



## 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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