India in Trade Deficit

Why in news?

India recorded a trade deficit with nine of its top 10 trading partners in 2023-2024.

What is the status of India’s trade dynamics in 2023-24?

- **Increasing trade deficit**- India sees trade deficit with major countries like China, Russia, Korea and Hong Kong.
- **Narrowing trade deficit**- The trade gaps with the UAE, Saudi Arabia, Indonesia and Iraq have narrowed, indicating a potential shift or improvement in trade balances with these countries.
- **Bilateral trade**- China has become India’s largest trading partner with a total value of 118.4 billion dollars surpassing the US which stands out at 118.28 billion dollars.
- **Free Trade Agreements (FTAs)-** India has FTAs with 4 of its top trading partners namely Singapore, UAE, Korea and Indonesia which could be influencing the trade dynamics with these countries.
- **Overall trade deficit-** India's total trade deficit has narrowed to 238.3 billion dollars in 2023-24 from 264.9 billion dollars in the previous fiscal year.
- **Trade surplus-** India has trade surplus with the US, UK, Belgium, Italy, France and Bangladesh.
- **Economic implications-** A rising trade deficit, even if driven by imports of raw materials and intermediates, can lead to currency depreciation.
- **Global Trade Research Initiative (GTRI)-** It emphasizes that while bilateral deficits may not be a major concern unless they lead to over-reliance on critical supplies, a rising overall trade deficit is detrimental to the economy.

How trade deficit affects Indian economy?

- **Currency depreciation**-Persistent trade deficits can put pressure on the Indian rupee, leading to depreciation against other currencies. Currency depreciation makes imports more expensive, contributing to inflationary pressures.
- **Over reliance on imports-** India’s dependence on imports for certain goods, including petroleum, electronics, and machinery, contributes to the trade deficit.
- **Current account imbalance**- It contribute to a widening current account deficit (CAD), which measures the net flow of goods, services, and investments into and out of a country.

A high CAD can make the economy vulnerable to external shocks and financing risks.

- **Pressure on FOREX-** Funding trade deficits requires continuous inflow of foreign capital, including foreign direct investment (FDI) and portfolio investments.
- **Debt accumulation-** Financing trade deficits through external borrowing can lead to an accumulation of foreign debt, increasing the country's debt servicing burden and exposing it to risks associated with changes in global interest rates and investor sentiment.
- **Structural constraints-** Issues such as inadequate infrastructure, bureaucratic inefficiencies, regulatory bottlenecks, and rigid labor laws can hamper export competitiveness and hinder efforts to address trade deficits effectively.
- **High inflation-** Trade deficit can lead to higher import bills, which in turn can contribute to inflationary pressures in the economy
- **Affects industrial growth**- It may indicate a lack of competitiveness in domestic industries, leading to sluggish industrial growth and job losses in sectors facing stiff competition from imports.
- **Macroeconomic instability** - Persistent trade deficits, coupled with widening CAD and currency depreciation, can undermine macroeconomic stability, leading to volatility in financial markets, reduced investor confidence, and capital outflows.
- **Trade protectionism**- It may provoke protectionist measures from trading partners, such as tariffs, quotas, and non-tariff barriers, which can further constrain export opportunities for Indian businesses.
- **Global economic conditions- I**ndia's trade balance is influenced by global economic trends, including demand fluctuations, geopolitical factors, and supply chain disruptions.

Steps taken by India to curb trade deficit
• **Merchandise Exports from India Scheme (MEIS)-** it is introduced to provide incentives to exporters of specified goods based on their export performance. • **Export Promotion Capital Goods (EPCG) Scheme**- Tt is designed to facilitate import of capital goods for pre-production, production, and post-production at zero customs duty. • **Interest equalization scheme-** It provides interest equalization on pre and post shipment rupee export credit, encouraging exporters. • **RoDTEP scheme-** The Remission of Duties and Taxes on Exported Products (RoDTEP) scheme supports exporters by refunding duties and taxes. • **FTA utilization-** A Common Digital Platform for Certificate of Origin facilitates trade and increases utilization of FTAs by exporters. • **Districts as export Hubs**- Identifying export potential in each district and supporting local exporters/manufacturers generates employment and boosts exports. • **Trade remedy options-** The timely use of trade remedy measures, such as anti-dumping duties and safeguard duties, helps protect domestic industries from unfair competition due to cheap imports. • **Adoption of mandatory technical standards**-Ensuring that imported goods meet specific technical standards helps maintain quality and reduces reliance on foreign products.

How to address the raising trade deficit in India?

- **Quality Control Orders (QCOs)-** The Indian government is exploring ways to reduce cheap and non-essential imports through QCOs. By imposing quality standards on imports, India aims to curb unnecessary inflow of goods.

- **Boost local production-** Encouraging domestic manufacturing through schemes like the Production-Linked Incentive (PLI) can help substitute imports.
- **Diversify export**-India should explore new markets for its exports through this India can mitigate risks associated with dependence on specific countries.
- **Sector specific measures-** Reducing imports in sub-sectors like chemicals, automotive components, agro-based items, and consumer electronics could contribute to narrowing the trade gap.
- **Improve trade infrastructure-** Enhance transportation, logistics, and port facilities to streamline the movement of goods and reduce transaction costs for exporters.
- **Trade facilitation-** Simplify trade procedures, documentation requirements, and customs clearance processes to reduce red tape and bureaucratic hurdles.
- **Address non-tariff barriers-** Negotiate with trading partners to address non-tariff barriers such as technical standards, sanitary and phytosanitary measures, and intellectual property rights issues.
- **Currency management**- Monitor and manage currency exchange rates to ensure competitiveness of Indian exports.
- **Enhance human capital-** Invest in skill development and capacity building programs to enhance the quality and competitiveness of Indian workforce in key sectors.
- **Promote green exports-** Encourage industries to adopt green practices and standards to meet international environmental regulations and consumer preferences.

Reference

The Hindu- India in trade deficit