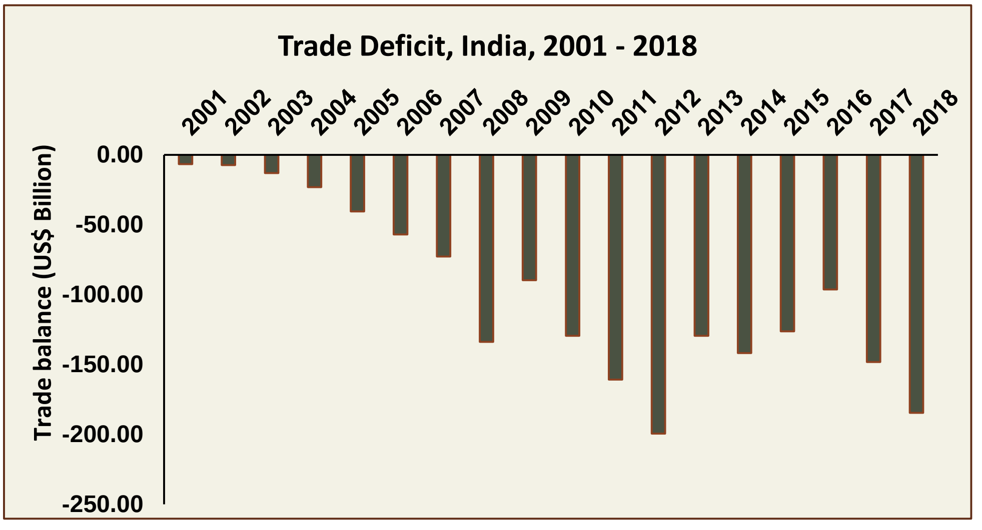
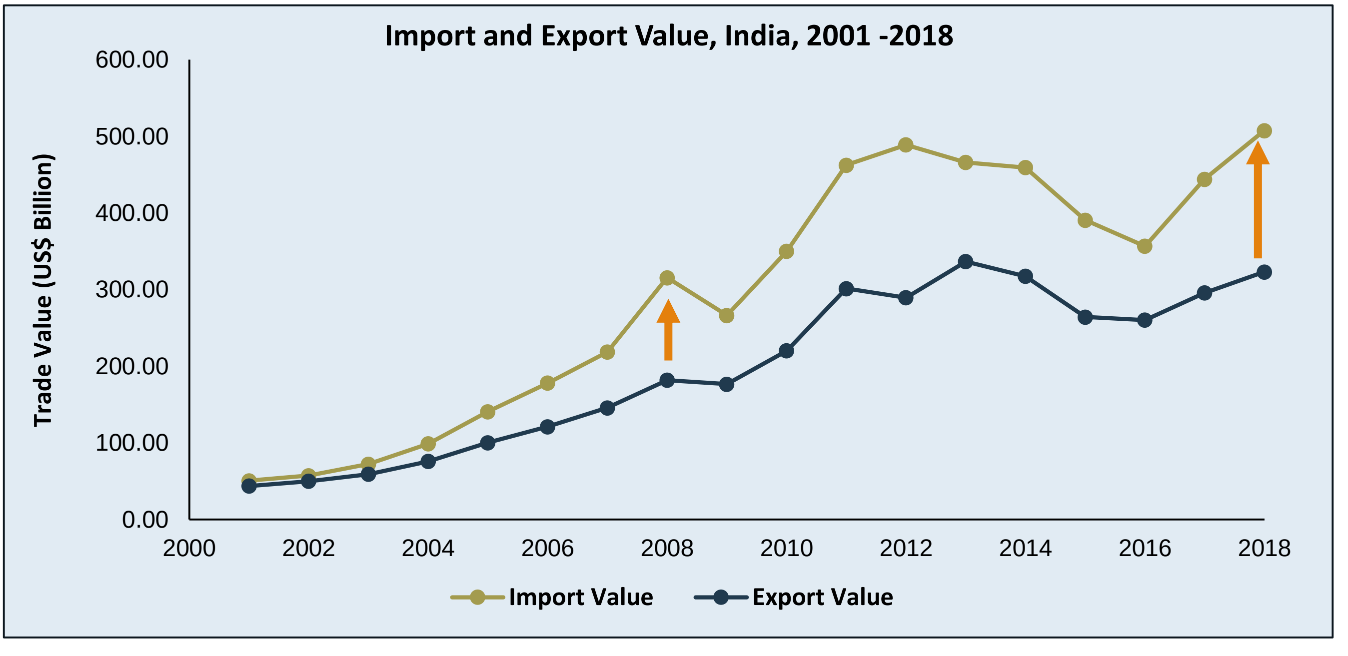
What Is Behind India's Rising Trade Deficit?

- **Trade deficit** is an economic measure in which a country's import value exceeds its export value.
- The concept of trade deficit actually comes from **"Balance of Trade"** or **BOT** . This is the difference between the import and exports of a country for a given time period.
- The BOT definitely represents a country's economic strength. If a country's export value is greater than its import value in a given year, then the BOT is positive for the country and the country is having a **Trade Surplus**.
- When the import value is greater than its export value, then the situation of **Trade Deficit** happens where the BOT turns to be negative.



- Between 2001 to 2018, the trade deficit of India has increased at a CAGR of **21.44%.**
- In 2017, the trade deficit rose by more than **53%** based on its year on year value**.**
- This rise in deficit was the highest since 2005.

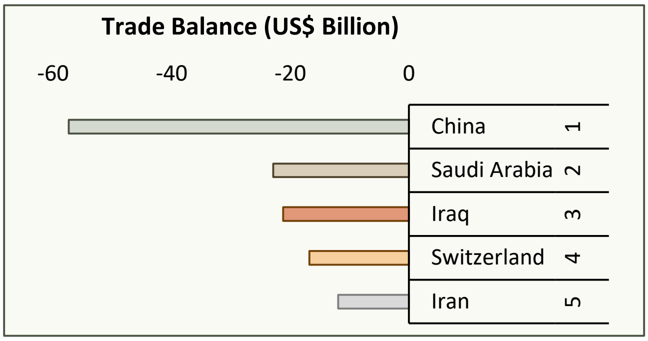
Breaking down the trade deficit data of India



- India has been facing the problem of trade deficit since a long time.
- Between 2001 to 2018, the import value and export value of India has increased at a CAGR of **14.52%** and **12.46%** respectively.
- The higher growth value of Import over the export has created a serious situation of rising trade deficit.

Trading Partners of India

Which are the Top 5 Trading Partners of India with Trade Deficit in 2018?

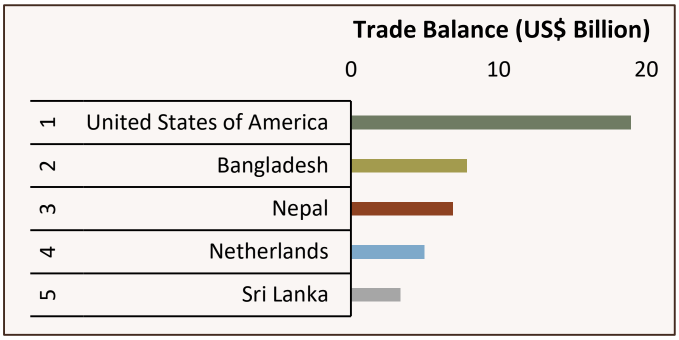


- China is the largest exporter to India. Between 2001 to 2018, the value for importing goods from China to India has grown at a CAGR of **24.3%.**
- China is also the third largest importer of India. Between 2001 to 2018, the value for exporting goods from India to China has expanded at a CAGR of **18.45%.**

Examples of a few products which are imported from these 5 countries to India

China	Electrical equipment, nuclear reactors, plastic materials, articles of iron & steel etc.
Saudi Arabia	Mineral oil/fuels, organic chemicals etc.
Iraq	Edible fruits and nuts, mineral fuels, raw hides and skins etc.
Switzerland	Pharmaceutical products etc.
Iran	Fertilizers, Mineral oil, inorganic chemicals etc.

Which are the top 5 Trading Partners of India with Trade Surplus in 2018?



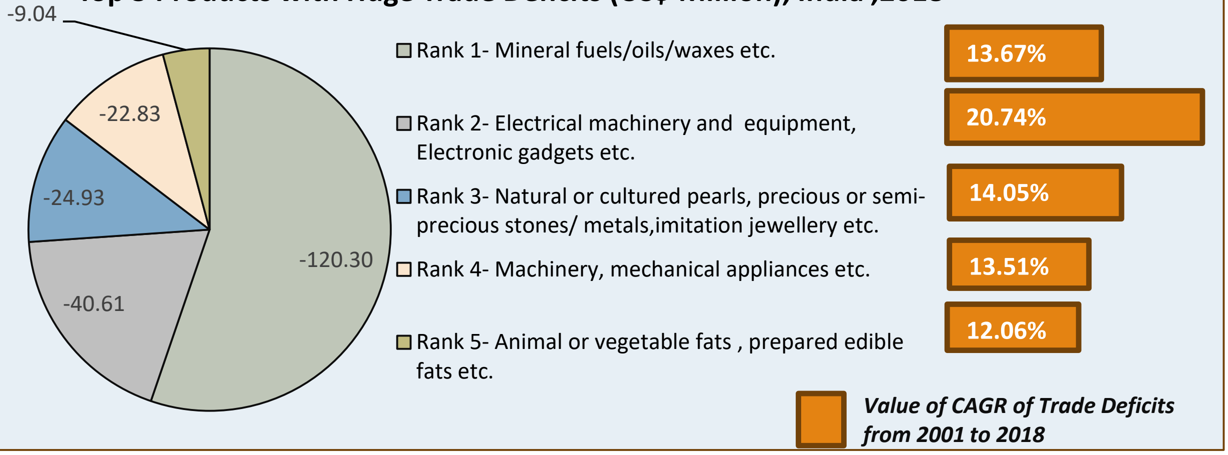
- US is the largest importer of Indian goods. Between 2001 to 2018, the value for exporting goods from India to US has increased at a CAGR of **11.27%.**
- US is also the second largest exporter of India. Between 2001 to 2018, the value for importing goods from US to India has risen at a CAGR of **14.58%.**

Examples of a few products which are exported to these 5 countries from India

US	Pharmaceutical products, precious or semi precious jewelleries and stones etc.
Bangladesh	Cotton, mechanical appliances, cereals etc.
Nepal	Mineral fuels, Iron & Steel etc.
Netherlands	Organic Chemicals, electrical machineries, apparel and clothing accessories etc.
Srilanka	Ship/Boats, Vehicle, its parts and accessories etc.

Which are the top 5 products responsible for creating higher trade deficit in India?

Top 5 Products with Huge Trade Deficits (US$ Million), India ,2018

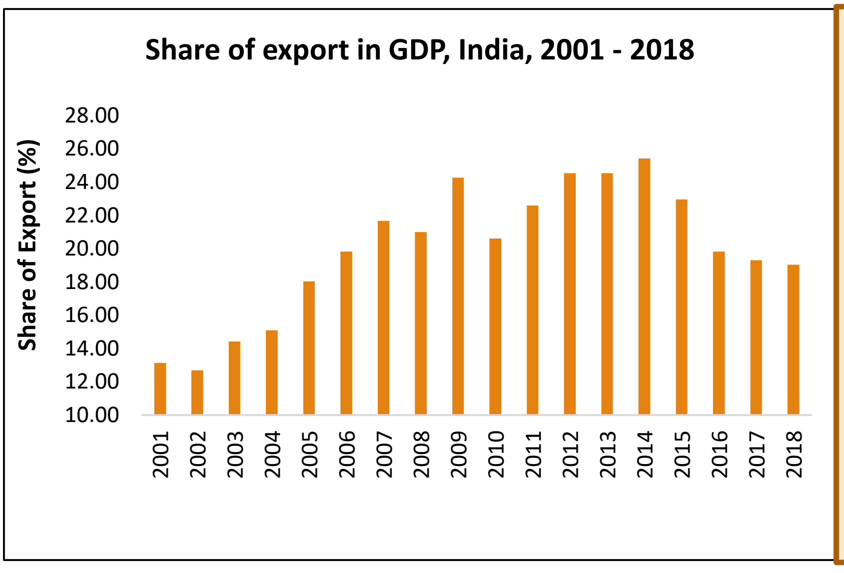


Reasons Behind Trade Deficit and How Is It Affecting India's Economic Condition?

What are the reasons behind the increasing trade deficit?

- Fall in the global trade along with the emergence of trade war between US and China.
- China and other South Asian countries are facing reduction in manufacturing activities. Rise in debt and the out flow of capital from the emerging economies with the hike in fed rate are the reasons behind it.
- Imposition of duties on Chinese, US and several other foreign products for protecting the domestic manufacturers, denial of GST on availing higher duty drawback, delayed input tax credit refund, launch of national sales tax in 2017, stressed conditions of innumerable companies due to shortage of bank credit have made the manufacturing activities more vulnerable.
- As an effect, India is found to be more dependent on import products.

How is it affecting the Indian economy?



- Economic condition of a country like India whose GDP highly depends on its export sector by exporting the domestic manufactured products to other countries are supposed to be affected a lot with the rise in trade deficit.
- Though between 2001 to 2018, the Indian GDP has risen at a CAGR of **10.5%**, still the share of export sector which was **25%** in 2014, fell to **19%** in 2018.
- If it continues for long, then it can seriously effect the economic growth of India.

What is the way forward?

- The main agenda of the current government is to lower the dependence on imports and double the growth of Indian export sector.
- Various factors like availability of skilled work force at cheaper cost, competitive manufacturing cost are the favourable factors of the country to set up itself as an export hub.
- Proper implementation of the initiative like **"Make in India"** can be an appropriate solution in this case. Indian government launched its flagship scheme **"Make in India"** in Sept,2014 with the objective of establishing the country as one of the **best export hubs** in the world.
- The status of ease of doing business in the India has also improved over the years. In 2018, India jumped 23 notches and placed itself in the **77th position** among the **190 countries** in World Bank's **"Ease of Doing Business"** rankings.
- In the starting of 2019, rise in exports and fall in the imports of gold and petroleum products have reduced the trade deficit to **US$ 9.6 Billion**.
- Besides the merchandise exports rose to **US$ 26.67 Billion** in February'19 from **US$ 26.03** Billion in February'18 by exporting the pharmaceutical, electronics and engineering products.
- Though, India has to work hard to reduce its level of huge trade deficit, still the initiatives towards making the country an export hub of multiple products and creating a favourable entrepreneurial environment can definitely be regarded as impactful steps towards it.

Source: Intracen, World Bank, LSI Research