



India's Trade Dynamics

This editorial is based on "[In an uncertain world, India's trade push](#)" which was published in The Indian Express on 02/05/2024. The article examines the global trade dynamics and India's trade push and its potential as a major exporting nation.

For Prelims: [Foreign Trade Policy 2023](#), [United Nations Conference on Trade and Development](#), [Make in India](#), [PLI Scheme](#), [Free Trade Agreements](#), [Special Vostro Rupee Accounts](#), [Internationalisation of Rupees](#), Rejection of Food and Pharma Products from India.

For Mains: India's Trade Dynamics Post Independence, Sectors Propelling India's Trade Growth

India's trade landscape is evolving amidst global challenges and opportunities. While lower international commodity prices have impacted traditional sectors like [petroleum exports](#), emerging sectors such as [electronics](#), [pharmaceuticals](#), and [agriculture](#) are showing promise. India's recent free trade agreements with the [UAE](#) and [EFTA](#) signify its commitment to deepening economic ties and gaining greater market access.

India's trade push is not merely an economic imperative but a litmus test of its ability to navigate the complexities of the global trade landscape and unlock its true potential as a major exporting nation.

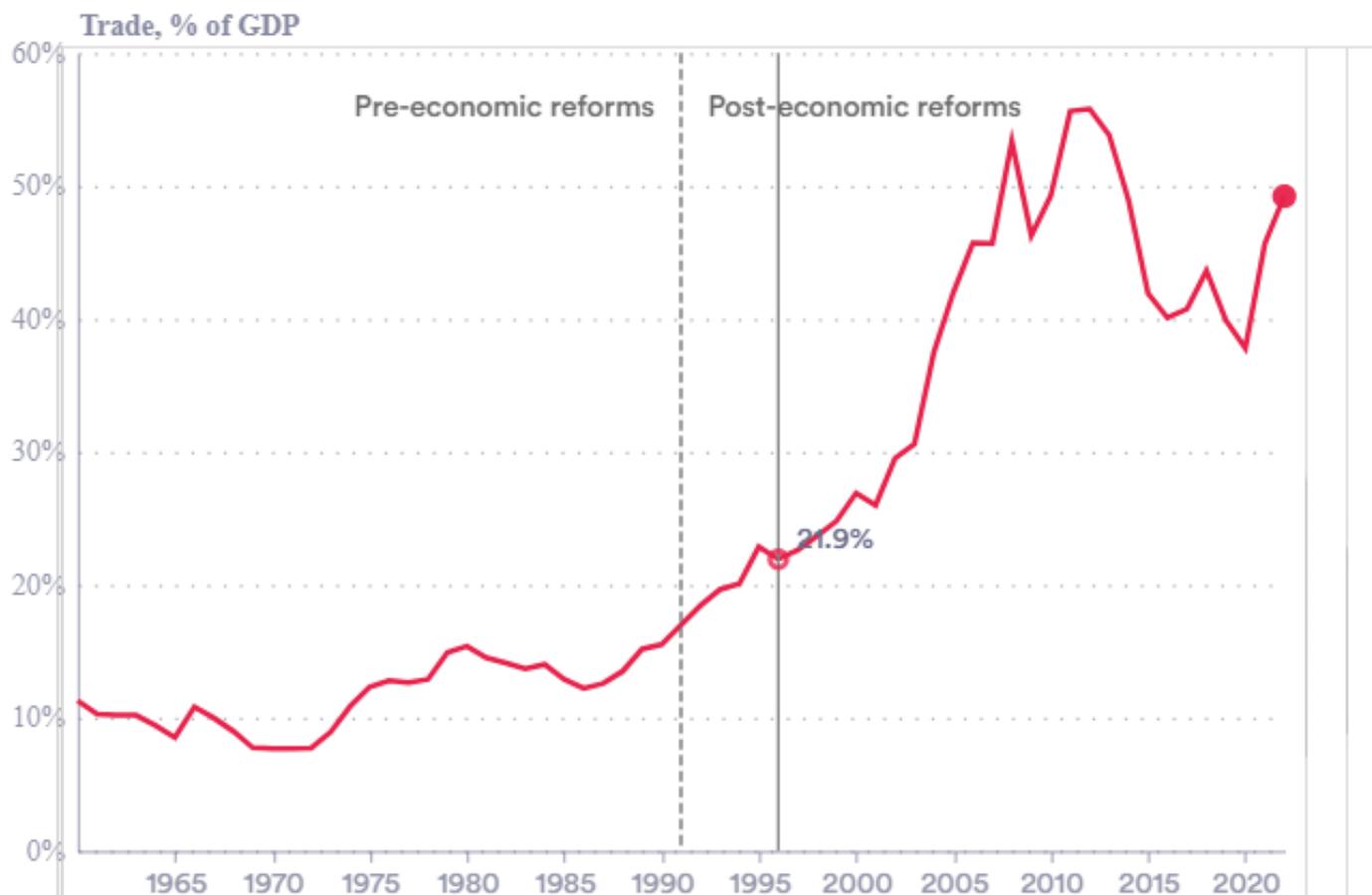
What is India's Trade Dynamics Post Independence?

- **Post-independence (1947-1990s):** India adopted a **protectionist trade stance**, characterized by high import barriers, strict industrial regulations, and a focus on import substitution.
 - This period saw limited trade openness and a heavily regulated economy, known for the **'license raj' system**.
- **Liberalization Reforms (1991 onwards):** Triggered by a severe balance of payments crisis in 1991, India embarked on a path of economic liberalization.
 - This included dismantling the 'license raj', **liberalizing trade, opening up to foreign investment**, and adopting market-oriented policies.
- **Gradual Opening to Global Markets (1990s-2000s):** In the following decades, India continued to liberalize its trade policies, gradually opening up to global markets.
 - It signed several regional and bilateral trade agreements, including agreements with [ASEAN](#), [Japan](#), [South Korea](#), and others.
- **Focus on Global Economic Integration (2010s-present):** In recent years, India has renewed its focus on global economic integration.
 - India's [Foreign Trade Policy 2023](#) is encouraging recognition of new towns through "Towns of Export Excellence Scheme".
 - It has been negotiating comprehensive trade agreements with the [European Union](#), and **the United Kingdom**, aiming to diversify trade relations and enhance market access.
- **Embracing Rupee Trade and Digital Infrastructure (present and future):** India is

increasingly leveraging digital infrastructure and technology, such as the [Unified Payments Interface \(UPI\)](#) to transform its international trade prospects.

- Overseas markets accepting UPI payments include **UAE, France, Mauritius, Sri Lanka**.
- India is also focusing on [Internationalisation of Rupees](#).
 - [Reserve Bank of India \(RBI\)](#) has allowed banks from **18 countries to open Special Vostro Rupee Accounts (SVRAs)** to settle payments in Indian rupees.

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Which Sectors are Propelling India's Trade Growth?

- **Services Sector:** This is a major driver, with exports surging over 11% in 2023 according to a recent [United Nations Conference on Trade and Development](#) report. Key sub sectors include:
 - **IT & IT-enabled Services (ITES):** This is the powerhouse, attracting global companies for software development, back-office operations, and call centres.
 - India's large talent pool and competitive pricing are major advantages.
 - **Tourism & Hospitality:** With its rich cultural heritage and diverse landscapes, India is a growing tourist destination.
 - Government initiatives like [Dekho Apna Desh](#), **promoting small cities in events like G20** are further propelling this sector.
 - **Medical & Wellness Tourism:** India's skilled medical professionals, coupled with affordable costs, are attracting patients from abroad. This medical tourism segment is witnessing significant growth.
 - Government stated that over 1.4 million medical tourists visited India in 2022.
- **Goods Sector:** While services are strong, there's also significant growth in goods exports. Key sub sectors include:
 - **Engineering Goods:** This sector is witnessing a surge in exports of machinery, vehicles, and capital goods like generators and transformers.
 - Government's ["Make in India"](#) initiative and [PLI Scheme](#) promoting domestic manufacturing is a key factor.

- The share of electronic goods in India's merchandise exports is increased from around 2% in 2017-18 to **6.5% in 2023-24**
- **Pharmaceuticals:** India is a leading **generic drug manufacturer**, supplying affordable medicines globally.
 - This sector is expected to see continued growth with rising global demand for affordable healthcare solutions.
 - The Commerce Ministry reports a **10% increase in India's pharmaceutical exports**, reaching USD 28 billion in FY24.
- **Textiles & Apparel:** A traditional strength, India's textile industry is undergoing modernization to cater to international markets.
 - Skilled labor and a strong cotton production base contribute to its success.
 - India exported textiles worth **USD 30.96 billion** during April 2023-February 2024
- **Agriculture & Processed Foods:** India is a major producer of agricultural products like rice, wheat, and spices.
 - Despite bans on export of non-basmati rice, wheat, and other restrictions, overall agriculture and allied exports grew healthily.
 - The recent growth was driven by categories like **meat, poultry products, spices, fruits, vegetables, oil meals, oil seeds**, and unmanufactured tobacco.
- **Additional Factors Driving Growth:**
 - **Free Trade Agreements (FTAs):** India's FTAs with **European Free Trade Association (EFTA)**, Mauritius and UAE reduce tariffs and trade barriers, making Indian exports more competitive.
 - A step in this direction is India's **recently inaugurated 'Bharat Mart'** in Dubai, which is a warehousing facility for Indian MSMEs.
 - **Startup Ecosystem:** A thriving startup ecosystem is fostering innovation and creating new products and services for global markets.
 - India remains the **third largest tech start-up ecosystem globally**, with over 950 tech startups founded in 2023.
 - **Demographic Dividend:** India's young population provides a large workforce and a growing domestic market, further fueling trade.
 - **65%** of the Indian population is currently under the 35 years age bracket.
 - **India's Infrastructure Push:** The government's significant investment in infrastructure development through initiatives like **Bharatmala and Sagarmala** is significantly reducing transportation costs and transit times.
 - This improved connectivity is making it easier and faster to move goods across the country and to international ports, enhancing India's competitiveness in global trade.

What are the Main Roadblocks Hindering India's Trade Growth?

- **Decline in International Commodity Prices:** One of the most significant hurdles India has faced is the sharp decline in international commodity prices, particularly in the **energy sector**.
 - The plunge in crude oil prices has dealt a substantial blow to India's export bill, with petroleum exports plummeting by a staggering USD 13.3 billion in the 2023-24 fiscal year.
 - This downturn underscores India's vulnerability to fluctuations in global commodity markets, given the **substantial share of oil in its export basket**.
- **Labour-intensive Sectors:** Exports from labour-intensive sectors like **textiles, gems and jewelry, and leather** products have declined. This trend, observed over a decade, needs to be reversed to create more jobs.
- **Rejection of Food and Pharma Products:** Stricter quality control measures in developed countries lead to rejections of Indian food and pharmaceutical exports due to concerns about safety standards or compliance with regulations.
 - Over 50 companies in India that manufacture **cough syrups** have failed quality tests.
 - In the past 6 months, US customs officials have rejected 31% of spice **shipments from Mahashian Di Hatti (MDH)** due to salmonella contamination.
- **Geographical Concentration of Exports:** India's exports have traditionally been concentrated in a few major markets, such as the **United States and the Europe region**.
 - While efforts are being made to diversify export destinations, overreliance on a limited number of markets can make India's trade vulnerable to economic conditions in those

regions.

Way Forward

- **Reviving Labour-Intensive Sectors:** Establishing dedicated '**Artisan Zones**' with state-of-the-art infrastructure, skill development centres, and financial incentives to attract and retain skilled labour in these sectors.
 - Collaborate with **international fashion houses and luxury brands** to co-create unique product lines that showcase Indian craftsmanship.
 - Implement a '**Craft Tourism**' initiative to promote these sectors and create sustainable livelihoods for artisans.
- **Farm to Fork Traceability:** Implement a 'Farm-to-Fork' traceability system using blockchain technology to ensure transparency and compliance throughout the supply chain.
 - Establish a '**Quality Compliance Accelerator**' program to help Small and Medium Enterprises (SMEs) adopt international quality standards and best practices.
 - Partner with international regulatory bodies to develop harmonised standards and mutual recognition agreements for faster clearance of exports.
- **'Brand India' Global Marketing Campaign:** Launch a comprehensive 'Brand India' global marketing campaign to promote Indian products and services, highlighting their quality, craftsmanship, and unique value propositions.
 - Leverage **social media, influencer marketing, and targeted advertising campaigns** to reach new markets and change perceptions about Indian exports.
 - Collaborate with renowned international brands and celebrities to endorse and promote Indian products, enhancing their global appeal and recognition.
- **Focus on Regional Trade Agreements:** Pursue free trade agreements with new and emerging markets in **Asia, Africa, and Latin America**. This can help diversify export destinations and reduce reliance on traditional markets.

Drishti Mains Question:

Discuss the evolution of India's trade policy from protectionism to liberalization, highlighting key challenges, opportunities, and transformations in its trade dynamics.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q Convertibility of rupee implies (2015)

- (a) being able to convert rupee notes into gold
- (b) allowing the value of rupee to be fixed by market forces
- (c) freely permitting the conversion of rupee to other currencies and vice versa
- (d) developing an international market for currencies in India

Ans: (c)

Q. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if (2018)

- (a) Industrial output fails to keep pace with agricultural output.
- (b) Agricultural output fails to keep pace with industrial output.
- (c) Poverty and unemployment increase.

(d) Imports grow faster than exports.

Ans: (c)

Q. A “closed economy” is an economy in which (2011)

(a) the money supply is fully controlled

(b) deficit financing takes place

(c) only exports take place

(d) neither exports or imports take place

Ans: (d)

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