IJMRT: Volume (5), Issue 6, 2023
International Journal of Multidisciplinary Research Transactions
(*A Peer Reviewed Journal*)
www.ijmrt.in

ISSN (Print):2663-2381
ISSN(Online):2663-4007

Study on Global Recession of Import and Export in India

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DoI: https://doi.org/10.5281/zenodo.7883343

Abstract

The research paper concentrates on the India's export and its recovering stage after math of global meltdown. Global economic meltdown has affected all over the world in the mid of 2008-09. The effect was across all the countries. India has been influential in recovering the ill effects of recession. The main reason being Indian companies have major outsourcing deals with the US firms and large volume of exports to the US as well as to other countries. From the meltdown effect India faced the challenges like rising inflation, increasing costs, drying cash flow, exchange rate, falling sales, unemployment etc. In the recent period, most of the export industries have recovered as well as exporting successfully in the foreign market .Further outlook is warranted for Indian policy makers, especially in foreign trade, to diversify beyond traditional export and export destinations. Suitable continuous amendments should be given to the foreign trade policy, so that Indian exporters continue to engage in their business actively.

Keywords: Stress, IT Employees, Working Hours, Resources, Data Point, Foot Prints, Machine Learning.

1. Introduction

In economics, the term 'recession' means "the reduction of a country's Gross Domestic Product(GDP) for at least two quarters; or in normal terms, it is a period of reduced economic activity", The International Monetary Fund regard global recession as the period when grow this less than 3%. On October 8, 2008, the international monetary fund (IMF) released its World Economic Outlook, according to which the world economy was predicted to experience an all-time low growth.(Tanveer Ahmad & Sheraz Tariq(2009) Foreign trade often plays a vital role in the economic development of a country. Foreign trade is the money house of static and dynamic gains. It provides resources to world market, and it is the major source of foreign exchange to many countries as well as it provides access to scarce 4 resources needed to promote economic growth viz., raw material, machinery, capital goods and intermediaries' product that are indispensable for economic growth. It is supposed to be an indirect transmitter of capital often through MNCs. Further, it improves the efficiency of nations through international specialization in the production of Goods and Services. It provides and promotes an atmosphere of healthy competition among trading nations in addition to being a perennial source of technical know-how, managerial talents and entrepreneurial capabilities. Foreign trade widens the horizons of consumption possibility frontiers of countries far more than domestic production constraints. The choice of the consumers increases as different varieties of the same good (differentiated products) are available in an open economy. Foreign trade is supposed to bring growth oriented structural changes in the economy by changing the composition of GNP, employment and consumption. Finally, foreign trade is considered as a better alternative to foreign aid, foreign direct investments and portfolio investments, as the rest of them are politically vulnerable. Apart from the above benefits accruing to individual countries, the world also benefits from international trade. (Venkata SubaReddy (2004).

2. Statement of the Problem

The effect of the US economic crisis is seen all over the world. Indian Economy Will Not Bean exception This. Falling Sales, rising inflation, increasing costs and drying cash flow are some of the effects that India has faced from US economic crisis. In addition, this meltdown has affected foreign trade also, because the Indian companies have major outsourcing deals with the US. India is exporting a large number of goods and services to US and other countries. Hence there is a need to verify whether there is significant effect of the global slowdown on India's foreign trade in India' sexport.The problem of the study is to know how the Indian export firms have managed to do aftermath of meltdown.

3. Objectives of the Study

1. To examine the impact of global meltdown on India's Foreign Trade
2. To examine the trend and pattern of major commodities of Indian export

4. Methodology

The methodology of the study is to evaluate India's Foreign Trade Performance and Impact of Global meltdown on India's Export Industries. The secondary data relating to the macro-economic variables like,

- Whether foreign trade is affected are not?
- Any effect on major commodity groups
- Impact of product-wise export of manufactured goods
- India's total region-wise export, top 10 export commodities and first 10 Country-wise exports,
- Increase in the rate of growth in the GDP.

5. Sources of Data

The study draws heavily from the two secondary sources of data viz., Reserve Bank of India and Government of India. Most of the data for the study was collected from the "Handbook of Statistics on Indian Economy" for the year 2009-2010 and various issues of "EconomicSurvey," Ministry of Finance, and Government of India. Besides information collected out from RBI Bulletins,Year Books of International Financial Statistics, published by International Monetary Fund, World Developments Reports published by World Bank, apart from these major sources, information and related data were also collected from articles published in Economic and Political Weekly and NewsPapers etc.

6. Tools of Analysis

The data collected from various secondary sources are subjected to statistical analysisconsistent with the objectives of the study. Compound Growth Rates, Simple Growth Rate,Simple Percentages, Averages are used. The study is purely based on only secondary datacollectedfrom variousofficial directories.

7. Period of the Study

The present study covers the period of ten years from 1st April 2001 to 31st March 2010 to evaluate India's Foreign Trade performance.

8. Limitations of the study

The paper discusses the key issues of the Indian economy that cropped up as the globaleconomy is swaying in its worst economic downturn and its revival in India's export. The majorfactors have been discussed, yet there exist more issues which have not been detailed due to timeconstraints as well as unavailability of data in the stipulated time. The accuracy and reliability ofthe secondary data collected across different sources may vary slightly. The measurability of thefactors relating to the crisis across a global scale may not be thorough considering all the factorswould not be a feasible option. Biased opinions may also exist. The study of the global meltdown recovery is in exhaustible.

9. Impact of Global Financial Crisis in India

- A slowdown in the US economy is bad news for India, because Indian companies have major outsourcing deals with the US.
- India's exports to the US have also grown over the years.
- Indian companies with immense ticket dealings in the US are showing, their profit margins shrinking. (Shradha Diwan (2009))
- Most of the shareholders had fears about the falling financial markets and sold their shares to avoid further losses in the markets.
- The generation of huge unemployment caused by the giants such as IT and Financial sector and manufacturing sector also perceived to down size, for the sake of cost reduction and to survive in competitive market. The unemployment rate in India was last reported at 9.4% in 2009/10 fiscal year. (Tradingeconomics.com) From 1983 until 2000, India's Unemployment Rate averaged 7.20 % reaching an historical high of 8.30 percent in December of 1983 and a record low of 5.99 % in December of 1994

Many companies have laid off their staff, the number of tourists inflow to India havecome down, companies have cut down compensations and perks etc., Government and Other private companies are unwilling to start new ventures and New Projects etc.

10. Impact of Economic Meltdown on India's Exports

India's Exports have been badly hit by the crisis. India's foreign trade of merchand is and service comprises 40% of our GDP. Some of the areas is which India's foreign trade was hitisgivenbelow.

1. There has been a 50% drop in iron ore exports since August 2008 leading to a pile up of 4 million tons at the ports. Prices have crashed from $140 at on three months back to $ 85 per ton.
2. Major steel plant such as Tata Steel has been regularly closing its plant in Tata Nagar since the crisistime.
3. The drop in cement orders has led to ACC laying off 25% of its staff.
4. Small textile firms are collapsing, and several thousands of garment workers were thrown out in a few months due to cancellation of export orders. It has already suffered losses of Rs.400 crores since January 2008 due to a massive hike in prices of cottony arn and other inputs.
5. The Tirupur textile hub alone will lose 50,000 jobs in the first six months of the crisis, as 25% of its units will shutdown.
6. Ludhiana's hosiery manufacturers and exporters have already lost 30% of their business due to the meltdown seriously affecting the 35 lakh workers (15 lakh migrant) involved in the industry.
7. In Meerut over 20% of the 30,000 gold artisans have gone home.

In Surat 20% of the diamond units have closed and those that remain have less work. They have been affected by the drop in exports and rise in the costs of rough diamonds with the rupee falling against the dollar. In Mumbai's sprawling slum, Dharavi, exports of leather belts have dropped from 70,000 permonthto 3,000 per month.

8. The most badly hit sectors were the BPOs, IT enabled services and those dependent on foreignorders for their survival. Already many are facing closure and those that survive are cutting jobs,salaries and perks at a fast rate.

9. Indian airlines industry like Jet Airways first retrenched on a huge scale and later took back the staff with salaries cut to a fraction of what they earlier got.

10. ASSOCHAM, a top association of the business houses, has said in a report dated Oct.31,2008 "that Indian companies will slash 25% of its workforce "to sustain operations". It said that layoffs, to begin with, will be in the seven key industrial segments Steel, Cement, IT-enabled services/BPOs, Financial & brokerage services, Construction, Real estate and aviation.

This is just the beginning in the initial time but it's now recovering in all sectors. So farsavings have not been hit particularly except in Mutual Funds as nationalized banks have not had significant exposure abroad. But ICICI Bank has been badly hit and there is a strong possibility of bank and insurance failures, particularly in the private sector with those tied up with transnational corporations (TNCs).

11. India's Response to the Meltdown

As the contagion of the financial system collapse across the world spread towards India, and into it, the government and the Reserve Bank of India (RBI) responded to the challenge in close coordination and consultation. The main plank of the government 's response was fiscalstimuluswhiletheRBI'sactioncomprisedmonetaryaccommodationandcountercyclicalregulatoryforbearance.

The RBI 's policy response was to keep the domestic money and credit markets functioning normally and see that the liquidity stress did not trigger solvency cascades.

RBI 's targets can be classified into three prime directions:(DevoraSubbarao,Governor)

(i) To maintain a comfortable rupee liquidity position

(ii) To Augment Foreign Exchange Liquidity

(iii) To maintain a policy framework that would keep credit delivery on track to arrest the moderation in growth of the previous period has forced RBI to adopt tightened monetary policies in response to heightened inflationary pressures.

However, the RBI changed its approach to handle the current scenario and eased monetary constraints in response to easing inflationary pressures and moderation in growth in the current cycle.

The following were the conventional measures of the RBI:

(i) Reduced the policy interest rates aggressively and rapidly.

(ii) Reduced the quantum of bank reserves impounded by the central bank.

(iii) Expanded and liberalized there finance facilities for export credit.

To manage Foreign Exchange, the RBI Made an upward adjustment on interest rate ceiling on the foreign currency deposits by non-resident Indians substantially relaxed the External Commercial Borrowings (ECB) regime for corporate allowed access to foreign borrowing to non-banking financial companies and housing finance companies-Devora Subbarao, Governor RBI, Speech delivered at the Symposium on "The Global Economic Crisis and Challenges for the Asian Economy in a Changing World" in Tokyo

RBI also took unconventional measures as a response to the liquidity scenario:

(i) Indian banks were given the rupee-dollar swap facility to give them comfort in managing their short-term funding requirements.

(ii) An exclusive refinance window, as also a special purpose vehicle, was made available for supporting non-banking financial companies.

(ii) The lendable resources available to apex finance institutions for refinancing credit extendedtosmallindustries,housingandexports,wasexpandedTheCentralGovernment‘sFiscal Responsibility and Budget Management (FRBM) Act, enacted to bring in fiscal discipline byimposing limits on fiscal and revenue deficit, proved to be the road map to fiscal sustainability atthe time of the crisis. The emergency provisions of the FRBM Act were invoked by the centralgovernment to seek relaxation from the fiscal targets and two fiscal stimulus packages were launched in December 2008 and January 2009. These fiscal stimulus packages, together amounting to about 3% of GDP, included: Additional public spending, particularly capital expenditure; government guaranteed funds for infrastructure spending; Cuts in indirect taxes; Expanded guarantee cover for credit to micro and small enterprises; and Additional support to exporters. These stimulus packages came on top of an already announced expanded safety-net for rural poor, a farm loan waiver package and salary increases for government staff, all of which too should stimulate demand. The cumulative amount of primary liquidity potentially available to the financial system through these measures is over US$ 75 billion or 7% of GDP. Taking thesignal from the policy rate cut, many of the big banks have reduced their benchmark prime lending rates. Bank credit has expanded much faster than it did last year.

12. Outlook for the Indian Economy

India is witnessing a mixed result with respect of its growth prospects in the wake of the global economic downturn. Real GDP growth has moderated to 6.6% and is projected to grow at the rate of 9% in 2010-11. The Services sector too, which accounts for 57% of India ‘s GDP, and has been the country‘s prime growth engine for the last five years,is slowing, in construction, transport and communication, trade, hotels and restaurants sub-sectors. According to recent data, demand for bank credit has been slackening despite sufficient liquidity in the system. (Shradha Diwan (2009))

India ‘s exports, which account for 15% of the economy, grew 3.4% to $168.7 billion in the fiscal year ended March 31, 2009, missing a $200 billion target set by the government. Corporate margins have been dented due to higher input costs and dampened demand; business confidence has been affected by the uncertainty around the economic condition. The Index of Industrial production has been showing negative growth and the demand for investment is decelerating.

India, though, certainly has some advantages in addressing the fallout of the crisis:

(i) Headline inflation, as measured by the wholesale price index, has fallen sharply; inflation has declined faster than expected. Key factors behind the disinflation have been commodity prices and a part of it is contributed by slowing domestic demand.

(ii) A decline in inflation should prove to be positive for reviving consumer demand and reducing input costs for corporations. Fiscal space will open for infrastructure spending as the decline in global crude prices and naphtha prices will reduce the amount of subsidy given to the oil and fertilizer companies.

(iii) Imports are expected to shrink more than exports; this will keep the current account deficit at modest levels.

(iv) India ‘s sound banking system has helped to sustain the financial market stability to a large extent-well capitalized and prudently regulated.

(v) Overseas investors are confident about the Indian economy due to comfortable levels of foreign reserves.

(vi) The negative impact of the wealth loss effect in the capital markets that have plagued the advanced countries will not affect India because majority of Indians stay away from asset and equity markets.

(vii) Institutional credit for agriculture will also remain unaffected because of India ‘s mandated priority sector lending.

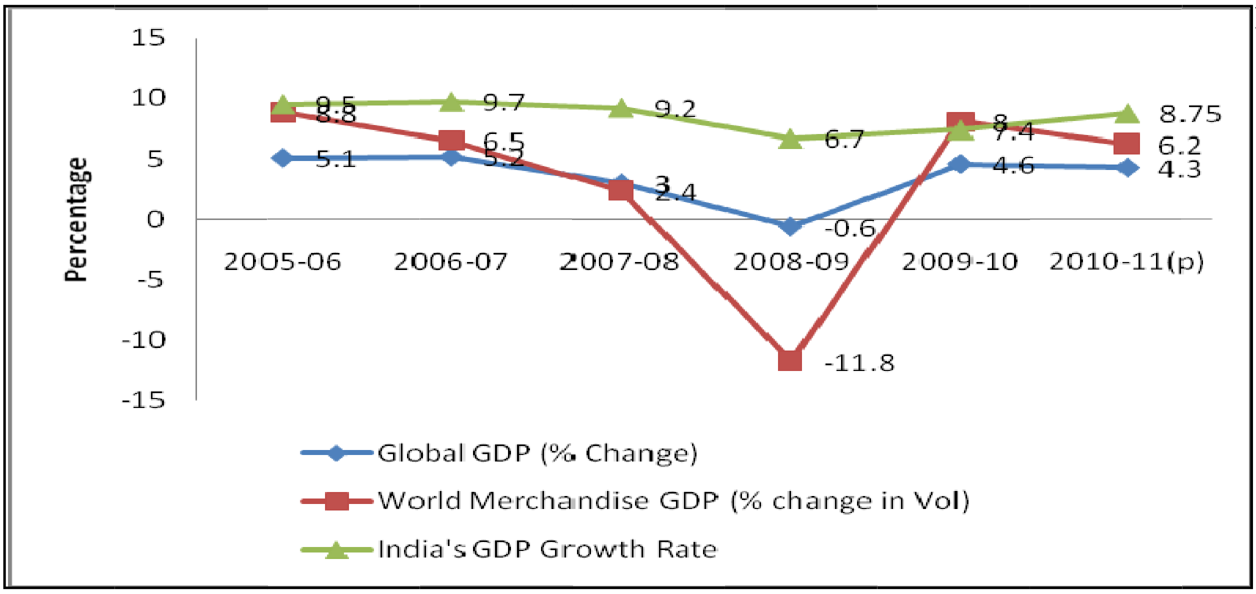
(viii) Agriculture sector of India will be further insulated from the crisis due to the government’s farm waiver package.

India’s development of social safety programs over the years (e.g., the rural employmentguarantee program), will protect the poor and migrant classes from the ill effects of the global crisis Therefore, once the global economy begins to recover, India ‘s turn around will be sharper and swifter, backed by its strong financial system and regulatory norms.

13. Recovering Stage of Indian Economy

The charts and tables clearly explain about Indian economy recovered from the impact ofmeltdown on India’s exports. The below observation chart-1 clearly displays world GDP and itsrecoveringpositionfrom the globalmeltdown.

Chart-1 India's GDP Compare With World & Merchandise Trade GDP



Source: Economic Survey, EXIM Bank of India, WEO, IMF

The world Merchandise GDP has been falling gradually from 2005-06 to 2008-09 with growth rate of 8.5 to-11.8 respectively, whereas India's GDP growth rate was moreover. consistent, but there was a fall in growth rate in the year 2008-09. The decrease in growth rate was due to the global meltdown which was aroused due to the collapse of the US financial market.

The observation of the table shows that the exports are consistently increasing throughout the study i.e., Rs.203571 Crores (2.68) in 2000-01 to Rs.655863.5 Crores (14.71) in 2007-08further it's going up to Rs.845125.2 crores (28.19) in 2009-10. However, when the growth rate is analyzed, taking from the percentage changes in the exports from the previous year, it is observed that export growth change in percentage declined during the meltdown period and recovering in the recent year. The main reason is due to decline in oil imports, the fall in the value of dollar, higher international crude oil prices that prevailed during May-August 2008 therefore slowing down the industrial growth.

14. India's Export of Top 10 Commodity Groups

The observation of the Table-2 shows India's top 10 commodity group and first 10 countries in the global recovering times of 2009-10. UAE is the highest export commodity of gems & jewelers with an export record of Rs. 58,683.23 crores and a share of 42.66 percentages of the top ten commodity and country wise export. Further UAE exporting second top most leading export product of petroleum products is Rs.19,931.44 crores and the share of 15 percentages, and followed by transport, machinery, drug and other commodities etc. The topmost and highest share of total export country is UAE Rs. 93,397.82 crores (82.40%) out of total export of Rs. 340,192.24 crores.

15. India's Total Regional-Wise Export

India has trade relations with many countries of the world. Nevertheless a few countryg roups accounted for a major proportion of the India's total trade. Table-3 provides data on destination of India's exports by major country groups in terms of rupees during recovering period of meltdown. Annual growth share highly declined countries like West Europe, south, west and east Africa, North America, Asian countries and CIS countries etc. In recent times most of the countries are recovered from the crisis because of their strong economic background and their correct decision making on their policies.

16. Summary and Conclusions

Indian economy is moving gradually and steadily increasing the growth during the meltdown and it has less impact, though it has started recovering now. India having the opportunities and strength to escape from the global meltdown seeing that strong economy,interest rate, right decisions at right time for implementing the policy of physical and monitory as well as emerging environment, and the strategic solution overcome the export sector concerns. Though the impact of global meltdown on India is less, it will recover by the Government takes correct decisions and changes the established fiscal and monetary policies. It’s controlling andmonitoring the wholesale price index and the consumer price index; ensure continuous creditflows at a low rate of interest are some of the ways of boosting the Indian economic growth. Increase in government expenditure will stimulate the demand, so that industry will produce more, and high exports will lead to higher growth. Further suitable continues amendments shouldbe taken in foreign trade policy, so that India’s exporters continue to engage in their businessactively and a new outlook is warranted for Indian policy makers, especially in foreign trade, to diversify beyond traditional export and export destinations.

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