

## Growth and Instability in India's Foreign Trade: A Comparative Analysis of Pre and Post-Liberalization Periods

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*The paper examines the question of growth and instability in exports and imports of India over a two-decade period ranging from 1980-81 to 2001-02. Regression results relating to these two variables have been reported both in rupee and dollar terms. The paper also attempts a Granger Causality test between growth and instability of exports and imports in India over a longer period namely 1949-50 – 2001-02. The results however remain inconclusive.*

### I Introduction

Foreign trade often plays a paramount role in the economic development of a country. Foreign trade is the treasure house of static and dynamic gains. Firstly, foreign trade provides resources to world besides markets. It is the major source of foreign exchange to many countries. In smaller non-oil exporting countries, foreign trade brings 25 to 40 per cent of monetary GNP and in oil exporting Gulf countries, foreign trade accounts for as high as 70 per cent of National Income. Secondly, foreign trade provides access to scarce resources needed to promote economic growth viz., raw materials, machinery, capital goods, and intermediary producer goods that are indispensable for economic growth. Thirdly, foreign trade is supposed to be an indirect transmitter of capital often through MNCs. Fourthly, it improves the allocative efficiency of nations through international specialization in the production of goods and services. Fifthly, it provides and promotes an atmosphere of healthy competition among trading nations by checking monopolies and restrictive trade practices. Sixthly, it is the perennial source of technical know-how, managerial talents and entrepreneurial capabilities. Seventhly, foreign trade widens the horizons of consumption possibility frontiers of countries far in excess of domestic production constraints. Eighthly, the choice of the consumers increases greatly as different varieties of the same good (differentiated products) are available in an open economy. Ninthly, foreign trade is supposed to bring growth oriented structural changes in the economy by changing the composition of GNP, employment and consumption. Lastly, trade is considered to be a better alternative to foreign aid, foreign direct and portfolio investments as the latter are politically vulnerable. Apart from the above-mentioned benefits accruing to individual countries, the world as a whole also benefits from international trade. The world production of every commodity is maximized, through international allocation of resources. Secondly, there will be greater international equality in real incomes, factor prices and consumption levels and consequently in welfare levels across countries of the world. The relative wage levels would increase in a labour abundant country and fall in a capital abundant country. This would equalize real

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