

INDIA: TRADE ANALYSIS AND TRADE PERFORMANCE

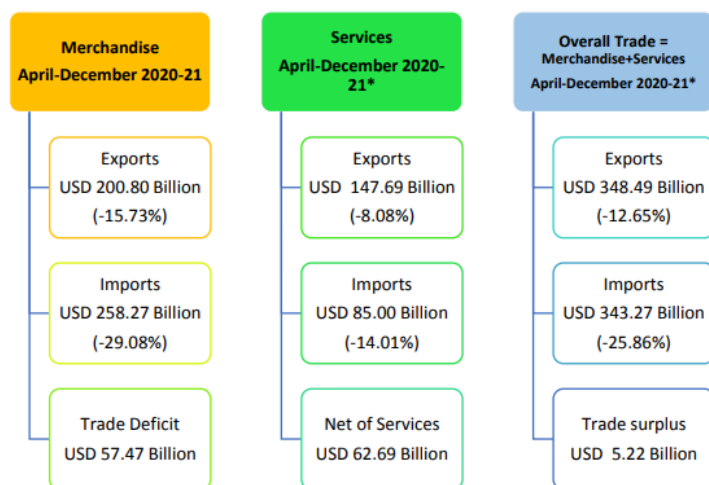
Introduction

India is located in Southern Asia bordering the Arabian Sea and the Bay of Bengal. Neighboring countries include Bangladesh, Bhutan, Burma, China, Nepal, and Pakistan. India has diverse geology: upland plain (Deccan Plateau) in the south, flat to rolling plain along the Ganges river, deserts in west, and the Himalayas in the north. The government is a federal republic; the chief of state is the president, and the head of government is the prime minister. India has a market economy in which the prices of goods and services are determined in a free price system. India is a member of the Asia-Pacific Trade Agreement (APTA) and the South Asian Association for Regional Cooperation (SAARC). The economy of India is considered to be a middle-income, developing market economy. It is the world's 5th largest economy by nominal GDP and third largest in terms of purchasing power parity (PPP). The sector-wise GDP breakup sees agriculture contributing to 16% of the GDP, followed by industries contributing to 25%, manufacturing 14%, and services contributing to a whopping 50% of the GDP. According to the International Monetary Fund (IMF), India ranked a dismal 142nd by GDP (Nominal) and 124th by GDP (PPP) in 2020 under the Modi-led government. The end of the Cold War and an acute balance of payments crisis in 1991 led to the adoption of Deficit Broad economic liberalization in India. Since the start of the 21st century, annual average GDP growth has been 6% to 7%, and from 2014 to 2018, India was the world's fastest-growing major economy, surpassing China. Historically, India was the largest economy in the world for most of the two millennia from the 1st until the 19th century. The currency used here is the India Rupee which fares at a conversion rate of approximately 1 INR= 0.014 USD(\$). It follows a fiscal year from April 1 to March 31 and is a part of multiple trade organizations such as WTO, WCO, SAFTA, BIMSTEC, WFTU, and a few others. The long-term growth perspective of the Indian economy remains positive due to its young population and corresponding low dependency ratio, healthy savings, and investment rates, and its increasing globalization in India and integration into the global economy. The economy slowed in 2017, due to shocks of "demonetization" in 2016 and the introduction of Goods and Services Tax in 2017. The COVID pandemic further caused a slump in the economic revival with the GDP reaching a negative value thanks to these circumstances.

India's GDP is mainly fueled by private consumption (accounting for up to 60% of the GDP), making India the world's sixth-largest consumer market. In 2019, India was the world's ninth-largest importer and the twelfth-largest exporter. India has one of the world's highest number of billionaires and extreme income inequality. Since India has a vast informal economy, barely 2% of Indians pay income taxes. According to the World Bank, to achieve sustainable economic development India must focus on public sector reform, infrastructure, agricultural and rural development, removal of land and labor regulations, financial inclusion, spur private investment and exports, education, and public health. In 2020, India's ten largest trading partners were the USA, China, UAE, Saudi Arabia, Switzerland, Germany, Hong Kong, Indonesia, South Korea, and Malaysia. In 2019–20, the foreign direct investment (FDI) in India was \$74.4 billion with the service sector, computer, and telecom industry remaining the leading sectors for FDI inflows. The Bombay Stock Exchange and National Stock Exchange are one of the world's largest stock exchanges by market capitalization. India is the world's sixth-largest manufacturer, representing 3% of global manufacturing output, and employs over 57 million people. These people include both skilled and unskilled labour. Nearly 66% of India's population is rural and contributes about 50% of India's GDP. It has the world's fifth-largest foreign-exchange reserves worth \$585 billion. India has a high public debt with 89% of GDP, while its fiscal deficit stood at 9.5% of GDP. India's government-owned banks faced mounting bad debt, resulting in low credit growth. India is the world's largest manufacturer of generic drugs and vaccines, with its pharmaceutical sector fulfilling over 50% of the global demand for vaccines. The Indian IT industry exports services worth \$191 billion and employs 4 million people. The Indian automobile industry is the world's fifth-largest by production. It has \$1.1 trillion worth of retail market which contributes over 10% of India's GDP and has one of the world's fastest-growing e-commerce markets. The tourism industry contributes about 9.2% of India's GDP and employs over 42 million. India ranks second globally in food and agricultural production, while agricultural exports were \$35.09 billion. It is also the world's second-largest coal producer, the second-largest cement producer, the second-largest steel producer, and the third-largest electricity producer.

These import and export trends of India will be analyzed further.

Import Value of Goods and Services in India



**Note: i) The latest data for services sector released by RBI is for November 2020. The data for December 2020 is an estimation, which will be revised based on RBI's subsequent release ii) the figures in bracket are growth rates vis-à-vis corresponding period of last year.*

Year	Total Import (million)	Growth
2014-2015	\$ 448,033.41	-0.48%
2015-2016	\$ 381,007.76	-14.96%
2016-2017	\$ 384,357.03	0.88%
2017-2018	\$465,580.99	21.13%
2018-2019	\$ 514,078.42	10.42%
2019-2020	\$ 474,709.28	-7.66%

Export Value of Goods and Services in India

Year	Total Export (million)	Growth
2014-2015	\$ 310,338.48	-1.29%
2015-2016	\$ 262,291.09	-15.48%
2016-2017	\$ 275,852.43	5.17%
2017-2018	\$ 303,526.16	10.03%
2018-2019	\$ 330,078.09	8.75%
2019-2020	\$ 313,361.04	-5.06%

Trade Performance of India

Year	Difference between Export and Import (million)	Conclusion
2014-2015	-\$ 137694.93	Trade Deficit
2015-2016	-\$ 118716.67	Trade Deficit
2016-2017	-\$ 108504.60	Trade Deficit
2017-2018	-\$ 162064.83	Trade Deficit
2018-2019	-\$ 184000.33	Trade Deficit
2019-2020	-\$ 161348.24	Trade Deficit

Analysis

India is seen to be a trade deficit country as the value of imports outweighs the value of exports. Over the past 5 years, India's imports have been higher than its exports. India is known to import certain goods and services from several countries- the top five countries being China, UAE, Switzerland, the United States, and Saudi Arabia as of December 2020. The country is known for its imports in an array of different products. Notable imported products include mineral oil, fuels, pearls, precious stones, metals, electronic equipment, machinery, nuclear reactors, organic chemicals, plastics, iron and steel, and a few more. Diamonds sold in India (Hallmark certified) are imported in the form of rough diamonds from European nations- primarily Belgium. Oil is

imported from the Gulf at an affordable rate. Post pandemic, a cess is being charged on fuel resulting in fuel prices reaching an all-time high in recent times. India is known for its exporting an array of different products. Some of the notable exported commodities include Mineral Oil, fuel, Precious stones, Machinery, Organic chemicals, cereals, vehicle parts, and electronic equipment. India is seen to be a trade deficit nation as the sum of imports outweighs the sum of exports. On the export front, the nation exports its goods and services to various countries- the top few nations being the United States, UAE, China, Hong Kong, Singapore, Netherlands, and others as of December 2019. The Balance of Payment For all the years considered for analysis comes out to be negative indicates the same. India heavily relies on its imports to meet the demands of its ever-growing population and their needs. In certain cases, India exports final products made from raw materials imported from other countries. One example that can be drawn is how India exported paracetamol and hydroxychloroquine tablets to most parts of the globe as a report in the Lancet journal suggested that these tablets can reduce the severe effects of the new novel coronavirus. But the reality is that India can afford to make these tablets thanks to the raw materials (chemicals) imported from countries such as China and the United States. Even the Vivo mobile smartphones- claimed to be made in India, sees its parts furnished from China. The Indo-Chinese trade relations were strong and synergic until last year when the Government of India decided to impose a ban on certain Chinese apps and products. India is a part of the WTO and shares good trading reactions with its counterparts. Recently, India showed its generosity by supplying vials of the Covishield vaccine to Brazil, Morocco, Myanmar, Seychelles and Northern African nations as a goodwill gesture (vials sent free of cost). India is a major exporter of agricultural products (mainly rice and cereals) owing to its agrarian type of economy where agriculture is the backbone of India's economy. India exported around \$2.6 billion worth of Agricultural supplies to the US in 2019. Wheat and rice are sent across the globe as the Indian crop is considered to be of extremely good quality. India is also known to be a key exporter of essential services such as Legal, Accounting, Taxation, Architectural, Engineering to name a few. Under the Modi-led government, the trade between the US- India saw a rise, with the States showing a trade deficit of \$23.4 billion, a whopping 11% increase since 2018, owing to the synergy and friendly relations between former American President Donald J Trump and current Indian Prime Minister Shri Narendra Modi. Saudi Arabia is India's fourth-largest trade partner and a major source of energy as India imports around 18% of its crude oil requirement

and 30 % of its LPG requirement from the Kingdom. In FY 2019-20, bilateral trade was valued at \$33.09 billion. During this period, India's imports from Saudi Arabia reached \$26.84 billion and exports to Saudi Arabia were worth \$ 6.25 billion registering an increase of 12.18% over last year.

If we further analyze India's import and export growth values as calculated above, India saw a growth of -15% in imports for the 2015-2016 quarter and a sharp spike of 21% and 10% in the 2017-2018 and 2018-2019 quarters respectively. And for the export front, a growth of -15% in the 2015-2016 quarter and a spike of 10% and 8% in the year 2017-2018 and 2018-2019 respectively. The change in pattern of growth recorded of imports and exports depends on a variety of factors. Price of currency, rate of inflation, and demand/ supply chains play a key role in determining the value of goods and services that need to be imported or exported. Domestic GDP also plays a part as consumer trends influence a nation's import and export behavior to an extent. The growth in the other quarters has been negative which indicates a clear fall in the value of imports as well as exports. The 2019-2020 COVID Pandemic also severely impacted trade and commerce as lockdowns were imposed by most nations (strictest in India) and this forced a complete shutdown of markets and transportation. The BoP is observed to be negative and high in the past 3 years (2017-2020) indicating our dependence on nations for their imported commodities. 2021 is predicted to see a slight dip in this value owing to high foreign exchange reserves and high exports of medicine and agricultural products and lesser imports from China, keeping in mind the Aatmanirbhar Bharat and Made in India vision of the Prime Minister in mind.

Conclusion

As we focus on India's export and import behavior, we learn that India's import values clearly outweighs its export value. India is a trade deficit nation and the balance of payment turns out to be negative in the last 5 years (taken into consideration). India is known for depending on its trading partners China, United States, UAE, and Saudi Arabia to meet the ever-growing demands of an exponentially increasing Indian population. India's produce and crops are considered to be of top quality and these agricultural products are exported worldwide. India is also a strong supplier of medicinal products- allopathic, homeopathic, and ayurvedic and vaccines. Serum

Institute of India is now the world's largest vaccine manufacturer by a number of doses produced and sold globally. India heavily relies on the Gulf to meet its oil requirements.

India also happens to export some of its oil to some countries- Singapore, Netherlands, Malaysia. India is also a major exporter of skilled labor and services in various fields. Indian services in the United States are considered of high value. In fact India's service exports outweigh imports, indicating trade surplus which is antagonistic to the merchandise trade. Even in the IT industry, Indians are chosen in high numbers. All of these contribute to India's high FOREX numbers, which reached a record high in 2021.

The growth in import and export is seen to be unpredictable and undulating. This undulating nature of growth also impacted the value of Balance of Payment. All these factors indicate that India is a developing nation. The economic stress post the COVID pandemic has been a lot and the time taken to recover from this loss might be even more. India's struggles with China will certainly affect numbers on both the import and export front but Indian products are expected to pick up pace and demand in the market as well.

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