

DIVERSIFICATION OF INDIA'S EXTERNAL SECTOR: EVIDENCE AND POLICY IMPLICATIONS

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Abstract

The Complexity of the development process necessitates the economies to use a range of strategies to accomplish specific goals. Growth, self-sufficiency, and removal of poverty and inequality, have been the major goals for achievement through inward and outward-looking strategies. Underdeveloped economies, in general, accept the fact that to ameliorate the poverty syndrome that grips these economies under a 'vicious circle' and 'low-level equilibrium trap', only domestic resources are not enough.

To cope with the problems, these economies make drastic efforts to increase their capital potential through foreign aid and foreign trade. After 1991, under the structural adjustment policy (SAP), the external sector, especially the trade sector was given much emphasis with the view to strengthening the ailing economy. The export sector was recognized as a priority sector to boost the weak financial state of affairs, the country faced and India's foreign policy was declared as Export-Led Growth of the Indian Economy. Economic diversification remains a challenge for most developing countries, which are small, low-income countries, and dominated by primary commodities.

Keeping in view the above and the relevance of the external sector, a detailed study of India's foreign trade has been made with its prospects and limitations. This research paper attempts to evaluate India's composition, and direction of trade.

Keywords: External, Export, Import, Trade Balance, Policy, Progress

JEL Classification Numbers: F1, F3, B27, O25,

INTRODUCTION

In the modern era of development and free trade, no country in the world can produce and consume all the goods and services it needs, which means that every country depended on another country to get economical production and consumption. The exchange of goods and services from one country to another on the basis of specialization and division of labour can feed a rapidly growing population's expectations in developing countries. India should develop indigenous industrial activity in the country which pushes better utilization of resources, greater job opportunities, and foreign exchange earnings, from higher marketability of Indian commodities in the international market. Foreign trade is a dynamic force that stimulates a larger market and division of labour for achieving productive efficiency.

In 1991, liberal trade policy and reforms were realized because several imbalances in the economy were developed gradually and they were: *firstly*, a large fiscal deficit, the underlying causes like tremendous increase in plan and non-plan expenditure had reached an elephantine figure of ₹ 97000 crores in 1989-90. Loans also carried interest payments. The debt service ratio had reached an intolerance limit of 25 percent. All these led to an ever-increasing financial deficit. In 1990-91, the current fiscal deficit was 8.4% of India's GDP. *Secondly*, a large deficit in the balance of payments posed a serious setback to the economy which was the result of an excess of imports over exports. Foreign exchange reserves of ₹ 200 crores were sufficient only for two week imports. Imports had increased on account of the promotion of industries that had a high import intensity, import of defence equipment, etc. Apart from this, the withdrawal of non-resident India's deposits and reduction in remittances aggravated the foreign exchange crisis. *Thirdly*, the recessionary situation in the industrial sector and stagnation in agricultural production has also been responsible for economic reforms. Growth in industrial production was negative (-1.9%); *fourthly*, the excess of demand over supply that was caused by the undue monetary expansion led to a sharp increase in the price level. *Fifthly*, the significant increase in population that has resulted in a surplus labour force led to mass unemployment.

On account of the reasons mentioned above, the creditworthiness of India in the international market was also rated very low. All these factors together and the political instability in production had left no option for the then government but to go for drastic reform in the country. The import growth has always been higher (37.3% in 1980-81, 22.3% in 1990-91 over the previous year, respectively) than the export growth (4.6% in 1980-81, 17.7% in 1990-91 over the previous year).

Under the pressure of the above circumstances, the *New Economic Policy* was initiated by then Finance Minister of India Dr. Manmohan Singh under the able guidance of former Prime Minister P.V. Narshimha Rao in July 1991.

The purpose of the new economic policy was to change India's diversity of trade, composition, direction of trade, and cross-border trade movements and to integrate the Indian economy with the world economy.

India is now recognized as a fast emerging country, occupied 5th largest economy in the world, and according to IMF India having the world's 4th highest GDP by 2027. In 1991, India integrated into the global economy after structural reforms. The government introduced major changes in its trade policy, industrial policy, fiscal policy, agriculture policy, and other sectors of the Indian economy. The main highlights of the above reforms are on export promotion, liberal trade process, the openness of the economy, and diversification.

Export expansion is one of the main determinants of growth. It is advocated that foreign trade can be treated as an 'engine of economic growth'. It is witnessed that in the last two decades, trade movement around the world has shown a huge increase in the movement of goods and services across the world. Thus, in the context of diversification of India's external sector, we cover composition and direction of trade, and policy implications.

REVIEW OF LITERATURE

Balassa, B., (1978) examined and focused on the positive correlation between trade and growth of 11 countries that established industrial bases and economic development. In the same, B. Erkin, (1988) explored the model for developed countries and found that the growth performance of an economy is well-versed by the values of income elasticity of exports and imports.

Panagriya Arvind (2001) commented on the impact of the economic reform process and India's external sector. He also framed various measures to boost trade from India to other countries of the world. Virmani A., (2001) focused on the external sector reform process in India since 1991 and found that there is an overall improvement in the current account and capital account.

Chakraborty et al., (2005) analyse the competitiveness, diversification, trends, and instability and focus on India and WTO. He also compared India's export performance with China and found that due to the reform process diversification of export items has increased.

Bhasin, S. (2005) has found that economic reforms in India changed the possibility of growth and strengthened the external sector but India cannot be performed well during the period due to obstacles such as high transaction costs, low level of factor productivity, etc. Due to excessive regulatory framework and formalities in India, foreign direct investment (FDI) inflows have been limited.

Tendulkar and Bhavani (2007) both have suggested that it does not require any complex administrative mechanism to manage the BOP deficit, a better option is exchange rate adjustment rather than import control. During the pre-reform period, it was found that the exchange rate was overvalued which made imports cheaper and exports unprofitable and further encourage current account imbalance.

Cheptea et al. (2014) discuss the reshaping of the world market and suggest that an exporter country weights its gains or losses in terms of market shares, intensive margin, and the evolution of market shares. He also suggests some challenges in the field of exports like increased export performance, product specialization, export diversification, tougher competition, reallocation of resources from less to more efficient firms, and export upgrading.

OBJECTIVES

1. To discuss the composition and direction of India's foreign trade.
2. To highlights policy implications.

DATA SOURCES AND METHODOLOGY

The study is concerned with the analysis of secondary data related to composition and direction of India's foreign trade. Data has been collected through various reports, books, journals, publications, seminars, and other reports like RBI's Handbook of Statistics of Indian Economy, and Economic Surveys etc. The study is focusing on the India's foreign trade.

LIMITATIONS OF THE STUDY

This study tries to examine the composition of trade which covers covers the period from 2016-17 to 2021-22 and the direction of the trade from 2017-18 to 2021-22.

COMPOSITION OF TRADE: EXPORTS

As we know that since the beginning India was traditionally an exporter of agricultural raw materials. It is observed that due to another sectoral development share of agriculture is continuously declining. Table 1 reveals the exports of principal commodities of India according to 2021-22 data. Commodities include Rice, Marine

Products, Meat, dairy & poultry products, cotton yarn/Fabs/made-up, electronic goods, engineering goods, organic and inorganic chemicals, Gems and Jewellery, Drugs and Pharmaceuticals, RMG of all Textiles, Petroleum Products, Plastic, and Linoleum, etc.

Table 1: Export of Principal Commodities (Value in US \$ million)

| Sr. No. | Commodity/ Year | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---------|---|---------------|---------------|---------------|---------------|---------------|---------------|
| 1 | Tea | 731.4 | 837.5 | 830.8 | 826.4 | 756.4 | 751.2 |
| 2 | Coffee | 842.7 | 968.5 | 822.4 | 738.8 | 719.8 | 1020.8 |
| 3 | Rice | 5733.6 | 7806.3 | 7750.5 | 6403.3 | 8829.4 | 9671.2 |
| 4 | Other cereals | 212.4 | 248.7 | 349.0 | 205.3 | 705.5 | 1087.5 |
| 5 | Tobacco | 958.6 | 934.4 | 981.4 | 905.2 | 876.8 | 923.7 |
| 6 | Spices | 2851.8 | 3115.5 | 3322.2 | 3621.4 | 3984.0 | 3896.0 |
| 7 | Cashew | 786.8 | 922.5 | 654.5 | 566.7 | 420.5 | 453.2 |
| 8 | Oil Meals | 805.5 | 1093.3 | 1508.5 | 827.8 | 1585.0 | 1031.8 |
| 9 | Oil Seeds | 1355.3 | 1174.2 | 1156.7 | 1318.2 | 1235.8 | 1113.7 |
| 10 | Fruits & vegetables | 2454.8 | 2513.4 | 2540.8 | 2380.4 | 2612.9 | 2883.2 |
| 11 | Cereal preparations & miscellaneous processed items | 1270.7 | 1416.5 | 1555.5 | 1527.0 | 1859.8 | 2280.8 |
| 12 | Marine products | 5903.2 | 7389.2 | 6802.5 | 6722.2 | 5962.5 | 7772.5 |
| 13 | Meat, dairy, and poultry products | 4368.7 | 4610.2 | 4363.6 | 3714.4 | 3658.0 | 4141.0 |
| 14 | Iron ore | 1533.4 | 1471.2 | 1317.4 | 2625.0 | 4896.6 | 3248.3 |
| 15 | Mica, Coal & other Ore, minerals including processed minerals | 3578.3 | 3776.8 | 4254.6 | 3948.5 | 4331.7 | 5217.3 |
| 16 | Leather & leather products | 5165.5 | 5289.2 | 5140.9 | 4658.4 | 3301.5 | 4381.4 |
| 17 | Ceramic products & glassware | 1856.7 | 2131.9 | 2649.3 | 2870.8 | 3050.7 | 3464.7 |
| 18 | Gems & Jewellery | 43412.7 | 41544.5 | 40251.0 | 35898.4 | 26022.8 | 39099.3 |
| 19 | Drugs & pharmaceuticals | 16785.0 | 17282.7 | 19146.7 | 20703.4 | 24444.0 | 24594.4 |
| 20 | Organic & inorganic chemicals | 1233.2 | 18508.6 | 22379.4 | 22082.9 | 22088.6 | 29364.7 |
| 21 | Engineering goods | 67216.3 | 75695.6 | 83621.5 | 78704.5 | 76719.7 | 112163.0 |
| 22 | Electronic goods | 5962.8 | 6393.2 | 8829.5 | 11700.7 | 11093.4 | 15660.5 |
| 23 | Cotton yarn/fab/made-ups, handloom products, etc. | 9862.3 | 10260.5 | 11215.2 | 10027.8 | 9827.8 | 15298.0 |
| 24 | Man-made yarn/fabs/made-up, etc. | 4557.2 | 4826.4 | 4980.4 | 4821.5 | 3806.4 | 5614.5 |
| 25 | RMG of all textiles | 17368.3 | 16706.8 | 16138.4 | 15488.2 | 12272.3 | 16014.7 |
| 26 | Jute Mfg. including floor covering | 309.8 | 335.2 | 324.8 | 342.7 | 371.4 | 507.7 |
| 27 | Carpet | 1490.3 | 1429.8 | 1481.8 | 1373.4 | 1491.5 | 1789.8 |
| 28 | Handicrafts excl. handmade carpet | 1926.8 | 1823.2 | 1838.2 | 1797.8 | 1707.6 | 2088.3 |
| 29 | Petroleum products | 31545.4 | 37465.2 | 46553.7 | 41288.6 | 25804.5 | 67471.8 |
| 30 | Plastic & linoleum | 5796.6 | 6851.2 | 8607.4 | 7551.7 | 7462.8 | 9824.7 |
| 31 | Other commodities | 16873.6 | 15705.3 | 18709.3 | 17720.8 | 19910.7 | 29175.7 |
| | Total exports | 275852 | 303526 | 330078 | 313361 | 291809 | 422004 |

Source: Handbook of Statistics on Indian Economy as on 15 Sep. 2022, RBI, Table-117. Note: 2021-22 data are provisional & 2020-21 are revised.

It has shown in Table 1 that in terms of exports engineering goods have increased from 2016-17 to 2021-22. Petroleum products are the second major exporting item and its export has increased from US \$ Million 31545.3 in 2016-17 to US \$ Million 67471.7 in 2021-22. Gems and Jewellery are the third major exporting product of India. Other items have shown a mixed trend.

COMPOSITION OF TRADE: IMPORTS

In terms of imports, it has been divided into food and live animals, raw materials, manufacturing, capital goods, and other goods, etc. It is visible in Table 2.

| Table 2 Imports of Principal Commodities (Value in US \$ million) | | | | | | | |
|--|-----------------|---------|---------|---------|---------|---------|---------|
| Sr. No. | Commodity/ Year | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |

| | | | | | | | |
|----|---|---------------|---------------|---------------|---------------|---------------|---------------|
| 1 | Cotton raw & waste | 946.8 | 979.4 | 633.2 | 1328.5 | 385.8 | 559.7 |
| 2 | Vegetable oil | 10892.8 | 11637.4 | 9890.4 | 9672.8 | 11089.2 | 18991.7 |
| 3 | Pulses | 4244.2 | 2908.4 | 1140.7 | 1440.2 | 1611.8 | 2229.0 |
| 4 | Fruits & vegetables | 1783.5 | 2092.7 | 2143.8 | 2221.4 | 2273.5 | 2640.8 |
| 5 | Pulp & waste paper | 975.2 | 1154.8 | 1311.6 | 1143.0 | 851.2 | 1600.6 |
| 6 | Textile yarn fabric, mad-up articles | 1502.4 | 1837.4 | 1900.0 | 1922.4 | 1501.6 | 2065.6 |
| 7 | Fertilizers, crude & manufactured | 5024.0 | 5376.4 | 7467.5 | 7468.2 | 7597.4 | 14169.8 |
| 8 | Sulphur & unroasted iron pyrites | 131.3 | 165.8 | 217.2 | 117.8 | 149.8 | 475.0 |
| 9 | Metalliferous ores & other minerals | 6194.3 | 9096.7 | 7583.4 | 5088.8 | 4266.3 | 8950.4 |
| 10 | Coal, coke & briquettes, etc. | 15759.8 | 22901.3 | 26177.7 | 22455.2 | 16274.6 | 31718.4 |
| 11 | Petroleum, crude & products | 86963.7 | 108659.0 | 140921.0 | 130550.0 | 82683.7 | 161811.0 |
| 12 | Wood & wood products | 4891.7 | 6027.4 | 6126.4 | 5612.3 | 4449.8 | 6136.5 |
| 13 | Leather & leather products | 935.4 | 1009.3 | 1057.8 | 1014.3 | 579.9 | 818.7 |
| 14 | Organic & inorganic chemicals | 16598.5 | 20631.6 | 23827.8 | 20617.2 | 19825.4 | 30291.8 |
| 15 | Dying/tanning/ colouring mtrls. | 2282.8 | 2887.6 | 3221.8 | 2906.5 | 2734.0 | 3960.3 |
| 16 | Artificial resins, plastic materials | 11964.0 | 14487.8 | 15682.0 | 14633.6 | 13510.0 | 20230.7 |
| 17 | Chemical materials & products | 5375.2 | 6663.5 | 7707.7 | 7643.3 | 8441.3 | 11148.0 |
| 18 | Newsprint | 849.8 | 776.8 | 977.8 | 700.7 | 294.2 | 344.8 |
| 19 | Pearls, precious & semi-precious stones | 23808.7 | 34278.9 | 27075.8 | 22458.7 | 18888.0 | 31007.8 |
| 20 | Iron & steel | 11683.0 | 14617.7 | 17656.8 | 15369.5 | 12035.8 | 17303.0 |
| 21 | Non-ferrous metal | 9868.7 | 12811.8 | 14733.0 | 13138.8 | 11716.7 | 17601.8 |
| 22 | Machine tools | 3034.7 | 3519.7 | 4642.6 | 4193.3 | 3169.7 | 4239.6 |
| 23 | Machinery, electrical & non-electrical | 28445.7 | 32908.9 | 37852.5 | 37691.8 | 30084.6 | 39942.5 |
| 24 | Transport equipment | 22687.8 | 22732.6 | 24775.7 | 25284.8 | 18649.3 | 20852.4 |
| 25 | Project goods | 2074.5 | 2077.7 | 2375.7 | 2025.4 | 1498.7 | 1356.0 |
| 26 | Professional instruments, optical goods, etc. | 3857.3 | 4754.7 | 5187.5 | 5024.2 | 4528.3 | 6372.7 |
| 27 | Electronic goods | 41930.5 | 52890.8 | 57377.4 | 54397.8 | 54287.8 | 73674.3 |
| 28 | Medcml. & pharmaceutical products | 4995.0 | 5480.8 | 6359.6 | 6459.7 | 6974.7 | 9072.0 |
| 29 | Gold | 27518.0 | 33657.3 | 32910.2 | 28229.8 | 34603.8 | 46165.7 |
| 30 | Silver | 1839.3 | 3213.7 | 3748.3 | 2727.9 | 790.6 | 3276.3 |
| 31 | Other commodities | 25299.4 | 23345.5 | 21397.5 | 21172.5 | 18329.7 | 24046.8 |
| | Total Imports | 384357 | 465581 | 514078 | 474709 | 394436 | 613052 |

Source: Handbook of Statistics on Indian Economy as on 15 Sep. 2022, RBI, Table-119. Note: 2021-22 data are provisional & 2020-21 are revised.

It is reflected in Table 2 that petroleum, crude & products occupied first position, electronic goods second, gold third, and machinery, electrical & non-electrical placed fourth in 2021-22.

THE DIRECTION OF TRADE: EXPORTS

From an analysis point of view, countries are divided into five categories. These are OECD, OPEC, Eastern Europe, Developing countries, and unspecified. OECD includes (i) the *European Union*: Netherlands, Germany, Belgium, Italy, and France, (ii) North America: USA, Canada (iii) Asia & Oceanic comprises of Japan & Australia, (iv) Other OECD countries cover UK & Switzerland.

OPEC group includes UAE, Saudi Arabia, Kuwait, Iraq, and Iran. Russia is in Eastern Europe. *Developing* countries cover Pakistan, Bangladesh, Afghanistan, Nepal, Bhutan, Sri Lanka, Maldives, Latin American countries, China, Malaysia, Egypt, South Korea, Kenya, Zambia, Singapore, Indonesia, Thailand, Arab Republic, South Africa, Benin, Tanzania, and Sudan, etc.

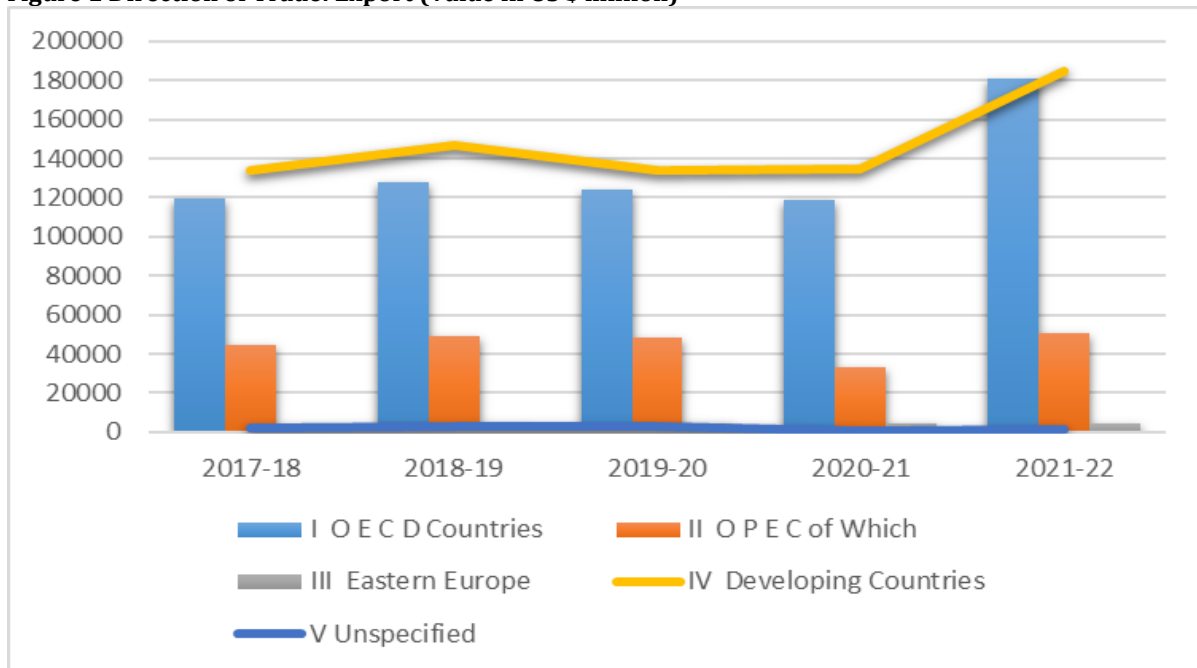
Table 3 Direction of Trade: Exports (Value in US \$ million)

| Sr. No. | Group | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|--------------|----------------------|-----------------|-----------------|---------------|-----------------|-----------------|
| 1 | OECD | 119622.5 | 128175 | 124021.6 | 118613.9 | 180759.5 |
| 2 | O P E C of Which | 44303 | 48780.5 | 48180.3 | 33057 | 50435.6 |
| 3 | Eastern Europe | 3036.7 | 3504 | 4235.9 | 4105.6 | 4763.5 |
| 4 | Developing Countries | 133905.1 | 146523.5 | 134160.2 | 135102.3 | 184523.1 |
| 5 | Unspecified | 2429.7 | 2907.2 | 2547 | 733.3 | 1299.6 |
| 6 | Others | 229.3 | 186.4 | 215 | 194.4 | 221.1 |
| Total | | 303526.2 | 330076.6 | 313360 | 291806.5 | 422002.4 |

Source: Handbook of Statistics on Indian Economy as on 15 Sep. 2022, RBI, Table-123. Note: 2021-22 data are provisional & 2020-21 are revised. European data exclude the UK from 2020-21 onwards.

Table 3 shows the comparative picture of the direction of export from India from 2017-18 to 2021-22. The direction has changed over time. Export of India has decreased with OECD till 2020-21 and increased US \$ Million 180759.5 in 2021-22 while OPEC showed fluctuating trend during the period. Export from Eastern Europe has reflected slow movement in exports. The share of developing countries has increased by US \$ Million 133905.1 in 2017-18 and US \$ Million 184523.1 in 2021-22.

Figure 1 Direction of Trade: Export (Value in US \$ million)



THE DIRECTION OF TRADE: IMPORTS

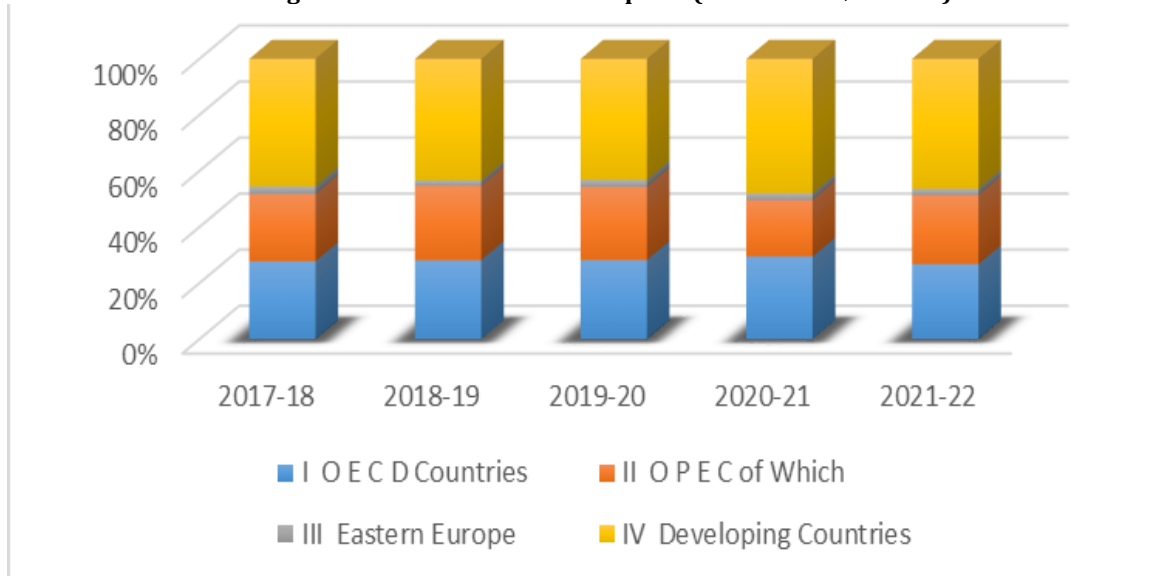
The imports from developing countries have risen from US \$ Million 207286.8 in 2017-18 and US \$ Million 284034.2 in 2021-22. Next to developing countries, OECD countries occupied the second position in India's total imports from US \$ Million 126728.5 in 2017-18 to US \$ Million 163888.3 in 2021-22 and OPEC countries placed third position in India's imports US \$ Million 109358.2 in 2017-18, US \$ Million 151000.9 in 2021-22.

Table 4 Direction of Trade: Imports (Value in US \$ million)

| Sr. No. | Group | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|--------------|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1 | OECD | 126728.5 | 144875.7 | 133850.5 | 116178.2 | 163888.3 |
| 2 | O P E C of Which | 109358.2 | 136548.7 | 123832.4 | 79651.6 | 151000.9 |
| 3 | Eastern Europe | 12914.5 | 9465.6 | 11964 | 9161.4 | 14051.5 |
| 4 | Developing Countries | 207286.8 | 223040.7 | 204837.8 | 189365.8 | 284034.2 |
| 5 | Unspecified | 9194.6 | 89.7 | 123.5 | 56.4 | 45.9 |
| 6 | Others | 98.3 | 56.9 | 100.3 | 22.3 | 31 |
| Total | | 465580.9 | 514077.3 | 474708.5 | 394435.7 | 613051.8 |

Source: Handbook of Statistics on Indian Economy as on 15 Sep. 2022, RBI, Table-123. Note: 2021-22 data are provisional & 2020-21 are revised. European data exclude the UK from 2020-21 onwards.

Figure 2 Direction of Trade: Imports (Value in US \$ million)



POLICY IMPLICATIONS

The foreign trade policy is a framework of strategy or the set of guidelines introduced by the government of India from time to time to promote the export of goods and services from the country and generate employment by encouraging foreign trade. New India's foreign trade policy (2021-2026) was initiated on 12th January 2021 to see India as a *global leader in trade* with the next five years to achieve a \$ 5 trillion Indian economy which is targeted to achieve in 2025 and aspire to become \$ 7 trillion economy by 2030. Presently, India is known as most of the important players in the global economic order. Its trade policies, reform process, focus on infrastructure, meet global challenges effectively attracted the attention of global leaders and win the confidence of investors.

Regional economic integration is considered a means of strengthening international cooperation and working on the division of labour and specialization as international theories advocated. The regional trade agreements emerged as a tool for accelerating the overall transaction internationally. Regional trade agreements emerged in different forms like custom unions, free trade agreements (FTA), and partial scope agreements. In 2022, India signed many Free Trade Agreements (FTA), and Preferential Trade Agreements (FTA) with different trading blocks. India such as UAE Comprehensive Economic Partnership Agreement (CEPA) in 2022, and for greater market access India-Australia Economic Cooperation and Trade Agreement (ECTA) in 2022. FTA negotiations with India-Canada, India-UAE, India-Singapore, India-South Korea, India-ASEAN, SAARC Preferential Trading Agreements (SAPTA), South Asia Free Trade Area (SAFTA), and India-SAARC, etc. Now India is a part of many regional trading agreements (RTAs) to encourage a multilateral trading system on a non-discriminative basis.

CONCLUSION

After the reform process of the Indian economy, exports are getting a rising share in the international market but also import increased due to believing in better qualitative consumer goods from abroad which is a cause and concern for the adverse balance of trade. The reason for the openness of the Indian economy was to improve the balance of payment (BoP) position but due to some circumstances, it has not been achieved. The objective of reform and integration of the world economy was to grow India with the help of increasing export and minimizing imports which can help in the overall growth of the Indian economy. Despite more than three decades of reform journey, India achieved only 1.7 percent in world trade which means the export sector has shown very little improvement which tells the sad story of reforms.

In recent times, the entire world is disturbed politically and economically in a different manner. It may encourage uncertainty, goods prices, economic crisis, the crisis of confidence, recession, and slowdown in business activities around the world. This crisis can invite economic slowdown, contraction in world trade, and different types of impact in each country. The war between Russia- Ukraine and Israel-Palestine also affect negatively the trade and transactions worldwide and entire countries of the world are divided into different groups. It pushes unemployment, inflation, an environmental problem, climate change, and confidence crisis among nations of the world which is dangerous for entire humanity on the earth. Pakistani's economy is also in an uncertain phase and in trouble.

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