



# PERFORMANCE OF INDIA'S FOREIGN TRADE SINCE 2015

**Rahul Kumar**

Research Scholar

University Dept. Economics,  
Vinoba Bhave University, Hazaribag

**Umendra Singh**

Assistant Professor

University Dept. of Economics,  
Vinoba Bhave University, Hazaribag

**Abstract:** With the implementation of trade liberalisation policies in emerging countries worldwide, the issues of foreign trade and economic growth have significantly increased in prominence. This study attempts to analyse the performance of India's foreign trade since 2015 and the impact of foreign trade on economic growth. This study reveals that even after economic reforms and various trade policies, the openness of the Indian economy is just 46 percent, and the trade deficit of India rose to 2,64,898.87 million USD from 1,37,625.92 million USD from 2015–2023. This means India's foreign trade grew, but the growth of exports was lower than the growth of imports. It is also found that exports and the openness of the economy are positively related to the growth of economy, while imports are negatively related.

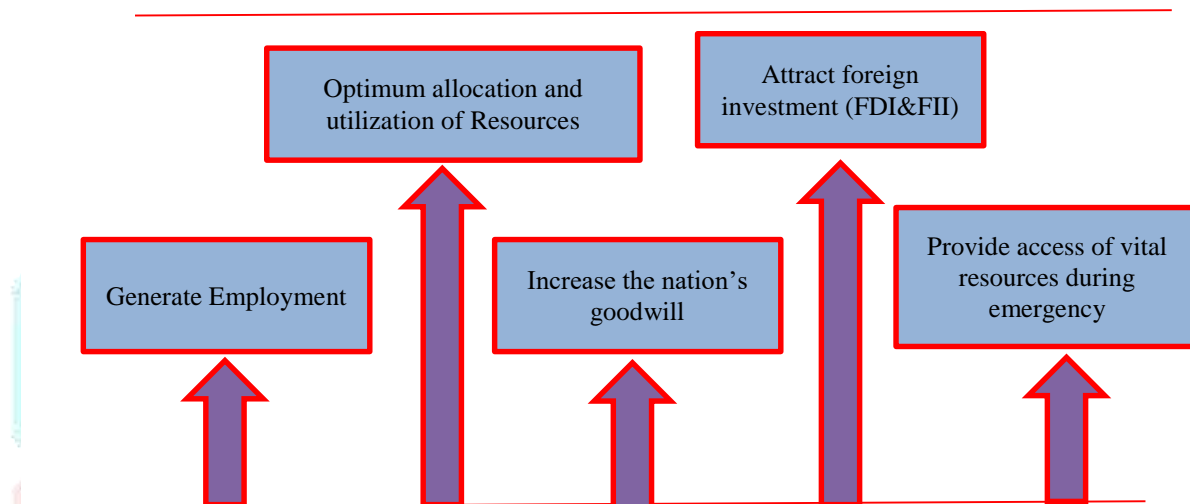
**Keywords:** FTP, Export, Import, BOP, Economic Growth, GDP, GVC, Openness of the Economy

## Introduction

Foreign trade is one of the crucial variables for economic growth, foreign trade consists of the exchange of goods and services across international borders (WTO 1996), no nation on the globe possesses adequate facilities and resources for the economical production of commodities for its consumers, this implies that no country is self-sufficient in the sense that no country can produce all the commodities, hence, the need for foreign trade with each other arises (Ricord 1817). India was a closed economy due to an average tariff exceeding 200% and extensive quantitative restrictions on imports prior to 1991, foreign investment was strictly restricted to allow India to own business areas. Many developing nations, like India, began reducing trade barriers with the goal of advancing their higher economic growth in the late 1980s as a result of prolonged economic underperformance under protectionist policies. India's foreign trade during its independence period was typical of an agrarian and colonial economy, with most trading links with Britain and other Commonwealth nations. India's foreign trade suffered from stringent discretionary and bureaucratic regulations between 1950 and 1990. Even though the Indian international liberalisation era began in the 1970s. In order to improve foreign trade primary export, balance of payment and economic growth, India began lowering its barriers to foreign trade and investment in the late 1980s due to the country's subpar economic performance under protectionist (restrictive) policies. India's foreign trade was typical throughout the period leading up to independence because of the colonial and agrarian economies, and trade relations were primarily limited to Britain and other commonwealth nations. Strict bureaucracy (Red Taped) and discretionary limitations hampered India's foreign trade from 1950 to 1990. As far as Indian international trade was

concerned, significant changes began to happen in the 1990s. A set of economic reforms known as the LPG reforms were implemented by the Indian government in 1991. India has started to become more globally oriented since the economic reforms. The Special Economic Zone Act of 2005 (SEZ), FTP-2015, and FTP-2023 and, various other policies and schemes were introduced periodically to altered India's foreign trade. In terms of Indian international trade, significant shifts began to emerge since 2015. In the post-liberalisation period, the Indian government made foreign trade policy so liberal and withdrawn the restrictions step by step, which improved the position of Indian foreign trade. Today, Indian exports reach approximately 8,500 commodities to about 192 countries. India exports US\$ 59.43 billion and imports US\$ 66.77 billion until July 2023.

*Figure: 1 Importance of foreign trade*



### Needs of The Study

In order to improve foreign trade primary export, balance of payment and economic growth, India began lowering its barriers to foreign trade and investment in the late 1980s due to the country's subpar economic performance under protectionist (restrictive) policies. India's foreign trade was typical throughout the period leading up to independence because of the colonial and agrarian economies, and trade relations were primarily limited to Britain and other commonwealth nations. Strict bureaucratic (Red Taped) and discretionary limitations hampered India's foreign trade from 1950 to 1990. As far as Indian international trade was concerned, significant changes began to happen in the 1990s. A set of economic reforms known as the LPG reforms were implemented by the Indian government in 1991. India has started to become more globally oriented since the economic reforms. The Special Economic Zone Act of 2005 (SEZ), FTP-2015, and FTP-2023 and, various other policies and schemes were introduced periodically to altered India's foreign trade. This study attempts to analysing the trajectory, direction, and performance of India's Foreign trade since 2015 also attempts to explore the significance of foreign trade in economic growth.

### OBJECTIVE

1. To analyse the trend and composition of India's foreign trade since 2015.
2. To analyse the role of foreign trade in economic growth of India.

## Literature Review

Improving export performance is one of the primary goals of developing countries through liberalisation changes, according to Ramesh C. Paudel's (2014) analysis. Michele Ruta (2012) observed that the many elements that contribute to the growth of trade like industrialization, taxes, cost of production, selling, and distribution costs have an impact on it. The findings of Anjani Kumar (2010) demonstrated the importance of legislative changes and economic liberalisation in ensuring equal access to the market. Purva Yadav (2012) proposed that recent political and economic developments have had a moderately positive impact on the world market. Rajesh K. Pillanina (2008) observed that over the previous ten years, India's overseas trade has significantly improved. According to Michael F. Martin et al. (2014), there have been improvements in Indian business conditions during the previous few decades.

According to Nielsens Utoft Andersen et al. (2017), the shifting global climate will open up new demand and opportunity channels for India. Recently, national and international organisations, federal and state governments, and export promotion organisations should concentrate on national priorities for export sectors, which are the most significant and call for increased participation in the structure and administration of export policy (Prasad H.A.C. 2012).

## Methodology of the Study

The study is based on secondary data collected from the annual report of **Ministry of Commerce and Industry**, RBI's annual report, economic surveys and budget of India.

To analyse the performance of India's foreign trade i.e., Growth rate of export

$$Gr_t = \frac{y_t - y_{t-1}}{y_{t-1}} \times 100$$

Where  $Gr_t$  is the growth rate of variable Y and Y is export.

To examine the role of foreign trade in economic development in India, Linear regression model has been used where GDP at constant price is taken as the measure of economic growth; and volume of export, import and openness in the economy are taken as the measure of foreign trade.

## Result and Analysis

### Trends and Composition of India's Foreign Trade since 2015

India has experienced extraordinary progress, particularly since the turn of the new century (21 century). The Indian economy has grown significantly since it underwent economic liberalisation and is currently one of the fastest growing economy in the world. With the Goods and Services Tax (GST) and the demonetization of higher denomination currency notes, there have been significant changes in economic policy and trading during the past year.

**Table: 1 Export-Import and Balance of Trade Seniorio of India**

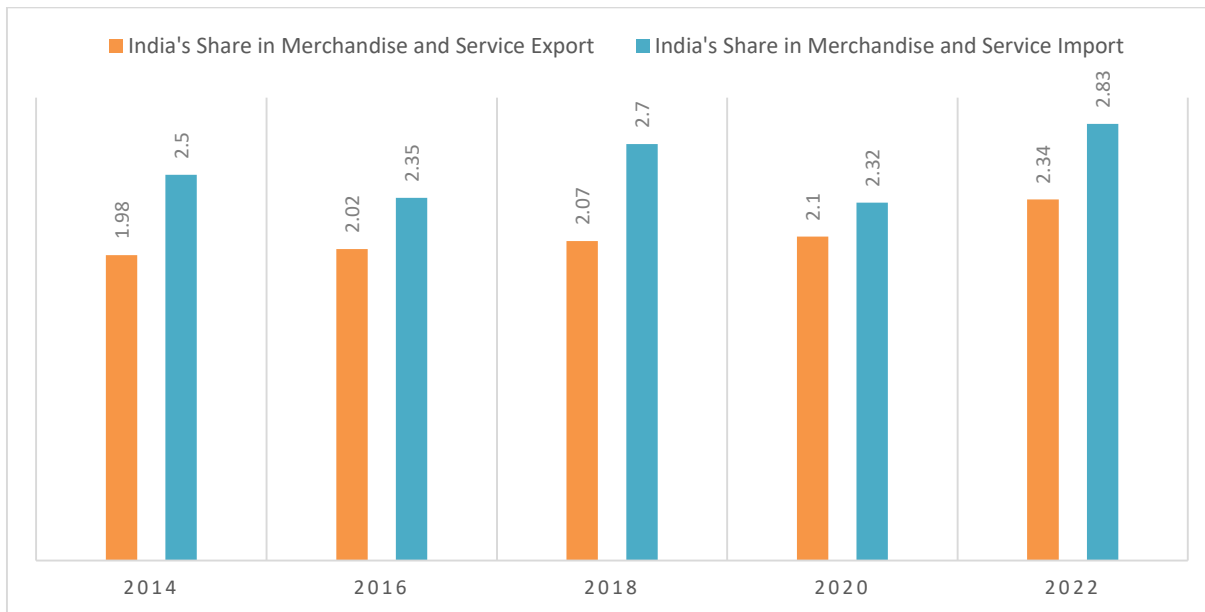
Values in US\$ million

Year	Export	Import	Trade Balance
2014-15	310338.48	448033.41	-137694.93
2015-16	262291.09	381007.76	-118716.67
2016-17	275852.43	384357.03	-108504.06
2017-18	303526.16	465580.99	-162054.83
2018-19	330078.09	514078.42	-184000.33
2019-20	313361.04	474409.28	-161048.24
2020-21	391808.48	394435.88	-2627.74
2021-22	422004.40	613052.05	-191048.01
2022-23	450954.43	714042.51	-263088.07
2023-24*	138508.09	213193.41	-74685.32

Sources: Export Import Data Bank Department of Commerce Govt. of India.

As a result of various reforms, there have been substantial structural changes in India's foreign trade, both in terms of the product basket and the geographic distribution. In the previous two decades, continuous GDP growth has been facilitated by the opening up of the Indian economy, which resulted in a huge increase in foreign commerce. Indian exports have grown 17 times in the past 25 years, while imports have grown 19 times. In the same way that India's part of global merchandise exports increased from 0.6 percent in the early 1990s to 1.7 percent in 2016, so did its share of imports, which increased from 0.6 percent to 2.4 percent over the same time period. India's trade to GDP ratio, a measure of an economy's openness and integration into the global economy, has witnessed a phenomenal increase over the last few decades. Foreign trade which constituted around 13-15 percent of India's GDP in the early nineties, peaked at 55 percent in 2012-13 and today accounts around 40 percent in 2016-17, and today accounts for about 46 percent in 2023-23. India also, ranked as the 20<sup>th</sup> largest exporter and 14<sup>th</sup> largest importer in the world in 2016, and now India is world 18<sup>th</sup> largest merchandise export and 9<sup>th</sup> largest in merchandise import and 7<sup>th</sup> largest service exporting country and 8<sup>th</sup> in terms of service import. Concomitantly, India's engagement with Global Value Chains (GVCs), which have become dominant feature of world trade, has increased significantly since 1990s. In manufacturing sector, especially for electrical and optical equipment, India is more integrated with the south east Asian region, while for services the integration in GVCs is with western countries like the US and UK. According to an OECD estimate, developing economies with fastest growing GVC participation have experienced a GDP per capita growth rate percent above average. India has set an ambitious target of achieving exports worth US \$ 900 billion by 2020, while accounting for a share of 3.5 percent of global exports. In the current global macroeconomic scenario, while it seems like a challenging task, concerted efforts would need to be made for India to be able to achieve its trade target and realign its foreign trade policy with the new global trading system.

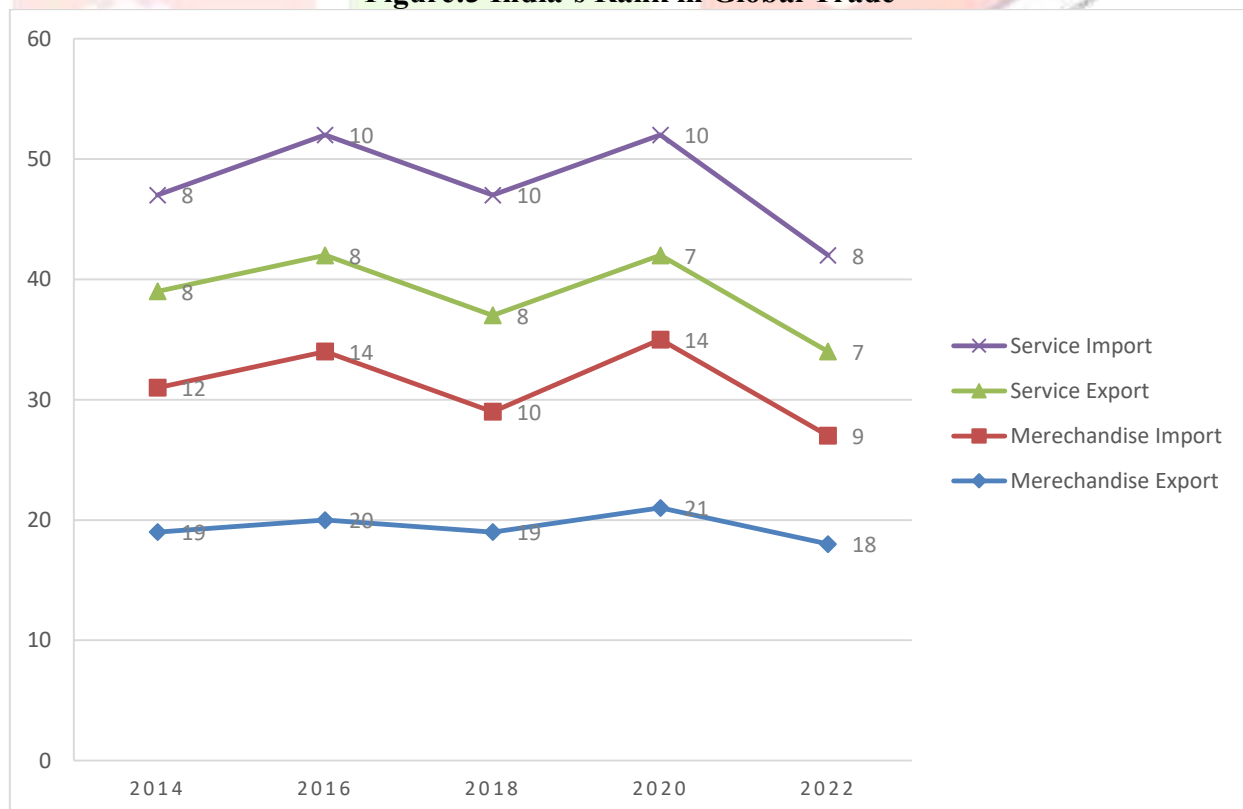
**Figure: 2 India's Performance in Global Trade**



Source: WTO Bulletin on Foreign Trade Statistics- 2023

India's foreign trade has not increased in a satisfactory manner after nearly 33 years of economic reforms. The trade openness (openness of the economy) of India is just 46%. The Indian government has periodically unveiled a number of trade policies, programmes and, schemes since 2015. Even after that, India's share in international trade is just 2.82% in imports and only 2.34% in exports in 2022 compared to 1.98 % in export and 2.50% in import in 2014.

**Figure:3 India's Rank in Global Trade**



Source: WTO Bulletin on Foreign Trade Statistics- 2023

In order to boost foreign trade and improve the balance of payments, the Indian government has consistently improved its policies and introduced new ones from time to time. Examples include the Special Economic Zone in 2005, the Make in India Mission in 2015, the Foreign Trade Policy in 2015, the Production Link Incentive, the self-reliant India campaign, PM Gati Shakti, etc. Despite all these reforms, there has been almost no progress in India's foreign trade position shown in table.

**Table: 2: Top Five Trading Partner Countries with India during 2015-16**

Rank	Country	Export	Import	Total Trade	Trade Balance
1	China	11,934.25	60,413.17	72,347.42	-48,478.91
2	USA	42,448.66	21,814.60	64,263.26	20,634.05
3	UAE	33,028.08	26,139.91	59,167.99	6,888.17
4	Saudi Arab	11,161.43	28,107.56	39,268.98	-16,946.13
5	Switzerland	1,068.58	22,133.16	23,201.74	-21,064.58
	<b>Total of Top 5 countries</b>	<b>99,641.00</b>	<b>1,58,608.40</b>	<b>2,58,249.40</b>	<b>-58,967.40</b>
	<b>India's Total</b>	<b>3,10,338.47</b>	<b>4,47,964.38</b>	<b>7,58,301.08</b>	<b>-1,37,625.92</b>
	<b>% Share of Top 5 countries</b>	32.11	35.41	34.06	

Values in US\$ million

Source: Export Import Data Bank Ministry of Trade and Commerce Govt. of India.

**Table: 3 India's Top Five Trading Countries with India during 2022-23**

Values in US\$ Million

Rank	Country	Export	Import	Total Trade	Trade Balance
1	USA	78,542.60	50,863.87	1,29,406.47	27,678.73
2	China	15,306.10	98,505.77	1,13,811.87	-83,199.66
3	UAE	31,608.79	53,231.55	84,840.34	-21,622.76
4	Saudi Arab	10,727.65	42,035.27	52,762.92	-31,307.62
5	Russia	3,146.95	46,212.71	49,359.67	-43,065.76
	<b>Total of Top 5 countries</b>	<b>1,39,332.10</b>	<b>2,90,849.17</b>	<b>4,30,181.27</b>	<b>-1,51,517.07</b>
	<b>India's Total</b>	<b>4,51,069.98</b>	<b>7,15,968.86</b>	<b>11,67,031.18</b>	<b>-2,64,898.87</b>
	<b>% Share of Top 5 countries</b>	30.89	40.62	36.86	

Source: Export Import Data Bank Ministry of Trade and Commerce Govt. of India.

Table 2 and 3 shows India's top 5 trading partners, exports, imports, and trade balances (in million USD) from 2015 to 2022. India's total trade has grown by 64.97%. and India's total trade deficit has grown by 90%. Trade deficits in the top 5 trading countries have grown by 256%, while exports have grown by 71.513%. The share of the top 5 countries in India's total trade increased to 36.86% from 34.06%. Because of anti-China sentiment and the Russia-Ukraine conflict, the USA replaced China as India's largest trading partner, and Russia replaced Switzerland as India's 5<sup>th</sup> trading partner.

**Table: 4 Export and Import of Goods**

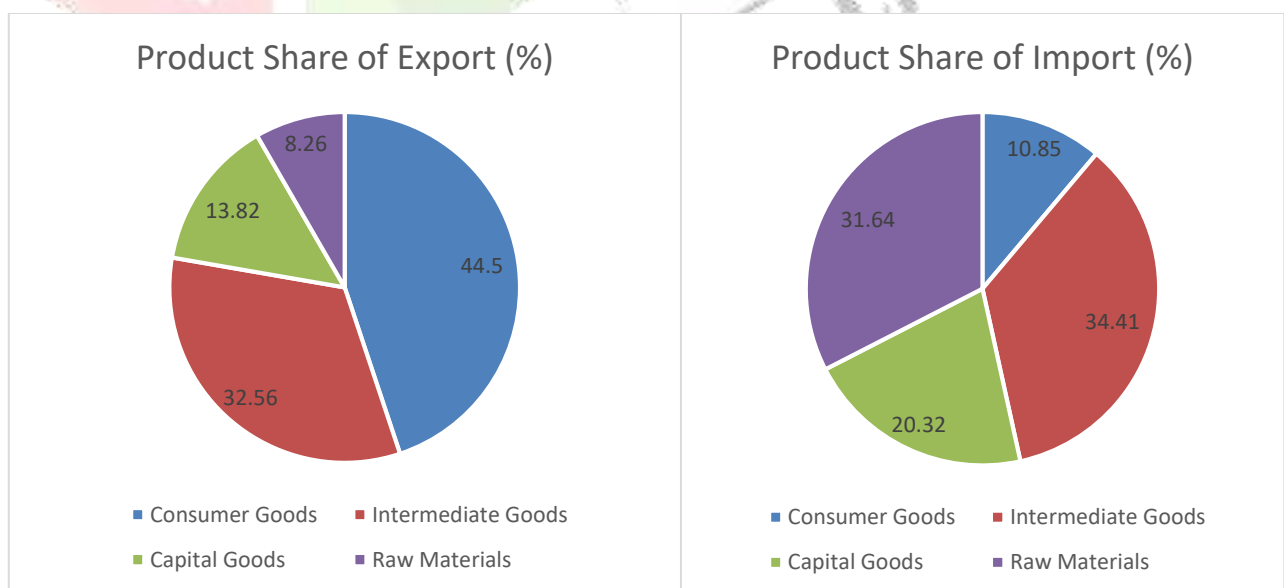
Values in US\$ Million

Group of Goods	2015-16		2021-22	
	Export	Import	Export	Import
Consumer Goods	117643	42405	167315	67344
Intermediate Goods	86076	134469	135786	202111
Capital Goods	36526	79385	61565	121214
Raw Materials	21825	123634	29981	178131

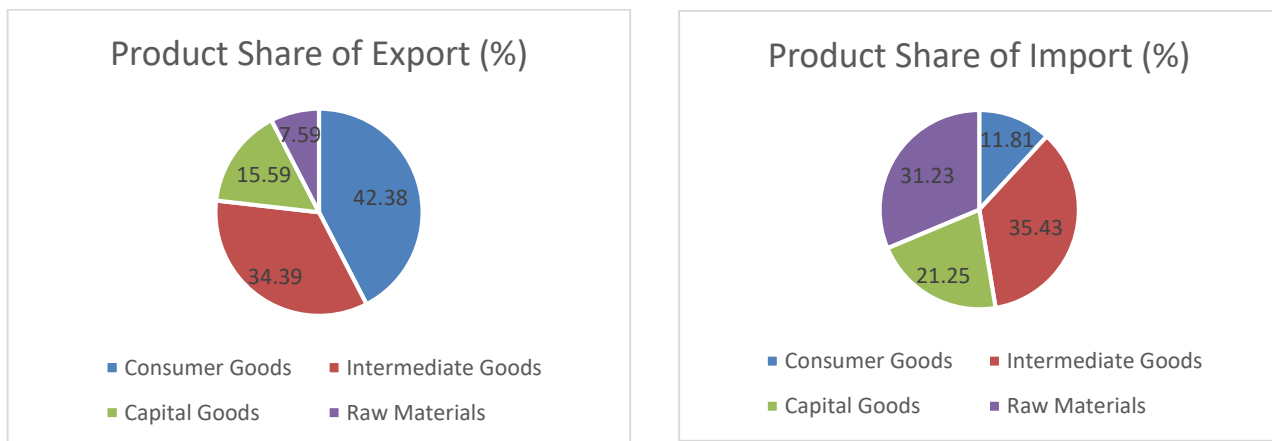
Source: Ministry of Commerce and Trade Govt. of India.

The above table shows the structural changes in the composition of goods in India's export and Import, after Foreign Trade Policy 2015. With 167315 million USD consumers goods is at the top exporting commodities from India, and with 135786 million USD intermediate goods are top imported commodities to India in 2021-22. Top four exporting group of goods are consumer goods, Intermediate goods, capital goods and, raw materials.

**Figure: 4 Product Share of total Export and Import-2015-16**



Source: Ministry of Commerce and Trade Govt. of India.

**Figure: 5 Product Share of total Export and Import-2021-22**

Source: Ministry of Commerce and Trade Govt. of India.

The above figure shows the change in product share of total exports and imports from 2015–16 to 2021–22. The share of consumer goods in total exports is decreasing to 42.38% from 44.5% in 2021–22, but it still has the largest share of total exports. While the share of capital goods is also decreasing to 7.59% from 8.26%, raw materials are the most imported commodities between 2015-16 and 2021-22. Raw material contributes 31.23% of total imports, which is the highest, while the import of consumer goods contributes only 11.81% of total imports in 2021–22.

### Role of Foreign Trade on Economic Growth

Non-stationary variables in the model might lead to non-significant regression model which shows misleading statistical evidence of a linear relationship (Gujarati, 2015). Hence, our first step is to find out whether the variables have unit roots or not. In order to identify the stationarity of the variables Augmented Dickey-Fuller (ADF) test is applied.

**Table: 6: Augmented Dickey-Fuller (ADF) Analysis**

Variables of the Study	ADF Test Statistics	Critical Values		Order of Integration [I(d)]
		1 %	5 %	
GDP	3.839	-2.530	-2.000	I (0)
Export	4.231	-2.530	-2.000	I (0)
Import	5.004	-2.530	-2.000	I (0)
Openness of the Economy	2.777	-2.530	-2.000	I (0)

Source: Calculated on the basis of Data of Economic Surveys and Ministry of Commerce and trade (2021-22)

Given table shows the result of the regression analysis depicting the role of foreign trade on economic growth. The  $R^2$  statistic in the model is 0.931 which shows that 93 per cent of the variation in the response variable is explained by the predictor variables. The 7 per cent variation in the response variable remains unexplained by predictor variables of the study.



**Table: 7 Regression Analysis**

Variables	Co-efficient	t-values	P-value	ANOVA
Intercept	6404.05	5.2194		R <sup>2</sup> = 0.931 Adj. R <sup>2</sup> = 0.953 F Stat.= 318.215
Export	4.396539	1.9854	0.00751	
Import	-3.45091	-3.419	0.000348	
Openness of the Economy	96288.33	6.8102		

Source: Calculated on the basis of Data of Economic Surveys and Ministry of Commerce and trade (2021-22)

The adjusted R<sup>2</sup> statistic shows that asymptotically the response variable predictor variables can explain approximately 95 per cent of total variation. The implication is that the model has goodness of best fit. The value for the F-statistic is 318.215 and is significant. The above analysis shows economic growth of India is highly dependent on the export and openness of the economy. And above analysis also confirm that import is negatively related to economic growth.

### Conclusion

This study has observed that the volume of India's foreign trade has increased since Foreign Trade Policy 2015'. The trade deficits of India have grown by 256% and reached 2,64,898.87 million USD in 2022-23, but the overall balance of payments is unbounded. In spite of fluctuations in the growth rate, the volume of trade is increasing day by day. The composition of India's exports has grown significantly. The export of consumer goods has shown a considerable and increasing trend. A major portion of Indian exports are manufactured goods. The composition of India's imports has also grown significantly. It has also shown a positive and increasing trend from 2015 to 2023. This study also indicates that post-FTP-2015 has certainly helped India achieve high economic growth, as there has been a rapid growth in imports of capital goods, raw materials, and intermediate goods to meet the requirements of industrialization. It is also found that imports have a negative impact on economic growth; the volume of trade reflected by economic openness has a positive impact on the economic growth of India; and its magnitude is increasing continuously.

### References

- Agarwal, A.N. (1975). Indian economy: Problems of development and planning. New Delhi: Vikas Publishing House Pvt. Ltd.
- Azevedo, R. (2018). World Trade Statistical Review 2018, ISBN 978-92-870-4623-9, Published by the World Trade Organization, 1-209.
- Bhanumurthy, K. V. and Sinha, Manoj Kumar (2014). Dominance and Competition of Global Outward Foreign Direct Investment, MAIMS Journal of Management, 8(2): 89-102.
- Bhat, T.P (2011). Structural Changes in India's Foreign Trade. Working Paper, Institute for Studies in Industrial Development, New Delhi.
- Chen, P. P. and Gupta, R., An Investigation of Openness and Economic Growth Using Panel Estimation, Working Paper, (2006).

- Chanda, R. (2005a), "Trade in Financial Services: India's Opportunities and Constraints", Working Paper No. 152, ICRIER, New Delhi.
- Desai, Padma, (1969), "Alternative Measures of Import Substitution", Oxford Economic Papers, November.
- Desai, Ashok, (2001), "A Decade of Reforms", Economic and Political Weekly, Vol. 36, No.50 December.
- GOI (2016), Union Budget and Economic Survey 2015- 2023, The Ministry of Finance, GoI
- Gujarati D. N., Basic Econometrics, New York, Mc Graw Hill Book Co., (2015)
- Krueger, A. O., (1997). Trade Policy and Economic Development: How We Learn, American Economic Review,87(1), pp.1 – 21
- Kumar A. (2010), Exports of Livestock Products from India: Performance, Competitiveness and Determinants, Agricultural Economics Research Review Vol. 23 January-June 2010 pp 57-67.
- Michele Ruta (2012), International Trade in Natural Resources: practice and policy, Staff Working Paper ERSD-2012-07, World Trade Organization, Economic Research and Statistics Division,1-33
- Paudel R. C. (2016), Liberalisation reform and export performance of India Journal of Economics and Economic Education Research.
- Pillania K. R.( 2008), "An Exploratory Study Of Indian Foreign Trade," Journal of Applied Economic Sciences, Spiru Haret University, Faculty of Financial Management and Accounting Craiova, vol. 3(3(5)\_Fall), pages 281-292.
- Prasad H.A.C (2012), Emerging Global Economic Situation: Its Impact on India's Trade and Some Policy Issues, Department of Economic Affairs Ministry of Finance Government of India.
- Ricardo D. (1817) Principles of Political Economy and Taxation.
- Ruta M. (2012), International Trade in Natural Resources: Practice and Policy, Annual Review of Resource Economics, Vol. 4, Issue 1, pp. 331-352, 2012
- WTO, (1996), Annual Report of The World Trade Organization.
- YADAV P. (2012), INDIA'S CHANGING TRADE PATTERN IN THE PROCESS OF GLOBALIZATION, SOCIAL AND BEHAVIOURAL SCIENCES 37, 157 – 166.