Analysis of Foreign Trade of India

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Abstract

Foreign trade in India has played a significant role in the country's economy. India's trade policy has evolved over the years, and it has embraced liberalization and globalization to enhance its trade relations with other countries. This research paper analyses the foreign trade policy of India and aims to provide recommendations for the new policy. To achieve this goal, the paper conducts a preliminary data analysis of India's foreign trade data, focusing on trends in exports and imports. The findings indicate that India's foreign trade has seen significant growth in recent years, but also faces several challenges related to the trade deficit and non-tariff barriers. The paper concludes with policy recommendations for the new foreign trade policy, including measures to increase export competitiveness, promote domestic manufacturing, and strengthen trade agreements with key partners. Overall, this study hopes to provides insights for policymakers and researchers interested in understanding and improving India's foreign trade policy.

I. Introduction

As the global economy continues to evolve, India’s trade policies have come under the microscope. With a rapidly growing population and a burgeoning middle class, India has emerged as a major player in the international trade arena. India's persistent trade deficit remains a concern for policymakers, as the country seeks to reduce its dependence on foreign goods and services and maintain self-reliance. One of the key factors driving India's trade deficit is its heavy reliance on imports, which has led to a surge in the country's import bill that has far outpaced its exports, putting a strain on its foreign exchange reserves. (Jha, 2019)

At the heart of the matter is the question of India’s self-reliance. The country has long sought to reduce its dependence on foreign goods and services, and the current trade deficit threatens to undermine this objective. To understand the root causes of India’s trade deficit, we must examine the country’s trade relationships with other nations.

Another challenge for India is its lack of competitiveness in key export sectors, such as manufacturing and technology. This has limited the country's ability to earn foreign exchange through exports, exacerbating the trade deficit. (Nagarajan, 2020) India's trade relationships with other countries have also been lopsided, with the country traditionally focusing on importing raw materials and exporting finished products, limiting its ability to add value to its exports. This has put India at a disadvantage in the global marketplace, as other countries are able to manufacture and export similar products at a lower cost. (Athukorala, 2020)

To address these challenges, India must take a multifaceted approach. First, the country needs to reduce its reliance on imports by boosting domestic production and encouraging import substitution. This can be achieved through measures such as investment in infrastructure and technology, as well as targeted policies to promote domestic manufacturing. (Karmarkar, 2019)

Second, India must focus on building its export capabilities. This will require investment in key sectors such as manufacturing and technology, as well as a concerted effort to improve the country's competitiveness in the global marketplace. This can be achieved through policies such as export promotion schemes, targeted incentives for exporters, and investment in research and development. (Kalavati & Thirumal, 2021)

Finally, India must rethink its trade relationships with other countries. The country needs to move away from its traditional focus on raw materials and finished products and explore new avenues for trade, such as the export of high-value-added goods and services, as well as investment in strategic sectors such as energy and infrastructure. (Pandey, 2021)

In conclusion, India's trade deficit remains a significant challenge for the country's self-reliance objectives. However, with the right policies and investments, India can overcome these challenges and establish itself as a major player in the global trade arena. By reducing its reliance on imports, building its export capabilities, and rethinking its trade relationships, India can achieve a more balanced and sustainable trade balance.

II. Recent performance of Indian economy

Indian economy responded positively to the liberalization process started in 1991 and the growth rates picked up. Interestingly, the growth in India’s economy and trade has been led by services rather than manufacturing. Whereas India has a deficit in balance of trade, it rams a surplus of balance of payments, mainly due to rising services exports. (Rajesh K. PILLANIA (Summer 2010))

Years Indicators	2000	2001	2002	2003	2004
Exports of goods and services (% of GDP)	13.2	12.7	14.5	14.8	19.0
Foreign direct investment, net inflows (BoP, current US$)	3.6	5.5	5.6	4.6	5.3
GDP (current US$)	461.3	478.3	506.1	600.7	694.7
GDP growth (annual %)	4.0	5.3	3.6	8.3	8.5
Imports of goods and services (% of GDP)	14.1	13.6	15.5	16.1	21.0
Long-term debt (DOD, current US$)	95.6	94.8	100.7	107.6	115.2
Merchandise trade (% of GDP)	20.4	19.6	20.9	21.4	24.9
Net barter terms of trade (2000 = 100)	100.0	97.8	88.6	80.6	75.9
Total debt service (% of exports of goods, services and income)	14.5	11.7	14.8	18.9	..

Figure 1, (Rajesh K. PILLANIA (Summer 2010))

According to the World Bank, India's exports of goods and services as a percentage of GDP were 19.7% in 2016 and increased to 20.8% in 2020. This indicates a slight growth in India's export sector over the past few years, despite the global economic slowdown caused by the COVID-19 pandemic. India's GDP in current US dollars has also shown a positive trend, increasing from $2.26 trillion in 2016 to $2.72 trillion in 2020.

However, India's economic growth rate has slowed down in recent years, with the GDP growth rate falling from 8.2% in 2016 to 4.2% in 2019. This trend has been attributed to various factors, including a slowdown in investment and consumption, as well as the impact of the COVID-19 pandemic.

India's current account deficit has also widened in recent years, from 0.7% of GDP in 2016 to 2.1% of GDP in 2020, indicating a greater dependence on imports. This trend has been further accentuated by the depreciation of the Indian rupee against the US dollar over the past few years.

Research suggests that India's economic performance is linked to its policy environment and business climate, with the ease of doing business being a key factor. According to the World Bank's Ease of Doing Business rankings, India's ranking improved from 130th in 2016 to 63rd in 2020, indicating a positive trend in terms of business environment.

	2021	2020	2019	2018	2017	2016
Exports of goods and services (% of GDP)	21.4	18.71	18.69	19.93	18.79	19.16
Exports of goods and services (annual % growth)	24.32	-9.24	-3.39	11.93	4.56	4.98
Imports of goods and services (% of GDP)	23.89	19.1	21.27	23.69	21.95	20.92
Imports of goods and services (annual % growth)	35.47	-13.81	-0.84	8.82	17.42	4.38
GDP (current US$)	3.1763E+12	2.66769E+12	2.83155E+12	2.70293E+12	2.65147E+12	2.2948E+12
GDP growth (annual %)	8.68	-6.6	3.74	6.45	6.8	8.26
Created from: World Development Indicators						
Country : India						

Figure 2

III. Key Highlights of New Foreign Trade Policy (2015-2020):

India's foreign trade policy is a set of guidelines and regulations that govern the country's imports and exports. It was introduced to promote exports, boost economic growth, create employment opportunities, and integrate the country into the global trading system. Its key highlights are outlined as follows:

1.Merchandise exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS) were launched to incentivize exports and make Indian exports globally competitive.

2.The policy aimed to increase India's exports of goods and services to $900 billion by 2020 and to double India's share in global merchandise trade by 2020.

3.The policy introduced new schemes such as the Trade Infrastructure for Export Scheme (TIES) and the Special Economic Zone (SEZ) Scheme to boost India's trade infrastructure and promote exports.

4.The policy focused on reducing the compliance burden on exporters by simplifying procedures and promoting e-governance initiatives such as the Electronic Data Interchange (EDI) system. Thus, promoting e-commerce and digital payments, which can reduce transaction costs and make trade more efficient.

5.The policy aimed to promote Make in India and enhance the competitiveness of Indian manufacturing by providing export incentives and promoting the development of export-oriented industries.

6.Free Trade Agreements (FTA’s) were signed with many countries. The policy aimed to diversify India's export markets by focusing on traditional markets as well as exploring new markets in Africa, Latin America, and Asia.

IV. Objectives of Study

1.To analyze data and receive insights into the policies effect on trade

2.To suggest improvements for upcoming policies based on analysis conducted

V Research Methodology

The present research paper is based on secondary source of data. The secondary information has been collected from articles published in different journals, various reports, and websites.

VI. Analysis:

Plotting the Import, Export, and trade Deficit of India

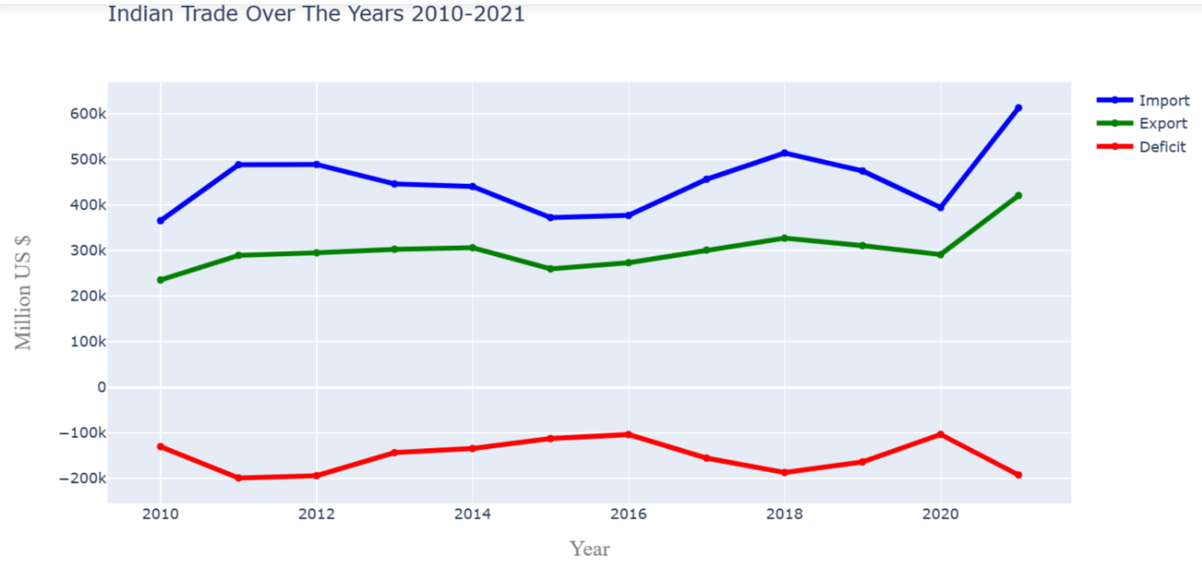

Fig 3, (Source: Our study, chart made from the data collected)

This graph depicts India's import export and trade deficit. India had targeted to increase our export of goods and services to 900 billion however as of 2020 the data depicts that we approximately reached the 103 billion mark which is very low compared to what we aimed for.

Despite the Foreign Trade Policy (FTP) aiming to reduce imports, the implementation of the GST in 2017 led to an increase in imports. The GST replaced various indirect taxes and simplified the taxation system, which made imports more affordable and accessible to Indian businesses. As a result, many businesses opted for imports instead of domestic production. Another reason was the increase in oil prices.

Export did not have a drastic increase one of the reasons being that, despite efforts to promote exports through the FTP, Indian manufacturers have struggled to compete with cheaper products from countries like China, Vietnam, and Bangladesh.

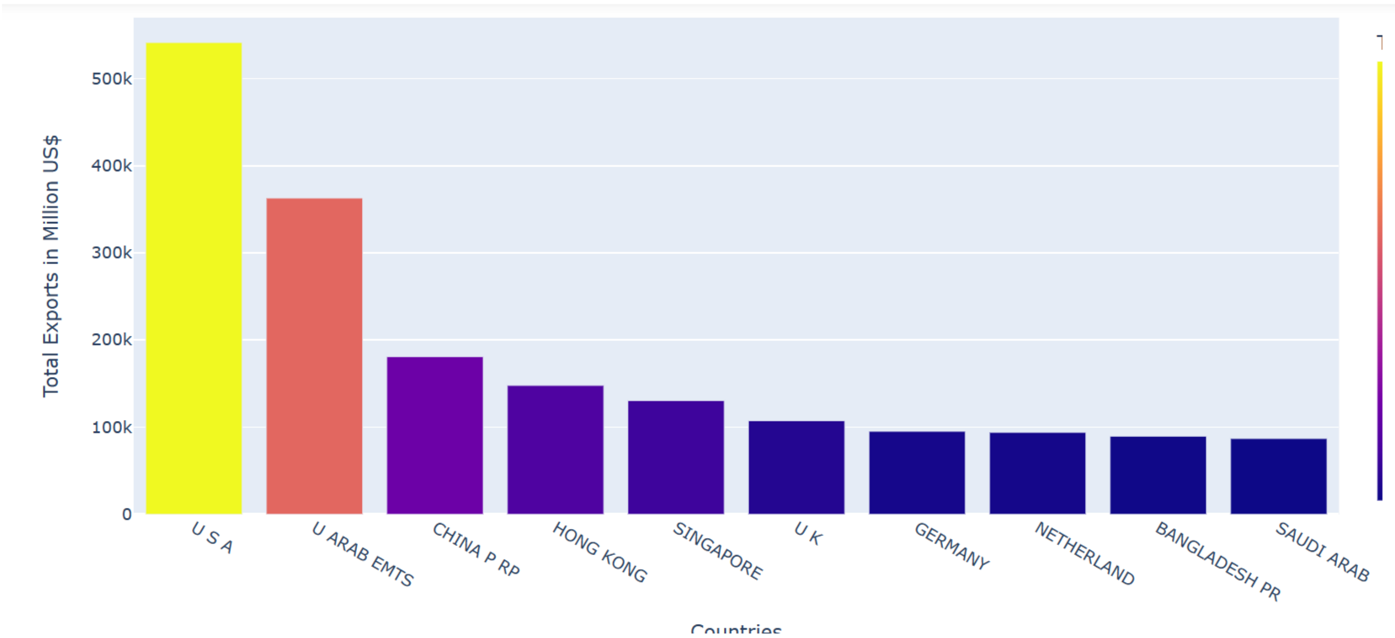

Fig 4, (Source: Our study, chart made from the data collected)

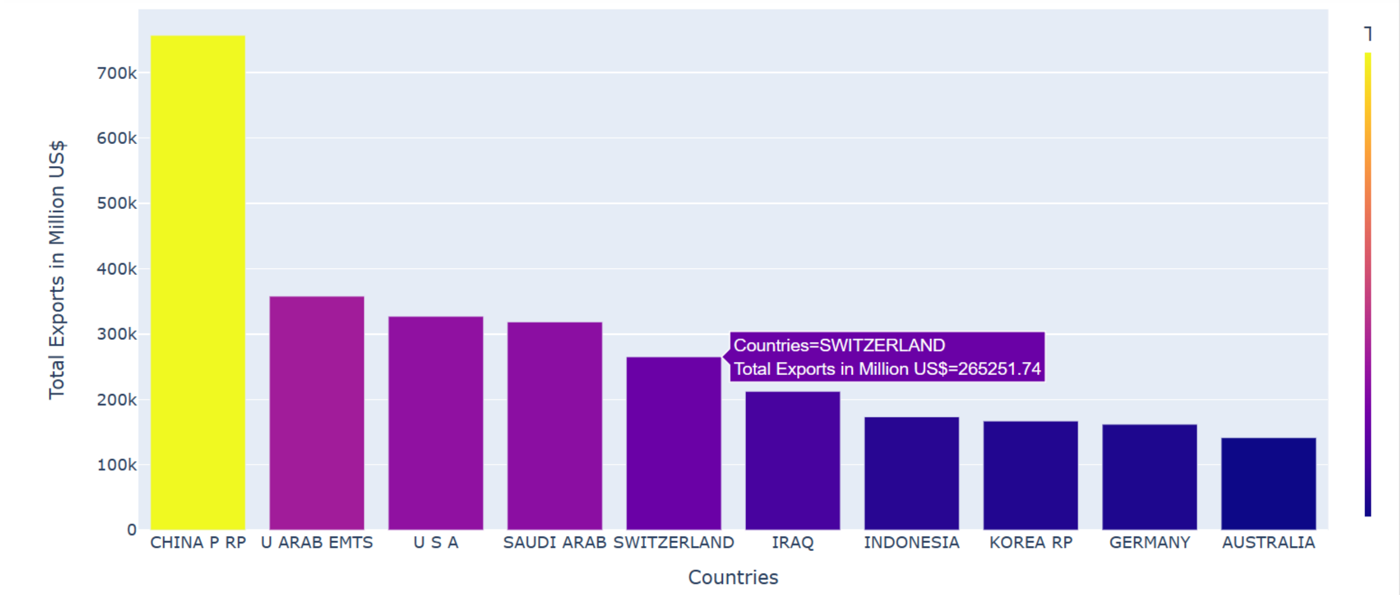

Fig 5, (Source: Our study, chart made from the data collected)

From the above two graphs we can infer that:

i) USA is biggest importer from India followed by UAE and China Republic.

ii) China has the biggest market of Goods in India followed by UAE, Saudi Arabia, and USA.

Fig 6 [Year 2010-2021] (Source: Our study, chart made from the data collected)

From the above graph it can be inferred that:

i) India has a trade surplus with USA, United Arab Emirates, Hong Kong, and Singapore.

ii) India has a huge trade deficit with China, Saudi Arab, and Indonesia etc.

From the above graphs, the Foreign Trade Policy (FTP) has been instrumental in promoting India's exports and reducing its dependence on imports, especially from countries like the United States, UAE, and China. Despite the efforts made under the FTP, India's trade deficit with these countries remains high, and its imports from China have been on the rise.

VII. Trade Trends for some popular commodities imported

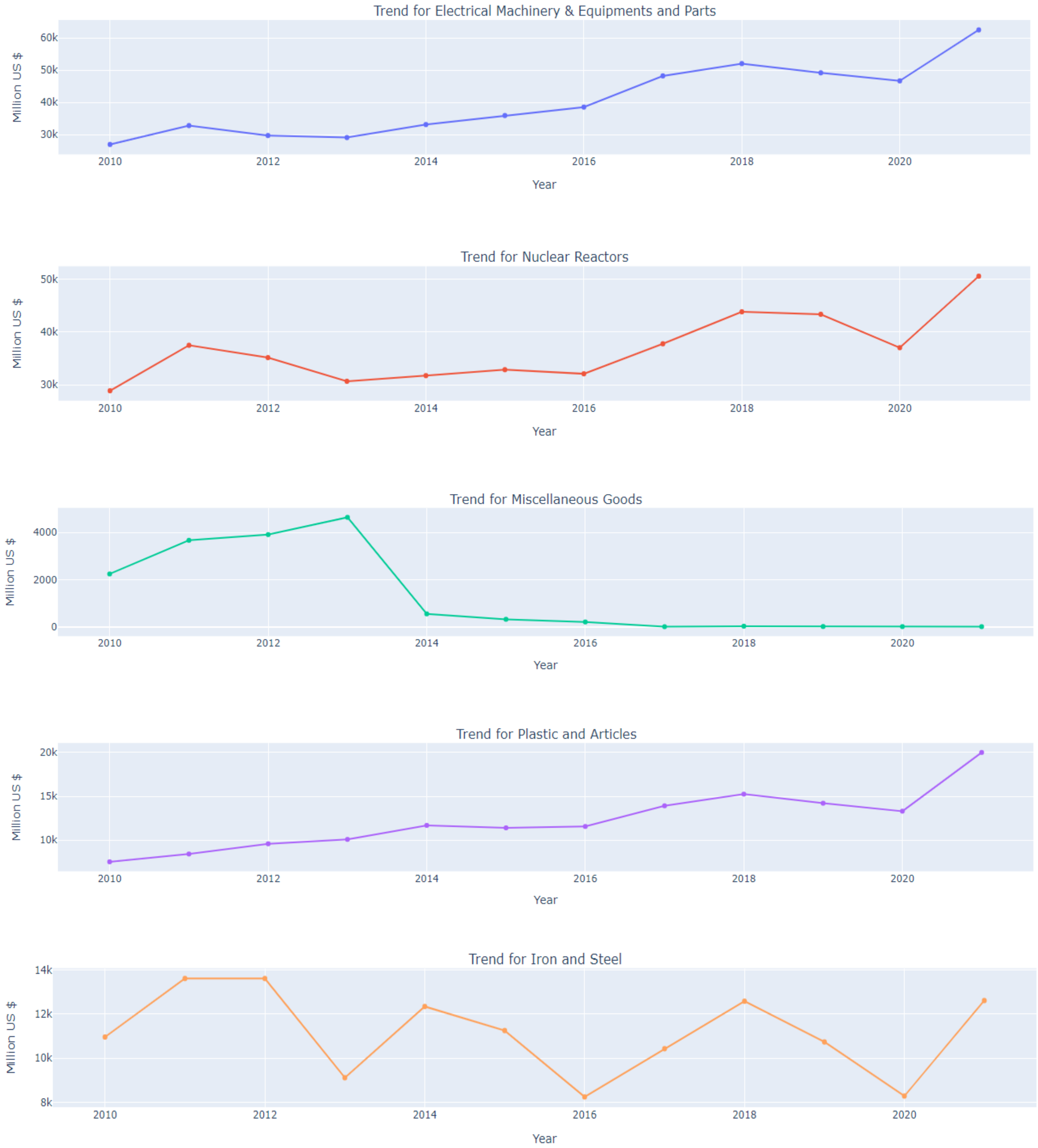

Fig 7 ,(Source: Our study, chart made from the data collected)

From the above graphs we can infer that:

i) The top 5 most often imported goods have seen an increase in the value of imports between 2010 and 2021; except for the Miscellaneous Goods which see a dip after 2013.

ii) Imports for Nuclear Reactors and Parts saw a dip in the exports between 2011 and 2015; but shows increasing trade off late.

iii) Imports for Iron and Steel products shows inconsistent trend between 2012 and 2016; but shows increasing imports after that.

iv) Imports for Electrical Machinery & Equipment’s and Plastic & Articles show increasing trade consistently.

VIII. Trade Trends for some popular commodities imported by various Countries

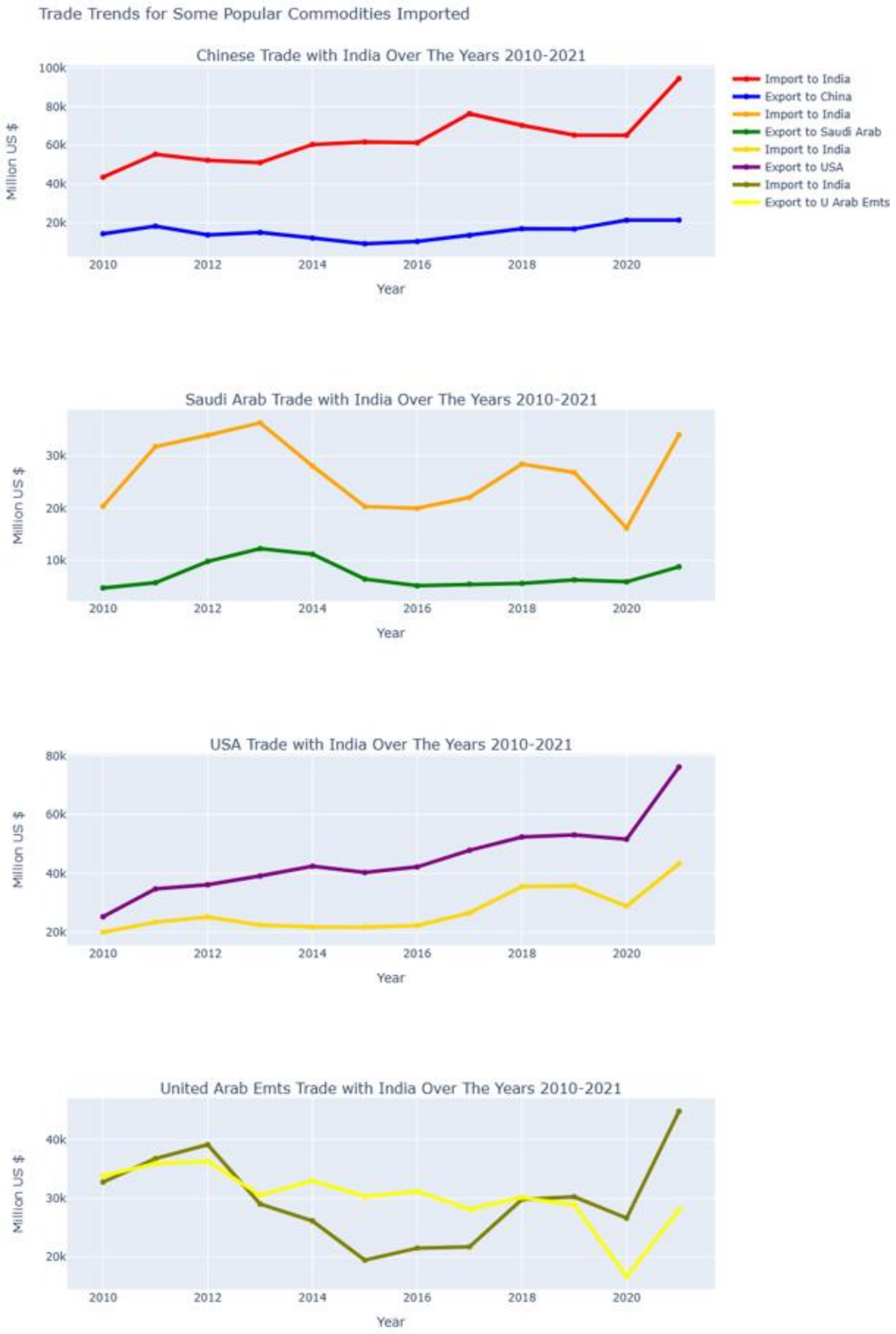

Fig 8, (Source: Our study, chart made from the data collected)

From the above graphs we can infer that:

i) The graph for China and Saudi Arab shows a huge trade deficit over the years. India is at a loss over there.

ii) The graph for USA and United Arab Emirates shows a trade surplus over the years. USA is the biggest importer from India.

IX. Expensive Goods Exported from India Between 2010-2021 According to their Aggregate Value

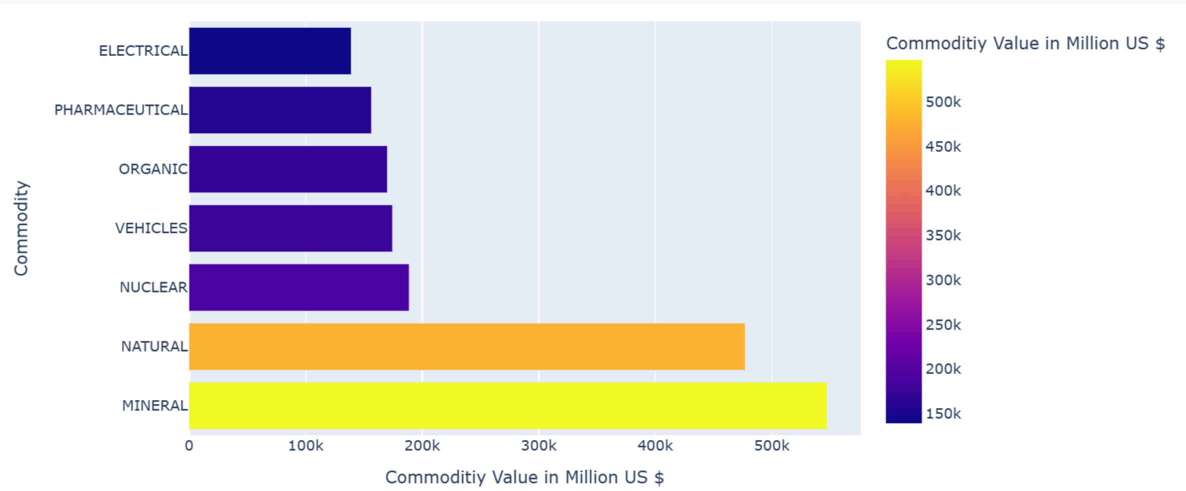

Fig 9, (Source: Our study, chart made from the data collected)

From the above graph it can be inferred that, Minerals are the most exported commodity with respect to aggregate value.

X. Conclusion

1. Diversify exports: India should diversify its export basket by focusing on non-traditional sectors such as tourism, healthcare, and education. This will reduce the country's dependence on a few products and markets, making exports more resilient.
2. Increase digital exports: India has a large pool of skilled IT professionals who can create innovative digital products and services. The government can encourage digital exports by providing incentives and support to IT firms.
3. Identify high-potential export commodities: Based on analysis of export data, high-potential export commodities for India could include pharmaceuticals, engineering goods, textiles, chemicals, and IT services, among others.
4. Encourage value-addition in export commodities: Value-addition potential can be identified in products such as tea, coffee, spices, fruits, and vegetables, where India can invest in processing and packaging to improve their value and increase exports.
5. Reduce dependence on imports: India heavily depends on imports of products such as crude oil, electronic goods, gold, and fertilizers. The new FTP can focus on promoting domestic production of these commodities to reduce India's dependence on imports.
6. Promote domestic manufacturing of import-substitute products: Products that India could manufacture domestically to reduce imports include electronics, capital goods, medical equipment, and auto components.
7. Identify potential export markets: Potential export markets for Indian commodities include countries in Africa, Latin America, and Southeast Asia, where there is a growing demand for products such as pharmaceuticals, textiles, and engineering goods.

8. Encourage diversification of export commodities: India can focus on diversifying its export basket by promoting exports of new products such as organic foods, processed foods, high-end apparel, and luxury goods.
9. Promote bilateral trade agreements: India could focus on promoting bilateral trade agreements with countries such as the US, Japan, Australia, and the UK to enhance trade relations and boost trade performance in sectors such as IT services, engineering goods, and textiles.

XI. References

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