent on import and export. It really helps the relationship between both countries. Since the early 1960's policies of both makers and academics have shown great interest on exploring the possible relationship between international trade and economic growth .Nations are concerned about improving the quality of the life of their countrymen mainly depend on the overall that is macroeconomic ,development in a highly competitive on the globalized world, thus it creating wealth increasing the Gross Domestic Product(GDP) is the prime importance of any economy. There are many ways to achieve this goal. One possible way is to find the new export markets for goods and services as exports, along with the imports of new technology from different countries is an important reason for the development of an economy.

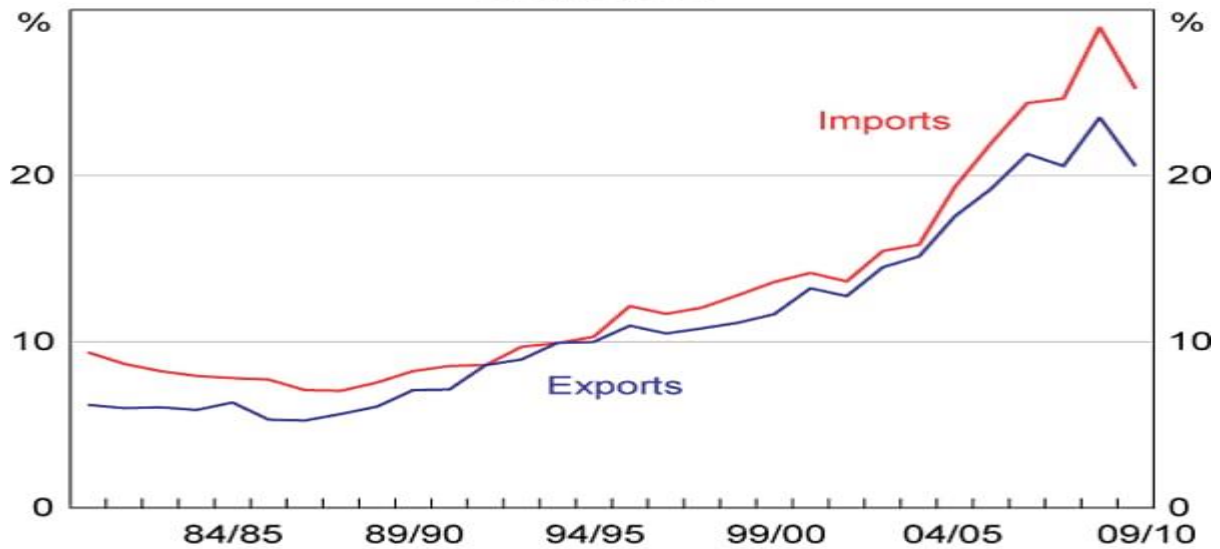
The studies confirmed that both exports and import growth has been instrumental in accelerating economic growth in India. India can not only boost the economic growth further but can also fuel growth in the entire South Asian regions . Almost all areas of economy have opened the both domestic and foreign private investment, import licensing restrictions on intermediaries and capital goods have been mostly eliminated. Tariffs have been reduced and full convertibility of foreign exchange earnings for current account transactions has been established. Benefits of exporting is to access more consumers and business, diversifying market opportunities so that even if the domestic economy begins to falter, you may still have other growing markets for your goods and services. Expanding the lifecycle of mature products . if the domestic market seems saturated for your goods and services , you can introduce them in to new markets in other parts of the world. Potential financing assistance from U.S. government agencies through loan guarantees that can be help to fund the exporting initiatives. But there are some complexities that come from exporting includes more paperwork, potential added financial risk ,cultural and language barriers ,possible requirement that modify your product packaging ,among others .Benefits of importing mainly introducing new products to the market , reducing cost.

Major benefit of importing is the reducing manufacturing cost .Many business today find importing products ,parts of products and resources more affordable than producing them locally. One of the key point of importing is related to the ability to the market products of high quality .Lots of successful entrepreneurs travel abroad to visit factories and other highly professional sellers in order to find the highly quality products and import into their own country. The main disadvantage of importing is foreign exchange risk. There is the danger that there will be a sudden large change in the currency exchange rate. This may result in your suffering a loss if the peso falls in value. A high level of importing indicates robust domestic demand and a growing economy. If these imports are mainly productive assets, such as machinery and equipments , this is even more favorable for a country since productive assets will improve the economy's productivity over the long run.

The relationship between exports and imports in Indian Economy means exports refers to selling goods and services produced in the home country to other markets .Imports are derived from conceptual meaning as to bringing in the goods and services into goods and services into the port of a country.An import in the receiving country is an exports to the sending country.Exports are very important to modern economies because they offer people and firms many more markets for their goods. One of the core functions of diplomacy and foreign policy between government to foster economic trade ,encouraging exports and imports for the benefit of all trading parties.

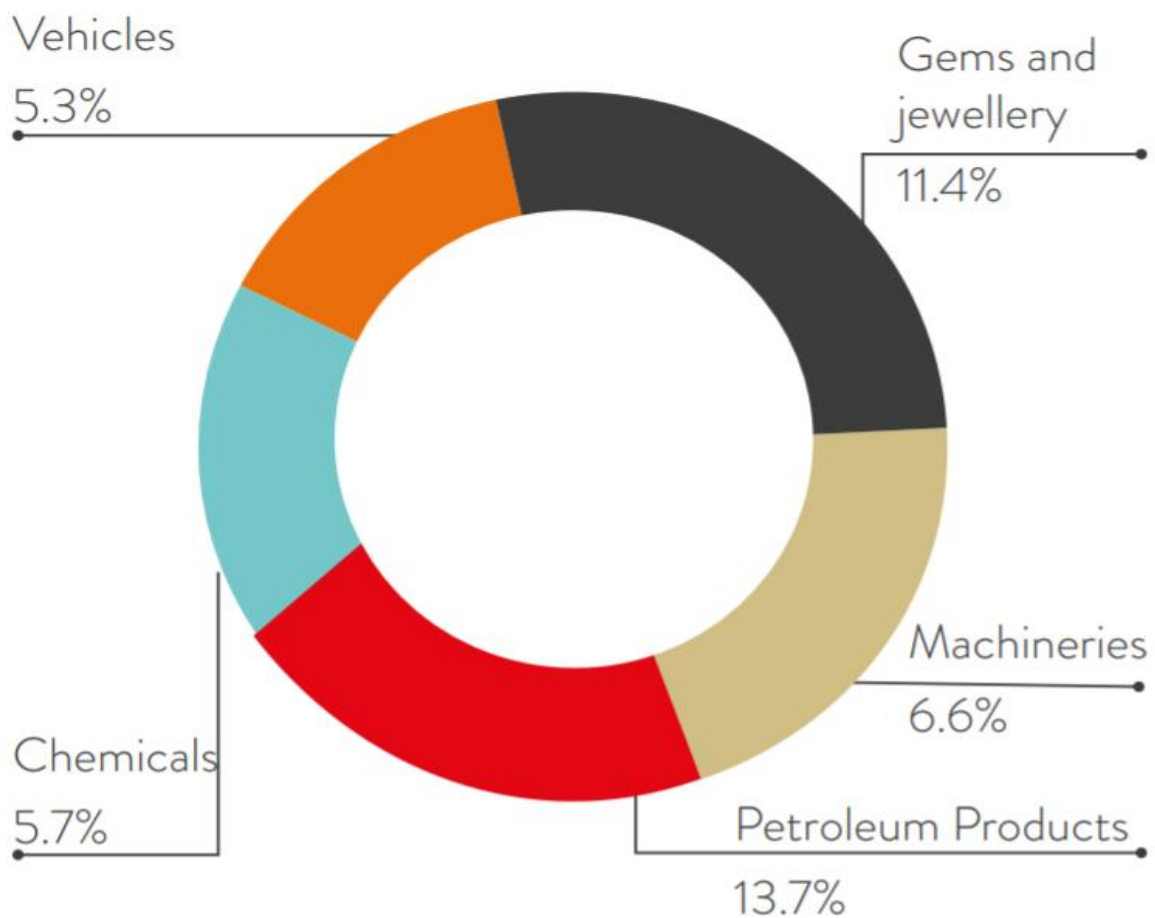
Impacts of Exporting goods and services has both advantages and disadvantages for countries involved in foreign trade.Exporting allows a country's producers to gain ownership advantages and develop low cost differential products .It is viewed as a low risk mode of production and trade. The sale of services and goods into foreign market is difficult for them rather serving the domestic market .A lack of knowledge of different languages,difference in culture,exchange regulations and trade regulations having the major impacts of exporting the goods for SME's.In addition to this the staff interaction and strain of resources is a major block of exporting goods.

India – Trade Share of GDP*



* Fiscal years are from April to March
Sources: CEIC; RBA

MAJOR EXPORT ITEMS BY COMMODITY, 2019



CONCLUSIONS

It was established through the results of the study that the oil imports have continuously a substantial cause of adverse balance of trade of India though, on the basis of the non-oil imports and exports, the balance of trade remained favorable during first years of the study. The big size of the population and its increasing needs are adding to the problem of trade deficit through the more import particularly, the oil. Import substitution and a surge in exports in exports are the need of the hour for the maintaining the good financial health of the nation which can be realized only through more capital formation. It can be expending more on research and development to avoid the heavy cost of borrowings of capital and technology. The importance of various determinants of imports and exports of India found a positive relationship between foreign direct investment(FDI), imports and exports.

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