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**DAILY EDITORIAL
ANALYSIS**

TOPIC

**Trade Imbalance: On India's
Merchandise Exports**

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TRADE IMBALANCE: ON INDIA'S MERCHANDISE EXPORTS

In Context

- India's merchandise exports witnessed a slight improvement in April 2024, showing a modest increase of 1.07% compared to the same month the previous year.

Key Analysis

• Export Trends:

- ◆ In 2023-24, India's merchandise exports declined by over 3% due to geopolitical and logistical disruptions.
- ◆ However, in April 2024, there was a marginal uptick of 1.07% (worth \$370 million) compared to the previous year.
- ◆ Key contributors to export growth last month were pharma, chemicals, electronics, and petroleum products (recovering from a 35% contraction in March).

• Trade Deficit and Import Bill:

- ◆ Despite export growth, India's goods import bill surged by 10.25% to over \$54 billion in April.
- ◆ Consequently, the trade deficit reached \$19.1 billion, the highest in four months.
- ◆ Rising oil and gold prices played a role in increasing the import bill.

• Global Trade Outlook:

- ◆ Global trade volumes are expected to rise by 2.6% in 2024 after a 1.2% decline in 2023 (according to the World Trade Organization).
- ◆ India aims to capitalize on this trend by targeting key markets in the western world with lower inflation and improved growth rates.

• Challenges and Opportunities:

- ◆ India needs to address challenges in labour-intensive sectors like garments and footwear, where it faces competition from countries like Bangladesh and Vietnam.
- ◆ Quality concerns (e.g., spices, drugs) and environmental issues (related to shrimp exports) need attention.
- ◆ Reviving agricultural exports, considering healthy monsoon prospects, is crucial.

Negative Impact of trade imbalance on the Indian economy

- **Currency Depreciation:** A trade deficit often leads to a weakening of the Indian rupee against other currencies. This makes imports more expensive and can fuel inflation.
- **Increased External Debt:** To finance the deficit, India might need to borrow from foreign sources, leading to an increase in external debt and interest payments.
- **Reduced Domestic Production:** A reliance on imports can discourage domestic production, leading to job losses and a slowdown in economic growth.
- **Balance of Payments (BoP) Issues:** A persistent trade deficit can strain the BoP, making it difficult to manage foreign exchange reserves and meet international financial obligations.

Measures Needed to keep the trade imbalance in acceptable limits

- **Export Diversification:** Expanding the range of exported products and services to reduce dependence on a few key sectors. This can be achieved by promoting sectors like agriculture, pharmaceuticals, engineering goods, and services like IT and tourism.
- **Market Access:** Negotiating and securing favorable trade agreements with other countries to reduce barriers to Indian exports. This includes addressing non-tariff barriers like technical standards and regulations.
- **Export Infrastructure:** Investing in infrastructure like ports, airports, and logistics to facilitate efficient movement of goods. This will reduce transaction costs and make Indian exports more competitive.

- **Export Promotion:** Providing financial and technical assistance to exporters, particularly small and medium enterprises (SMEs). This can include export credit, insurance, and marketing support.
- **Skill Development:** Enhancing the skills of the workforce to meet the demands of global markets. This includes training programs in areas like manufacturing, design, and technology.
- **Import Substitution:** Encouraging domestic production of goods that are currently imported. This can be achieved through incentives like tax breaks, subsidies, and easier access to credit for domestic manufacturers.
- **Tariff and Non-Tariff Measures:** Judicious use of tariffs and non-tariff measures to protect domestic industries from unfair competition. However, this should be done carefully to avoid escalating trade tensions.

Way Forward

- **Lowering Trade Tariffs and Simplifying Procedures:** NITI Aayog CEO BVR Subrahmanyam emphasized the need to reduce trade tariffs and simplify procedures.
 - ◆ Lower tariffs and streamlined processes encourage trade and attract global value chains.
- **Focus on Domestic Industries:** India aims to reduce reliance on imports by developing its domestic industries.
 - ◆ Incentives can be provided to local companies to manufacture goods currently imported, creating employment opportunities.
- **Shift in Trade Policy:** India shifted focus from the Regional Comprehensive Economic Partnership (RCEP) to Western and West Asian free trade agreements.
 - ◆ The goal is to avoid further trade imbalances and attract global value chains.
- **Enhancing Services Sector:** India's advantage lies in the services sector due to its skilled manpower and education system.
 - ◆ Removing stringent regulations and promoting services exports can contribute to balanced trade

Mains Practice Question

- Q.** Critically analyze the underlying causes of trade imbalance and evaluate the effectiveness of current policies in mitigating its adverse impacts on the Indian economy.

