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EXPORT INFRASTRUCTURE ON THE ENTIRETY EXPORTS OF INDIA AND GROWTH OF INDIAN ECONOMY

Gaurav Singhal
Research Scholar
Sunrise University
Alwar, Rajasthan

Dr. Balbir Singh Rajput
Supervisor
Sunrise University
Alwar, Rajasthan

ABSTRACT
The world trade scenario continues to be gloomy with merchandise trade value growth slipping into negative territory in 2015 for the first time since the negative growth in 2009, in the aftermath of the 2008 global financial crisis. While both world merchandise trade growth and world GDP growth were in negative territory in 2009, in 2015 only world trade growth was in negative territory. Even world merchandise trade volume growth at 2.7 per cent was slower than the world GDP growth of 3.2 per cent in 2015. While the Indian economy is one bright spot in the global landscape, becoming one the of the fastest growing emerging market economies in the world, in the export front, India was also not immune from the global shocks with export growth being negative at 15.5 per cent in 2015-16. Even India's export volume growth which usually has been above world export volume growth was below it in 2015. However there are some green shoots in recent months with export growth becoming positive in September (4.6 %), October (9.0 %), November (2.4 %) and December 2016 (5.5 %). Export growth is expected to be positive in the coming months as low base effect will continue. Many export items/sectors have moved from negative export zone in 2015-16 to positive export zone in 2016-17.
Key words: Indian economy, global

INTRODUCTION
Many economies in Asia have exhibited a bandwagon effect by signing trade integration agreements and lowering tariff barriers to increase trade. For example, members of the Association of Southeast Asian Nations (ASEAN) now enjoy tariff import rates as low as 0%, and ASEAN has also recently expanded to include the People's Republic of China (PRC), India, Japan, and Republic of Korea. Extensive evidence has also shown that improving international transport fosters international trade, such as through tariff liberalization (Baier and Bergstrand 2007; Andriamananjara et al. 2004). Facilitating trade is necessary to minimize the cost of trade and to provide access to markets. In Asia, the trade pattern has also recently shifted from finished products to intermediate and processing products. Economies that specialize in different tasks have added value to parts and components, which are imported for processing and assembly into semi-finished or finished products and then re-exported to the global supply chain before reaching end-users. Table 1 shows the performance of exports and imports in Asia. The PRC, India, Singapore, Thailand, and Viet Nam increased their export–gross domestic product (GDP) ratio from 16.0% to 60.0% between 2000 and 2012. The agricultural export–export ratio in Viet Nam further increased by 42.0% (from 1.9% in 2000 to 2.7% in 2012), followed by Thailand (49.0%), Philippines (52.0%), India (55.0%), and Indonesia (63.0%). Intra-Asian trade also increased by more 200% from 2003 to 2013. With such increased trade, trade cost has become a major concern. According to Anderson and Van Wincoop (2003), trade cost was estimated at 170% (in terms of ad-valorem equivalent) for industrialized countries. The major categories of trade cost were transport (21%), border-related trade barriers (44%), and retail and wholesale distribution (55%). However, trade cost is even larger in developing countries, many of which are found in Asia; thus, infrastructure is relevant to trade facilitation, particularly in minimizing trade cost and further enhancing competitiveness. Infrastructure is vital to economic development, as it is key to achieving higher and stable economic growth. Although most economies in Asia have already developed their basic infrastructure, the focus of development is usually on the quantity rather than the quality. According to World Economic Forum

(2014), well-developed infrastructure not only reduces the distance between regions but also integrates national markets and connects them at low costs to other economies. Economic activities which showed significant growth rates in 2015-16 over the corresponding period last year were mining and quarrying (10.6 per cent), manufacturing (10.8 per cent), electricity, gas and water supply (6.5 per cent), construction (6.5 per cent), trade, hotels, transport and communications (9.3 per cent), financing, insurance, real estate and business services (9.7 per cent), community, social and personal services (5.6 per cent). The Gross National Income is estimated to rise by 7.3 per cent in 2009-10 as compared to 6.8 per cent in 2015-16.

REVIEW OF LITERATURE

Portugal-Perez and Wilson (2012) assessed the impact of four indicators related to trade facilitation—physical infrastructure, ICT, border and transport efficiency, and the business and regulatory environment—on the export performance of 101 developing economies. Unlike previous studies that used principal component analysis, this study used factor analysis to derive the aggregate indicator. Accordingly, physical infrastructure was found to have the greatest impact on exports. In addition, utilizing a gravity model approach, Hernandez and Taningco (2010) addressed behind-the-border measures that influenced bilateral trade flows in East Asia, such as telecommunications services, quality of port infrastructure, time delays in trade, and depth of credit information. They noted that their impacts varied across sectors or product groups. Other studies that have applied the gravity model also emphasized the crucial role of infrastructure on trade. Shepherd and Wilson (2009) discovered that bilateral trade flows in Southeast Asia were affected by transport infrastructure, mainly ports and ICT. Hoekman and Nicita (2008) found that poor roads and ports, poorly performing customs agencies and procedures, weakness in regulatory capacity, and limited access to finance and business services affected trade. Wilson, Mann, and Otsuki (2005), when extending the gravity model to trade facilitation measures and to a larger sample of 75 economies, posited that port efficiency and the proxies for infrastructure quality for the services sector, such as the use, speed, and cost of the internet, significantly affected trade flows. Wilson, Mann, and Otsuki (2003) also found that that improving port and airport efficiency could positively impact intra-APEC trade.

Francois and Manchin (2007), by using principal components to construct two indicators on infrastructure and institutional quality, found that institutional quality, along with transport and communications infrastructure, was a significant determinant for an economy's export levels as well as for prospective exports. The results support the belief that export performance depends on institutional quality and access to communications and transport infrastructure. In addition, Méon and Sekkat (2006) observed a positive relationship between poor institutional quality and low-quality manufacturing exports. Compared to government effectiveness or the rule of law, control of corruption was the most significant factor related to manufacturing exports. Another study by Anderson and Marcoullier (2002), who used data on contractual enforcement and corruption, discovered that lower institutional quality was associated with a negative effect on trade. Other similar empirical evidence is found in Depken and Sonora (2005) and Levchenko (2007).
Straub and Terada-Hagiwara (2011) extended this study using physical infrastructure indicators across four sectors: telecommunications, energy, transport, and water. Growth regressions and growth accounting were used, showing that the growth rate of stocks had a positive and significant impact on the growth rate of East Asia-Pacific and South Asia economies for most infrastructure indicators. However, the results from the growth-accounting exercise revealed that positive and significant effects of infrastructure on total factor productivity growth were only observed in the PRC, Republic of Korea, and Thailand for the telecommunications and energy indicators. Calderón and Chong (2009) provided a comprehensive assessment of the impact of infrastructure development on economic growth in Africa by using physical indicators in the telecommunications, power, and transport sectors. Data for 136 countries for 1960–2005 were regressed by using nonoverlapping 5-year period observations. To address econometric issues such as unobserved country- and time-specific effects as well as potential reverse causality, an instrumental variable technique was employed. The study evaluated the impact on per capita growth of faster accumulation of

infrastructure stocks and of enhancement in the quality of infrastructure services. The findings showed that growth was positively affected by infrastructure stocks and the quality of infrastructure services. The study also found that Africa is likely to gain greater benefits from larger stocks of infrastructure than from improving the quality of the existing infrastructure.

INVESTMENT ATTRACTIVENESS OF INDIA

Size of the market and growth potential are two important factors in attracting investments in an economy, then India's potential is widely acknowledged. It is a well known fact that India has been one of the fastest growing economies over the past decade, averaging around 9.5% GDP growth second only to China. According to the World Economic Forum's Global Competitive Index (GCI) for FY 2007, India climbed two spots to 43rd, well ahead of Brazil (66), China (54), Russia (62), South Africa (45) and Kuwait (44). This demonstrates remarkably high scores in capacity for innovation and sophistication of firm operations. The quality of the business environment in India has improved tangibly in recent years. The available evidence suggests that the Indian economy may have entered a high growth model. India scored 4.44 overall in the Global Competitive index in which the top ranking Switzerland got 5.81 in the study covering 125 nations. China's overall score was 4.24.

India got credit in particular for the quality of scientific research and the number of scientists and engineers, which are increasingly supplying highly- skilled professionals to the private sector "Firm use of technology and rates of technology transfer are high, although penetration rates of the latest technologies are still quite low by international standards, reflecting India's still low levels of per capita income and high incidence of poverty," But its level of fiscal deficit is still an area of concern, along with that of lack of appropriate infrastructure, hampering growth in remote regions. The other concerns revolve on shortcomings in the provision of health services and education, which are necessary to ensure that the benefits of economic growth are more broadly distributed.

FOREIGN DIRECT INVESTMENT IN INDIA

Table 1 : Share of top five investing countries in FDI inflows

Rank	Country	Inflows (Million USD)	Inflows (%)
1	Mauritius	85,178	44.24%
2	United States	18,040	9.37%
3	United Kingdom	15,363	7.98%
4	Netherlands	11,177	5.81%
5	Singapore	9,742	5.06%
6	Cyprus	5,742	3.06%

As the fourth-largest economy in the world in PPP terms, India is a preferred destination for foreign direct investments (FDI); India has strengths in telecommunication, information technology and other significant areas such as auto components, chemicals, apparels, pharmaceuticals, and jewellery. Despite a surge in foreign investments, rigid FDI policies resulted in a significant hindrance. However, due to some positive economic reforms aimed at deregulating the economy and stimulating foreign investment, India has positioned itself as one of the front-runners of the rapidly growing Asia Pacific Region. India has a large pool of skilled managerial and technical expertise. The size of the middle-class population stands at 300 million and represents a growing consumer market.

The inordinately high investment from Mauritius is due to routing of international funds through the country given significant capital gains tax advantages; double taxation is avoided due to a tax treaty between India and Mauritius, and Mauriitus is a capital gains tax haven, effectively creating a zero-taxation FDI channel.

India's recently liberalized FDI policy (2005) allows up to a 100% FDI stake in ventures. Industrial policy reforms have substantially reduced industrial licensing requirements, removed restrictions on expansion and facilitated easy access to foreign technology and foreign direct investment FDI. The upward moving growth curve of the real-estate sector owes some credit to a booming economy and liberalized FDI regime. In March 2005, the government amended the rules to allow 100 per cent FDI in the construction business. This automatic route has been permitted in townships, housing, built-up infrastructure and construction development projects including housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, and city- and regional-level infrastructure.

A number of changes were approved on the FDI policy to remove the caps in most sectors. Fields which require relaxation in FDI restrictions include civil aviation, construction development, industrial parks, petroleum and natural gas, commodity exchanges, credit-information services and mining. But this still leaves an unfinished agenda of permitting greater foreign investment in politically sensitive areas such as insurance and retailing. FDI inflows into India reached a record $19.5 billion in fiscal year 2006-07 (April–March), according to the government's Secretariat for Industrial Assistance. This was more than double the total of US$7.8bn in the previous fiscal year. The FDI inflow for 2007-08 has been reported as $24 billion and for 2008-09, it is expected to be above $35 billion. A critical factor in determining India's continued economic growth and realizing the potential to be an economic superpower is going to depend on how the government can create incentives for FDI flow across a large number of sectors in India

CONCLUSION

This paper shows that improvement in all transport infrastructure sectors results in an increase in trade flows. The quality of infrastructure is as important as the quantity; any inadequate or poorly performing infrastructure may create obstacles for economies to meet their full growth potential. Results confirm that the quantity of infrastructure is important to enhance economic growth; however, having quality infrastructure benefits more in producing productive and efficient output, thus has greater impacts on sustainability in economic growth.

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