



# Study of India's Foreign Trade and Balance of Payment

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## ABSTRACT

Balance of trade or BoT is a financial statement that captures the nation's import and export of commodities with the rest of the world. Balance of payment or BoP is a financial statement that keeps track of all the economic transactions by the nation with the rest of the world. The balance of trade is the difference between a country's exports and imports of goods and services, while the balance of payments is a record of all international economic transactions made by a country's residents, including trade as well as financial capital and financial transfers. India recorded a trade deficit of 23.50 USD Billion in July of 2024. Balance of Trade in India averaged -3.67 USD Billion from 1957 until 2024, reaching an all time high of 0.71 USD Billion in June of 2020 and a record low of -31.46 USD Billion in October of 2023.

**Keywords :** Introduction, BoT in India, Concept, Importance, Structure and Current Situation

## Introduction

The Business with foreign nations is not a new phenomenon in India. India is used to trade with foreign nations even in BC. Now, India exports around 7500 commodities to about 190 countries, and imports around 6000 commodities from 140 countries. Exports and Imports are not only restricted to commodities (merchandise). Service is also a major export/import item. The balance of trade is the distinction between the value of a nation's imports and exports for a given time frame. The BoT is the largest constituent of a nation's balance of payments. Economists utilise the BoT to compute the associative potency of a nation's economy. The BoT is also known as the trade balance or the international trade balance.

The balance of payment is a statement of all the transactions that are made between entities in one nation and the rest of the world over a particular time frame, such as a quarter or a year. To put it in other words, the BoP is a set of accounts that identifies all the commercial transactions operated by the nation in a specific period with the remaining nations of the world. It documents a record of all the monetary transactions performed globally by the nation on goods, services, and income during the year.

-To make it simple, let's summarise foreign trade of India as below:

-Export of goods (merchandise/commodities)

-Export of services

-Import of goods (merchandise/commodities)

-Import of services

The formula for calculating the BOT can be simplified as the total value of exports minus the total value of its imports. The BOT on its own is not an indicator of economic health, and a negative trade balance is not necessarily bad. In order to use the trade balance as part of an economic health assessment, context is needed. One must look at why the balance is positive or negative. A country that imports more goods and services than it exports in terms of value has a trade deficit or a negative trade balance. Conversely, a country that exports more goods and services than it imports has a trade surplus or a positive trade balance.

A positive balance of trade indicates that a country's producers have an active foreign market. After producing enough goods to satisfy local demand, there is enough demand from customers abroad to keep local producers busy. A negative balance of trade means that currency flows

outwards to pay for exports, indicating that the country may be overly reliant on foreign goods. However, that is not always the case. It could also mean the country is wealthy and has a high level of demand that needs to be satisfied.

The country's trade balance is structurally negative, given that the country imports nearly 80% of its energy needs. However, as India benefits from the fluctuations in world hydrocarbon prices for its imports, the trade deficit has been oscillating for the past few years. In 2022, India exported USD 453.4 billion worth of goods, while imports accounted for USD 720.4 billion (+14.6% and +25.7% y-o-y, respectively). According to WTO figures, in the same year, exports of services amounted to USD 309.3 billion (+28.6% y-o-y), whereas the imports of services stood at USD 249.5 billion (+27.3% y-o-y). The overall trade deficit for 2022 was estimated at 3.7% of GDP by the World Bank. According to the latest figures from the Ministry of Commerce and Industry, during April-October 2023, the overall trade deficit declined by 35.86% dropping from USD 89.86 billion in 2022 to USD 57.64 billion. Additionally, the merchandise trade deficit showed improvement, decreasing from USD 167.14 billion in April-October 2022 to USD 147.07 billion in April-October 2023.

### **Balance of Payments in India**

Reporting (BoP) is an electronic message system used by authorised dealers (i.e. banks) to report cross-border transactions to the South African Reserve Bank. In the modern world, there is hardly any country which is self-sufficient in the sense that it produces all the goods and services it needs. Every country imports from other countries the goods that cannot be produced at all in the country or can be produced only at an unduly high cost as compared to the foreign supplies.

A country exports to other countries the commodities which those countries prefer to buy from abroad rather than producing at home. Besides, trade of goods and services, there are flows of capital. Foreign capital flows are in the form of portfolio investment by foreign institutional investors or in the form of foreign direct investment. The balance of payments is a systematic record of all economic transactions of residents of a country with the rest of the world during a given period of time. Balance of trade and balance of payments are two related terms but they should be carefully distinguished from each other because they do not have exactly the same meaning. Balance of trade refers to the difference in values of imports and exports of commodities only, i.e., visible items only. Movement of goods between countries is known as visible trade because the movement of goods is open and visible and can be verified by the custom officials.

During a given period of time, the exports and imports may be exactly equal, in which case the balance of trade is said to be in balance. But this is not necessary because those who export and import are not necessarily the same persons. If the value of exports exceeds the value of imports, the country is said to have an export surplus. On the other hand, if the value of its imports exceeds the value of its exports, the country is said to have a deficit balance of trade. Pedro Álvares Cabral left for India in 1501 and established Portuguese trading posts in Calicut and Cochin (modern day Kochi), returning to Portugal in 1501 with pepper, ginger, cinnamon, cardamom, nutmeg, mace, and cloves. The profits made from this trip were substantial.

### **Importance of the Balance of Payments**

The balance of payments and the components of the balance of payment are crucial for understanding a nation's economic standing. This metric also shows whether the value of a country's currency is appreciating or depreciating. Many financial professionals in roles like investment management, government policymaking and federal banking use a nation's balance of payments to direct the research, analysis and development of policies and strategies that support the nation's growth. Consider several more important uses of the balance of payments and its components:

The balance of payments is a crucial metric for decision-making at the national level. Professionals like economists, federal accountants, policymakers and others use the data from a nation's balance of payments to adapt production and exportation to increasing or decreasing price levels, interest rates, inflation rates and employment rates.

### **Concept of Foreign Trade**

Three-quarters (74%) say that international trade is good for the US economy, including 64 percent of Republicans, 83 percent of Democrats, and 73 percent of Independents. This is virtually unchanged from 2021 when it was 75 percent but is down from a high of 87 percent in 2019. Foreign producers also benefit by making more sales than by selling solely at home and by earning foreign exchange that can be used to purchase foreign-made products. Still, even if societies as a whole gain when countries trade, not every individual or company is better off.

Low-skilled tradable manufacturing workers are experiencing deep economic losses as a result of international trade competition because their products are tradable and intensively use factors in which the United States lacks a comparative advantage. There are restrictions that can be a serious obstacle in international trade: export licensing; import licensing; Page 2 trade

embargo; import quotas; import duties or other taxes to pay for imported goods; the documentation required for customs clearing of imported goods.

Trade risk can have a significant impact on the profitability and financial stability of businesses involved in international trade in several ways: Reduced revenue: Fluctuations in exchange rates can make it more expensive for businesses to import or export goods, which can lead to lower revenue. Global forecasts for GDP growth remain at around 3% for 2024, with the short-term trade outlook being cautiously optimistic. If positive trends persist, global trade in 2024 could reach almost \$32 trillion, yet it is unlikely to surpass its record level seen in 2022

### **Structure of Balance of Payments**

The remarkable features of foreign trade in India are maritime trade, diversity in exports, state trading, and change in imports, unfavourable or negative trade. There are mainly three types of foreign trade for instance entrepot trade, import trade as well as export trade.

There are three main components that form the basis of the structure of balance of payments. The financial account, capital account, and current account.

The flow of funds to and from foreign countries via various investments in real estate, FDI, business ventures, etc are monitored through the financial account. Also, this account measures the variation in foreign ownership. When you analyze this, you can understand whether a country is acquiring more or selling more.

The current account is useful for monitoring inflow and outflow of goods and services. Thus, this account covers all the payments and receipts that are made with respect to manufactured goods and raw materials. Furthermore, it also includes receipts from tourism, engineering, business services, transportation, etc.

There are many categories of trades that occur between the countries. These trades could be visible or invisible. When trades happen in goods between the countries than it is called as visible items. While the trade happening in import or exports of services, is referred to as invisible items.

The capital transactions that occur between the countries are monitored under the capital account. Thus, capital transactions include the sale and purchase of assets like properties. Furthermore, the capital account also includes the flow of taxes, sales and purchases of fixed assets for a migrant moving in or out of the country. The three major elements of the capital account are investments, foreign exchange reserves, and loans and borrowings.

Double-entry bookkeeping Principle: The balance of payments account of a country is constructed on the principle of double-entry bookkeeping. Each transaction is entered on the credit and debit side of the balance sheet. Thus, the total debit and the total credit of the balance of payments are always equal.

### **Current Situation of BoT**

India's merchandise trade deficit widened to \$23.5 billion in July of 2024 from \$20.7 billion in the corresponding period of the previous year, marking a sharp swing from the 11-month low of \$15.6 in March. Imports grew by 7.5% from the previous year to \$57.5 billion as higher energy prices increased the turnover for one of India's major foreign purchases, with crude oil imports standing at \$13.8 billion. Additionally, gold imports rose by \$70 million to \$3.13 billion, supported by the slash in duties for gold imports enacted by India's new budget. In the meantime, exports contracted by 1.5% annually to \$34 billion.

India's overall exports (Merchandise and Services combined) in April-December 2022 is estimated to exhibit a positive growth of 16.11 per cent over the same period last year (April-December 2021). As India's domestic demand has remained steady amidst the global slump, overall imports in April-December 2022 is estimated to exhibit a growth of 25.55 per cent over the same period last year.

India's overall export (Merchandise and Services combined) of USD 61.82 Billion in December 2022. The exports exhibited a negative growth of (-) 5.26 per cent over the same period last year. Overall import in December 2022\* is estimated to be USD 73.80 Billion, exhibiting a negative growth of (-) 1.95 per cent over the same period last year.

In spite of the high base, highest ever record of exports last year, India's overall exports (Merchandise and Services combined) in April-December 2022 is estimated to exhibit a positive growth of 16.11 per cent over the same period last year (April-December 2021). December last year has been the second highest monthly export (Merchandise and Services) during 2021-22. As such, due to high base effect, the overall export (Merchandise and Services combined) of USD 61.82 Billion in December 2022 exhibited a negative growth of (-) 5.26 per cent over the same period last year (December 2021)

The exports of Electronic goods during the period April – December 2022 recorded USD 16.67 billion as compared to USD 10.99 billion during the same period last year registering a growth of 51.56%. Exports of petroleum products in April – December 2022 was USD 70.28 billion

registering a growth of 52.15% over USD 46.19 billion in April – December 2021. More than USD 6 Billion worth of Smartphones were exported during the period April-November 2022.

## Conclusion

The balance of payments Statistics in India is a systematic record of India's international economic transactions of residents with the rest of the world on account of merchandise, services, unrequited transfers and transfers of capital. Some of the factors which affect Balance of Payment are Gold price, Crude oil price, Inflation rate, USDINR exchange rate which widely affect India's Balance. It aims to track a country's surplus or deficit in its foreign transactions, revealing if it is a net lender or borrower to the rest of the world. It seeks to identify imbalances in different components of the balance of payments like the current account and capital account. India trade balance for 2022 was \$-124.91B, a 50.25% increase from 2021. India trade balance for 2021 was \$-83.13B, a 690.53% increase from 2020. India trade balance for 2020 was \$-10.52B, a 85.61% decline from 2019. India trade balance for 2019 was \$-73.07B, a 28.13% decline from 2018.

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