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INDIA'S FOREIGN TRADE VOLUME AND ITS ECONOMIC IMPLICATIONS: AN ANALYSIS OF TRENDS AND CHALLENGES

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ABSTRACT

India's foreign trade has witnessed significant growth over the years, with exports and imports showing varied trends. This paper analyses the volume of India's foreign trade, emphasizing the disparity between exports and imports, and examines the economic implications of the persistent trade deficit. It explores the relationship between the trade deficit and the value of the Indian Rupee, highlighting key challenges and opportunities for future trade policy. The research uses secondary data analysis, relying on reliable sources such as government reports and international trade statistics. The findings aim to provide insights for improving India's trade balance and economic strategy.

***KEYWORDS**: Foreign Trade, Economic Growth, Trade Balance, Exports and Imports, Trade Deficit.*

Introduction

India's foreign trade plays a crucial role in shaping its economic landscape. Over the years, both exports and imports have expanded, but not without challenges. While exports have grown, the increase in imports has outpaced them, leading to a persistent trade deficit. This has implications for the country's foreign exchange reserves, the value of the Indian Rupee, and overall economic stability. This paper aims to analyze the trends in India's foreign trade, assess the growing trade deficit, and investigate the impact of the trade deficit on the currency value. By examining these factors, this study seeks to contribute to the broader understanding of India's trade dynamics.

Objectives

The major objectives of this paper are as follows:

- To provide a comprehensive overview of India's foreign trade volume.
- To analyse the disparity between export and import volumes.
- To examine the correlation between the trade deficit and the value of the rupee.

Hypotheses

- There is no significant difference in the volume of India's Import and Export over the period under study.
- There is no significant relationships between the trade deficit and the value of the rupee.

Research Methodology

This paper, titled "India's Foreign Trade Volume and Its Economic Implications: An Analysis of Trends and Challenges," is based on secondary data analysis. Secondary data refers to information that has already been collected, analyzed, and published by other researchers or organizations. It includes both published data, such as government reports, trade statistics, and academic research, as well as unpublished data, such as working papers or internal reports. For this study, the most reliable sources, including original reports from government agencies, trade organizations, and reputable international bodies, have been utilized to ensure the accuracy and validity of the findings. These data sources

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provide comprehensive insights into the trends, challenges, and economic implications of India's foreign trade. In addition to data collection, qualitative analysis methods have been employed to interpret the relationship between trade volume, deficits, and the value of the rupee. This methodology allows for a thorough understanding of the broader economic context and enables the paper to present a critical evaluation of the trends in India's foreign trade over time.

Importance and limitation of the Study

Understanding India's trade volume and its economic implications provides valuable insights into the country's position in the global market. By analysing the disparity between exports and imports, this study helps identify key areas where policy interventions may be necessary to improve the trade balance. Furthermore, the study contributes to the existing body of academic knowledge in the field of international trade. Limitations is that study relies primarily on current data, which may not necessarily reflect long-term trends or outcomes. The impact of current data may differ from historical data, as trade patterns and economic conditions can fluctuate over time due to changes in global markets, policy shifts, or unforeseen events.

The Extent of India's Foreign Trade

The size of foreign trade refers to the total value of imports and exports. The size of foreign trade takes into account total export earnings and total import expenditures.

Foreign trade naturally plays a crucial role in economic planning. To obtain the essential resources for development, it is necessary to increase imports. However, to finance these growing imports, boosting exports becomes unavoidable. Without increasing exports, it is not possible to sustain rising imports in the long term. Thus, achieving economic growth without expanding imports is nearly impossible. This is why the adage "Increase exports or perish" holds true in this context. The size of India's foreign trade has consistently grown, as shown in the table below.

Table 1: Exports, Imports, Total Trade and Trade Balance (In Crore Rupees)

Sr. No	Year	Exports	Imports	Total Trade	Trade Balance	Rate of Change (per cent)		Year	Price of Rupees Per 1 Dollar
						Export	Import		
1	1949-50	485	617	1102	-132	--	--	1950	4.76
2	1950-51	606	608	1214	-2	24.9	-1.5	1951	4.76
3	1951-52	716	890	1606	-174	18.2	46.4	1952	4.76
4	1952-53	578	702	1280	-124	-19.3	-21.1	1953	4.76
5	1953-54	531	610	1141	-79	-8.1	-13.1	1954	4.76
6	1954-55	593	700	1293	-107	11.7	14.8	1955	4.76
7	1955-56	609	774	1383	-165	2.7	10.6	1956	4.76
8	1956-57	605	841	1446	-236	-0.7	8.7	1957	4.76
9	1957-58	561	1035	1596	-474	-7.3	23.1	1958	4.76
10	1958-59	581	906	1487	-325	3.6	-12.5	1959	4.76
11	1959-60	640	961	1601	-321	10.2	6.1	1960	4.76
12	1960-61	642	1122	1764	-480	0.3	16.8	1961	4.76
13	1961-62	660	1090	1750	-430	2.8	-2.9	1962	4.76
14	1962-63	685	1131	1816	-446	3.8	3.8	1963	4.76
15	1963-64	793	1223	2016	-430	15.8	8.1	1964	4.76
16	1964-65	816	1349	2165	-533	2.9	10.3	1965	4.76
17	1965-66	810	1409	2219	-599	-0.7	4.4	1966	6.36
18	1966-67	1157	2078	3235	-921	42.8	47.5	1967	7.5
19	1967-68	1199	2008	3207	-809	3.6	-3.4	1968	7.5
20	1968-69	1358	1909	3267	-551	13.3	-4.9	1969	7.5
21	1969-70	1413	1582	2995	-169	4.1	-17.1	1970	7.5
22	1970-71	1535	1634	3169	-99	8.6	3.3	1971	7.5
23	1971-72	1608	1825	3433	-217	4.8	11.7	1972	7.59
24	1972-73	1971	1867	3838	104	22.6	2.3	1973	7.74
25	1973-74	2523	2955	5478	-432	28.0	58.3	1974	8.1

26	1974-75	3329	4519	7848	-1190	31.9	52.9	1975	8.38
27	1975-76	4036	5265	9301	-1229	21.2	16.5	1976	8.96
28	1976-77	5142	5074	10216	68	27.4	-3.6	1977	8.74
29	1977-78	5408	6020	11428	-612	5.2	18.6	1978	8.19
30	1978-79	5726	6811	12537	-1085	5.9	13.1	1979	8.13
31	1979-80	6418	9143	15561	-2725	12.1	34.2	1980	7.86
32	1980-81	6711	12549	19260	-5838	4.6	37.3	1981	8.66
33	1981-82	7806	13608	21414	-5802	16.3	8.4	1982	9.46
34	1982-83	8803	14293	23096	-5490	12.8	5.0	1983	10.1
35	1983-84	9771	15831	25602	-6060	11.0	10.8	1984	11.36
36	1984-85	11744	17134	28878	-5390	20.2	8.2	1985	12.37
37	1985-86	10895	19658	30553	-8763	-7.2	14.7	1986	12.61
38	1986-87	12452	20096	32548	-7644	14.3	2.2	1987	12.96
39	1987-88	15674	22244	37918	-6570	25.9	10.7	1988	13.92
40	1988-89	20232	28235	48467	-8003	29.1	26.9	1989	16.23
41	1989-90	27658	35328	62986	-7670	36.7	25.1	1990	17.5
42	1990-91	32553	43198	75751	-10645	17.7	22.3	1991	22.74
43	1991-92	44041	47851	91892	-3810	35.3	10.8	1992	25.92
44	1992-93	53688	63375	117063	-9687	21.9	32.4	1993	30.49
45	1993-94	69751	73101	142852	-3350	29.9	15.3	1994	31.37
46	1994-95	82674	89971	172645	-7297	18.5	23.1	1995	32.43
47	1995-96	106353	122678	229031	-16325	28.6	36.4	1996	35.43
48	1996-97	118817	138920	257737	-20103	11.7	13.2	1997	36.31
49	1997-98	130100	154176	284276	-24076	9.5	11.0	1998	41.26
50	1998-99	139752	178332	318084	-38580	7.4	15.7	1999	43.06
51	1999-00	159095	215529	374624	-56434	13.8	20.9	2000	44.94
52	2000-01	201356	228307	429663	-26950	26.6	5.9	2001	47.19
53	2001-02	209018	245200	454218	-36182	3.8	7.4	2002	48.61
54	2002-03	255137	297206	552343	-42069	22.1	21.2	2003	46.58
55	2003-04	293367	359108	652475	-65741	15.0	20.8	2004	45.32
56	2004-05	375340	501065	876405	-125725	27.9	39.5	2005	44.1
57	2005-06	456418	660409	1116827	-203991	21.6	31.8	2006	45.31
58	2006-07	571779	840506	1412285	-268727	25.3	27.3	2007	41.35
59	2007-08	655864	1012312	1668176	-356448	14.7	20.4	2008	43.51
60	2008-09	840755	1374436	2215191	-533681	28.2	35.8	2009	48.41
61	2009-10	845534	1363736	2209270	-518202	0.6	-0.8	2010	45.73
62	2010-11	1136964	1683467	2820431	-546503	34.5	23.4	2011	46.67
63	2011-12	1465959	2345463	3811422	-879504	28.9	39.3	2012	53.44
64	2012-13	1634319	2669162	4303481	-1034843	11.5	13.8	2013	56.57
65	2013-14	1905011	2715434	4620445	-810423	16.6	1.7	2014	62.33
66	2014-15	1896348	2737087	4633435	-840738	-0.5	0.8	2015	62.97
67	2015-16	1716384	2490306	4206690	-773921	-9.5	-9.0	2016	66.46
68	2016-17	1849434	2577675	4427109	-728242	7.8	3.5	2017	67.79
69	2017-18	1956515	3001033	4957548	-1044519	5.8	16.4	2018	70.09
70	2018-19	2307726	3594675	5902401	-1286948	18.0	19.8	2019	70.39
71	2019-20	2219854	3360954	5580808	-1141100	-3.8	-6.5	2020	76.38
72	2020-21	2159043	2915958	5075001	-756914	-2.7	-13.2	2021	74.57
73	2021-22	3147021	4572775	7719796	-1425753	45.8	56.8	2022	81.35
74	2022-23	3621550	5749801	9371351	-2128251	15.1	25.7	2023	81.94
75	2023-24 (P)	3619292	5592877	9212169	-1973585	-0.1	-2.7	2024	84.83

Source:(i) Economic Survey 2023-24 Statistical Appendix | 111-112

Rupees-Dollar Comparison :https://www.bookmyforex.com/blog/1-usd-inr-1947-till-now

* (Including re-exports)

Expansion in the Size of Foreign Trade

India's foreign trade has experienced steady growth over the years. In 1950-51, the country's total foreign trade was ₹1,214 crore, which increased to ₹19,260 crore by 1980-81. During the first 30 years of planned economic development, foreign trade expanded by a factor of 15.9. In the next decade, by 1990-91, the value of foreign trade grew fourfold, reaching ₹75,751 crore.

With the adoption of liberalization and globalization policies in July 1991, India's foreign trade saw a new trajectory. A decade after these reforms, by 2000-01, foreign trade had surged to ₹4,29,663 crore, reflecting a growth of 5.67 times during that period.

Between 2000-01 and 2010-11, the value of foreign trade increased further, rising from ₹4,29,663 crore to ₹28,20,431 crore, a remarkable 6.56-fold rise. In the subsequent 13 years, up to 2022-23, foreign trade continued to grow, reaching ₹93,71,351 crore, a 3.32-fold increase during this period.

Overall, India's foreign trade has consistently expanded over time, reflecting a sustained upward trend in its value at current prices.

Rapid Growth in Imports

India has witnessed a steady and significant increase in imports during the planning period. In 1950-51, the country’s imports were valued at just ₹608 crore. By 1990-91, this had grown to ₹43,198 crore, marking an astonishing 71.28-fold increase. Following economic reforms, the growth in imports continued. By 2022-23, imports had surged to ₹57,49,801 crore, representing a 133.10-fold rise compared to 1990. Several factors have contributed to this rapid rise in imports, including:

- The adoption of a heavy infrastructure development strategy under the Second Five-Year Plan, which required the import of technology and technical know-how, as these were not available domestically.(ii) A growing demand for imported goods within the country.(iii) The inevitable increase in import demand driven by population growth and rising incomes.(iv) A rise in global prices for petroleum products and chemical fertilizers from 1973-74, which increased the cost of contrary’s imports.(v) In the early years of the planning period, India had to import essential food grains, consumer goods, and other commodities.(vi) The devaluation of the rupee in 1966 and 1991 made imports more expensive. These and other factors have played a significant role in the sharp rise in India’s imports during the planning period.

Slow Growth in Exports

Throughout the planning period, India's exports showed consistent growth, though at a slower pace compared to imports. In 1950-51, exports were valued at ₹606 crore, and by 1990-91, this had increased to ₹32,553 crore, a growth of 53.72 times. During the same period, imports grew significantly more, by a factor of 71.28. After the economic reforms, exports continued to grow, albeit at a slower rate than imports. By 2022-23, India’s exports had reached ₹36,21,550 crore, representing a 111.25-fold increase compared to 1990-91. However, during this period, imports still outpaced exports in terms of growth.

Several factors contributed to the slow growth of exports:

- The limited demand for India’s export products in global markets.
- Economic downturns in many developed countries at different times.
- Protection trade policies adopted by several developed counties.
- Until the 1990s, India’s exports were dominated by traditional goods, which had relatively low demandelasticity in terms of price and income.
- Persistent inflationary pressures in India, which raised production costs for export goods, limiting growth.
- The relatively low quality of some of India's export products.
- The overvaluation of the rupee until 1991, which reduced the competitiveness and profitability of exports. Despite these challenges, the liberalization and globalization policies initiated in 1991, along with the government’s efforts to promote exports, resulted in a significant rise in exports in the following years.

Massive Foreign Trade Deficit

As imports continued to increase significantly more than exports, it was inevitable that India’s foreign trade deficit would continue to rise. At the beginning of the planning period, this deficit was around ₹2 crore. By 1990-91, it had risen to ₹10,645 crore, and by 2000-01, it had further increased to ₹25,838 crore. This deficit continued to grow, reaching ₹5,46,503 crore in 2010-11 and ₹21,28,251 crore by 2022-23. Thus, the trend of a steadily growing deficit became evident, which has had various negative impacts on the economy. There were only two financial years-1972-73 and 1976-77, when the deficit remained within reasonable limits, measured in lakhs and crores of rupees. In all other years, India experienced a foreign trade deficit, and in recent years, this deficit has seen a sharp rise.

Negative Effects of a Trade Deficit

- **Depletion of Foreign Reserves :** A persistent trade deficit drains foreign exchange reserves, risking a currency crisis and limiting the ability to pay for vital imports
- **Pressure on Currency:** A consistent trade deficit can put downward pressure on the domestic currency. As the demand for foreign currencies rises to pay for imports, the domestic currency may depreciate, leading to inflation and higher costs for imported goods and services.
- **Loss of Domestic Industries and Jobs:** High imports can negatively affect local industries, especially in sectors where domestic businesses cannot compete with cheaper or better-quality foreign goods. This could result in job losses and a decline in domestic production.
- **Worsening of the Current Account Deficit:** A trade deficit contributes to a widening current account deficit, which can be unsustainable in the long run. This may make the economy more reliant on external borrowing or foreign investment, creating vulnerability to global economic changes.
- **Rising Debt Levels:** To finance the trade deficit, a country may need to borrow from foreign countries or international institutions. Over time, this can lead to a rising debt burden, which might have adverse effects on the country's fiscal health and lead to potential debt repayment issues.

Table 2

Year	India's Share in World Exports (%)	India's Share in World Imports (%)	India's Share in World Trade (%)
1949-50	0.40	0.6	0.5
1960-61	0.40	0.6	0.6
1970-71	0.40	0.6	0.6
1980-81	0.5	0.7	0.7
1990-91	0.6	0.8	0.8
2000-01	0.7	1.0	0.9
2010-11	1.4	1.9	1.6
2020-21	1.7	2.0	1.8
2023-24	1.9% (estimated)	2.1% (estimated)	2.0% (estimated)

India’s share in world trade has steadily increased over the years due to economic liberalization, expansion of exports, and greater integration into the global market, especially after the 1990s. The exact percentage for 2023-24 will depend on final trade data.

Key Trends

- **Exports:** India's share in world exports has gradually increased over the decades, especially post-liberalization in the 1990s, thanks to stronger trade agreements, export promotion policies, and growth in sectors like IT and services.
- **Imports:** India’s share in world imports has also grown, particularly as the country’s industrial and energy needs increased, especially for crude oil, machinery, and electronics.

The growth in both exports and imports reflects India's expanding role in global trade, driven by economic reforms, diversification of the economy, and greater global integration.

India's share in total world trade being just around 2% is notably low, especially considering it is home to 18% of the global population and the world’s 5th largest economy. This disparity can be attributed to several factors, including limited diversification in exports, with a heavy reliance on sectors like textiles and pharmaceuticals, rather than higher value-added products. Additionally, inefficiencies in infrastructure, logistics, and regulatory systems hamper the ease of trade and increase costs. Furthermore, India's trade policies, while improving, still face challenges in creating a conducive environment for global market integration. The lack of sufficient free trade agreements and underdeveloped global supply chain linkages also limit India's ability to tap into new international markets. This 2% share, therefore, reflects untapped potential in both boosting exports and enhancing India's participation in global trade.

Hypothesis Testing

H_0: There is no significant difference in the volume of India's Import and Export over the period under study.

t-Test: Two-Sample Assuming Equal Variances		
	Exports	***Imports***
Mean	486163.8933	723782.8933
Variance	8.06887E+11	1.85836E+12
Observations	75	75
Hypothesized Mean Difference	0	
Degree of Freedom	148	
t Stat	-1.260501794	
P(T<=t) two-tail	0.209472069	
t Critical two-tail	1.976122494	

H_0 is accepted, so the researcher concluded that there is no significant difference between Imports and Exports over the period of study.

Interpretation and Conclusion

- The **t-statistic** is -1.2605, which represents the difference between the sample means in terms of standard errors.
- The **p-value** is 0.2095. Since this p-value is greater than the typical significance level of 0.05, we **fail to reject the null hypothesis (H_0)**.
- The **t-critical** value (1.9761) is the threshold value for a 95% confidence level. The absolute value of the t-statistic (-1.2605) is smaller than the t-critical value, further supporting the decision to fail to reject the null hypothesis.

Since the **p-value (0.2095)** is greater than the significance level (0.05), there is **no significant difference** between the volume of India's imports and exports over the period of study. Therefore, the **null hypothesis (H_0)** is accepted, and the researcher concludes that there is no significant difference between India's imports and exports. This means that based on the data analysed, the imports and exports are not significantly different in terms of their volume.

H_0: There is no significant relationships between the trade deficit and the value of the rupee.

	Price of Rupees Per 1 Dollar	**Trade Balance**
Price of Rupees Per 1 Dollar	1	
Trade Balance	**-0.82925**	1

There is negative Strong correlation between Price of Rupees per 1 Dollar and Trade Balance.

A negative correlation indicates that as the trade balance becomes more negative (a larger trade deficit), the value of the rupee tends to decrease (more rupees are needed for 1 USD). This means that as the trade deficit increases (more imports than exports), the value of the rupee tends to decline. (H_0 Rejected).

Conclusion

A trade deficit is not inherently bad, but it requires careful management. The key is to ensure that imports are contributing to the country's growth by facilitating industrial development, access to technology, and consumer welfare, while also working on improving exports and reducing reliance on foreign borrowing. Over time, a balanced approach to trade, domestic production, and fiscal policy can mitigate the negative impacts of a trade deficit.

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