Impact of Economic Tsunami of International Trade on Emerging Business Opportunity in India

Dr. K. Jawahar Rani¹, A. Priya Jenifer²

¹Professor, Department of MBA, St. Joseph's College of Engineering, Chennai, Tamil Nadu, India
²MBA Student, Department of MBA, St. Joseph's College of Engineering, Chennai, Tamil Nadu, India

Abstract: India is focusing on growth and development in International trading to increase GDP for sustainable growth. Success stories of Indian economy proved by the improvement in trade in recent years. India is in 13th rank in global trade export. The overall trade export of India has increased from 1.58% to 1.71% from 2017 to 2019. Indian Foreign trade accelerated over the former porcelain as GDP reached Rs.190.10 trillion in 2018. This contributes sustainable growth and development created employment opportunities. The actual issue of the Indian economy is inflation & its control. The National Statistics report forecasted India’s GDP to glide to an 11-year short of 5% in 2020. Manufacturing growth rate is discerned at 2% yearly, which is a 15-year short, as against 6.9% growth in 2019. India incurs a trade deficit over a decade due to the Demand-pull inflation and Cost-push inflation. Based on this, we analysed the growth of Indian foreign trade across a decade and the measures taken by the Government of India to overcome this economic tsunami for the country’s sustainable growth & development. When compared to India’s merchandise trade for the past 10 years, the performance of India is good but the trade balance is not achievable. To reduce inflation, the Government encourages more number of entrepreneurs in various sectors. As per “Make in India” campaign, 2014 paved the way for entrepreneurs to create job opportunities. We recommend the blooming business opportunity for API manufacturing industries in this pandemic period in Global trade.

Keywords: Active Pharmaceutical Ingredients, Business opportunity, Cost-push inflation, Demand-pull inflation, Economic tsunami, Foreign trade

1. Introduction

According to the International Monetary Fund (IMF), World economic Outlook of October 2019, the Indian economy in 2019 was nominally worth $2.9 trillion [1]; Now, India is the fifth-largest economy in the world by market exchange rates, and is around $11 trillion, the third-largest by Purchasing Power Parity [PPP]. The country also ranks 139th in the world in nominal GDP per capita and 118th in GDP per capita at PPP [2]. The integration of the domestic economy through the twin channels of trade and capital flows also has been accelerating across 20 years as India’s GDP reached Rs. 190.10 trillion (US$ 2.72 trillion) in 2018 [3]. Concurrently, the per capita income trebled in all those years. It proves that India’s trade and external sector had a remarkable impact on the GDP growth as well as expansion in per capita income.

India’s foreign trade paved a greater way for it. India’s major contribution in increasing GDP is by International trade. Over a decade India’s trade has been blooming. The overall trade export of India in global trade has been increased from 1.58% to 1.71% from the year 2017 to 2019. India is in the 13th rank in global trade export [4]. This contributes majorly towards sustainable growth and development of India which in turn created employment opportunities for the people. According to Mr. Piyush Goyal, Minister for Commerce and Industry, 2020 the Indian government is keen to grow export and provide more jobs for young, talented and well-educated people as well as for semi-skilled and unskilled workforce in India [5].

1.1 Inflation

Inflation is a serious problem for the Indian economy, and has proved stubbornly high. In 2010, Inflation rate of India reached its peak with 12.31% [6]. The chief of the RBI, Raghuram Rajan stressed that price stability is key to India’s long-term prosperity. He also stressed that the country is in a Cost-push inflation situation, prices of commodities rise as a result of rising costs of production and raw materials. Inflation had set foot on 11.24% in November 2013 – the giant for these years. Inflation fell back to 9.92% in December 2013 [6], but there is concern about the obdurate high inflation, despite the relatively slothful growth. In 2015-18, the inflation rate of India was 3.6% [6] and the government has taken various measures to decrease the inflation, one such is by increasing the service trade exports and expanding the open market for global trade. Cost push inflation commonly arises due to the supply shocks, eg: Elevation in price of oil raises the cost of production for almost all goods and services and hence results in immediate increase in inflation. The US president, Donald Trump refused to give wavering India to restrict the oil purchase from Iran at less cost, one of the leading factors for cost push inflation [7]. Cost-push inflationary forces using interest rates may mutilate the prospects of development without tackling the underlying inflation causes. To tackle supply hindrances which are behind the cost-push inflation will prove much more difficult.

Due to the increase in production cost, demand pull inflation occurs.6th and 7th pay commission of India increased the buying power of consumers and hence paved the way for demand pull inflation in India, results when prices rise because aggregate demand in an economy is greater than aggregate supply. The excess demand is the result of
supplies falling short of demand for merchandise goods and other agricultural goods, these features of the economy have not changed much despite seven and half decades of the magnification of the Indian economy and structural changes associated with growth. The demand pull and cost push inflation affects the exchange rate of Indian currency [8]. A dramatic decrease in a country’s exchange-rate will cause import prices to rise and export prices to drop. This leads to a rise in aggregate demand and causes inflation.

1.2 Need for the Study

According to the Ministry of Finance, India has potential growth in foreign trade from the year 2010 onwards. The Pre-Budget Survey also said that the incremental value added in the economy from the bull’s eye level of exports of network products, which is projected to equal $248 billion in 2025, would make up about one-quarter of the upturn essential for making India a $1 trillion economy by 2025. Make in India campaign helps to reduce inflation and increase the country’s GDP. The promising areas of the business sector were found in 2014. But there was an economic tsunami due to demonetization and GST. Even though India predicted to become a key exporter in the global market. In the period of economic tsunami GDP of India was -5.35 in the financial year 2015 [9]. Hence the government plans to increase GDP by reducing Cost push inflation. For this Government identified the areas of new enterprises and created employment opportunities in the various sectors. Indian Government also encouraged entrepreneurs to focus on foreign trade. The impact of Government actions to retrieve from the economic tsunami the overall estimated exports (merchandise and services) have reached a new peak of USD 535.9 billion in financial year 2019, attaining a growth of 7.47% [10]. We, researcher based on above information, plan to focus the impact of economic tsunami of Indian foreign trade on emerging business opportunity.

1.3 Objectives

To study the waves of the economic tsunami of Indian foreign trade, our first objective was to analyze the growth of Indian foreign trade over a span of 10 years. Our second objective was to study the measures initiated by the Indian Government for its sustainable growth & development to fulfill the Make in India Campaign. The Government also predicted the bull’s eye of export will be equal to 248 billion dollars in 2025; our third objective of the study is to suggest the emerging business opportunities for an entrepreneur concerning pharmaceutical exports.

2. Methodology

It is a qualitative study as it provides the description of the current state of the country’s foreign trade. The growth of trade and GDP growth during a span of 10 years (2010-2019) has been studied. The data used for analysis are export, import, GDP growth, inflation rate and trade balance has been taken for study. The study is purely based on the secondary data (for a period of ten years) which is collected from the Department of Commerce, India, Annual report of India and Government of India.

3. Result & Discussion

Table 1: India’s Export, Import, Trade balance over 10 years

<table>
<thead>
<tr>
<th>S.No</th>
<th>Year</th>
<th>Exports us $ M</th>
<th>% Growth</th>
<th>Imports us $ M</th>
<th>% Growth</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2009-10</td>
<td>1,78,751</td>
<td>3.53</td>
<td>2,88,373</td>
<td>-5.05</td>
<td>-1,09,621</td>
</tr>
<tr>
<td>2</td>
<td>2010-11</td>
<td>2,49,816</td>
<td>39.76</td>
<td>3,69,769</td>
<td>28.23</td>
<td>-1,19,954</td>
</tr>
<tr>
<td>3</td>
<td>2011-12</td>
<td>3,05,964</td>
<td>22.48</td>
<td>4,89,319</td>
<td>32.33</td>
<td>-1,83,356</td>
</tr>
<tr>
<td>4</td>
<td>2012-13</td>
<td>3,00,401</td>
<td>-1.82</td>
<td>4,90,737</td>
<td>0.29</td>
<td>-1,90,336</td>
</tr>
<tr>
<td>6</td>
<td>2014-15</td>
<td>3,10,338</td>
<td>-1.29</td>
<td>4,48,033</td>
<td>-0.48</td>
<td>-1,37,695</td>
</tr>
<tr>
<td>7</td>
<td>2015-16</td>
<td>2,62,291</td>
<td>-15.48</td>
<td>3,81,008</td>
<td>-14.96</td>
<td>-1,18,717</td>
</tr>
<tr>
<td>8</td>
<td>2016-17</td>
<td>2,75,852</td>
<td>5.17</td>
<td>3,84,357</td>
<td>0.88</td>
<td>-1,08,505</td>
</tr>
<tr>
<td>9</td>
<td>2017-18</td>
<td>3,03,526</td>
<td>10.03</td>
<td>4,65,581</td>
<td>21.13</td>
<td>-1,62,055</td>
</tr>
</tbody>
</table>

Source: Department of Commerce, India

In the year 2009 to 2014 India had a consistent growth in terms of export growing from $ 1, 78, 751 to 3, 14, 405 million and the import value from $ 2, 88, 373 to 4, 90, 737.

[11] In 2012-2013 there was a decline mainly on account of slowdown in the global economy leading to a free fall in the prices of food products, goods and so on. Oil remains the major export and import during early 2013. The economic slow-down primarily driven by plunge in gold imports and lesser non-oil and non-gold imports reflecting slackening in domestic economic activities and drop in international prices of some commodities (e.g. metal) which led to a narrowing of India’s trade deficit by about 28% in 2013-14 due to global slowdown and negative growth in sectors like Engineering and textiles.

The tenacious inflation and low investments due to policy inaction combined with peripheral factors like the speculation of quantitative easing, or roll back of stimulus, by the US Federal Reserve diminished growth and created macro-economic upheavals. Financial stress among rural households and slothful job creation are among the key drivers of the slowdown, while a downturn among non-bank financial institutions (NBFI’s), the major contributor of retail loans in recent years, has exacerbated the weaker conditions. The Indian Government, in the export promotion capital goods scheme, extended the zero-duty export and incentives for special economic zones to promote export. India had progressed towards a free-market economy, with a substantial depletion in state control of the economy and surging financial liberalization. They were a growth from the financial year 2013-2014. Unfortunately there was a dip (GRAPH 1) during 2015-2016 due to the implementation of demonetization and Goods and Service Tax (GST). This was due to the plunging Indian rupee, a persistent high current account deficit and slow industrial growth. India started repossession in 2014–2015 when the GDP growth rate accelerated to 6.38% from the previous year's 5.45%. The progress continued through 2014–2015 and 2015–2016 with a degree of growth 7.5% and 8.0% respectively. During 2017-2018, India rejoined in the trade growth of 10% due to the Government’s various measures and policies yet the trade deficit was high in 2018-2019 on account of growth in import raised to 5, 07, 436 million US dollar [14], which is the greatest among all these years.

In 2019, there was a great dip in International trade due to the effect of COVID-19 pandemic there prevailed a lower demand due to low income. The exports and imports in the
global market have stopped to prevail from the pandemic situation under control. The borders were closed and global trade was stagnant. Only the essential goods like pharmaceutical, food preserves and oil were permitted for exports and imports with trade restrictions. Major countries cancelled their order for trade exchange other than essential goods. In June, 2020 the trade started resuming with certain conditions and India started to retrieve from its free fall. From table 1 and graph 1, we can infer that India’s exports keep on increasing year on year but it couldn’t attain trade balance over 10 years because of its tremendous growth in import than export.

Make in India
India will elevate its export market share to about 3.5 % by 2025 and 6% by 2030, which is greatly feasible, in this process, India would create about 4 crore well-paid jobs by 2025 and about 8 crore by 2030, said the Economic Survey [12]. It is notable that India is clearly catching up with China in terms of diversification across products and markets, if India wants to become a key exporter, she should specialize more in the areas of her comparative advantage and achieve significant quantity expansion. Government of India has launched the “Make in India” campaign on September 25, 2014 to provide investors – both domestic and overseas – a conducive environment to manufacture in India and at the same time create job opportunities. The Economic Survey (2015) recommended that by integrating “Assemble in India for the world” into Make in India. On closer analysis of India’s manufacture trade, we inferred that exports and imports had shown a surge from 2014 to 2018 along with trade deficit as imports have always grown firmly than exports. The import basket is the reason for a positive sign for the economy in the financial year 2018.According to the Survey of India, the overall impact on India’s exports to the trade partners is 13.4% for manufactured products and 10.9% for total merchandise, on imports was found to be lower at 12.7% for manufactured goods and 8.6% for entire merchandise [12].The Survey says that the policy of focusing on Network Product can generate noteworthy gains both in employment creation and GDP growth [13].

The country had taken a lot of measures to reduce the import and increase the export, the government had initiated “MAKE IN INDIA CAMPAIGN” to encourage the existing and startup entrepreneurs to focus on foreign trade. Our second objective is to “study the measures taken by the Indian Government for its sustainable growth & development to fulfill the Make in India Campaign”. To bring sustainable growth and development the following programmes were launched to encourage the entrepreneur to expand their business in the global market. We mainly focused on the Pharmaceutical sector since it is a growing sector in service trade. The government is also considering setting up specified pharmaceutical zones to intensify inland production of Active Pharmaceutical Ingredients (APIs), to condense the country’s dependence on China for the raw materials. 55% of share in API market was controlled by China [14] this trend may be changed if Indian API entrepreneur set up the pharma park in India it will be a long term solution to increase the export and reduce the import in pharmaceutical area and it also helps to revive the old pharma units, it will be the short term solution to control the inflation, for this Indian government approved Rs.10, 000 crore for setting a bulk drug park and also provide an incentive in term of capital subsidy, moratorium for 2 years and interest free EMI for 3 years to motivate the API entrepreneur [15].

This pandemic provides a platform for Indian API entrepreneur with the scheme, “Promotion of domestic manufacturing of critical Key Starting Materials/Drug Intermediates and Active Pharmaceutical Ingredients (API)”. key feature of this scheme are Developing mega bulk drug parks at the cost of Rs.3000 crore and to condense manufacturing cost of bulk drugs in the country and dependency on other countries for bulk drugs. The government had taken various measures to boost domestic manufacturing of critical KSMs/Drug Intermediates and APIs and to increase sale and additional employment. Production Linked Incentive (PLI) Scheme for promotion of domestic manufacturing of critical Drug Intermediates and API- Rs.6, 940 crore.
The bar chart shows the trends of pharmaceutical exports for the financial year 2012 to 2020, since it is a progressive growth [16]. India has a more competent country to build a top notch in the world market in the API industry. Owing to the pandemic period the growth of pharmaceuticals is considerably good, India is the third largest active pharmaceutical ingredient (API) market in the Asia-Pacific region and China is its main competitor, India graded second as the better-performing countries in the API list as the 2020 Pharmabiz report. The generic drug of India was demanding over the global market in pandemic situation, The Indian API entrepreneurs can set up and develop a large scale manufacturing of API to dominate the world market in present and future. (Suhayl Abidi, Research Advisor, GOGAMA Centre of International Trade). As per Boston consulting group said that API business is a rare pool of profitability [17]. This massive calamity over the globe changed the scenario and build world-class and world-scale API industry, exports is around $5 Billion (25% of total 2019-2020 exports of $19-20 Billion) for India, can be mounted up to reach and exceed generic drug exports within next 10 years. Conserring to IBEF, India is the sixth prime producer of chemicals universally and third principal producer in Asia in terms of output [18]. The chemical sector is expected to double to US$ 300 billion by 2025, clocking an annual growth rate of 15-20 per cent with exports also rising at the same rate. No other country outside of advanced countries, besides China, can shape such a diverse industry. If we decide to build a world-scale API merchant export industry, there is no doubt that it is not only challenging but can overtake generic exports and prove to be much more profitable.

Our third objective of this paper is to suggest the emerging business opportunities for an entrepreneur concerning pharmaceutical exports. The result and discussion of the study explained the opportunity for the API producers. China’s trust issue during this pandemic favours India’s global trade of generic medicine. The developed and developing countries find replacement for Chinese pharma products, India is the second largest in production of generic medicine and provides ample opportunity for the API market to add value for green or specialized products [19] and hence India continues to be seen as an progressively attractive destination. Though the neighbouring countries of India like Pakistan, Bangladesh have fledging pharmaceutical industries they lack the adequate API manufacturers and hence depend on India because of lower costs of raw materials and labor.

The progressive growth of India’s export over 10 years supports not only for manufacturing product, software but also there is an increased market for generic medicine. The make in India campaign also supports the entrepreneur to focus on export of Network products especially in API. The purpose of Make in India is to reduce the import and stabilize the trade balance which in turn reduces the cost-push inflation, main reason for inflation of the country and it helps to retrieve from economic tsunami. Hence this study supports the emerging business opportunity for API entrepreneurs in the global market.

4. Conclusion

India’s foreign trade has a noteworthy impact on inflation. The implementation of the 7th pay commission is one-off the reasons for cost push inflation. To satisfy the local
demand the Government imports all network products like oil, gas, renewable energy, automobiles, pharmaceutical and so on. Currently the inflation rate is high which leads to a high unemployment rate. To have a trade balance Indian Government introduced the “Make in India” campaign to support the Indian manufacturers in all sectors to export, especially the Pharmaceutical industry has a great scope in the global market. This campaign will help India to come out from the wave of the economic tsunami. The continued growth of India’s API sector, especially through increased exports, benefits the country’s producers of pharmaceuticals and intermediates directly. India’s Pharmaceutical market is currently growing at 10% to 12%, according to Beroe, twice as fast as the global average. Hence in this study we found that the API market is one-off the emerging business sectors for entrepreneurs in International trade.

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