

## IMPACT OF GLOBAL RECESSION ON INDIA'S FOREIGN TRADE AND WORLD TRADE VOLUME

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*Trade of any country on international level has assumed a critical role in economic growth in era of liberalization, globalization and also mainly in period of global recession. The global economy is widely expected to experience a slowdown in 2008. Mainly due to slowdown in the advanced economies and to some extent in emerging market economies. Although emerging market economies have so far insulated from the global slowdown, their growth prospects would also be affected by external factors. Risk in risk aversion has already dampened private bond issuance in several emerging countries and their possibility of capital inflow drying up in the present scenario. In progressive economies the recent rise in headline inflation caused by higher energy and food prices are concerned. The impact of United State slowdown on the international trade also Indian trade could mainly through trade linkages and financial linkages. In this research paper discoses and analysis of direction of Indian trade and impact on Indian export/import in during the global recession with the help of various statistical tools like mean, tabulation, graphical, trend projection etc.*

**Key words:** *Global recession, Direction of trade, World trade volume*

### Introduction

Recession means, a significant changes or decline in economic activity. The recession in one country may be caused by or may itself cause, recession in another country with which in trades. The any country has the option of turning the crises in to an opportunity. The most binding constraints to growth and inclusion will need to be addressed—improving infrastructure, developing the small and medium enterprises sector, building skills and targeting social spending at the poor. Systemic improvement in the design and governance of pubic programs are crucial to get results from public spending improving the effectiveness of these programs that account for up to 8-10% of GDP will therefore be an important part of the challenges in recession environment.

In the old history, foreign trade is also called international trade. Trade among countries is normal and desirable. It exists for different reason. The fact remains the natural resources of the earth are not evenly distributed. One country possesses product one

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commodity in surplus and lacks in respect of other product. It is mutually advantageous for both the countries to exchange their surplus stocks. Then there is the advantage of comparative cost. In other words, trade is not an end of itself, but a means to economic growth and national development. The primary purpose is not just to earn foreign exchange but it provides the urge to develop the knowledge and experience that makes possible and also stimulation of greater economic activity. In time of recession above all activities slow but after this economic activity more and more opportunity or chance in increasing all activities.

### **Objective of the study**

The slowdown is likely to have a large and immediate impact on employment, poverty and trade. The main objective of the study is to know the impact of global recession on Indian trade and also the direction of Indian export and import and International trade.

### **Research Methodology**

This paper is mainly based on secondary data which is collected from annual report published by Reserve Bank of India, various economic survey, various magazines, journals and relevant internet sites and some relevant books. In this paper some statistical tools are used as tabulated form, mean, percentiles and graphical presentation etc.

### **Research findings**

#### **Global Recession and Indian Trade:**

India to become a main player in world trade, an all encompassing, and comprehensive view needs to be taken for the overall development of the country's foreign trade. While increase in exports is of vital importance, we have also to facilitate those imports which are required to stimulate our economy and consistency among trade and other economic policies to important for maximizing the contribution of such policies to development. Thus, while incorporating the existing practice of annual EXIM Policy, it is necessary to go much beyond and take an integrated approach to the development requirement of India's foreign trade.

International trade of any country like India has assumed a critical role in economic growth in an era of liberalization and rapid globalization. The trade literature two dimensions to export diversification, intensive composition of trade and extensive composition of trade. The intensive composition of trade refers to the growth of exports in goods that are already being exported, whereas the extensive composition is defined

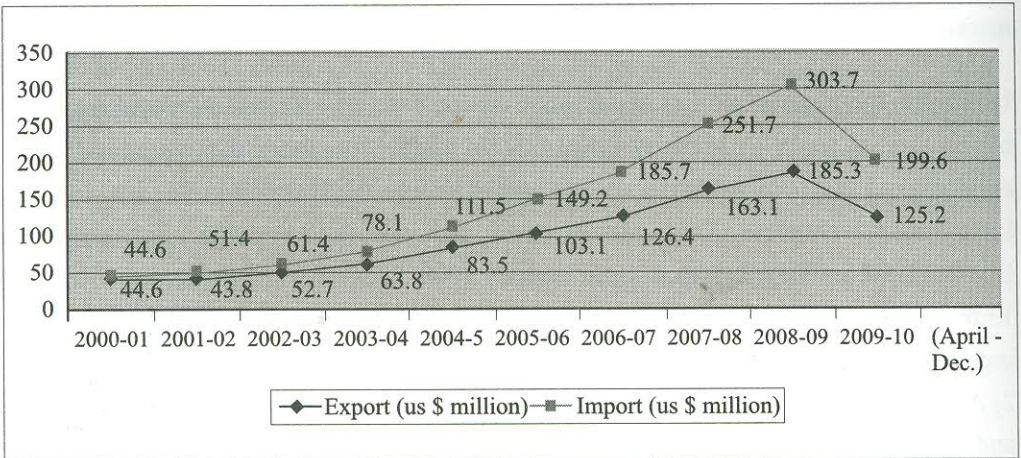
as the growth of export in new products. Studies reveal that export diversification is on the rise and more depending on the income level, size and proximity of the destination markets.

India's foreign trade as well as export and import, both are affected by recent recession because Indian trade is major role play in world trade. More than 8000 commodities are export from India to at least 190 countries and more than 6200 commodities are import in India from 140 countries. During the recession period in export start lack in export from October 2008 and lack in import from January 2009. In 2008-09 export increase by only 13.6% and while increases in import only 20.7%. Up to April-Dec. 2009-10 negative increment in both (export & import), 32.5% and 34.3% respectively. (Table-1 and figure-2) Average growth of India's export/import from 2000-2001 to 2008-2009 is 20.01 % and 23.02 respectively. But when including current data of 2009-10 (April-Dec.) then %growth of both is decline and 14.8 % and 17.3 % respectively in last ten years.

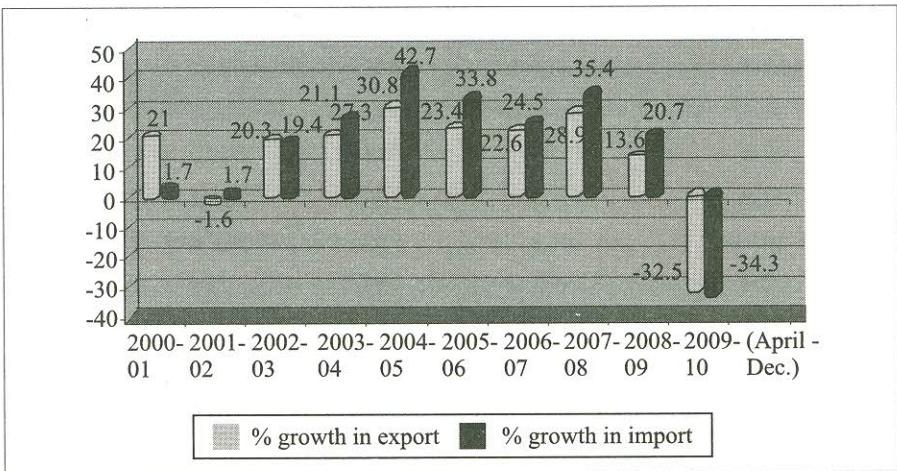
Year	Export ( us \$ million)	Import Table-1 (us \$ million)	Balanced Trade	% growth in export	% growth in import
2000-01	44.6	50.5	5.9	21.0	1.7
2001-02	43.8	51.4	7.6	(-) 1.6	1.7
2002-03	52.7	61.4	8.7	20.3	19.4
2003-04	63.8	78.1	14.3	21.1	27.3
2004-05	83.5	111.5	28.0	30.8	42.7
2005-06	103.1	149.2	46.1	23.4	33.8
2006-07	126.4	185.7	59.3	22.6	24.5
2007-08	163.1	251.7	88.6	28.9	35.4
2008-09	185.3	303.7	118.4	13.6	20.7
<b>Average</b>	<b>96.3</b>	<b>138.1</b>	<b>41.9</b>	<b>20.01</b>	<b>23.02</b>
2009-10 (April-Dec.)	125.2	199.6	74.5	(-) 32.5	(-) 34.3
<b>Average</b>	<b>99.15</b>	<b>144.3</b>	<b>45.1</b>	<b>14.8</b>	<b>17.3</b>

Source : Various issues of Annual Report of RBI & Economic survey of India, DGCI&S

**Figure: 1 Export and Import of India**



**Figure: 2 % Growth of Export and Import of India**



Over the year India's export have witnessed geographical diversification as well. The year 2000, India's major export markets were the developed regions such as the European Union and the U.S. however, by 2007-08, developing countries become the major markets with reports to Asia, OPEC and African countries picking up significantly. The shares of the EU and the US declined mainly due to the structural shift in commodities composition in India's exports to these areas and also affected by global recession. Direction of Indian export/import details are given in table-2 and table-3 respectively. In 2006-07, 2007-08 and 2008-09 highest export direction to Asia and

second highest export to Europe, But in recession time decrease in % growth rate of export direction to all countries/regions in 2008-09 comparison to 2007-08 and 2006-07 except the other unspecified countries/regions. In case of Africa, in 2008-09 export growth is negative that is -.9 %, comparison to 37.2 % in 2007-08. (Table-2 figure-3) In case of import direction of trade in 2007-08, highest 50.5 % growth with American countries/regions comparison to 2006-07. While only 4.7 % growth in import from American countries/regions in 2008-09 in comparison to 2007-08. (Table-3) Figure-4 are presented that the % growth of Direction of Export/Import in world countries/regions.

**Table-2 Direction of Export with Countries/Regions**

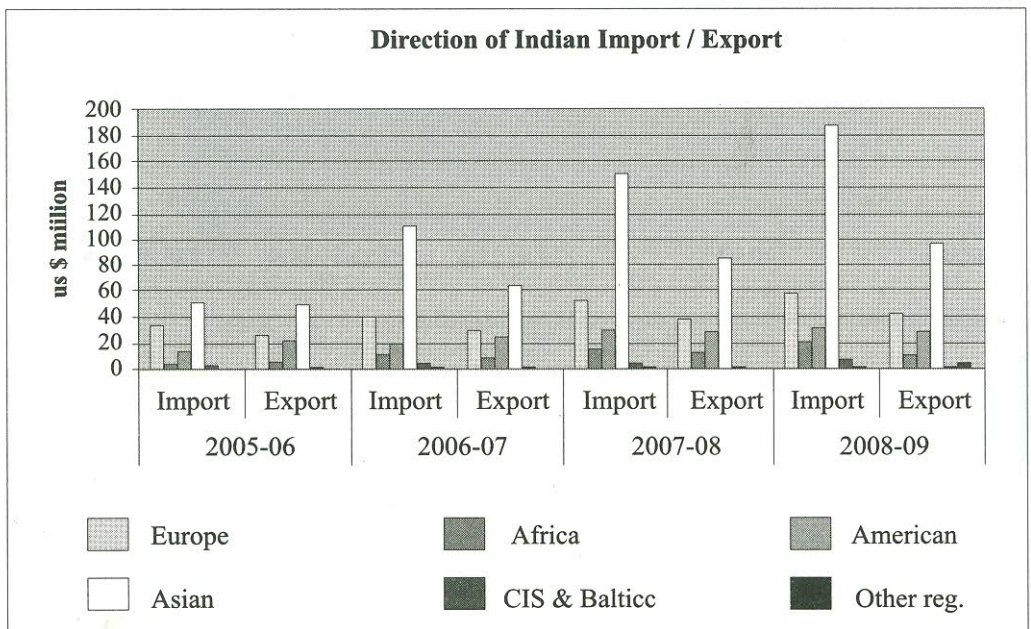
S.No.	Countries/ Regions	2005-06		2006-07		2007-08		2008-09	
		Export	% growth	Export	% growth	Export	% growth	Export	% growth
1	Europe	24.9	-	28.9	16.1	37.2	29.0	42.1	13.2
2	Africa	5.4	-	8.4	54.4	11.5	37.2	11.4	-0.9
3	American	21.4	-	24.3	13.7	27.7	14.0	28.7	3.6
4	Asian	49.9	-	63.0	26.1	84.2	33.6	96.6	14.7
5	CIS & Baltice	1.3	-	1.5	18.9	1.7	17.6	1.9	11.8
6.	Other reg.	-	-	.35	-	.56	57.8	4.6	721.4
<b>Total</b>		<b>103.1</b>	<b>-</b>	<b>126.4</b>	<b>22.6</b>	<b>162.9</b>	<b>28.9</b>	<b>185.3</b>	<b>13.8</b>

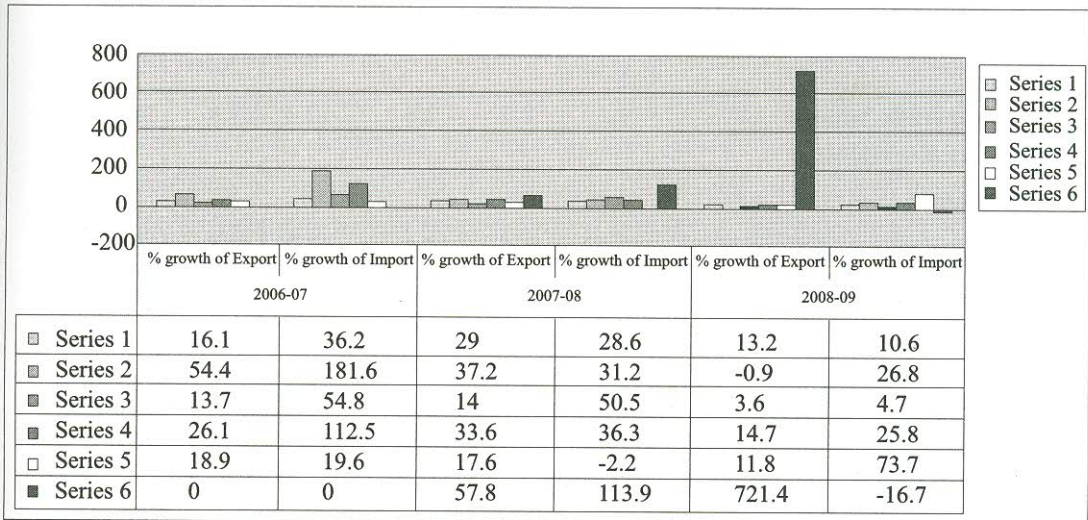
Source: Various issues of Economic survey of India, & DGCI&S

**Table-3 Direction of Import with Countries/Regions**

S.No.	Countries/ Regions	2005-06		2006-07		2007-08		2008-09	
		Import	% growth	Import	% growth	Import	% growth	Import	% growth
1	Europe	33.1	-	40.1	36.2	51.8	28.6	57.3	10.6
2	Africa	4.0	-	11.4	181.6	14.9	31.2	18.9	26.8
3	American	13.0	-	19.6	54.8	29.6	50.5	31.0	4.7
4	Asian	51.6	-	109.9	112.5	149.8	36.3	188.5	25.8
5	CIS & Baltice	3.0	-	3.9	19.6	3.8	-2.2	6.6	73.7
6.	Other reg.	-	-	.84	-	1.8	113.9	1.5	-16.7
<b>Total</b>		<b>149.2</b>	<b>-</b>	<b>185.7</b>	<b>33.8</b>	<b>251.7</b>	<b>24.5</b>	<b>303.7</b>	<b>20.7</b>

Source: Various issues of Economic survey of India, & DGCI&S

**Figure: 3 Direction of Export/Import in countries/regions**

**Figure: 4 % growth of Direction of Export/Import in countries/regions****Global Recession and international Trade:**

The simmering sub-prime crises in US in 2007 which triggered the global financial crises in September 2008. Global recession resulting in unprecedented fall in global trade, World trade volume (goods and services) increase only 2.8 % in 2008 compared to 7.2 % and 9.2 % in 2007 and 2006 respectively. While world trade volume of goods and services in 2009 is (-)12.3% according to the International Monetary Fund's , World Economic Outlook, January 2010.(Table-4) The World Trade Organization (WTO) in march 2009 is the forecast a 9 % decline in global trade in 2009. this is the highest in last 60 years. An other fact is that, the decline was more marked in the case of advanced economies. The crisis seems largely to have petered out in the second half of 2009 and beginning of 2010 with global trade recovering from the troughs and the appearance of green shoot and IMF even projecting a better- than-expected growth in world trade volume of 5.8 % and 6.3 % for the year 2010 and 2011 respectively, (Table-4) which is also a reflection of the higher-than-expected world output growth projections of 3.9 % and 4.3 % for the year 2010 and 2011 respectively. (Economic survey, 2009-10)

**Table- 4 Trends in growth in trade volume (in %)**

Item	2006	2007	2008	2009	Projection	
					2010	2011
<b>World trade Volume</b> (goods & services)	9.2	7.2	2.8	-12.3	5.8	6.3
<b>Import</b>						
Advance Economies	7.6	4.7	0.5	-12.2	5.5	5.5
Emerging and Developing Eco.	13.2	14.0	8.9	-13.5	6.5	7.7
<b>Exports</b>						
Advance Economies	8.5	6.1	1.8	-12.1	5.9	5.6
Emerging and Developing Eco.	10.5	9.5	4.4	-11.7	5.4	7.8

**Source:** IMF, WEO, January 2010, & Economic survey of India

The global economy increase by 5% in 2007, against 5.1% in 2006. After stronger than expected growth in third quarter of 2007, growth in most of the advanced economies decelerated shortly in the last quarter of 2007, mainly an account of in the international financial markets to triggered by the US sub-prime mortgage markets. In the US, real GDP growth decelerated sharply to 2.2% in 2007 from 2.9% in 2006. The U.K economy, however, posted a marginally higher growth of 3.1% in 2007 as compared with 2.9% in the previous year.(RBI,2007-08) In contrast emerging and developing economies continued to grow above the trend, despite some slackening of exports and industrial production towards the end of year. Growth in emerging Asia during 2007 was led by China and India. The robust growth of 11.9% in China during 2007 was driven by investment growth and net export, although export growth moderated some what towards the end of the year the growth of the Indian economy moderated during 2007-08. But hear plus point is that, According to World Trade Organization (WTO) data, India's share in international trade (both export & import) was increased from 1.2% to 1.3% in 2007. During 2007, India's exports were 1.0% and import 1.5% export & import respectively.

### Conclusion

A Globalization has brought in its wake a number of challenges also. All economies are now exposed to faster transmission of advance external shocks; sometimes even economies with strong fundamentals may be affected. For instance, the recent sub-prime



crises originated in the US, but it has affected many emerging economies, which are otherwise healthy. The impact of US slowdown on the emerging economies could be mainly through trade linkages and financial linkages. Trade spillovers from the slowdown in the advanced economies to emerging economies have been limited so far. However, such impact is more visible in economies that either trade heavily with the US or are more externally dependent for financing their growth. In this context, China and India would play an important role in sustaining the growth prospects in the region. In case China & India gets impact from the global slowdown, particularly in US, it could have spillover impact on other economies.

From the Indian perspective, its impact of US slowdown more time on Indian economy then its financial crises could have also extension on the Asian poor economies specially Srilanka, Bhutan, Nepal etc. emerging economies are increasingly trading among themselves which better for in period of global recession. So, while globalization & global recession has contributed to higher income and employment and access to better technology, management and market, it has also thrown many challenges in terms of the need to upgrade the poor physical and social infrastructure otherwise, it would be a challenge for India to reap the full benefit of its demographic dividend in the phase of rapidly changing global economic order.

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