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WTO AND INDIA'S FOREIGN TRADE

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ABSTRACT

With the emergence of the new world order after the establishment of the WTO in 1995, there has been a paradigm shift in the practices of the trade among various nations of the globe. The mission of achieving barriers free trade among various countries has come to the fore at various meetings, conferences and forums but due to conflicting ideologies, interests and preferences of the participants the issues always remain unresolved and further added flames to the new issues. In the present paper an attempt has been made to identify the assessment of impact over the trade quantum of India during a time series of data from 1985 to 2007. The trade data has been compiled from various authenticated sources. Keeping in view the objectives of the study, hypotheses have been constructed and tested with the help of the parametric tests. The variables taken in this study are: exports, imports (monetary values); Balance of trade; foreign exchange effective rates (real and nominal) and trade index (5 country and 10 –country) etc. This paper is divided into four parts. The first part is related to the study of present status of India's foreign trade with rest of world. In the second and third parts, the pre and post WTO impact on India's foreign trade has been analyzed by testing the hypotheses at 5% level of significance. The last part of this study is devoted to trend analysis of Indian foreign trade with select group of countries/country.

KEYWORDS

Foreign trade, Foreign exchange rate, WTO.

INTRODUCTION

As an important member of WTO, India ranks 20th in merchandise export and 13th in merchandise import while it stand at seventh rank as far as commercial service export is concerned (WTO statistics, Oct.2011). The annual percentage change in the merchandise export (f.o.b.) and merchandise import (c.i.s) basis is 17 and 18 respectively and surprisingly till date(2010) India's share of world total export is only 1.44% while in import it is merely 2.12%. To bring synchronization and providing platform for the open trade of goods and services WTO was established in the year 1995 and this was the time when India also introduced reforms in economic policy including trade.

The empirical evidences are sufficient to justify that despite various measures adopted by the Govt. to open trade barriers by lifting of tariffs and non-tariff barriers on many commodities, the import were dominating the export not only in terms of volume but value too. It may be due to various other macro economic variables like exchange rates and skewed trend in the growth of export in services particularly IT and ITES during the last fifteen years but the overall impact of WTO on India's foreign trade has not been too much impressive and that why the present study has been done to analyse the trend of India's foreign trade with rest of world with two time series data.

REVIEW OF LITRATURE

There have been various studies on the relational aspects of WTO and trade. Some have dimensions regarding growth pattern while in some papers there is an assessment of impact of WTO policies on the trade. Still there is a dearth of research work on the effectiveness and impact of the WTO trade regime on Indian trade at large. For the present paper an extensive review of literature has been carried out to formulate idea the multidimensional aspects of the WTO and trade in India. Though there are few studies on related areas of export performance of Indian firms in the post liberalization period, impact studies of WTO and India are also lacking. Review of available researches on trade performance of Indian firms can act as a guiding force in the assessment of impact. Here is the glimpse of the work done by different authors on various aspects.

Bergsten emphasized the need to open market for prosperity among nations with the help of regional cooperation. He opined that the most assured technique for achieving such parallel action to insist on reciprocity, through the negotiation of trade arrangements with enough existing or potential markets to tip the internal balance in favor of the desired liberalization. **Dholakia & Kapur** examined and explained the export performance of 557 firms for the years 1980-81 to 1995-96 by applying panel Tobit model and also observed that firm size, R& D expenditure, import intensity, advertisement expenditure, firm level growth, product quality, diversification, marketing & selling efforts, transaction cost have significant impact over the export performance. **Sharma & Panagiotidis** investigated the relationship between export growth and GDP growth by testing empirically through co-integration using Johansen approach and concluded that relatively big stocks in real exports do not generate significance responses. **Dash & Narasinghan** investigated the impact of exchange rate volatility on exports in the Indian economy during the post liberalization period and found that exchange rate volatility has played a role in reducing Indian exports during the post liberalization period. **Kaushik & Karol** attempted to examine the impact of export instability on imports of capital goods and gross capital formation and concluded that export instability induces instability in capital goods imports. Wadhwa (1998) concluded that the relatively low performance of India's export can be attributed more distinctly to the domestic supply side constraints than to the adverse impact of unfavourable external factors. **Kaushik & Paras** observed that the extent of diversification on trade performance depends upon initial conditions, state of infrastructure, technological capability as well as the external policy environment including changes in exchange rates, terms of trade and foreign resource inflows. **Roy** analyzed the persistence in the export performance of India's manufacturing sector during 1960-97 by taking into consideration various demands and supply factors and concluded that the performance is not only affected by the real effective exchange rate but also by world demand. The perpetuating market access problem sets an upper limit to the realization of potential world demand. **Poddar** in his working paper analyzed the microeconomics of the export performance of Indian firms and observed that most of the increase in export during the reforms period is more driven by existing firms which are export oriented. He further suggested that policy makers should encourage innovation and competition rather than protection and export incentives. **Sudarsan** revealed the import-intensity of our software export and suggested that the government should provide enough infrastructure support for sustainability of the same. **Ray, Sougata** observed that firms which had better environment-strategy fit achieved superior performance. He also focused on the need of increased importance of environmental scanning and strategic planning systems for bringing better performance.

Maltais et al analyzed the positive economic impacts in the liberalisation scenario, and expressed the concerns over the marginalization of small farmers, women and rural poor. The environmental impacts are less clear but there appear to be possibilities of both improvements to degradation trajectories and risks of negative land impacts. The intermediate scenario is more positive given opportunities to mitigate some of the potential negative social and environmental impacts. This is due to an identified need for public investment in India's agricultural sector, and due to a better bargaining situation for India in the WTO context. No impacts can be predicted for the baseline scenario.

OBJECTIVES

Based on the problem formulation and critical review of the literature available on the related aspects of the topic, the following objectives have been framed:

1. To review the present status of Indian trade with the rest of world in post WTO regime.
2. To analyze the trade pattern and growth of foreign trade of India in pre and post WTO period.
3. To find out the correlation between trade and exchange rates (real and nominal).
4. To carry out a comparative study of post WTO foreign trade of India with developing countries.

RESEARCH METHODOLOGY

The present study is explanatory in nature. The sampling is based on available data of time series for the convenience of the researchers.

DATA SOURCE

The present study is based on secondary data collected from authenticated sources from Indian and international organization. The data of trade (export and imports in terms of value) have been collected from Govt. of India site (Ministry of Commerce), Directorate general of Foreign Trade (DGFT) and Economic surveys of India. Time series data has been taken from 1985 to till date from various sources of WTO, UNCTAD reports, US trade census bureau, World Bank reports and studies.

The time period of study is divided into two parts; one part relates to pre WTO phase i.e. from the period 1985 to 1996(WTO was established in the year 1995 and one year has been used as gap year and the impact assessment of Post WTO has been done with year 1996) and the second phase is named as post WTO period (from 1997-2008) for comparison purpose and observing the impact of WTO on trade.

Keeping in view the objectives of the study the following hypotheses have been constructed:

HYPOTHESES

H₁ : There is no significant difference between the percentage changes in merchandise trade between India and rest of world during pre (1985-96) and post WTO(1997-2008) periods.

H₂ : There is no significant difference between the percentage changes in service trade between India and rest of world during pre (1985-96) and post WTO (1997-2008) periods.

H₃ : There is direct correlation between the trade and the exchange rates(real and nominal).

H₄ : There is significant growth of trade between India and some trade blocks during the WTO regime.

RESEARCH TOOLS

To test the hypotheses No. 1 and 2 the following tests of significance have been applied.

Paired sample t- test for checking the significance difference between the means of two samples of observation. The following formula has been adopted to calculate the value of t:

$$t = \frac{(x_1 - x_2) - D_0}{\sqrt{s_1^2/n_1 + s_2^2/n_2}}$$

Where hypothesized difference between μ_1 and μ_2 is D_0

For testing the hypothesis no. 3 the following multiple regression model has been applied:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \epsilon$$

Y is dependent variable (in this case trade index) $\beta_0, \beta_1, \beta_2$ are regression coefficients and ϵ is a standard error.

The F, t and R value have been calculated using SPSS for checking the significant differences among variances. Similarly the CAGR is calculated with SPSS.

The CAGR has been calculated using the formula $Y=AB$

Where Y= dependent variable

A=constant

B=slope of trend line (growth rate)

T=time

ANALYSIS AND INTERPRETATION

From 1985 to 2007 the compound annualized growth rate (CAGR) of export in merchandise trade of India with the rest of world was 11.99% which is almost equal to 11.54% in case of imports, showing that during 23 years of observations, the export have marginally led imports by a small percentage (table 1.1). The percentage change in export and import in pre WTO and post WTO periods have shown no significant difference in their means (table 1.1(A) showing t-value for paired sample t-test.

TABLE 1.1: SHOWING TOTAL MERCHANDISE TRADE OF INDIA WITH WORLD (US DOLLARS AT CURRENT PRICE IN MILLION)

YEAR	EXPORT	IMPORT
1985	9140	15928
1986	9399	15421
1987	11298	16675
1988	13325	19149
1989	15846	20535
1990	17969	23580
1991	17727	20448
1992	19628	23579
1993	21572	22788
1994	25022	26843
1995	30630	34707
1996	33105	37942
1997	35008	41432
1998	33437	42980
1999	35667	46979
2000	42379	51523
2001	43361	50392
2002	49250	56517
2003	58963	72558
2004	76649	99775
2005	99620	142842
2006	120861	175242
2007	145228	216682
CAGR(%)	11.99%	11.54%

Source: Trade Profiles; WTO Statistical Data Base

TABLE 1.1(A) SHOWING THE T- VALUES OF PAIRED SAMPLE T-TEST DURING PRE (1985-96) AND POST (1997-2007) WTO PHASES AT 5% LEVEL OF SIGNIFICANCE FOR MERCHANDISE TRADE BETWEEN INDIA AND REST OF WORLD

Type of trade	t-value	Sig. at
Export	-0.625	0.548
Import	-1.586	0.147

Source: values calculated with help of SPSS

TABLE 1.1(B) SHOWING THE F-TEST VALUES OF MERCHANDISE EXPORT DURING PRE WTO (1985-96) AND POST WTO (1997-2007) PHASES AT 5% LEVEL OF SIGNIFICANCE

Type of trade	F-value	F critical(one tail)
Export	0.041014	0.350431
Import	0.013081	0.345277

Source: values calculated with help of SPSS

TABLE 1.2 SHOWING COMMERCIAL SERVICES TRADE (EXCL. GOVT. SERVICES) OF INDIA WITH WORLD (US dollars at current price in million)

YEAR	EXPORT	IMPORT
1985	3274	3815
1986	3136	3828
1987	3266	4516
1988	3719	5168
1989	4092	5738
1990	4609	5943
1991	4905	5797
1992	4893	6615
1993	5034	6356
1994	6031	8030
1995	6763	10062
1996	7179	11000
1997	8926	12277
1998	11067	14192
1999	14006	17045
2000	16030	18896
2001	16799	19792
2002	19125	20776
2003	26633	24679
2004	37931	35293
2005	55508	47545
2006	75057	63053
2007	86366	78080
CAGR	15.86%	13.72%

Source: Trade Profiles; WTO Statistical Data Base

TABLE 1.2(A) SHOWING THE T- VALUES OF PAIRED SAMPLE T-TEST DURING PRE (1985-96) AND POST (1997-2007) WTO PHASES AT 5% LEVEL OF SIGNIFICANCE FOR COMMERCIAL SERVICES TRADE BETWEEN INDIA AND REST OF WORLD.

Type of trade	t-value	Sig. at
Export	-0.328	0.011
Import	-2.142	0.061

Source: values calculated with help of SPSS

TABLE 1.2(B) SHOWING THE F-TEST VALUES OF SERVICE EXPORT DURING PRE WTO (1985-96) AND POST WTO (1997-2007) PHASES AT 5% LEVEL OF SIGNIFICANCE

Type of trade	F-value	F critical(one tail)
Export	0.002501	0.350431
Import	0.010796	0.350431

Source: values calculated with help of SPSS

From the tables above it is clear that the t-values are far below the tabular values thereby the hypothesis that there is no significant difference between the %age change in means of exports and imports of merchandise trade during pre (1985-96) and post (1997-2007) WTO periods. On the similar trends, by applying two samples F-test for variance, the values of F shows that the difference is not significant. As an overall conclusion, it is derived that the WTO regime has not impacted the trade (export and import) of India with rest of the world. Therefore, there is a need to find and understand some other factors influencing trade of India with the rest of world.

The similar observations have been made on the service trade pattern in pre and post WTO regimes i.e. there is no significance difference between the volume of trade (merchandise and service) during pre and post WTO phases.

TABLE 1.3 SHOWING GDP AND MERCHANDISE TRADE BY REGION, 2004-06 (Annual percentage change, at constant prices)

Country	GDP			EXPORT			IMPORT		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
North America	3.9	3.2	3.4	8.0	6.0	8.5	10.5	6.5	6.5
US	3.9	3.2	3.4	8.5	8.0	10.5	11.0	6.0	5.5
South & central America	6.9	5.2	5.2	13.0	8.0	2.0	18.5	14.0	10.5
Europe	2.4	1.8	2.8	7.0	4.0	7.5	7.0	4.0	7.0
European Union(25)	2.3	1.6	2.8	7.0	4.0	7.5	6.5	3.5	6.5
CIS	8.0	6.7	7.5	12.0	305	3.0	16.0	18.0	20.0
Africa & Middle East	6.0	5.5	5.4	8.0	5.0	1.0	14.0	13.0	8.5
Asia	4.8	4.1	4.4	15.5	11.5	13.5	14.5	8.0	8.5
China	10.1	9.9	10.7	24.0	25.0	22	21.5	11.5	16.5
Japan	2.7	1.9	2.2	13.5	5.0	10.0	6.5	2.0	2.0
India	8.0	8.5	8.3	15.5	20.5	11.5	16.0	20.5	12.0
World	3.9	3.2	3.7	10.0	6.5	8.0			

Source: World Development Report 2007

TABLE 1.4 RATIO OF MERCHANDISE EXPORTS TO GDP, 1870-2005 (Percentage, real trade and GDP at 1990 prices and exchange rates)

Year	1870	1913	1929	1950	1973	1998	2000	2005
Canada	11.3	11.6	22.4	12.3	19.3	39.0	42.4	39.7
US	2.5	3.7	5.9	3.0	4.9	10.1	10.6	10.2
Brazil	12.2	9.8	6.9	3.9	2.5	5.4	5.5	8.9
Mexico	3.9	9.1	14.3	3.0	1.9	10.7	12.3	12.3
Austria	5.5	8.6	7.4	5.2	16.3	45.5	52.7	64.8
Belgium	9.0	22.6	24.3	17.3	52.1	88.5	97.0	112.2
Denmark	8.3	12.8	23.2	12.1	23.7	41.9	45.5	49.4
Finland	15.5	25.0	40.4	18.7	30.2	51.6	54.6	51.9
France	4.9	7.8	11.5	7.6	15.2	28.7	29.9	27.6
Germany	9.5							
Italy	4.3	4.8	5.9	3.5	12.5	26.1	28.7	28.8
Netherlands	17.4	17.3	29.7	12.2	40.7	61.2	62.9	77.7
Norway	9.0	14.0	23.3	12.9	26.2	55.4	56.7	55.6
Sweden	10.3	15.3	23.9	15.6	31.4	62.5	63.3	64.5
Switzerland	18.9	34.8	35.0	15.3	33.2	51.8	56.0	59.3
UK	12.2	17.5	14.2	11.3	14.0	25.0	23.1	19.3
Australia	7.1	12.3	13.2	8.8	11.0	18.1	19.8	18.6
China	0.7	1.7	2.6	2.6	1.6	4.9	5.9	10.7
India	2.6	4.6	4.0	2.5	2.0	2.4	2.9	3.7
Japan	0.2	2.4	6.1	2.2	7.7	13.4	14.6	15.7
World	4.6	7.9	9.0	5.5	10.5	17.2	18.5	20.5

Note: Territorial changes affect comparability in time for a number of countries especially between 1913 and 1929 and 1929 and 1950 (e.g. Austria, France, Germany, Great Britain, China, India and Japan).

Sources: World Trade Report, 2007

Also, from the table 1.4, it is obvious that the ratio of merchandise export to GDP expressed as %age at 1990 prices and exchange rate has shown declining trend from 1913 to 1973 i.e. from 4.6% to 2.0%, however, from 1998 onwards this ratio has slightly improved. It is surprising to note that the ratio of real trade to GDP of India has even not beaten the world ratio. Only the countries like Canada, France, Belgium, Italy, Switzerland, Norway and Germany are leading the world ratio i.e. the export (merchandise) to GDP ratio is higher than the world average. Though China has lower ratio than the world yet its growth is more than India during the last fifteen years or so.

TABLE 5 GROWTH IN THE VOLUME OF WORLD MERCHANDISE EXPORTS AND PRODUCTION, 2000-2006 (Annual percentage change)

World merchandise exports	55	5	65	80
Agricultural products	4	4	6	6
Fuels and mining products	3	6	3.5	3
Manufactures	6	11	7.5	10
World merchandise production	25	50	5	3.0
Agriculture	2	5	1.5	1
Mining	1.5	4.5	1.5	1
Manufacturing	3	5.5	4	3.5
World GDP	3.0	4.0	3.5	3.5

Source: WTO, World Trade Developments Statistics

TABLE 5(A) GROWTH IN THE VOLUME OF WORLD MERCHANDISE TRADE BY SELECTED REGION, 2000-2006 (Annual percentage change)

Region/country	Export			Import		
North America	3	6	8	5	6	6
South and Central America	6	8	3	6	14	14
Europe	4	4	7	4	4	7
European Union (25)	4	4	7	3	4	7
Commonwealth of Independent States (CIS)	8	4	6	17	18	21
Asia	10	11	13	9	8	9
Japan	6	5	10	3	2	3
Six East Asian traders	8	8	11	6	6	8
World	5	7	8	5	7	8

Source: WTO, World Trade Developments Statistics

TREND ANALYSIS OF INDIAN FOREIGN TRADE WITH SELECT GROUP OF COUNTRIES/COUNTRY

A study of dietary composition comparison between India and China show that eating habits have also an influence on trade practices. The dietary composition of vegetables in both India and China has increased during eight years are WTO regime (table 1.6). Similarly the per capita metal consumption has significant role in foreign trade of a country (table 1.7). The increased consumption of steel in China, Japan, Korea and US have given rise to import of the the commodity and export potential of India lies in the sector.

TABLE 1.6 (US million dollar)

YEAR	Export(including Re-export)	Import	Trade Balance	Rate of Change(%age)	
				Export	Import
1949-50	1016	1292	-276		
1950-51	1269	1273	-4	24.9	-1.5
1959-60	1343	2016	-674	10.1	6
1969-70	1866	2089	-223	4.4	-16.9
1979-80	7947	11321	-3374	13.9	36.4
1985-86	8907	16067	-7162	-9.9	11.5
1986-87	9745	15727	-5982	9.4	-2.1
1987-88	12089	17156	-5067	24.1	9.1
1988-89	13970	19497	5526	15.6	13.6
1989-90	16612	21219	-4607	18.9	8.8
1990-91	18143	24075	-5932	9.2	13.5
1991-92	17865	19411	-1546	-1.5	-19.4
1992-93	18537	21882	-3345	3.8	12.7
1993-94	22238	23306	-1068	20.0	6.5
1994-95	26330	28654	-2324	18.4	22.9
1995-96	31797	36678	-4881	20.8	28.0
1996-97	33470	39133	-5663	5.3	6.7
1997-98	35006	41484	-6478	4.6	6.0
1998-99	33218	42389	-9171	-5.1	2.2
1999-2000	36822	49671	-12849	10.8	17.2
2000-01	44560	50536	-5976	21.0	1.7
2001-02	43827	51413	-7586	-1.6	1.7
2002-03	52719	61412	-8693	20.3	19.4
2003-04	63843	78150	-14307	21.8	27.3
2004-05	83535	111516	-27982	30.8	42.7
2005-06	103092	149167	-46076	23.4	33.8
2006-07	126360	185747	-59387	22.6	24.5
2007-08	110965	168803	-57839	21.6	25.9

Source: Economic Survey 2007-08, GOI

TABLE 1.7 SHOWING INDEX NUMBERS OF FOREIGN TRADE (Base 1978-79=100)

Year	Unit Value Index		Volume Index		Terms of Trade		Income
	Export	Import	Export	Import	Gross	Net	
1969-70	44.0	35.2	55.7	64.9	116.5	125.0	69.6
1974-75	78.0	84.5	73.7	77.2	104.7	92.3	68.4
1979-80	105.4	114.1	106.2	116.4	109.7	92.4	98.1
1984-85	169.8	161.7	120.8	156.1	129.2	105.0	126.8
1985-86	170.8	158.8	111.3	182.3			
1986-87	179.4	139.4	121.3	212.3			
1987-88	195.4	160.0	140.0	204.8			
1988-89	232.2	185.5	152.1	224.2			
1989-90	276.6	228.4	174.9	227.8	130.2	121.1	211.8
1990-91	292.5	267.7	154.1	237.7			
1991-92	369.5	309.1	208.6	228.0			
1992-93	421.5	331.0	222.9	282.0			
1993-94	474.1	327.2	257.5	329.1			
1994-95	494.6	324.6	292.7	408.3	139.5	152.4	446.0
1995-96	484.2	351.0	384.3	411.8			
1996-97	504.7	399.8	411.8	386.0			
1997-98	589.4	404.2	386.0	399.2			
1998-99	611.7	407.8	399.2	461.6			
1999-2000	604.5	450.5	461.0	704.8	152.9	134.2	618.7
2000-01	624.3	487.5	571.4	697.7	122.1	128.1	732.0
2001-02	618.0	487.5	592.7	732.8	123.6	125.4	743.2
2002-03	619.6	492.9	721.6	802.4	111.2	113.6	819.7
2003-04	672.4	545.6	764.6	970.4	126.9	123.4	943.5
2004-05	732.0	545.1	899.0	1113.0	124.0	110.0	991.0
2005-06	798.0	663.0	1005.0	1649.0	164.0	135.0	1357.0
2006-07	863.0	592.0	1164.0	2047.0	176.0	142.0	1653.0

Source: Economic Survey 2007-08, GOI

TABLE 1.8 TRENDS IN NOMINAL AND REAL EFFECTIVE EXCHANGE RATE OF RUPEE (Base: 2000=100)

Year/Month	Nominal Effective Exchange Rate (NEER)		Real Effective Exchange Rate (REER)	
	5-country Index	10-country Index	5-country Index	10-country Index
1985	456.34	449.13	181.11	183.05
1986				
1987				
1988				
1989	278.52	265.84	138.48	135.02
1990	248.66	232.45	130.53	124.66
1991	190.43	179.16	111.78	107.22
1991-92	178.27	168.08	107.01	102.75
1992-93	146.98	138.53	97.03	92.97
1993-94	136.52	131.44	96.54	94.22
1994-95	131.69	126.06	102.25	99.00
1995-96	120.82	114.90	99.00	95.14
1996-97	118.50	112.57	102.18	98.09
1997-98	117.74	113.92	106.31	103.55
1998-1999	104.12	100.71	102.11	99.27
1999-2000	100.78	98.83	100.76	99.33
2000-01	99.54	99.68	100.11	100.51
2001-02	98.47	98.54	103.45	103.01
2002-03	93.13	91.76	100.89	98.72
2003-04	92.07	88.70	103.06	98.73
2004-05	90.76	86.83	103.50	98.59
2005 Apr	94.04	90.53	105.71	101.24
May	92.15	88.62	103.70	99.29
Jun	90.68	87.22	103.73	99.34
Jul	89.30	85.74	102.62	98.02
Aug	89.18	85.67	102.75	98.21
Sep	89.74	86.17	103.72	99.07
Oct	89.67	85.79	102.90	98.00
Nov	89.21	84.95	102.09	96.86
Dec	90.29	85.77	102.99	97.42
Jan	91.30	86.79	103.85	98.30
Feb	91.92	87.55	104.41	99.09
Mar	91.64	87.11	103.50	98.20
2005-06 Apr	92.22	87.87	108.18	102.93
May	93.36	89.17	106.52	101.57
Jun	94.58	90.77	108.89	104.29
Jul	95.96	92.07	109.82	105.25
Aug	94.81	90.77	108.18	103.52
Sep	94.16	90.20	106.81	102.59
Oct	93.55	89.71	105.04	101.17

Source: Economic Surveys, GOI

Note: These are export-weighted indices with weights based on direction of India's exports during 1992-97. The U.S.A., Japan, the U.K., Germany and France are included in the 5-country index and Netherlands, Italy, Belgium, Switzerland and Australia are included, in addition, in the 10-country index.

ANALYSIS OF MULTIPLE REGRESSION OF TRADE WITH TRADE INDEX AND EXCHANGE RATE (FROM 1989 TO 2005)

After calculation in SPSS the following regression equation has been derived:

$$\text{EXP} = -29096.6 + 76.19 \text{ UIEXP} + 99.321 \text{ VOLINEXP} + 508.504 \text{ NEER5} - 859.206 \text{ REER10} - 119.007 \text{ REER10}$$

(1.342) (7.161) (2.474) (-0.873) (-0.134)

The values of R, R² are 0.998 and .0995 respectively showing that the strong positive correlation exists between trade measured in terms of exports and other variables (unit index export, volume index of export, nominal effective exchange rate-5 country index and real effective exchange rate-10 country index).

From the above result it is quite clear that the unit index of export and volume index of export explain 76.19% and 99.32% variation in Exports. On the other hand, NEER-5 country index, REER-10 country index and explain almost 500% and -859.20% variations in exports, thereby meaning a very high impact of these indices on trade measured in terms of export. REER-5 country index also have negative relation with trade. The figures in parentheses show t-values.

Table 1.9 DIETARY COMPOSITION IN CHINA AND INDIA, 1994 AND 2002 (Per cent)

Product	China		India	
	1994	2002	1994	2002
Alcoholic beverages	3.6	3.8	3.0	0.4
Cereals	36.0	23.0	38.9	36.0
Eggs	2.1	2.4	0.3	0.4
Fish and seafood	3.3	3.5	1.1	1.1
Fruits	5.0	6.5	8.5	8.6
Meat	6.7	7.3	1.2	1.2
Milk	1.3	1.8	14.0	14.4
Oil crops	1.4	0.9	2.0	1.5
Pulses	0.3	0.2	3.1	2.8
Starchy roots	10.7	11.1	5.3	5.5
Sugar and sweeteners	1.2	1.0	5.9	5.6
Sugar crops	0.0	0.0	2.8	2.9
Vegetable oils	1.3	1.3	1.7	2.1
Vegetables	25.5	35.1	13.5	15.9
Other	1.5	1.9	1.3	1.6
Total	100	100	100	100

Source: UNCTAD secretariat calculations, based on FAOSTAT.

Table 1.10 PER CAPITA METAL CONSUMPTION, SELECTED COUNTRIES, 2003 (Kilograms per capita)

Country	Aluminium	Copper	Nickel	Steel
China	4.0	2.4	0.1	197.9
India	0.7	0.3	0.0	33.4
Japan	15.8	9.4	1.4	603.2
Rep. of Korea	20.6	18.9	2.4	984.6
United States	19.3	7.8	0.4	349.3

Source: UNCTAD secretariat calculations, based on World Bank, *Global Economic Prospects - Commodity Market Briefs*, 2004; International Iron and Steel Institute, *Steel Statistical Yearbook 2004*; International Copper Study Group, *Copper Bulletin*, 11(4), 2004; and United Nations Department of Economic and Social Affairs (UN/DESA), Population Division, *World Population Prospects*, Rev. 2002 published in **Trade and Development Report 2005**

TABLE 1.11 SHOWING TRADE BALANCE OF INDIA WITH THE US (in million US dollars)

YEAR	EXPORT	IMPORT	BALANCE
1985	1641.9	2294.7	-652.8
1986	1536.2	2283.2	-747.0
1987	1463.6	2528.4	-1064.8
1988	2500.1	2939.5	-439.4
1989	2457.5	3314.4	-856.9
1990	2486.2	3196.8	-710.6
1991	1999.4	3192.4	-1193.0
1992	1917.1	3779.7	-1862.6
1993	2777.9	4553.6	-1775.7
1994	2293.8	5309.6	-3015.8
1995	3295.8	5726.3	-2430.5
1996	3328.2	6169.5	-2814.3
1997	3607.5	7322.5	-3715.0
1998	3564.5	8237.2	-4672.7
1999	3687.8	9070.8	-5383.0
2000	3667.3	10686.6	-7019.3
2001	3757.0	9737.3	-5980.3
2002	4101.0	11818.4	-7717.4
2003	4979.7	13055.3	-8075.6
2004	6109.4	15572.0	-9462.7
2005	7989.4	18804.2	-10814.8
2006	10056.2	21830.8	-11774.6
2007	17588.5	24073.3	-6484.7
2008 (upto May)	6827.5	10996.0	-4168.5
CAGR (%)	8.53	11.51	

Source: US Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington DC

TABLE 1.12 SHOWING EXPORT OF INDIA WITH SELECTED REGIONS OF WORLD

YEAR	EU(27)	ASEAN	S.ASIA	N.AMERICA (US+CANADA)	TOTAL
1996					34,784.99
1997					33,469.94
1998					13,975,316.00
1999	4,188,485.19	969,569.80	618,718.12	3,888,625.91	23,105.58
2000	4,885,565.23	1,331,143.73	892,859.72	4,550,893.72	863,409.98
2001	4,843,287.87	1,648,716.16	2,776,839.91	4,339,085.88	1,030,996.96
2002	5,752,462.17	2,235,155.61	1,347,760.37	5,610,964.13	150,236.71
2003	6,670,563.12	2,675,167.41	1,972,942.70	5,630,554.25	128,483.62
2004	8,199,557.88	3,785,878.06	567,439.47	6,574,625.22	183,920.18
2005	10,284,222.26	4,609,447.18	2,456,137.14	8,135,095.03	109,836.69
2006	12,129,554.85	5,707,646.83	2,927,404.82	9,039,298.47	159,268.95
2007					57,177,928.00
2008					45,852,252.00
CAGR (%)	16.59	28.85	14.75	12.72	40.53

TABLE 1.13 SHOWING INDIA'S FIRST 15 PRODUCT GROUPS AND FIRST 15 COUNTRIES (15X15 MATRIX) MATRIX OF EXPORT FOR THE PERIOD APR-2000 TO MAR-2008 Values in Rs. Crore (Provisional)

Year	Sub total of Export of 15 Countries	Total Export of Commodity	% Share of country in India's total Export
Apr2000-Mar2001	136,553.70	201,356.45*	68.72
Apr2001-Mar2002	142,371.70	209,017.98*	66.38
Apr2002-Mar2003	175,930.10	255,137.28*	66.16
Apr2003-Mar2004	204,727.80	293,366.74*	66.61
Apr2004-Mar2005			
Apr2005-Mar2006	306,963.70	456,417.87*	67.25
Apr2006-Mar2007	369,845.00	571,779.27*	64.68
Apr2007-Mar2008	462,287.30	640,172.16*	62.82

Source: Ministry of Commerce, GOI

TABLE 1.14 SHOWING INDIA'S FIRST 15 PRODUCT GROUPS AND FIRST 15 COUNTRIES (15X15 MATRIX) MATRIX OF IMPORT FOR THE PERIOD APR-2000 TO MAR-2008 Values in Rs. Crore (Provisional)

Year	Sub total of Import of 15 Countries	Total Import of Commodity	% Share of country in India's total Import
Apr2000-Mar2001	120,832.10	228,306.64*	50.17
Apr2001-Mar2002	134,905.80	245,199.72*	51.89
Apr2002-Mar2003	163,956.00	297,205.86*	51.45
Apr2003-Mar2004	209,895.10	359,107.66*	54.23
Apr2004-Mar2005			
Apr2005-Mar2006	85,180.37	149,165.73*	50.18
Apr2006-Mar2007	102,631.60	185,604.10*	65.29
Apr2007-Mar2008	127,507.90	239,650.51*	66.76

Source: Ministry of Commerce, GOI

The percentage share of fifteen countries in India's total export has gone down from 2007-May2008 i.e. from 68.72% to 62.82% while the percentage of import it has shown upward trend to almost 16% increment during the last seven years(table 1.13 & 1.14).It is obvious that during post WTO period. The 15*15 matrix is not in favour of India in terms of export but import has risen. Also, volume indices of export of India has shown declining trend from 2002 to 2007 except in years 2004 and 2007 and the indices of imports are increasing barring the period 2006 and 2007(table 1.19)

TABLE1.15 LEADING EXPORTERS OF AGRICULTURAL PRODUCTS, 2006 a Includes Secretariat estimates. (Billion dollars and percentage)
(Share in world exports/imports Annual percentage change Value)

Exporters	2006	1980	1990	2000	2006	2000-06	2004	2005	2006
European Union (25)	405.25	--	--	41.5	42.9	10	14	7	9
extra-EU (25)	95.31	---	---	10.1	10.1	9	11	8	13
United States	92.66	17.0	14.3	12.9	9.8	4	4	4	12
Canada	44.23	5.0	5.4	6.3	4.7	4	19	3	7
Brazil	39.53	3.4	2.4	2.8	4.2	17	27	14	13
China	32.54	1.5	2.4	3.0	3.4	12	9	19	13
Australia	22.18	3.3	2.9	3.0	2.3	5	3.5		4.5
Thailand	21.58	1.2	1.9	2.2	2.3	10	13	4	21
Argentina	21.33	1.9	1.8	2.2	2.3	10	13	12	11
Indonesia	18.32	1.6	1.0	1.4	1.9	15	27	16	30
Russian Federation	17.06	--	--	1.4	1.8	14	13	20	16
Malaysia	15.57	2.0	1.8	1.5	1.6	12	14	2	16
Mexico	14.69	0.8	0.8	1.6	1.6	8	13	13	17
India	14.41	1.0	0.8	1.2	1.5	14	8	26	34
New Zealand	13.24	1.3	1.4	1.4	1.4	10	24	7	2
Chile	11.49	0.4	0.7	1.2	1.2	10	22	11	14
Above 15	784.09	-	-	83.5	83.0	-	-	-	-

Source: World Trade Report 2007

TABLE1.16 LEADING IMPORTERS OF AGRICULTURAL PRODUCTS, 2006 a Includes Secretariat estimates. (Billion dollars and percentage)
(Share in world exports/imports Annual percentage change Value)

Importers	2006	1980	1990	2000	2006	2000-06	2004	2005	2006
European Union (25)	433.66	---	---	42.3	43.3	9	14	6	8
extra-EU (25)	123.72			13.3	12.4	8	13	5	9
United States	103.65	8.7	9.0	11.6	10.3	7	14	9	8
Japan	65.62	9.6	11.5	10.4	6.6	1	12	1	0
Canada	23.95	1.8	2.0	2.6	2.4	8	8	11	12
China	51.65	2.1	1.8	3.3	5.2	18	39	7	14
Hongkong, China	11.90	1.2	1.9	2.0	1.2	0	3	1	7
Switzerland	8.85	1.2	1.3	1.0	0.9	8	9	4	7
Mexico	8.46	1.2	1.2	1.8	1.8	9	11	7	12
Malaysia	8.50	0.5	0.5	0.8	0.8	11	37	3	17
Russian Federation	23.38			1.6	2.3	17	13	23	22
Korea, Republic of	18.58	1.5	2.2	2.2	1.9	6	11	5	11
Mexico	18.46	1.2	1.2	1.8	1.8	9	11	7	12
India	7.84	0.5	0.4	0.7	0.8	12	7	7	7
Saudi Arabia	8.56	1.5	0.8	0.9	0.9	7	12	31	-6
Taipei, China	9.67	1.1	1.4	1.3	1.0	3	13	5	2
Above 15	798.99			82.1	79.8	-			

Source: World Trade Report 2007

TABLE 1.17SHOWING TRADE EXPANSION VARIES AMONG THE LEADING SOUTH-SOUTH TRADERS IN 1990-2001 (Billion dollars and percentage)

Country	EXPORT				IMPORT			
	Annual %age change				Annual %age change			
	2001(b\$)	1990-95	1995-200	1990-2001	2001(b\$)	1990-95	1995-200	1990-2001
China	72	19.7	9.1	13.8	71	23.5	10.9	14.4
Malaysia	42	20.7	5.6	10.5	33	20.5	6.8	11.1
Thailand	28	27.6	3.6	13.1	28	15.0	3.8	8.2
India	19	24.7	8.3	15.2	27	12.4	19.7	13.3
Brazil	22	16.5	1.7	9.0	22	14.8	3.5	7.7
Saudi Arabia	33	6.3	11.1	7.1	9	5.7	4.9	4.9
Indonesia	25	19.3	9.0	11.5	16	14.1	3.8	7.2
UAE	18	5.8	13.5	8.6	21	25	10.6	16.2
Mexico	8	19.0	4.7	10.9	26	19.2	29.9	24.7

Source: Trade and Development Report, 2005, UNCTAD

TABLE 1.18 GATT/WTO – 60 YEARS OF TARIFF REDUCTIONS [MFN tariff reduction of industrial countries for industrial products (excl. petroleum)]

Implementation Period	Round covered	Weighted tariff reduction	Weights based on MFN imports	(year)
1948	Geneva (1947)	-26		1939
1950	Annecy (1949)	-3		1947
1952	Torquay (1950-51)	-4		1949
1956-58	Geneva (1955-56)	-3		1954
1962-64	Dillon Round (1961-62)	-4		1960
1968-72	Kennedy Round (1964-67)	-38		1964
1980-87	Tokyo Round (1973-79)	-33		1977(or 1976)
1995-99	Uruguay Round (1986-94)	-38		1988(or 1989)

Note: Tariff reductions for the first five rounds refer to the United States only. The calculation of average rates of reductions is weighted by MFN import values. The recently released UNCTAD report on Trade and Development(2008) reveals that volume indices of export has gone down from the year 2002 to 2007 except in the year 2004. While on the other hand, volume import index has shown an increased trend during the last five years of observation. India's strongest competitor China has been able to control the decline in export indices while import indices of this country shows volatile behaviour. As an overall trend, it is obvious that developing economies have shown declining trend in growth rate of export indices than the world as a whole. The developed economies have significant growth in volume indices of imports.

TABLE 1.19 SHOWING EXPORT AND IMPORT OF GOODS BY REGION AND ECONOMIC GROUPINGS (%age change over previous year)

Region/ country	Volume indices of export						Volume indices of import					
	2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007
World	4.5	6.3	11.4	5.2	8.1	5.5	4.2	7.7	12.1	7.1	7.3	5.8
Developed economies of which	2.3	3.1	8.4	4.9	7.7	2.8	3.0	5.1	9.0	5.9	5.8	2.3
Japan	7.7	9.2	13.4	5.1	11.8	8.2	1.1	5.9	6.3	2.0	4.5	0.6
US	-4.0	2.9	8.7	7.4	10.5	6.8	4.4	5.5	10.8	5.6	5.7	0.8
Developing economies of which	8.8	12.9	16.7	6.3	9.2	9.3	6.6	12.9	18.4	8.5	8.9	10.8
China	24.0	35.3	33.0	26.2	24.4	23.3	22.5	35.2	25.9	7.5	11.5	16.1
South Asia	13.8	11.8	11.5	6.7	3.3	8.8	12.0	15.0	15.9	14.9	6.1	5.4
India	17.4	13.6	19.5	14.8	10.5	12.3	10.4	18.7	19.4	20.8	6.6	13.1

Source: Trade and Development Report, UNCTAD, 2008

MAJOR FINDINGS AND SUGGESTIONS

Based on the above analysis and interpretation of data, the following findings can be derived:

- The foreign trade (merchandise and service) of India with rest of world in pre and post WTO regimes is quite unaffected by the emergence of WTO. In fact there is no significant variation between the means of % age of imports and exports during pre and post WTO phases. Thus, the first two hypotheses have been accepted.
- The present status of foreign trade of India is showing increasing trends in terms of exports and declining trend in terms of imports.
- The exchange rates (nominal and real) and the trade measured in terms of volume and unit indices have a direct correlation with the trade measured in terms of export and import.
- India should initiate bipartite trade agreements with the countries rather than complying only on the WTO agreement for enhanced trade.
- India should look on the sectors where there are less trading activities and explore new possibilities in different sectors as the regional trade agreements can lead to synergy in foreign trade.
- India should promote more patent registration by improving capacity building to enhance exports and also take benefit of forex volatility.
- The exploration of possibilities of trade with countries of African and Asian continents should be prioritized in foreign trade policy.

SCOPE OF FURTHER STUDY

There is a need to study the cross country and cross commodity comparisons on foreign trade with India and different countries. The sectoral analysis of trade and the impact of tariff reduction and patents (R&D) on trade can be done. There may also be studies on the impact of regional trade blocks in the broader confines of the WTO.

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