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IMPACT OF FOREIGN TRADE ON INDIAN ECONOMY

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Impact of Foreign Trade on Indian Economy

1.1 Introduction:

Foreign trade refers to the trade across national boundaries. The growing volumes of trade and lower in of trade barriers have triggered debate and analysis on the impact of foreign trade on economic growth of countries. Historical validation has revealed that internationally active countries tend to be more productive than countries which only produce for the domestic market. The relationship between foreign trade and economic growth of a country can be either positive or negative, what determines the nature of the relationship is the economic frameworks put in place to manage the trade. Foreign trade induces economic growth in other ways too. The appearance of imported commodities in a country invariably creates new demands. This provides an inducement to the people in general to work hard and earn enough money to be able to purchase some of the imported articles. This necessarily leads to economic growth. Again, there is an urge in enterprising industrialists to produce the things imported in the country itself. Japan provides an excellent example of this type. It is said Japan never imports a manufactured article twice. This has happened in almost all countries including India. In fact, this natural urge for import substitution provides a strong stimulus to economic growth. Predominantly in our world today, there is hardly a country that can survive on its own without engaging in trade relationships with other countries. The classical and neo-classical economists have placed much credence of international trade as an engine of economic growth. The explicit goals of the economic reform strategy in India after 1991 with respect to the external sector were to create a major shift in the momentum of export growth and to attract very large inflows of foreign capital in the form of export oriented FDI. It is on this note that the study intends to examine the relationship between international trade and economic growth of India

India is one of the fastest growing and most attractive economies in the world and has emerged as a desirable destination for Foreign Investment. Since 1991 India has been operating under strict policies which restricted the economy from an International trade, this drove more protectionism than open market trade. Indian government since 1991 introduced economic reform measures, to stimulate the economy. These reform measures in fiscal, reduction on the level of tariffs based on a large number of imports, exchange rate, the use of the exchange rate as the instrument for export promotion and trade policies. However, the reforms that were implemented in the Indian were not very different from the reforms undertaken by developing countries, the only alteration would be the swiftness with which they are implemented. India has one of the advantages which is the stability of its political climate. The current government and party that is in power have held the political landscape in place under control and this is providing the investor-friendly environment. India has gained influence within the global economy, this is demonstrated by India position in the international institutions like (G-8, G-20) and the free trade arrears with ASEAN, EU. This is also reflected by the by India's willingness to adopt international best practices in the production of the range of goods and services. Countries that have large internal markets have also benefited by integrating themselves into the world economy, and thus opening up their economies like South Africa and India as one of the BRICS countries. India is projected to be the fastest-growing economy in the world over the next several decades. Trading with different countries respectively has made India what it is regarded as trading hub of today after China in the BRICS Countries.

The integration of the domestic economy through the twin channels of trade and capital flows has accelerated in the past two decades which in turn led to the India’s GDP reaching Rs 190.10 trillion (US$ 2.72 trillion) in 2018-19*. Simultaneously, the per capita income also nearly trebled during these years. India’s trade and external sector had a significant impact on the GDP growth as well as expansion in per capita income. Provisional estimates of India’s GDP during first half of 2019-20 stood at Rs 98.56 trillion (US$ 1.41 trillion). Total exports from India (Merchandise and Services) registered a growth of 0.93 per cent year-on-year during April 2019-January 2020 to US$ 446.46 billion, while total imports estimated to be US$ 510.62 billion, according to data from the Ministry of Commerce & Industry. The merchandise export stood at Rs 18,69,762.61 crore (US$ 265.26 billion) during April 2019-January 2020 and imports reaching Rs 28,08,202.38 crore (US$ 398.53 billion) for the same period. The estimated value of services export for April 2019-January 2020 stood at US$ 181.20 billion and import is US$ 112.09 billion.

According to Mr Piyush Goyal, Minister for Commerce and Industry, the Government of India is keen to grow exports and provide more jobs for the young, talented, well-educated and even semi-skilled and unskilled workforce of India.

India is presently known as one of the most important players in the global economic landscape. Its trade policies, government reforms and inherent economic strengths have attributed to its standing as one of the most sought-after destinations for foreign investments in the world. Also, technological and infrastructural developments being carried out throughout the country augur well for the trade and economic sector in the years to come.

Boosted by the forthcoming FTP, India's exports are expected reach US$ 330-340 billion by 2019-20 according to Federation of India Export Organisation (FIEO). Also, with the Government of India striking important deals with the governments of Japan, Australia and China, the external sector is increasing its contribution to the economic development of the country and growth in the global markets. Moreover, by implementing the FTP 2014-19, by 2020, India's share in world trade is expected to double from the present level of three per cent.

India has the potential to increase its goods and services exports to Australia to US$ 15 billion by 2025 and US$ 35 billion by 2035.

1.2 Impact of Indian and USA trade agreement:

India and the US are an odd couple. Even as Prime Minister Narendra Modi and Chinese President Xi Jinping conduct their two-day ‘informal summit’ in Mamallapuram in Tamil Nadu, and despite the fact that the two democracies can’t stop bickering under their breath, they do keep professing their love for each quite loudly.

India and the US accuse each other of unfair trade practices and are among the most active litigants at the World Trade Organization (WTO). And, yet, they are each other’s anchor in their geopolitical strategy in the Asia Pacific — a region now significantly renamed Indo-Pacific according to the US’ redrawn strategic map. The public display of affection between Prime Minister Modi and US President Donald Trump is hard to ignore. Yet, progress on bilateral trade, investment and immigration issues has remained disjointed.

The trade ministers and officials of the two countries argued, while Modi and Trump hugged and sang paeans to each other. India and the US need to deepen both the economic and the strategic aspects of their relationship. Mutual strategic interest alone cannot sustain a meaningful relationship. The governments of both countries need to settle on a framework of doing business with each other as soon as possible. Essentially, they need a free-trade agreement (FTA).

It does help that both Modi and Trump wear their nationalism on their sleeves, and can also see each other’s point of view. A mutual agreement would be more meaningful to them than reliance on any multilateral arbitrator.

The US has been pushing India for an FTA for some time now, and Trump is keen to announce a trade deal with India — even an interim one — as soon as possible. He is on a mission to erase the US' trade deficit with every country, and he may like a quick feather in his cap by neutralising the $24 billion goods and services trade deficit with India.

Trump promised to bring 'Made-in-America' products to Indian consumers at Modi's recent rally in Houston. The US has offered to make India an alternative business hub in the Indo-Pacific, if it signs an FTA.

1.3 Trading Emotions

Business leaders of the two countries are quite eager to see the trade niggle between them sorted out as quickly as possible, and that a clear, fair and stable agreement that assures policy and tariff certainty is established.

A delegation of Indian CEOs attending the All India Management Association's (AIMA) US-India Conference at University of California Berkeley on September 27 voiced the need for the two countries to invest in each other's strengths. Even though India may not gain much in terms of tariff reductions from the US, since its tariffs are already very low, it can gain a lot by bargaining for an easier access to the US' high-paying market, plentiful capital and latest technologies.

However, a common ground will have to be found between 'America First' and 'Make in India'. India would struggle to lower its tariffs, which average about 13%, without hurting local producers and its tax revenues. It will have to be innovative in creating trade-offs that deliver positive net returns.

Agriculture and dairy would be particularly contentious areas because of subsidy and phytosanitary issues. The digital economy has to be central to any FTA, given the rapid shift to digital technologies in both countries.

An FTA will have to reconcile data nationalism with the internet's innate globalism. India's linking of its sovereignty with possession of data, and the US' linking of its national security with origin of vendors, will pose significant challenges to FTA negotiators.

Bilateral trade in professional services would grow along with the growth in economic and strategic integration. It is always tricky to open up markets for licence-dependent professional services, such as audit, law and medicine. But associated services such as accounting, paralegal work and diagnostics can be traded aplenty. However, free mobility of professionals and data is a fundamental requirement. The two countries will have to work out ways to ensure that.

Intellectual property (IP) has always been a big issue for the US. India will need to strengthen its patent and trademark regime to satisfy the Americans. India would want similar guarantees from the US for its IP, especially in the software, entertainment and pharmaceutical industries.

1.4 Done Deal

The FTA will have to cover for non-tariff barriers to trade. Often, exporters are frustrated by harassment by customs, despite compliance. Recently, US companies have complained of Chinese officials dismantling built-up vehicles in the name of inspection.

Achieving an FTA that makes everybody happy is unlikely. But having an FTA would be a huge improvement on not having one. Time has come to replace ad-hoc policies and tariffs with clear, long-term framework for trade and investment between the two countries.

India and the US have begun talks towards a free trade agreement, according to Minister for Commerce and Industry Piyush Goyal.

"Both the leaders (Narendra Modi and Donald Trump) have decided to formally engage to move towards a free trade agreement between the two big economies. My own sense is that America will also gain very significantly with this Indian partnership," Goyal said at the India-US Business Story: Opportunity, Innovation, Entrepreneurship. The session was organised by the Confederation of Indian Industry and the US-India Business Council (USIBC) to coincide with US President Donald Trump's visit to India.

Speaking at a session titled the 'Future of Energy Partnership', Minister for Petroleum and Natural Gas and Steel Dharmendra Pradhan said the high importance attached to the energy component of the bilateral engagement is rather evident from positive developments during the last three years under the India-US strategic energy partnership. He said, "US emerging as the sixth largest source for crude oil imports is a significant development. India is also now the fourth largest export destination for US crude. Our LNG imports from the US are also increasing progressively ever since the imports started in March 2018. India is now the fifth largest destination of US exports of LNG."

Pradhan said the next India-US Ministerial meeting for the Strategic Energy Partnership is expected to be held in April to deepen engagements at government and industry channels. At the event, CII and USIBC jointly launched the $500-billion roadmap and listed 13 interventions to push India-US trade.

“To achieve the shared goal of reaching $500 billion in trade from the current $ 142 billion in 2018, would require renewed focus on tackling some of the irritants to unleash the full potential of the economic relationship,” Chandrajit Banerjee, Director General, Confederation of Indian Industry, said.

“We have seen trade grow by over 50 per cent in the past 5 years. But in order to see a doubling and tripling of the trade relationship, the two countries must work out a trade deal that can open markets in both directions,” said Nisha Biswal, President, USIBC. The report suggests simplifying the single window clearances, instituting a mechanism of automatic deemed approvals for no objection certificates, and further liberalisation of foreign direct investment norms among others.

Historically, India’s trade agreements have not given its exporters the kind of benefits that were expected. Oft-cited reasons include lack of awareness among exporters and the country’s focus on trade deals with developing countries, which have a competitive edge over India in terms of lower wage costs. However, this is unlikely to happen with the US as a trade deal will result in a significant expansion of trade, while simultaneously giving Indian firms greater market access to one of the largest economies. A deal can also be instrumental in resolving problems related to the mobility of Indian professionals.

A trade deal with the US could address issues related to tariffs and lead to India being viewed as an alternative for companies implementing a China+1 policy. This could result in sizeable investments in the manufacturing sector and deeper integration of India in global value chains. A deal would of course help expand Indian exports further.

World trade has seen a tectonic shift in the last couple of years as production activity has become extremely specialized and globalized. The recent wave of protectionism has led to the emergence of regional trading blocs, where such value chains are shaping up. Geopolitics also plays a role. The recent increase in oil purchase from the US and other strategic allies hints at deeper trade ties in the years ahead. A deal with the US may lead to a workable framework for similar deals with the UK and European Union.

1.5 TRADE AGREEMENTS BETWEEN INDIA AND CHINA:

The Government of the Republic of India and the Central People's Government of the People's Republic of China, animated by the common desire to develop trade between the two countries and to strengthen further the friendship that already exists between the Governments and the peoples of India and China have, on the basis of equality and mutual benefit, reached agreement as follows

Article I

The two contracting parties being desirous of adopting all appropriate measures for the expansion of trade between the two countries agree to give the fullest consideration to all suggestions for the promotion of such trade.

Article II

The two contracting parties agree that all commercial transactions between the two countries shall be carried out in accordance with the Import, Export and Foreign Exchange Regulations in force from time to time in their respective countries.

Article III

The two contracting parties agree to accord, subject to the laws and regulations of the two countries for the time being in force, facilities for the import and export of the commodities mentioned in the attached Schedules "A" and "B".

Article IV

The present Agreement will not preclude the two contracting parties from facilitating trade in commodities not mentioned in attached Schedule 'A' and 'B'.

Article V

The Trade between the Republic of India and the Tibet Region of the People's Republic of China will be conducted in accordance with the provisions of the Agreement between the Republic of India and the People's Republic of China on Trade and Intercourse between Indian and the Tibet Region of China signed in Peking on the 29th April, 1954.

Article VI

The Government of the Republic of India agree that on request by the Government of the People's Republic of China, they will, subject to the regulations in force, accord reasonable facilities for the entry into the Port of Calcutta, and subsequent movement to the Tibet Region of the People's Republic of China, of such commercial goods as cannot be obtained in India. These facilities will be accorded only to goods of Chinese origin.

Article VII

All commercial and non-commercial payments between the Republic of -India and the People's Republic of China may be affected in Indian rupees or in pounds sterling as may be mutually convenient. For the purpose of facilitating such payments, the People's Bank of China will open one or more account(s) with one or more commercial bank(s) in India authorised to deal in Foreign Exchange to be called account(s) "A". In addition, the People's Bank of China will, if necessary, open another account with the Reserve Bank of India to be called account "B". All payments between the two countries will be made through account(s) "A". Account "B" will be used only for replenishing the balance(s) in account(s) "N' whenever necessary. Payments to be made by residents of India to residents of the People's Republic of China will be affected by crediting the amounts of such payments to the above-mentioned account(s) "A". Payments to be made to residents of India by residents of the People's Republic of China will be affected by debiting the said account(s) "A". The account(s) "A" will be replenished as and when necessary by one of the following methods, namely

(i) by transfer of funds from another account "A" of the People's Bank of China with another commercial bank, or from account "B" with the Reserve Bank of India;

(ii) by sale of sterling to the bank concerned. Account "B" will be replenished either by sale of sterling to the Reserve Bank of India or by transfer of funds from account(s) "A".

2. Article VII of this Agreement covers the following payments (i) Payments for the commodities imported or exported under the present Agreement; (ii) Payments connected with commercial transactions and covering insurance, freight (in case of shipments of goods by the ships of either country), port charges, storage and forwarding; (iii) Payments for distribution of films, for incomes and expenses of cultural performances and other exhibitions (iv) Payments of expenses on account of tours of delegations of commercial, cultural, social or official nature; (v) Payments for the maintenance of the Embassy, Consulates and Trade Agencies of the Republic of India in China and for the maintenance of the Embassy, Consulates and Trade Agencies of the People's Republic of China in India; (vi) Other non-commercial payments on which agreement is reached between the Reserve Bank of India and the People's Bank of China.

3. Any balances on the credit side of the account(s) "A" or Account "B" maintained by the People's Bank of China will be convertible on demand into sterling at any time at the usual Bank's selling rate for sterling as fixed from time to time by the Indian Exchange Bank's Association. The above-mentioned balances will be convertible into sterling even after the expiry of this Agreement.

L Payments for Border Trade between the Republic of India and the People's Republic of China, however, will be settled according to the customary practice.

Article VIII

The two contracting parties agree to consult with each other on questions that may arise in the course of the implementation of the present Agreement.

1.5 GOODS AVAILABLE FOR EXPORT FROM CHINA TO INDIA

1. Cereals- (1) Rice. (2) Cereals other than rice. (3) Green beans. (4) Soyabeans--green and black.

2. Machinery- Including Planning and shaping machines, Drilling Machines, Other machine tools, inclinable notching press, Steam Engines, Harvester, Road Roller (Road Marshall), Electric Pump, Air Compressor, Concrete Mixer, Rock Crusher, Printing Machinery, Moulding Machine, Trandormers, Pump, Motors Electric, Sowers, Gear Grooving machines, Cotton Textile Machinery, Jute Textile Machinery, Telephone Exchange Control, Rubber Insulated Wire, Ventilator, Equipment’s for Steam Generator, D.C. and A.C. Welder, Medical Apparatus.

3. Minerals-- (1) Antimony, Crude and Regulus. (2) Gypsum. (3) Graphite. (4) Fluorspar. (6) Sulphur. (6) Realgar (Munsell). (7) Orpiment. (8) Borax. (9) Naphathalene Refined. (10) Clay. (11) Arsenolite (Arsenic Oxide).

4. Silk and Silk piece goods- (1) White and Yellow Raw Silk, Steam Filature. (2) Spun Silk. (3) Tussah Silk (Wild Silk). (4) Douppion Silk. (6) Silk piece goods. (6) Fuji Silk piece goods. (7) Tussah Silk piece goods.

5. Animal Products- (1) Wool. (2) Skins and Hides, (3) Duck Feathers, Goose Feathers. (4) Woollen Yam. (5) White Wax. (6) Honey.

6. Paper and Stationery. (1) Newsprint. (2) Mechanical Pulp free printing paper. (3) Packing paper. (4) Stencil paper. (5) Blotting paper. (6) Fountain pen. (7) Pencil. (8) Ink. (9) Printing ink. (10) Numbering machine.

1.6 IMPACT OF INDIA AND JAPAN TRADE AGREEMENT:

India–Japan relations have traditionally been strong. The people of India and Japan have engaged in cultural exchanges, primarily as a result of Buddhism, which spread indirectly from India to Japan, via China and Korea. The people of India and Japan are guided by common cultural traditions including the heritage of Buddhism and share a strong commitment to the ideals of democracy, tolerance, pluralism and open societies. India and Japan, two of the largest and oldest democracies in Asia, having a high degree of congruence of political, economic and strategic interests, view each other as partners that have responsibility for, and are capable of, responding to global and regional challenges. India is the largest recipient of Japanese official development assistance (ODA). As of 2013, bilateral trade between India and Japan stood at US$16.31 billion and is expected to reach US$50 billion by fiscal year 2019–20.

India's recent withdrawal from the Regional Comprehensive Economic Partnership negotiations is a setback for economic integration in the Indo-Pacific.

Originally comprising 16 economies that account for around a third of world GDP, the RCEP would have had a systemic impact on the global economic architecture. As the first regional trade agreement to include India, it would have also been the first economic manifestation of the Indo-Pacific concept.

The outcome now depends on how the Japanese government will approach India's withdrawal. And this is indicative of a new role for Japan as a kingmaker for regional trade agreements in the Indo-Pacific.

Japan is particularly invested in India's inclusion in the RCEP. It was responsible for the "ASEAN plus Six" membership of the agreement, which Tokyo successfully promoted in 2012 in the face of a competing Chinese "ASEAN Plus Three" proposal that would have excluded India, Australia and New Zealand. Japan has been one of the leading advocates of the Indo-Pacific concept, which seeks to better integrate India into regional architectures. Japan and India have also rapidly upgraded their bilateral relationship in recent years, to which a "two-plus-two" Defence and foreign ministers meeting was added in November.

India's RCEP withdrawal is thus a major strategic loss for Japanese diplomacy.

This concern is reflected in Japan's official response. When asked whether the RCEP would proceed without India, Japan's lead negotiator indicated: "We aren't thinking about that at all yet. … Japan will continue to try to persuade India to join." Subsequent efforts to reach out directly to India were then mooted for a Japan-India prime ministerial summit scheduled for last Sunday. However, protests related to India's recent change to citizenship laws have now seen the summit indefinitely postponed.

In any event, it is highly unlikely that Japan would be able to convince India to re-join the negotiations. An India-China deadlock over their trade balance has held up negotiations for several years, and Indian requests for special India-China bilateral arrangements have been opposed. Indian Prime Minister Narendra Modi's statement on withdrawal was decidedly unequivocal:

"The present form of the RCEP agreement does not fully reflect the basic spirit and the agreed guiding principles of the RCEP. It also does not address satisfactorily India's outstanding issues and concerns. In such a situation, it is not possible for India to join the RCEP agreement."

By contrast, the remaining members intend to press on. The most-recent RCEP leaders' statement noted that 15 countries have now concluded their text-based negotiations and most tariff issues. The current target is for signing of the legally scrubbed text in February.

Japan now faces a difficult trade-off between strategic and economic objectives: Should Tokyo refuse to sign the RCEP agreement without India, a move that may terminally compromise the entire agreement? Or should it proceed on a 15-member basis, and secure a systemically important trade pact for the Indo-Pacific?

Indeed, Japan found itself in this very position during recent negotiations for the Trans-Pacific Partnership. When President Donald Trump withdrew the United States in early 2017, many commentators concluded the TPP was dead. Strategic objectives saw Japan initially try to coax Trump back into the agreement, with no success. However, Japanese diplomacy then pivoted toward the economic, launching moves to finalize the TPP without its largest market. Tokyo led and organized a coalition of like-minded partners to salvage the agreement, and the 11-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership was completed only a year later.

Japan was able to push the TPP-11 over the line because it has many of the attributes required for trade diplomacy leadership. As the world's third-largest economy, its market is of a sufficient size to offer serious negotiating coin in discussion with partners. It has trusted diplomatic relationships with most countries in the Indo-Pacific, particularly among the ASEAN states. And it has a demonstrated capability to compromise, evident in its willingness to include (domestically sensitive) agriculture sectors in the TPP.

Moreover, Japan is arguably the only country capable of regional trade leadership at the moment. The Trump administration's coercive trade practices have lowered trust with partners, and excluded it from key multilateral negotiations. Other pro-liberalization players — such as Singapore, Thailand and Australia — lack the economic or diplomatic heft to lead. And China brings complicated and sometimes conflicting geopolitical issues to the table, evident in the anti-China sentiments that have played a part of India's debate on the RCEP.

For the second time in only two years, Japan finds itself the kingmaker for a mega-regional trade deal of systemic global impact. Whether it now chooses to prioritize strategic or economic objectives will likely determine the future of the Indo-Pacific economic architecture.

The Comprehensive Economic Partnership Agreement (CEPA) between India and Japan was signed on 16th February, 2011 and came into force from 1st August of the same year. Apart from accelerating business activities, the deal aimed to eliminate tariffs on 90 percent of Japanese exports to India, such as auto parts and electric appliances, and 97 percent of imports from India, including agricultural and fisheries products, until 2021. Since the introduction of CEPA, India–Japan merchandise trade has increased by 38 percent, with total bilateral trade expected to reach US$24 billion by March 2013. Keeping in view the agreement, Mukhopadhyay and Bhattacharyay (2011) evaluated the economy-wide impact of the trade integration between Japan and India using Global Trade Analysis Project (GTAP) analysis. It was found that the output will increase marginally for both India and Japan in 2020 after tariff reduction compared to Business as Usual (BAU). The results expected a marginal export growth, a fair amount of trade creation and improvement in the welfare of both the countries by 2020 with the successful implementation of CEPA.

The agreement had two major concerns, namely: the infrastructure in India, and non-tariff barriers in Japan. On the infrastructure front, the two countries agreed to collaborate on the huge, US $90-billion Delhi–Mumbai Industrial Corridor (DMIC) project in 2006. The key agenda of the DMIC project involves the development of nine industrial zones; a high-speed freight line; three ports; six airports; a six-lane intersection-free expressway; and a 4,000-megawatt power plant. The project agreement appears highly promising in the environment of the new manufacturing policy whereby India is targeting to increase the share of manufacturing in GDP to 25 percent within a decade, potentially creating 100 million jobs.

CONCLUSION:

India is presently known as one of the most important players in the global economic landscape. Its trade policies, government reforms and inherent economic strengths have attributed to its standing as one of the most sought-after destinations for foreign investments in the world. Also, technological and infrastructural developments being carried out throughout the country augur well for the trade and economic sector in the years to come.

Boosted by the forthcoming FTP, India's exports are expected reach US$ 330-340 billion by 2019-20 according to Federation of India Export Organisation (FIEO). Also, with the Government of India striking important deals with the governments of Japan, Australia and China, the external sector is increasing its contribution to the economic development of the country and growth in the global markets. Moreover, by implementing the FTP 2014-19, by 2020, India's share in world trade is expected to double from the present level of three per cent. India has the potential to increase its goods and services exports to Australia to US$ 15 billion by 2025 and US$ 35 billion by 2035.

India has been hit by falling demand from its traditional export markets such as the United States, which is struggling to bring down unemployment and Europe, where a sovereign debt crisis tipped many economies back into recession. The foreign trade affects almost every citizen of India either directly or indirectly. For instance, since India has to import three fourth of its crude oil requirements, international crude prices are likely to affect every citizen either directly or indirectly. Moreover, free trade in agriculture can flood the Indian markets with cheap food grain produced in foreign territory adversely affecting the Indian farming community. On the other hand, it can also result in outflow of food grains in case international food grain prices are higher.

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