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Research Article

THE EFFECT OF OIL AND NON-OIL IMPACT ON TRADE DEFICIT IN INDIA

Rajeshwari B[1], Laxmi B[2] and Treemurutulu B[3]

[1]Faculty of Commerce, Andaman College, Port Blair, South Andaman, Andaman and Nicobar Islands
[2]Tagore College, Port Blair, South Andaman, Andaman and Nicobar Islands
[3]Assistant Professor, Department of Commerce, Andaman College (ANCOL), Port Blair, Andaman and Nicobar Islands

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A B S T R A C T

The purpose of this research paper is to investigate the impact of oil and non-oil trade in India. The study is based on secondary source of data was collected from Reserve Bank of India during the period 2000 to 2018. The result of the study reveals that trade deficit consistently increasing and un-sustainability of Current Account Deficit in India. The research findings shows that there is a strong confirmation for arises of trade deficit due to heavy rely on import especially oil import from overseas countries. This implies that trade deficit is sustainable in India; contest for non-oil but not for oil. The trade deficit has become further extend may cause huge impact on India economy. This may led to sharp depreciation of India rupees and increase of domestic inflation. Therefore, it is suggested that to reduce dependent on oil import from overseas countries. The study recommends that foreign trade policy and multilateral negotiations improve trade in India.

INTRODUCTION

India, the world seventh largest economy and emerging developing country, which has the 2nd largest population in the world of over 130 crores. There are several areas of concern such as; imbalance in regional development, under developed infrastructure in rural villages and underutilization of natural, human resources and macro economics. India economy facing serious problems in Current Account Deficit, which account of 2.8 percent to GDP in 2010-11 to 2.3 percent of GDP in 2018-19. Indian economy is highly dependent on import to meet its domestic crude oil requirement. The consumption of crude oil in India has increased from 12.6 million tonnes of oil equivalent in 1965 to 162.3 million tonnes oil equivalent in 2011 reflecting an increase of more than 10 times.

The rising dependence on oil products and the growing share of import in the domestic's oil consumption subject the domestic economy to the volatile in international market of oil shocks and macroeconomic parameter in India affecting. India, dependents on foreign overseas countries for crude oil import. More than one third of the total crude oil imported by India originates from Middle East and more that 80 percent imports are from OPEC countries. The dependency on import is projected to increase further and is expected to rise to exceed 90 percent by 2031-32.

Corresponding author:* **Rajeshwari B
Faculty of Commerce, Andaman College, Port Blair, South Andaman, Andaman and Nicobar Islands

mtoe in 2031-32.Inspite of lower the crude oil price will contribute to the narrow down of Current Account Deficit. Higher crude prices will adversely affect the twin deficits i.e., fiscal deficit and Current Account Deficit in the Indian economy. The commodity prices of fuel and non fuel are also expected to grow from past few decades. The merchandise export grew by 12 percent, net service receipt grew by 14.6, net foreign investment grew by 17.4 percent and external debt indicators improved in 2017-18. The Current Account Deficit increased from US $3.8 billion (0.4 percent GDP) in 2016-17 to US 22.2 billion (1.8 percent GDP) in 2017-18, primarily on account of a higher trade deficit brought about by a larger increase in merchandise import relative to export. The surge in import owed to sharp rise in import of gold and increase in oil prices in the international market. The trade deficit widened in 2017-18 as compare to 2016-17, the improvement in invisibles balance along with the net capital flows dominated by foreign investment and banking capital was more than sufficient to finance the trade deficit leading to accretion in the foreign exchange reserves in 2017-18. The major trade partners of India are United States US $51.6 billion (16 percent) of total India export, United Arab Emirates US$ 29 billion (9 percent), China US $16.4 billion (5.1 percent), Hong Kong US $13.2 billion (4.1 percent), Singapore US $ 10.4 billion (3.2 percent), United Kingdom US$9.8 billion (3 percent), Germany US $ 9 billion (2.8 percent) and Bangladesh US$8.8 billion (2.7 percent)in 2018-19.

Table 1.1 Oil and Non-Oil, Export and Import in India

Year	Exports			Imports		
	Oil	Non-Oil	Total	Oil	Non-Oil	Total
2000-01	1869.7	42690.6	44560.3	15650.1	34886.4	50536.5
2001-02	2119.1	41707.6	43826.7	14000.3	37413	51413.3
2002-03	2576.5	50142.9	52719.4	17639.5	43772.6	61412.1
2003-04	3568.4	60274.1	63842.6	20569.5	57579.6	78149.1
2004-05	6989.3	76546.6	83535.9	29844.1	81673.3	111517.4
2005-06	11639.6	91450.9	103090.5	43963.1	105202.6	149165.7
2006-07	18634.6	107779.5	126414.1	56945.3	128790	185735.2
2007-08	28363.1	134541.1	162904.2	79644.5	171794.7	251439.2
2008-09	27547	157748	185295	93671.7	210024.6	303696.3
2009-10	28192	150559.5	178751.4	87135.9	201237	288372.9
2010-11	41480	209656.2	251136.2	105964.4	263804.7	369769.1
2011-12	56038.5	249925.3	305963.9	154967.6	334352	489319.5
2012-13	60865.1	239535.5	300400.6	164040.6	326696.1	490736.6
2013-14	63179.4	251236.4	314415.7	164770.3	285443.3	450213.6
2014-15	56794.1	253557.9	310352	138325.5	309707.9	448033.4
2015-16	30582.6	231708.4	262291.1	82944.5	298063.3	381007.8
2016-17	31545.3	244307.2	275852.4	86963.8	297393.2	384357
2017-18	37465.1	266061.1	303526.2	108658.7	356922.3	465581

Year	Trade Balance		
	Oil	Non-Oil	Trade Balance
2000-01	-13780.4	7804.2	-5976.2
2001-02	-11881.2	4294.6	-7586.6
2002-03	-15063	6370.3	-8692.7
2003-04	-17001.1	2694.5	-14306.5
2004-05	-22854.8	-5126.7	-27981.5
2005-06	-32323.5	-13751.7	-46075.2
2006-07	-38310.7	-21010.5	-59321.2
2007-08	-51281.4	-37253.6	-88535
2008-09	-66124.8	-52276.6	-118401.3
2009-10	-58943.9	-50677.5	-109621.4
2010-11	-64484.4	-54148.5	-118632.9
2011-12	-98929	-84426.6	-183355.7
2012-13	-103175.5	-87160.6	-190336.1
2013-14	-101591	-34206.9	-135797.9
2014-15	-81531.4	-56150	-137681.4
2015-16	-52361.8	-66354.8	-118716.7
2016-17	-55418.6	-53086	-108504.6
2017-18	-71193.6	-90861.2	-162054.8

(Source: Reserve Bank of India)

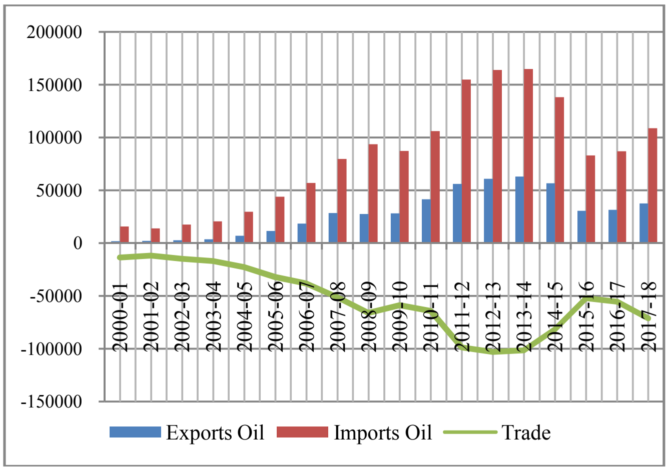

Figure 1.1 Oil Trade in India

(Source: Reserve Bank of India)

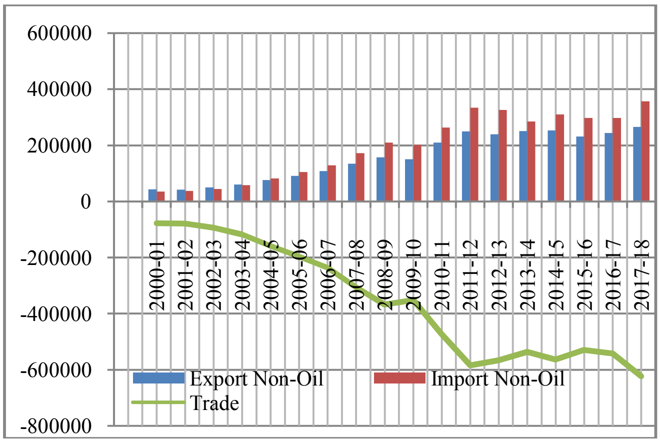

Figure 1.2 Non-Oil Trade in India

(Source: Reserve Bank of India)

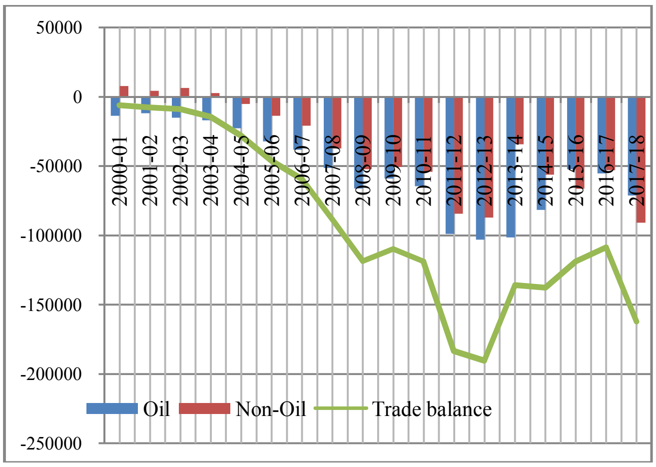

Figure 1.3 Oil and Non-Oil, Trade in India

(Source: Reserve Bank of India)

In the next section give details of review of literature of previous studies on oil and non-oil trade .

Review of Literature

Manoranjan Sahoo, Suresh Babu M and Umakant Dash (2016) in their research paper investigated, the South Asian economies are experienced continuous deficits in their current account, along with high external borrowings. They found that seven South Asian economies faced current account imbalance during period 1980 to 2014 and Maldives and Sri Lanka is sustainable in the long run, rest of countries is not sustainable. Their research paper suggested that South Asian economics should increase their corporation with each other in terms of trade and investment to minimise external trade imbalance.

Panchanan Behera (2016) his research paper examined the trend in India Balance of Payment since 1990-91. The research findings shows that different items in invisibility account that have played significant role. The importance of surplus in capital account is analysed for financing current account deficit in India. The volatility of surplus in the capital account has heed affecting balance of payment. The major investment from FDI and FPI may result in reversals taking the economy into payments and currency crisis in India.

Suranjana Nabar Bhaduri (2018) in his research paper examined the sustainability of relying on capital inflows, remittances and services exports to sustain these persistent trade and current account deficits. His study shows that all three sources entail elements of current account deficits in India. His study also found that capital inflow risks of financial fragility, with short term inflows and external commercial borrowings becoming more prominent in the Indian economy. Trade balance and current account have shown persistent deficits for a major part of its post-independence period in India.

Ajay B Mass and and Gopalkrishna B.V (2017) aim of the study is to determine the motives behind bank foreign direct investment inflow in India. The study was investigated a country-wise panel was constructed and bank foreign direct investment data collected during the period from 2001 to 2013 was analyzed through generalized method of movement, a dynamic panel data model. They found that bank FDI follows overall FDI, indicated that foreign bank follow their clients from their home country to serve them in the host country. They suggested that increase the FDI cap in banking sector to attract more foreign direct investment and further relax the current restrictive policy on entry of foreign bank in India.

Ashima Goyal and Abhishek Kumar (2018) in their research paper examined the relationship between current account and fiscal deficit and real exchange rate in India. The structural vector auto regression implemented with quarterly date to control for effects of oil price and the output cycle and foreign direct investment shocks after current account deficit and the real exchange rate. They found that oil shocks lead to overall divergence of the deficits. After reviewed the above literature, it is found that no study was available related to oil and non-oil trade related earlier research paper done on the subject matter in India. In this context this research paper was an attempt to understand the impact of oil and non-oil export on trade balance. The following objective is framed are as given below.

Objective of the study

The research study major objective is based on oil and non-oil trade in India. The objective of the research study are given below:

1. To understand oil and non-oil trade in India.
2. To examine the impact of oil and non-oil with trade deficit.
3. To suggest sustainable measures to control effect of trade deficits in India.

METHODOLOGY

This section of the study gives details relating to the methodology adopted in the present study towards fulfilling the objectives stated above. The present study is based on secondary sources of data was collected from Reserve Bank of India during the period 2000 to 2017. This study used percentage and graphical presentation in the study.

Analysis and Discussion

This section an attempt is made to analyze from the collected data for the intent purpose to explore 'oil and non-oil' export and import with trade deficit in India. The collected data were systematically presented in tabulated form for analysis and interpretations. The details of oil and non oil trade in India is presented in the below table.

As per above Table # 1.1 shows that oil and non-oil export and import effect on trade in India. As per above data indicates that consistently increased export and import during the study period. The oil import of US $ 15650.1 billion and US $ 1869.7 billion exported, differences in trade deficit of US $ 13781.4 billion. Similarly in non-oil import recorded of US $ 34886.41 billion and US $ 42690.6 billion is exported, differences in trade US $7804.19 billion in 2000-01. In the global financial crisis, South Asian economies experienced a sharp deterioration in their trade, it can be observed decreased of oil export and import in India at 2008-09. After that trade consistently increased are observed which is presented in above graph # 1.1 relates to oil trade in India and non-oil trade is presented in graph # 1.2 above.

Table # 1.2 and figure #1.3 reveals that oil and non-oil trade balance in India. The above stated data indicates that oil trade deficit US $ 13780.4 billion and non-oil trade surplus US $ 7804.2 billion and overall trade deficit US $ 5976.2 billion in 2000-01. A larger reduction in value of import vis-a vis' that of export helped in significant improvement in the merchandise trade balance from US $190 billion in 2012-13 to US 108.5 billion in 2016-17. The reduction in trade deficit in this period has been the major contributor to bringing about an improvement in the current account deficit that declined from 4.8 percent of GDP in 2012-13 to around 0.7 percent of GDP in 2016-17. The year 2016-17 was observed positive growth in merchandise export after two years of negative growth. Similarly, merchandise import also positive growth in 2016-17 after three years of negative growth, imports decline by around US $ 107 billion in 2016-17. This was mainly due to a reduction in value of import of crude oil and petroleum products to the tune of US$ 77 billion along with US$ 26.4 billion reduction of gold and silver import during this period. These two commodities accounted for nearly 97 percent of the reduction in import, the reduction in oil import could be mainly attributed to a sharp fall in the prices of crude oil in international market. The total merchandise export decline by nearly US $24.5 billion in 2016-17. In the year 2017-18 US$ 71193.6 billion and US $ 90861.2 relating to oil trade deficit and non-oil trade deficit respectively. The overall trade deficit about US$ 162054.8 billion recorded. After carefully study it is found that trade deficit majority of trade impact by oil import heavily relay on foreign countries, due to excess import compare to export is the major factor trade deficit consistently increased during the study period. Therefore the above facts shows that trade deficit cause rupee has been relatively depreciated in the year 2011-12 rupees value 47.92 to 67.07 in 2016-17 against US dollars. Despite of capital flows remaining at healthy levels, the foreign exchange reserves steadily increased from 292 billion at the end of March 2013 to US 370 billion at the end of March 2017. India foreign reserves reached US 409.4 billion on December, 2017. The GDP growth in year 2017-18 is 6.5 percent. As per the International Monetary Fund (IMFs) world economic outlook, the global growth is expected to accelerate to 3.7 percent in 2018 from 3.6 percent in 2017-18. This can be expected to provide further boost to India export, which have already shown acceleration in the Current Account. The global market provides greater certainty to the investment climate. The reforms measures undertaken in 2017-18 can be expected to strengthen further in 2018-19 and reinforce growth momentum in India economy.

SUGGESTION AND CONCLUSION

The last section of the study, trade is always plays an important role for any economic developing country like India. The study has reveals some significant findings relating to India's trade. The study result suggests that oil import is that major factor that cause trade deficit in India. Trade deficit increase due to heavy rely on import especially oil import from overseas countries. Based on these findings some useful conclusions have been derived. To reduce trade deficit for this purpose increase export, and increases the production in India. However, the trade policies and enhancing strong trade relation with major trade partners of India such as United States, United Arab Emirates, China, Hongkong, Singapore. Hence, bilateral trade and prospects for greater economic and commercial relations in the future with developed and developing countries in the world countries. As well as foreign trade policy and multilateral negotiations should reduce trade deficit in India in long term. This shows that consistently trade deficit may because rupees depreciate and increase inflation due to these factors India economy seriously affecting in long run.

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