

## **AN EXPLORATORY STUDY OF INDIAN FOREIGN TRADE**

Rajesh K PILLANIA

Management Development Institute, India

[r\\_pillania@yahoo.com](mailto:r_pillania@yahoo.com)

### **Abstract**

*Indian economy and foreign trade are on a growth trajectory. Indian exports have come a long way in value terms from the time of gaining independence in 1947. The total value of India's merchandise exports increased from US \$ 1.3 billion in 1950-51 to US \$ 63.8 billion in 2003-04 – a compound rate of 7.6 per cent. Trade growth has picked up post liberalization of 1991. The composition of trade is now dominated by manufactured goods and services. India services exports share in global exports is more than double of that of Indian manufacturing exports. East Asian countries, particularly China have become a major trading block. There is huge untapped potential for Indian foreign trade in years to come.*

**Keywords:** India, Foreign Trade, Liberalization, Trade Composition, Trade Direction.

**JEL Classification:** F14, F41, F43

### **1. Introduction**

Indian exports have come a long way from the time of independence in terms of value. The total value of India's merchandise exports increased from US \$ 1.3 billion in 1950-51 to US \$ 63.8 billion in 2003-04 – a compound rate of 7.6 per cent [Malik, (2005)]. Indian economy and foreign trade has shown progress post liberalization. In contrast to the pre-reform period (1950-90), the actual growth of exports in the post-reform period has been above the potential offered by the growth of world demand. The gap between the actual and potential is mainly explained by an improvement in the overall competitiveness of India's exports [Virmani, (2003), Veeramani, (2007)].

Over the last few years, the growth rates has picked up. The current account has followed an inverted "U" shaped pattern during the period from 2001-02 to 2006-07, rising to a surplus of over 2 per cent of GDP in 2003-04. Thereafter it has returned close to its post-1990s reform average, with a current account deficit of 1.2 per cent in 2005-06 and 1.1 per cent of GDP in 2006-07. Capital inflows, as a proportion of GDP, have been on a clear uptrend during the six years (2001-02 to 2006-07) of this decade. They reached a high of 5.1 per cent of GDP in 2006-07 after a somewhat modest growth rate of 3.1 per cent in 2005-06. The net result of these two trends has been a gradual rise in reserve increase to reach 4 per cent of GDP in 2006-07.

With capital inflows exceeding financing requirements, foreign exchange reserve increase was of the order of US\$ 15.1 billion in 2005-06 and US\$ 36.6 billion in 2006-07. As a proportion of GDP, external debt was 17.2 per cent and 17.9 per cent in 2005-06 and 2006-07 respectively [Ministry of Finance, (2008)]. This research paper studies Indian foreign trade since 1949. It consists of three sections including this introduction part. The second section studies various aspects of Indian foreign trade and the last section is conclusion part.

### **2. Indian Foreign Trade over the Years 1949-2006**

Indian foreign trade has grown in absolute numbers as compared to 1950-51, but its share in world trade has gone down from around 2.5 percent to 0.67 percent in 1991 and increased to more than one percent in 2007. For the purpose of study, foreign trade can be divided into three periods namely 1950-1970, 1971-1991 and post 1991.

During the first phase, 1950-1970, exports have grown at a very slow rate. During 1950s the exports growth rate was 3.6 percent in dollar terms and 3.5 percent in 1960s as shown in Table 1. Due to rising imports and stagnant exports, policy of import substitution was started in 1960s to cut down on imports. Five primary commodities constituted a major portion of Indian exports and the prevailing belief was that the country had nothing much to export. Government had adopted a policy of export pessimism and import substitution during this period. Exports were largely neglected during the first and the second five-year plans, which was justified on the ground that demand for Indian exports was

inelastic. Whilst the world merchandise export was growing at 6.3 per cent per annum during the 1950s, exports from India stagnated. As the world merchandise exports expanded relatively faster during the 1960s at 8.8 per cent per annum, the growth rate of India's exports improved somewhat to 3.6 per cent per annum. Clearly, the country failed to make the best use of the trade possibilities available during the 1950s and 1960s [Singh, (1964); Bhagwati and Srinivasan, (1975); Nayyar, (1976); Veeramani, (2007)]. Several studies have argued that the import substitution policies had created a bias against exports in India. In spite of the various export promotion schemes adopted in the 1970s and 1980s, profitability in the heavily protected domestic market remained significantly higher than that in the export market [Kathuria (1996), Veeramani, (2007)].

**Table1.** Performance of Trade Sector (Export and Import) in India

Performance of Trade Sector (Export and Import) in India (1950-1951 to 1999-2000)									
Annual Average	In Rupee Terms		In US Dollar terms		Growth Rate In Real terms (Volume)#		As per cent to GDP		
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	(Exports+Imports)@
1950-51 to 1959-60	3.6	6.1	3.6	6.1	3.0	4.1	5.1	6.7	11.8
1960-61 to 1969-70	8.9	6.3	3.5	0.8	2.7	1.4	3.4	5.5	8.9
1970-71 to 1979-80	16.8	20.7	15.8	20.1	7.3	6.7	4.5	5.3	9.8
1980-81 to 1989-90	16.4	14.9	8.0	7.2	4.2	7.3	4.6	7.2	11.8
1990-91 to 1999-2000	19.5	20.1	8.6	9.6	11.0	12.2	7.8	9.3	17.1
1992-93 to 1995-96	24.7	26.8	15.7	17.5	17.5	21.3	8.1	9.0	17.1

**Note #:** Refers to calendar year. Volume obtained by dividing value of exports (f.o.b) and imports (c.i.f) with their respective unit prices. @: Figures may not add-up due to rounding off.

**Source:** Report on Currency and Finance (2002-03), Reserve Bank of India; IndiaStat Database (2008).

During the period of 1970-1991 exports performance improved. Government had taken initiatives in late 1960s like establishing Indian Institute of Foreign Trade and others for promoting foreign trade. The world economy was also growing fast in 1970s. The export growth rate was 15.8 percent in 1970s before slowing down to 8 percent in 1980s. During 1970s, imports growth rate also picked up and infact was higher than growth rate of exports. The contribution of foreign trade to GDP again reached to 11.8 per cent, the same level as on 1950-51. The export boom of the 1970s, however, could not be maintained during the first half of the 1980s. As the growth rate of world exports turned negative in the aftermath of the second oil price hike, India's exports decelerated sharply. During the second half of the 1980s, however, the world economy recovered and India's exports grew at a healthy pace (17.8 per cent). There was a genuine improvement in the export competitiveness of India during this period due to a major depreciation of the REER and increased export subsidies. This period also witnessed some doses of industrial deregulation and liberalization of capital goods imports [Joshi and Little (1994); Veeramani, (2007)].

In the post liberalization period i.e. post 1991, export and import growth has picked up and the contribution of foreign trade to GDP has increased to 17.1 percent by 2000. However during the period import growth rates has been higher than exports growth rates. Many pro export policies were started after liberalization. Export promotion schemes prevalent during the post 1991 period include: export promotion capital goods (EPCG), duty entitlement passbook (DEPB), duty free replenishment certificate (DFRC), advance licences, special import licence (SIL), exemption from income tax, sector/market-specific schemes [e g, market access initiative (MAI), towns of export excellence, agri export zones (AEZ), Focus Africa, and Focus Latin American Countries], and schemes for status-

holders, export oriented units (EOUs), units in special economic zones (SEZs), electronic hardware technology parks (EHTPs), software technology parks (STPs) and biotechnology parks (BTPs). A few more schemes (such as, target plus, served from India) have been added under the Foreign Trade Policy 2004 [RBI (2004), Malik, (2005)].

**Table 2.** Export/Import and Trade Balance of India

<b>Export/Import and Trade Balance of India (1949-1950 to 1990-91) (US \$ Million)</b>			
<b>Year</b>	<b>Export (including Re-export)</b>	<b>Import</b>	<b>Trade Balance</b>
1949-50	1016	1292	-276
1950-51	1269	1273	-4
1951-52	1490	1852	-362
1952-53	1212	1472	-260
1953-54	1114	1279	-166
1954-55	1233	1456	-223
1955-56	1275	1620	-345
1956-57	1259	1750	-491
1957-58	1171	2160	-989
1958-59	1219	1901	-682
1959-60	1343	2016	-674
1960-61	1346	2353	-107
1961-62	1381	2281	-900
1962-63	1437	2372	-935
1963-64	1659	2558	-899
1964-65	1701	2813	-1111
1965-66	1693	2944	-1251
1966-67	1628	2923	-1295
1967-68	1586	2656	-1071
1968-69	1788	2513	-726
1969-70	1866	2089	-223
1970-71	2031	2162	-131
1971-72	2153	2443	-290
1972-73	2550	2415	134
1973-74	3209	3759	-549
1974-75	4174	5666	-1492
1975-76	4665	6084	-1420
1976-77	5753	5677	76
1977-78	6316	7031	-715
1978-79	6978	8300	-1322
1979-80	7947	11321	-3374
1980-81	8486	15869	-7383
1981-82	8704	15174	-6470
1982-83	9107	14787	-5679
1983-84	9449	15311	-5861
1984-85	9878	14412	-4534
1985-86	8904	16067	-7162
1986-87	9745	15727	-5982
1987-88	12089	17156	-5067
1988-89	13970	19497	-5526
1989-90	16612	21219	-4607
1990-91	18145	24073	-5927

**Source:** Handbook of Industrial Policy and Statistics, 2001, Ministry of Commerce & Industry and Department of Economic Affairs, Govt. of India & Monthly Newsletter, Vol. XL, No. 10, October 25, 2004, Indian Investment Centre; IndiaStat Database(2008).

The trade balance has always been negative as shown in Table 2 and Table 3 except two years 1972-73, 1976-77. The trade deficit has been increasing in recent years.

**Table 3.** Export/Import and Trade Balance of India

Trends of Foreign Trade (US \$) in India (1990-1991 to 2006-2007) (US \$ Million)						
Year	Export	Growth Rate	Import	Growth Rate	Trade Deficit	
1990-91	18145	9.2	24072	13.4	-5927	
1991-92	17865	-1.5	19411	-19.4	-1546	
1992-93	18437	3.7	21882	12.7	-3345	
1993-94	22237	20	23306	6.5	-1069	
1994-95	26330	18.4	28654	22.9	-2324	
1995-96	31797	20.8	36678	28	-4881	
1996-97	33470	5.3	39132	6.7	-5662	
1997-98	35006	4.6	41484	6	-6478	
1998-99	33219	-5.1	42389	2.2	-9170	
1999-2000	36822	10.8	49671	17.2	-12848	
2000-01	44560	21	50536	1.7	-5976	
2001-02	43827	-1.65	51413	1.74	-7587	
2002-03	52719	20.29	61412	19.45	-8693	
2003-04	63843	21.10	78150	27.25	-14307	
2004-05	83536	-	111518	-	-27982	
2005-06	103091	-	149166	-	-46075	
2006-07 (P)	89489	-	131212	-	-41723	

**Source:** Ministry of Commerce & Industry, Govt. of India; IndiaStat Database (2008).

During post liberalization era, exports have done well particularly from 1992-93 to 1996-97; and from 2002-2003 to 2007-2008. As a proportion of GDP, on balance of payments (BoP) basis, exports rose from a level of 5.8 per cent in 1990- 91 to reach a level of 14.0 per cent of GDP in 2006-07. The average annual growth rate in the last five years has been placed at a high of 23.5 per cent. However, imports have grown even faster in the last five years at an annual average of 28.2 per cent. As a proportion of GDP, on BoP basis, imports in 2006-07 were placed at 20.9 per cent of GDP. Thus, trade deficit widened to 6.9 per cent of GDP in 2006-07. The higher trade deficit could be attributed to a rise in petroleum, oil and lubricants (POL) as well as non-POL components in imports. Continued uptrend in prices in the international markets and rise in the price of gold were the major contributors to this process [Finance Ministry, (2008)]. The trade account is supported by the rising services exports. India's services exports, at \$81.3 billion (Rs3.2 trillion) in 2006-07, are fast catching up with the country's merchandise exports of \$127.1 billion. The services export growth rate in 2006-07 was 32.5% compared to 21% in merchandise export [Singh,(2007)]. IBEF has estimated that if the average annual growth rates of the last three years – 56.3 per cent for service exports and 21.8 per cent for manufacturing exports – were projected into the future, by the beginning of 2007, services could topple merchandise goods at the pole position in exports [IBEF, (2005)]. Indian share of global services export is more than double of merchandise exports and India is one of the few countries which have increased their share of services exports in recent years.

Private transfers receipts (mainly remittances) shot up, year-on-year, by 49.2 per cent as against 19.2 per cent in the corresponding period of the previous year. Investment income (net) grew by 60.0 per cent in 2007-08 (April-September) reflecting the burgeoning foreign exchange reserves. Net invisible surplus grew by 35.2 per cent to reach US\$ 31.7 billion in 2007-08 (April-September), equivalent of 6.1 per cent of GDP. Thus, higher invisible surplus was able to moderate somewhat the rising deficits on trade account and current account deficit was placed at US\$ 10.7 billion in 2007-08 (April-September), equivalent of 2.0 per cent of GDP [Finance Ministry, (2008)].

Table 4 shows the Terms of Trade for Indian economy from 1969-1970 to 2005-2006. The terms of trade has been fluctuating over the years.

Table 4. Index Number of Foreign Trade

Index Number of Foreign Trade (Base : 1978-79=100) (1969-1970 to 2005-2006)								
Year	Unit Value Index		Volume Index		Terms of Trade			
	Exports	Imports	Exports	Imports	Gross	Net	Income	
1969-70	44.0	35.2	55.7	64.9	116.5	125.0	69.6	
1970-71*	45.0	35.3	59.0	67.2	113.9	127.4	75.2	
1971-72*	46.0	32.8	59.2	80.6	136.1	140.2	83.0	
1972-73*	51.2	34.2	66.5	76.7	115.3	149.7	99.6	
1973-74*	62.2	48.9	69.5	87.2	125.4	127.2	88.4	
1974-75*	78.0	84.5	73.7	77.2	104.7	92.3	68.4	
1975-76*	83.9	99.1	81.7	76.0	93.0	84.7	69.2	
1976-77*	89.4	96.3	96.8	76.1	78.6	92.9	89.9	
1977-78*	100.3	88.0	93.2	100.0	107.3	114.0	106.2	
1978-79	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
1979-80	105.4	114.1	106.2	116.4	109.7	92.4	98.1	
1980-81	108.5	134.2	108.1	137.9	127.6	80.8	87.3	
1981-82	124.1	133.1	110.1	150.6	136.8	93.2	102.6	
1982-83	132.0	136.3	116.7	154.6	132.4	96.8	113.0	
1983-84	151.0	125.8	113.0	185.4	164.1	120.0	135.6	
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	163.8	107.6	119.8	
1986-87	179.4	139.4	121.3	212.3	175.0	128.6	156.0	
1987-88	195.4	160.0	140.0	204.8	146.3	122.1	170.9	
1988-89	232.2	185.5	152.1	224.2	147.4	125.2	190.4	
1989-90	276.6	228.4	174.9	227.8	130.2	121.1	211.8	
1990-91	292.5	267.7	194.1	237.7	122.5	109.3	212.2	
1991-92	369.5	309.1	208.6	228.0	109.3	119.5	249.3	
1992-93	421.5	331.0	222.9	282.0	126.5	127.3	283.8	
1993-94	474.1	327.2	257.5	329.1	127.8	144.9	373.1	
1994-95	494.6	324.6	292.7	408.3	139.5	152.4	446.0	
1995-96	484.2	351.0	384.3	514.8	134.0	137.9	530.0	
1996-97	504.7	399.8	411.8	511.8	124.3	126.2	519.7	
1997-98	589.4	404.2	386.0	562.1	145.6	145.8	562.8	
1998-99	611.7	407.8	399.2	644.2	161.4	150.0	598.8	
1999-00	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	492.9	592.7	732.8	123.6	125.4	743.2	
2002-03	619.6	545.6	721.6	802.4	111.1	113.6	819.7	
2003-04	672	545	765	970	-	-	-	
2004-05	732	663	899	1113	-	-	-	
2005-06	798	592	1005	1649	-	-	-	

- Note:**
1. Gross Terms of Trade implies Volume Index of Imports expressed as a percentage of Volume Index of Exports.
  2. Net Terms of Trade implies unit value Index of Exports expressed as a percentage of unit value index of Imports.
  3. Income Terms of Trade implies the product of Net Terms of Trade and Volume Index of Exports as a percentage.
- \* : Converted from the original base with the help of linking factors.

**Source:** Ministry of Commerce & Industry, Govt. of India. & Department of Economics and Statistics Govt. of Tamil Nadu, IndiaStat Database (2008).

#### Estimated Foreign Trade by 2020

Trend analysis was used to project the export and import growth and trade deficit/ surplus up to 2020. For this, time series data, ranging from 1950-2007 on export, import and trade deficit/surplus was used. The analysis shows that export trade will grow up to US\$ 61 billion. On the other hand

import will continue to grow and cross US \$ 79 billion. The trade deficit will keep increasing and reach USD 18 billion by 2020. Table 5 shows estimated trade till 2020.

**Table 5.** Estimated Exports, Imports and Trade Deficit by 2020

Year	Estimated Export Y1^	Estimated Import Y2^	Deficit
2008	48099.84	62538.14	-14438
2009	49182.83	63942.86	-14760
2010	50265.82	65347.58	-15082
2011	51348.81	66752.3	-15403
2012	52431.79	68157.02	-15725
2013	53514.78	69561.74	-16047
2014	54597.77	70966.46	-16369
2015	55680.76	72371.18	-16690
2016	56763.75	73775.9	-17012
2017	57846.73	75180.62	-17334
2018	58929.72	76585.34	-17656
2019	60012.71	77990.06	-17977
2020	61095.7	79394.78	-18299

### Composition of Indian Foreign Trade

Indian foreign trade has undergone a change in its composition over the years. In 1948-49, tea, jute manufactures, cotton manufactures, oilseeds, hides and skins, and metals and ores constituted 71 per cent of total Indian exports. This dependence on a few commodities not only introduced an element of instability in export prospects but was bound to weaken the country's position in regard to larger questions of policy [Planning Commission, (1950)]. Import consisted of manufactured goods and food grains. On the eve of independence in 1947, exports consisted chiefly of raw materials and plantation crops while imports composed of light consumer goods and other manufactures [Mathur, (2006)]. The composition of trade has changed considerably. Today the manufactured goods and services dominate the export basket.

The composition of exports shows a perceptible shift in this decade i.e. 2000s from light manufactures to heavy manufactures and petroleum crude and products as shown in Table 6. The share of textiles and ready-made garments (RMG) has fallen dramatically by 11.1 percentage points in 2006-07 over 2000-01 followed by gems and jewellery, leather and leather manufactures and handicrafts. Share of engineering goods and petro products has increased by 7.6 percentage points and 10.7 percentage points, respectively. The share of primary products has declined somewhat with the decline in share of exports from agricultural and allied sector being partly offset by a rise in the share of ores and minerals by 2.8 percentage points. The share of chemicals, including petrochemicals, has increased marginally. The share of petroleum crude and products has risen further to 18 per cent in the first half of 2007-08 from 15 per cent in 2006-07. Engineering goods' share also maintained a rising trend in 2007-08. Export growth in 2006-07 was driven mainly by petroleum products with 59.3 per cent growth and engineering goods with 38.1 per cent growth. The perceptible increase in the share of petroleum products in total exports reflected not only the rise in POL prices but also India's enhanced refining capacity. The rising share of engineering goods reflected India's revival of heavy manufactures. Induced by strong international minerals, after growing at a compound annual growth rate (CAGR) of 50 per cent in the first half of this decade, moderated to 12.6 per cent in 2006-07 [Finance Ministry, (2008)].

**Table 6.** Commodity Composition of Exports

Commodity group	Share (per cent)					CAGR 2000-2001 to Apr-Sep	Growth rate (per cent) <sup>a</sup>			
	Apr-Sep						Apr-Sep			
	2000- 2001	2005- 2006	2006- 2007	2006- 2007	2007- 2008	2004- 2005	2005- 2006	2006- 2007	2006- 2007	2007- 2008
I. Primary products	16	15.4	15.1	13.5	13.4	16.9	18.9	19.8	18.5	16.7
Agriculture & allied	14	10.2	10.3	9.5	9.3	9	19.8	23.5	24.7	15.1

Ores & minerals	2	5.2	4.8	4	4.1	49.9	17.4	12.6	6	20.6
<b>II. Manufactured goods</b>	<b>78.8</b>	<b>72</b>	<b>68.6</b>	<b>68.4</b>	<b>67.4</b>	<b>15.3</b>	<b>19.6</b>	<b>16.9</b>	<b>18.1</b>	<b>15.9</b>
Textile incl. RMG	23.6	14.5	12.5	12.9	11.1	4.3	20.4	5.7	33.5	1.2
Gems & jewellery	16.6	15.1	12.6	12.7	13	16.8	12.8	2.9	-0.6	20.4
Engineering goods	15.7	20.7	23.3	22.8	23.5	25.4	23.4	38.1	48.1	21.2
Chemical & related products	10.4	11.6	11.2	11.1	10.4	21.7	17.3	19.1	28.4	10.2
Leather & leather manufactures	4.4	2.6	2.4	2.4	2.3	5.5	11.1	12.1	7.7	12.7
Handicrafts										
(Incl. carpet handmade)	2.8	1.2	1.1	1.1	0.8	-5.3	30.3	4.1	5.2	-14.5
<b>III. Petroleum, crude &amp; products (including coal)</b>	<b>4.3</b>	<b>11.5</b>	<b>15</b>	<b>16.5</b>	<b>17.9</b>	<b>38.7</b>	<b>66.2</b>	<b>59.3</b>	<b>106.2</b>	<b>27.6</b>
<b>Total exports</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>17</b>	<b>23.4</b>	<b>22.6</b>	<b>27.3</b>	<b>17.6</b>

Source: Finance Ministry (2008).

The composition of imports showed much less change than that of exports as shown in Table 7. POL continues to be the single major item of import with its share stabilizing at the 30-31 per cent level. The share of capital goods imports shows the sharpest rise of about 4.9 percentage points in 2006-07 over 2000-01 due to a 3.7 percentage point rise in the share of transport equipment and 1.6 percentage point rise in the share of non-electrical machinery (excluding machine tools). It has, however, plateaued at 13 per cent in the first half of 2007-08. The greatest decline is in the import share of pearls and precious and semi-precious stones, reflecting the fall in export share of gems and jewellery. Imports of gold and silver have been at around 8 per cent though it has increased to 10 per cent in the first half of 2007-08. Share of electronic goods imports has increased to 9 per cent, while food and allied imports show a marginal fall in share due to the fall in the share of edible oils, though import of cereals has shot up in 2006-07 from a negligible level. With the rise in crude oil prices, growth in POL imports continued to be high in 2006-07 though it moderated in the first half of this fiscal [Finance Ministry, (2008)].

Table 7. Commodity composition of imports

Commodity group	Share (per cent)					CAGR 2000-2001 to Apr-Sep. 2004-2005	Growth rate (per cent) <sup>a</sup>				
	2000-2001		2005-2006		April-Sep. 2006-2007		2005-2006		April-Sep. 2006-2007		
	2000-2001	2005-2006	2006-2007	2006-2007	2007-2008		2005-2006	2006-2007	2006-2007	2007-2008	
Food & allied products	3.3	2.5	2.9	2.3	2.2	24.3	-4.7	42.4	-5.8	26.6	
1. Cereals	0	0	0.7	0.1	0.1	16.1	36.8	3589.6	803.8	-55.5	
2. Pulses	0.2	0.4	0.5	0.3	0.5	38	41.3	53.8	9.6	92.8	
3. Edible oils	2.6	1.4	1.1	1.2	1.2	17.2	-17.9	4.2	-11.8	32.9	
Fuel (of which)	33.5	32.1	33.2	36.3	33.6	18.5	44.8	29	39.8	18	
4. POL	31.3	29.5	30.8	33.8	31	17.5	47.3	30	41.2	16.9	
Fertilizers	1.3	1.3	1.6	1.7	1.9	17.2	59.4	52.4	54.4	48.2	
Capital goods (of which)	10.5	15.8	15.4	13.1	13.2	28.9	62.5	21.8	44.3	28.3	
5. Machinery except electrical & machine tool	5.9	7.4	7.5	8.1	8.2	26.2	49	24.9	39.5	28.3	
6. Electrical machinery	1	1	1.1	1.1	1.1	25.6	25.9	30.3	37.9	28.6	
7. Transport equipment	1.4	5.9	5.1	2.1	2.5	57.7	104.2	6.8	55.7	51.2	
Others (of which)	46.3	43.7	43.8	37.8	40.4	23.5	21.1	24.6	-2.8	36.4	

Commodity group	Share (per cent)					CAGR 2000-2001 to Apr-Sep. 2004- 2005	Growth rate (per cent) <sup>a</sup>			
	April-Sep.						April-Sep.			
	2000- 2001	2005- 2006	2006- 2007	2006- 2007	2007- 2008		2005- 2006	2006- 2007	2006- 2007	2007- 2008
8. Chemicals	5.9	5.7	5.2	5.6	5.2	23.6	23.2	14.1	13.2	19.8
9. Pearls, precious & semi precious stones	9.6	6.1	4	4.1	4.2	18.3	-3.1	-18	-32.8	30.6
10. Gold&silver	9.3	7.6	7.9	7.7	10.3	24.5	1.5	29.4	-3.1	71
11. Electronic goods	7	8.9	8.6	9	8.9	29.9	32.5	20.6	34	26.2
<b>Grand total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>22.2</b>	<b>33.8</b>	<b>24.5</b>	<b>23.5</b>	<b>27.7</b>

Source: Finance Ministry (2008).

### Direction of Foreign Trade Export and Import in India

Table 8 and Table 9 show the geographic structure of Indian foreign trade. The direction of Indian foreign trade has changed in last few years. Over the last 60 years, India's foreign trade has undergone a complete change in terms of composition and direction [Mathur, (2006)]. Traditionally, EU and USA used to be the major trading partners of India.

Table 8. Geographic Structure of Foreign Trade of India 1995-2001

Direction of Foreign Trade Export and Import (1995-96 to 2000-01) US \$ million												
Group/Country	Exports					Imports						
	95-96	96-97	97-98	98-99	99-00	00-01	95-96	96-97	97-98	98-99	99-00	00-01
<b>I. OECD Countries</b>	17705.1	18601.4	19484.9	19264	21106.6	23473.6	19209.2	19456.6	21335.8	21859.7	21364.3	20157.9
A. EU Of which:	8708.3	8655.3	9144.6	8946.6	9382.4	10410.8	10303.2	10624.8	10680.6	10723.8	10967.8	10510.2
1. Belgium	1120.4	1092.7	1215.5	1287.9	1367.7	1470.6	1701.9	2251.7	2668.1	2876.8	3681.3	2870
2. France	747	716.2	759.6	829.7	897.3	1020	840.7	768.1	797.7	719.6	718.2	640.8
3. Germany	1977.4	1893.1	1923.7	1851.9	1738.4	1907.6	3145.1	2831.1	2528.8	2140.7	1841.6	1759.6
4. Italy	1014	933.7	1115.2	1055	1119.8	1308.8	1064.3	987.4	921.7	1088.3	734.6	723.6
5. Netherlands	769	852.4	803.8	763.5	885.8	880.1	570.2	494	445.2	464.2	470.9	437.5
6. UK	2010.8	2046.9	2140.8	1855.4	2034.8	2298.7	1917.7	2134.7	2443.6	2621.4	2706.8	3167.9
B. North America	5825.8	6908.4	7236.1	7672.6	8973.8	9961.6	4242.6	3999.3	4137.8	4025.8	3944.2	3412.1
1. Canada	305.4	353	433.2	473	578.3	656.5	381.2	313.4	420.9	385.6	380.5	397.1
2. USA	5520.4	6555.4	6802.9	7199.6	8395.5	9305.1	3861.4	3685.9	3716.9	3640.2	3563.7	3015
C. Asia and Oceania of which:	2651.9	2456.9	2408.7	2096.2	2153	2263.6	3551.8	3584.1	3714.2	3999.1	3714.1	2984.3
1. Australia	375.7	385.4	438.3	387.4	403.3	405.9	1021.9	1317.2	1485.6	1445	1081.8	1062.8
2. Japan	2215.6	2005.9	1898.5	1652	1685.4	1794.5	2467.6	2187.4	2144.9	2465.7	2535.8	1842.2
D. Other OECD Countries Of which:	519.1	580.7	695.5	548.6	597.4	837.6	1111.6	1248.4	2803.2	3111	2738.2	3251.3
1. Switzerland	281.6	299.9	367.5	319.1	353.7	437.7	1020.5	1127.3	2640.7	2942.4	2597.7	3160.1
<b>II. OPEC of which:</b>	<b>3080.8</b>	<b>3232.5</b>	<b>3535.1</b>	<b>3560</b>	<b>3902.4</b>	<b>4864.4</b>	<b>7649</b>	<b>10154.1</b>	<b>9419.4</b>	<b>7775.3</b>	<b>12864.6</b>	<b>2711</b>
1. Indonesia	662.4	591.8	437.3	185.3	325.6	399.8	461.1	598.7	731.6	829.1	958.8	910.2
2. Iran	155	195	171.7	159.1	152.1	227	598.2	874.4	633	473.7	1251.3	211.2
3. Iraq	0.6	2.2	11.2	36.3	49.4	84	0	0	185.4	151.2	199.7	6.9
4. Kuwait	135.5	154.7	185.9	164.7	154.3	199.1	1970.1	2404.9	2299.5	1501.1	1912.2	112.7
5. Saudi Arabia	482.3	577.2	690.1	774.3	742.5	822.9	2024.7	2769.7	2508.3	1831.5	3016.5	621.1
6. UAE	1428.3	1476	1692.4	1867.6	2082.7	2597.5	1606.6	1736.1	1780	1721.2	2334.2	659
<b>III. Eastern Europe of which:</b>	<b>1340</b>	<b>1098.5</b>	<b>1283.3</b>	<b>1052.9</b>	<b>1292.9</b>	<b>1317.8</b>	<b>1673.8</b>	<b>1102.7</b>	<b>1114.6</b>	<b>863.9</b>	<b>994.6</b>	<b>850.2</b>



Direction of Foreign Trade Export and Import (1995-96 to 2000-01) US \$ million												
1. Romania	29.9	17.8	15.3	17.6	12.6	12.2	148.1	154	61.4	43.2	20.1	21.7
2. Russia	1045	811.2	953	709.4	947.9	889	856.3	628.4	678.2	545.5	623.2	517.7
<b>IV. Developing Countries of which:</b>	<b>9196.6</b>	<b>10033</b>	<b>10304.4</b>	<b>9212</b>	<b>10453.4</b>	<b>12998.2</b>	<b>8140.4</b>	<b>8415.2</b>	<b>9610.8</b>	<b>11885.4</b>	<b>14510.1</b>	<b>11134</b>
A. Asia	7307.8	8133.9	7972.4	6844.5	8205.5	10037.9	6426	6573.4	7258.9	8535.2	9942.2	8459.5
a) SAARC	1720.6	1701.6	1610.9	1679.2	1394.6	1928.5	256.5	241.6	234.3	465.6	397.7	465.8
1. Bangladesh	1049.1	869	786.5	995.6	636.3	935	85.9	62.2	50.8	62.4	78.2	80.4
2. Bhutan	17.2	22	13.3	9.6	7.6	1.1	34.7	33.8	13.4	6.1	18	21.1
3. Maldives	15.7	10.4	8.7	8.4	7.3	24.6	0.2	0.2	0.2	0.1	0.4	0.2
4. Nepal	160	165.7	170	122.4	151.2	140.8	49.1	64.1	95.2	144.9	188.6	255.1
5. Pakistan	76.8	157.2	143.2	106.1	92.9	186.8	45.1	36.2	44.4	214.4	68.2	64
6. Sri Lanka	401.7	477.4	489.2	437.1	499.3	640.1	41.4	45.2	30.2	37.7	44.2	45
b) Other Asian Developing Countries of which:	5587.2	6432.3	6361.5	5165.3	6810.9	8109.4	6169.4	6331.8	7024.6	8069.6	9544.5	7993.7
1. Hong Kong	1821.4	1862.6	1932	1880.6	2510.9	2640.9	388	319.1	316.3	449.3	817.9	852.1
2. South Korea	448.3	518.5	467.6	307.9	476.6	450.8	824.8	883.6	1001.8	1394.4	1273.3	893.8
3. Malaysia	393.2	531.1	489.9	321.7	447.1	608.2	902.7	1107.5	1178.9	1608.4	2024	1176.8
4. Singapore	901.6	977.5	779.7	517.5	672.7	877.1	1091.9	1063.3	1197.9	1384.2	1534.4	1463.9
5. Thailand	472.9	447.1	344	321	449.6	530.1	169.7	197.2	233.3	273.1	327.8	337.9
B. Africa of which:	1512.4	1420	1634.5	1757.2	1550.3	1951.5	1131.4	1287.7	1756.4	2626.6	3640.5	1981.6
1. Benin	11.3	16.6	20.7	27.1	28.4	45.1	15.5	9.8	13.5	12.8	42.7	52.1
2. Egypt Arab Republic	164.3	157.5	253.4	270.3	236.7	357.5	72.6	65.2	192.6	192.4	443.9	38.8
3. Kenya	245.1	168.5	123.9	145.2	116.7	140.9	15	19.6	20.9	36.2	21	19
4. Sudan	30.6	26.9	44.6	55	71.5	97.8	15.3	6.3	4.5	15.1	6.6	8
5. Tanzania	81.4	67.6	68.9	85.4	82	102	96.3	73.9	68	124.6	124.5	59.5
6. Zambia	35.2	32.1	26.6	17.3	23.3	22.5	59.9	104.1	97.2	39.1	26	11.6
C. Latin American Countries	376.4	479.1	697.5	610.2	697.6	1008.8	583.1	554.1	595.5	723.7	927.5	692.9
<b>V. Others</b>	<b>18.8</b>	<b>22.5</b>	<b>45.9</b>	<b>40.4</b>	<b>37.1</b>	<b>76.7</b>	<b>3</b>	<b>3.8</b>	<b>3.9</b>	<b>4.4</b>	<b>4.4</b>	<b>1.6</b>
<b>Total Trade</b>	<b>31794.9</b>	<b>33469.7</b>	<b>35006.4</b>	<b>33218.7</b>	<b>36822.4</b>	<b>44560.3</b>	<b>36675.3</b>	<b>39132.4</b>	<b>41484.5</b>	<b>42388.7</b>	<b>49670.7</b>	<b>50536.5</b>

**Note:** Exports of Petroleum Products are taken into account in total exports, but are not included in country-wise details.

**Source:** Handbook of Statistics on Indian Economy, Reserve Bank of India, 2001; IndiaStat Database (2008).

On the eve of independence in 1947, foreign trade of India was typical of a colonial and agricultural economy. Trade relations were mainly confined to Britain and other commonwealth countries [Mathur, (2006)]. However, after the Look East policy of 1990s, the share of East Asian countries in general and China in particular in recent years has increased.

**Table 9.** Geographic Structure of Foreign Trade of India 2001-2006

Direction of Foreign Trade Export and Import in India (2001-2002 to 2005-2006) (US \$ Million)										
Group/Country	2001-2002		2002-2003		2003-2004		2004-2005		2005-2006 (P)	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
<b>I. OECD countries</b>	<b>21622.1</b>	<b>20640.6</b>	<b>26382.6</b>	<b>23301.1</b>	<b>29629.2</b>	<b>29572.1</b>	<b>36494.8</b>	<b>39989.9</b>	<b>45459.7</b>	<b>46606.6</b>
A. EU of which:	9845.9	10436.5	11522.5	12541.7	13890.0	14717.0	17539.6	18713.0	22222.4	22341.9
1. Belgium	1390.6	2763.0	1661.8	3711.9	1805.7	3975.9	2509.7	4588.9	2853.1	4705.4

<b>Direction of Foreign Trade Export and Import in India</b>										
<b>(2001-2002 to 2005-2006) (US \$ Million)</b>										
<b>Group/Country</b>	<b>2001-2002</b>		<b>2002-2003</b>		<b>2003-2004</b>		<b>2004-2005</b>		<b>2005-2006 (P)</b>	
	<b>Exports</b>	<b>Imports</b>	<b>Exports</b>	<b>Imports</b>	<b>Exports</b>	<b>Imports</b>	<b>Exports</b>	<b>Imports</b>	<b>Exports</b>	<b>Imports</b>
2. France	945.0	844.3	1074.1	1094.2	1280.9	1090.2	1680.9	1894.1	2047.6	1764.3
3. Germany	1788.4	2028.1	2106.7	2404.5	2544.6	2918.6	2826.2	4015.3	3517.0	5818.4
4. Italy	1206.5	704.8	1357.1	812.0	1729.4	1071.0	2286.0	1373.1	2490.0	1828.7
5. Netherlands	863.9	466.5	1047.9	385.7	1289.1	535.6	1604.9	791.5	2456.1	1039.1
6. UK	2160.9	2563.2	2496.4	2777.0	3023.2	3234.3	3681.1	3566.2	5146.0	3898.2
<b>B. North America</b>	<b>9098.2</b>	<b>3679.0</b>	<b>11594.0</b>	<b>5009.9</b>	<b>12253.2</b>	<b>5760.7</b>	<b>14632.6</b>	<b>7777.1</b>	<b>18212.2</b>	<b>8673.0</b>
1. Canada	584.8	529.4	698.3	566.3	763.2	725.9	866.8	775.7	1008.7	895.1
2. USA	8513.3	3149.6	10895.8	4443.6	11490.0	5034.8	13765.7	7001.4	17203.5	7778.0
<b>C. Asia and Oceania of which:</b>	<b>1990.7</b>	<b>3534.7</b>	<b>2435.9</b>	<b>3249.5</b>	<b>2379.6</b>	<b>5395.8</b>	<b>2941.4</b>	<b>7187.6</b>	<b>3411.5</b>	<b>8599.5</b>
1. Australia	418.0	1306.1	504.2	1336.8	584.3	2649.2	720.2	3824.5	811.8	4851.1
2. Japan	1510.4	2146.4	1864.0	1836.3	1709.3	2667.7	2127.9	3235.1	2458.7	3552.4
<b>D. Other OECD countries of which:</b>	<b>687.3</b>	<b>2990.3</b>	<b>830.2</b>	<b>2500.0</b>	<b>1106.5</b>	<b>3698.6</b>	<b>1381.3</b>	<b>6312.2</b>	<b>1613.6</b>	<b>6992.2</b>
1. Switzerland	409.1	2870.7	382.7	2329.9	449.9	3312.7	540.9	5939.9	474.1	6525.5
<b>II. OPEC of which:</b>	<b>5224.5</b>	<b>2965.8</b>	<b>6884.6</b>	<b>3479.4</b>	<b>9544.4</b>	<b>5609.2</b>	<b>13207.4</b>	<b>10022.5</b>	<b>15223.1</b>	<b>11013.6</b>
1. Indonesia	533.7	1036.8	826.1	1380.9	1127.2	2122.1	1332.6	2617.7	1370.5	2933.5
2. Iran	253.0	283.8	654.7	258.3	918.1	266.8	1231.4	410.2	1176.4	685.9
3. Iraq	206.8	0.0	214.9	0.0	75.2	0.1	131.2	1.1	145.4	2.1
4. Kuwait	206.2	73.7	250.6	179.5	319.1	142.5	421.4	305.9	507.7	460.5
5. Saudi Arabia	826.4	464.0	940.7	504.7	1123.3	737.8	1412.1	1301.2	1806.9	1617.4
6. UAE	2491.8	915.1	3327.5	957.0	5125.6	2059.8	7347.9	4641.1	8592.8	4312.1
<b>III. Eastern Europe of which:</b>	<b>1254.8</b>	<b>946.8</b>	<b>1248.1</b>	<b>1139.9</b>	<b>1555.4</b>	<b>1628.9</b>	<b>1780.2</b>	<b>2514.2</b>	<b>1960.3</b>	<b>3689.5</b>
1. Romania	11.4	48.4	27.4	45.6	47.8	71.9	106.0	168.4	83.4	251.2
2. Russia	798.2	535.5	704.0	592.6	713.8	959.6	631.3	1322.7	729.9	1992.0
<b>IV. Developing countries of which:</b>	<b>13535.5</b>	<b>12776.4</b>	<b>17862.3</b>	<b>15688.2</b>	<b>22784.3</b>	<b>20567.2</b>	<b>31597.1</b>	<b>28604.2</b>	<b>39785.1</b>	<b>36808.8</b>
<b>A. Asia</b>	<b>10332.7</b>	<b>9264.7</b>	<b>13981.0</b>	<b>11303.8</b>	<b>18426.7</b>	<b>16269.8</b>	<b>24968.4</b>	<b>22581.3</b>	<b>30961.1</b>	<b>29849.1</b>
<b>(a) SAARC</b>	<b>2026.0</b>	<b>571.5</b>	<b>2724.1</b>	<b>512.0</b>	<b>4148.1</b>	<b>668.8</b>	<b>4440.7</b>	<b>950.2</b>	<b>5358.5</b>	<b>1338.7</b>
1. Bangladesh	1002.2	59.1	1176.0	62.1	1740.7	77.6	1631.1	59.4	1632.4	118.8
2. Bhutan	7.6	23.9	39.0	32.2	89.5	52.4	84.6	71.0	99.1	88.9
3. Maldives	26.9	0.4	31.6	0.3	42.3	0.4	47.6	0.6	67.2	2.0
4. Nepal	214.5	355.9	350.4	281.8	669.4	286.0	743.1	345.8	859.4	380.0
5. Pakistan	144.0	64.8	206.2	44.8	286.9	57.6	521.1	95.0	681.9	177.5
6. Sri Lanka	630.9	67.4	921.0	90.8	1319.2	194.7	1413.2	378.4	2018.5	571.7
<b>(b) Other Asian developing countries of which:</b>	<b>8306.6</b>	<b>8693.2</b>	<b>11256.9</b>	<b>10791.8</b>	<b>14278.6</b>	<b>15601.0</b>	<b>20527.7</b>	<b>21631.1</b>	<b>25602.6</b>	<b>28510.4</b>
1. China, People's Republic of	952.0	2036.4	1975.5	2792.0	2955.1	4053.2	5615.9	7098.0	6721.2	10739.5
2. Hong Kong	2366.4	728.9	2613.3	972.6	3261.8	1492.7	3691.8	1730.1	4457.2	2167.6
3. South Korea	471.4	1141.4	644.9	1522.0	764.9	2829.2	1041.7	3508.8	1819.0	4343.4
4. Malaysia	773.7	1133.5	749.4	1465.4	892.8	2046.6	1084.1	2299.0	1151.6	2388.6
5. Singapore	972.3	1304.1	1421.6	1434.8	2124.8	2085.4	4000.6	2651.4	5569.8	3230.3
6. Thailand	633.1	423.1	711.2	379.0	831.7	609.1	901.4	865.9	1062.3	1201.7
<b>B. Africa of which:</b>	<b>2260.9</b>	<b>2502.4</b>	<b>2575.7</b>	<b>3348.2</b>	<b>3094.4</b>	<b>3103.9</b>	<b>4478.6</b>	<b>3930.4</b>	<b>5809.2</b>	<b>4548.7</b>
1. Benin	55.4	43.1	64.4	38.2	52.7	53.2	47.1	79.8	114.5	77.1
2. Egypt, Arab Republic of	462.7	99.9	298.2	226.6	367.5	98.2	444.7	152.6	664.3	218.0
3. Kenya	156.0	31.9	203.6	33.5	229.5	41.9	426.6	46.7	569.1	48.2
4. Sudan	122.2	13.4	105.2	24.5	107.4	31.2	317.4	22.9	313.5	31.7
5. Tanzania	90.8	76.1	115.5	91.2	175.8	109.3	173.9	131.7	239.9	119.4
6. Zambia	25.7	13.5	31.0	14.4	39.9	18.6	50.4	23.0	64.7	40.3

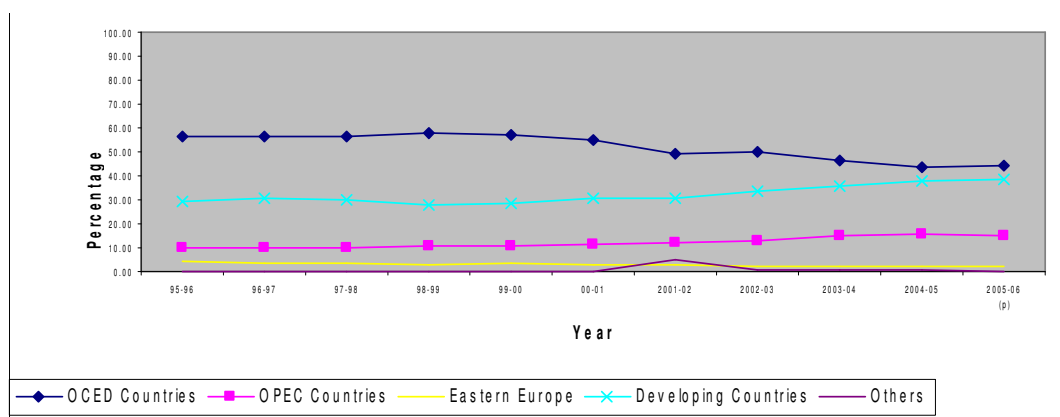
Direction of Foreign Trade Export and Import in India (2001-2002 to 2005-2006) (US \$ Million)										
Group/Country	2001-2002		2002-2003		2003-2004		2004-2005		2005-2006 (P)	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
C. Latin American countries	941.9	1009.3	1305.6	1036.2	1263.2	1193.6	2150.1	2092.5	3014.8	2411.0
V. Others/Unspecified	2189.8	14083.7	341.8	17803.5	329.3	20771.7	456.5	30386.7	296.8	44297.9
Total trade	43826.7	51413.3	52719.4	61412.1	63842.6	78149.1	83535.9	111517.4	102725.1	142416.3

Abbr.: P – Provisional.

Source: Reserve Bank of India; IndiaStat Database(2008).

Further, the Indian foreign trade geographic structure in exports and imports in terms of percentage shows the increasing share of developing countries and decreasing share of OECD group. The geographic structure of Indian exports in percentage terms (excluding petroleum exports) is shown in Figure1.

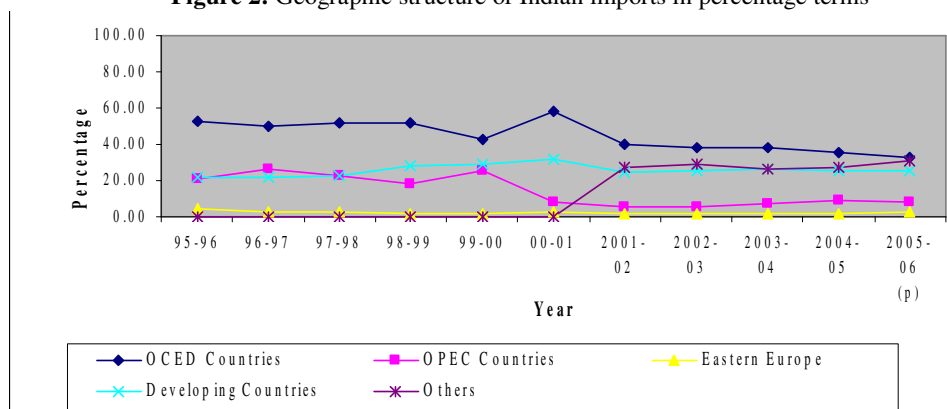
Figure1: Geographic structure of Indian exports in percentage terms



\* excluding petroleum exports.

Graph 2 displays the geographic structure of Indian imports in percentage terms (excluding petroleum products), see the Figure 2.

Figure 2: Geographic structure of Indian imports in percentage terms



### 3. Conclusion

Indian foreign trade has progressed a lot over the last sixty years since Independence. The period can be divided into three sub-periods of 1950-1970, 1971-1991 and post-1991. The trade has stagnated and India lost its market share to other countries in 1950s and 1960s. The government

policies and dominant views of import substitution and export pessimism has a negative impact. The situation improved in 1970s and exports has finally picked up in post liberalization era in general and after 2002 in particular. In terms of composition, now it is dominated by manufactured goods and services. Services exports contribution has grown rapidly in recent past. India services exports share in global exports is more than double of that of Indian manufacturing exports. In terms of direction, it is now more distributed around the world and the share of East Asian countries has on rise in overall trade. Looking at the large size of the economy, the high growth rates and small share in world trade; with the help of economic theories, we can safely conclude that there is huge untapped potential for Indian foreign trade in years to come.

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