



Global Trade Momentum and Outlook for India

For Prelims: [Merchandise Exports](#), [Inflation](#), [Monetary Policies](#), [Russia-Ukraine](#), [PMI](#).

For Mains: Global Trade Momentum and Outlook for India.

Why in News?

India's [Merchandise Exports](#) in April 2023 contracted by 12.7% compared to the previous year, reaching a **six-month low of USD 34.66 billion**. Similarly, imports also experienced a sharp decline of 14%, amounting to USD 49.90 billion during the same period.

- These declines in both imports and exports are not exclusive to India and are **indicative of a broader trend of slowing global demand**.

What are the Current Trends in Global Trade?

- **Weaker Economic Activities:**
 - There has been a **slowdown in economic growth globally**, which has had a negative impact on international trade.
 - Weaker economic conditions in various countries have **led to reduced consumer spending and investment**, affecting trade volumes.
- **Inflation and Tightening Monetary Policies:**
 - Many countries are facing rising [Inflation](#), which has prompted **central banks to implement tighter Monetary Policies**.
 - Higher interest rates and stricter lending conditions **can affect trade by reducing consumer purchasing power and increasing the cost** of borrowing for businesses.
- **Disrupted Supply Chains due to the Russia-Ukraine Conflict:**
 - The ongoing conflict between [Russia and Ukraine](#) has **disrupted supply chains, particularly in Europe**.
 - This conflict has **led to higher energy and commodity prices**, affecting trade flows and increasing costs for businesses.
- **Financial Instability:**
 - The collapse of financial institutions, such as the [Crypto](#) exchange FTX and several banks in the US, **has created financial instability**.
 - This loss of confidence in the financial sector **raises concerns about potential contagion and can negatively** impact global trade.

How has been the Trade Situation in India, Europe and the US?

- **European Union (EU):**
 - The European Economic Forecast in February 2023 predicted that the **region would narrowly avoid entering a recession** that had started to develop around September 2022.
 - In terms of inflation in the Euro area, the food, alcohol, and tobacco had the

highest annual rate of price increase in May 2022. This was followed by non-energy industrial goods, services, and energy.

▪ **The US:**

- In the United States, according to the [Federal Reserve](#) in May 2023, inflation had improved compared to the middle of the previous year. However, inflation pressures remain high, and it **is expected to take a long time for inflation to decrease** to the desired target of 2%.
 - The JP Morgan Global Manufacturing [Purchasing Managers' Index \(PMI\)](#), remained at 49.6 in May for the third consecutive month, indicating a **slight decline in business conditions**. Production showed growth for four months, **but mainly due to fulfilling existing orders** rather than new ones.

▪ **Outlook for India:**

- The **EU** is India's third-largest trading partner, following the **US and China**.
- Global demand from markets like the EU and the US is not favorable, and the **demand outlook for the next few months is not optimistic**.
- India can face a potential impact of a global slowdown, especially in the US, which is a **major trading partner for India**.
- The slowdown may affect demand for India's merchandise exports, although services **exports are expected to remain strong**.
- Import levels may stay low as commodity **prices stabilize and the value of the Indian rupee remains steady**. However, a faster recovery could **put pressure on import demand**.
- Certain non-crude and **non-jewelry segments have shown a growth of 15%** in the previous fiscal year 2022-23, surpassing the long-term average growth.
 - This indicates that **domestic demand in India remains robust**.
 - The decrease in imports can be **attributed to stable oil prices**, which have reduced India's import bills.

How does Economic Slowdown Impact International Trade and Individual's Purchasing Power?

- During an economic slowdown, international trade, including **both exports and imports, declines significantly** due to reduced overall demand for goods and services.
- People tend to **avoid discretionary spending**, which particularly impacts certain imports and postponable expenses.
 - As a result, the exports of engineering goods, gems and jewelry, chemicals, readymade garments, plastics, and **petroleum products have contracted or grown at a slower pace in 2023**.
- Inflation, the uneven increase in prices, especially for essentials like food and energy, erodes **individuals' purchasing power**. However, if imported products are cheaper than domestic alternatives, **people may opt for imports**.
- The Exchange Rate between currencies also plays a role in determining the purchasing power of an individual. Additionally, **inflation affects the flow of capital to developing countries**.

Way Forward

- The government should engage in discussions between ministries to explore ways to diversify and sustain export momentum in response to this situation.
- To address concerns about lower imports, **it is crucial to recognize that certain non-crude and non-jewelry segments** have shown strong growth, indicating robust domestic demand. This provides a positive outlook for the Indian economy. Stability in commodity prices and the value of the Indian rupee **can help maintain low import levels**.
- It is important to monitor global economic conditions, adapt **export strategies to target emerging markets**, and continue to foster domestic demand to sustain economic growth.

UPSC Civil Services Examination, Previous Year Question:

Q. Consider the following statements: (2023)

Statement-I: In the post-pandemic recent past, many Central Banks worldwide had carried out interest rate hikes.

Statement-II: Central Banks generally assume that they have the ability to counteract the rising consumer prices via monetary policy means.

Which one of the following is correct in respect of the above statements?

(a) Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I

(b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I

(c) Statement-I is correct but Statement-II is incorrect

(d) Statement-I is incorrect but Statement-II is correct

Ans: (a)

Exp:

- In the post-pandemic recent past, many Central Banks worldwide had carried out interest rate hikes to contain the post pandemic inflation. For Example, since May 2022, the Monetary Policy Committee (RBI) has gone for rate hikes many times. **Hence, statement 1 is correct.**
- The central banks generally are mandated with the task of containing the rising prices of the commodities. Central banks use monetary policy to manage economic fluctuations and achieve price stability. **Hence, Statement 2 is correct.**

Source: TH

PDF Refernece URL: <https://www.drishtias.com/printpdf/global-trade-momentum-and-outlook-for-india>