

# INDIA'S FOREIGN POLICY AND FOREIGN TRADE: EVOLUTION AND POST 2014 SCENARIO

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Received: 16 March 2020 Revised and Accepted: 17 June 2020

**ABSTRACT:** Indian foreign policy has witnessed a paradigm shift after the economic reforms of 1991 when it started a gradual but incremental inclination towards capitalism and therefore assigned greater importance to the “free-trade” supporters. The foreign policy which was once blamed to suffer from “cold-war era hawkishness”, has been transformed to fit the greater need of strategical and geopolitical dominance. As a result, the trade scenario of the country has also witnessed a strategic shift. It is supposed that better trade relations are a foreign policy outcome and that trade relations with developed countries are an indicator to analyze foreign policy measures. To analyze this hypothesis, the authors of this paper have conducted a detailed analysis of trade relations of India with the permanent members of the United Nations Security Council since 2014. The authors believe that the UNSC countries are a reasonable indicator to gauge the relationship between trade and diplomacy as they are considered to be the epitome of the global decision-making process. The paper may provide assistance for academicians/scholars/practitioners as a ready reference to analyze the trade scenario of India since 2014.

**KEYWORDS** - Foreign policy, Free Trade, Capitalism, Socialism

## I. INTRODUCTION

After the general elections of 2014, the Bharatiya Janata Party (BJP) became the first party to win an absolute majority in an Indian election since 1984. The focus of the election campaign was on economic revival and removal of corruption by ensuring, “Minimum government and maximum governance”. However, little was said about foreign policy. Moreover, the BJP manifesto dedicated just 3 out of 52 pages to India’s international relations (Hall,2015)<sup>1</sup>, leaving many domestic and overseas observers to speculate about exactly what kind of approach would be followed by the government.

In the initial years of the regime, the prime minister made a number of foreign visits, including multiple visits to the United States of America, United Kingdom, Japan, China, South Korea, Germany, France and almost all the major countries. However, none of the visits has resulted in a trade agreement until now. With India declining to join RCEP, the only major trade and a geopolitical bloc of which India is a part is SAARC. However, due to the turmoil in the relationship between India and Pakistan, SAARC has been facing an existential crisis<sup>2</sup>. The South Asian Free trade agreement and South Asian preferential trade arrangement have been non-starters.

In between all these events, there has been an emerging sense of protectionism and de-globalization around the world<sup>3</sup>. The rise of right-wing political ideology in countries such as the USA and in the European Union has resulted in a surge in demand for improved terms of trade with India. The trade war between the USA and China has hampered the process of global reforms and has initiated a “dominos effect” due to which a larger set of countries have started to increase the barriers in trade by enhancing the tariffs and duties. The Indian diaspora; which has witnessed a rapid advancement both in terms of number and in terms of quality of life across the world has also been facing challenges due to the stringent visa norms.

With all this movement, some have speculated about whether a ‘Modi doctrine’ is emerging in Indian foreign policy (Tremblay & Kapoor)<sup>4</sup>. Others have argued that its outlines are already clear (Tandon,2016)<sup>5</sup>. However, many scholars have also argued that after the “pomp and show “of the earlier years, the government of India has surrendered its foreign priorities over domestic political gains. (Stremlau,2019)<sup>6</sup>.

## **II. FOREIGN POLICY OF INDIA AND ITS IMPACT ON FOREIGN TRADE**

India got independent in 1947 when the world was facing the aftermath of Second World War and was divided into two poles; USA and USSR. It will not be a hyperbole to say that the division was driven by economic ideologies with the USA favouring capitalism and Russia promoting socialism. Fearing the hostility of any one of these superpowers; India opted for a mixed economic model and declared itself to be non-aligned (Abraham, 2008)<sup>7</sup>. However, in 1954, the Indian government adopted the "Mahalanobis model" which declared the intention of creation of a socialist society with a greater focus on the promotion of public sector industry (Nanda, 1972)<sup>8</sup>. This policy-shift improved the relationship with the erstwhile USSR and deteriorated with the USA. However, the foreign policy of India suffered a jolt with the humiliating defeat of 1962 against China. In the 1970s, the economic policy further inclined towards socialism and the same was reflected in Indian constitution when the word "socialist" was added into the preamble. The government policies also reflected the tilt as policies and passage of bills such as Monopoly and restrictive trade practices Act (1978) further consolidated the control of the government over resources and increased protectionism by applying trade barriers for foreign entrants (Singh, 2000)<sup>9</sup>. Around the same time, the foreign policy of India also displayed biasedness towards the socialist faction and witnessed several economic sanctions due to the successful testing of its first nuclear weapon in 1974 (Vishwanathan, 1998)<sup>10</sup>.

The foreign policy of India has undergone a paradigm shift ever since the economic reforms of 1991 when, under severe pressure of depleting foreign reserve and collapse of the soviet bloc, India opened its economy by reforming the economic model which is famously known as "Liberalization, Privatization and globalization." After 1991, India gradually removed the trade barriers and initiated foreign investment reforms (Kumar, 2008)<sup>11</sup>. Despite officially still being a mixed economy, the Indian economy has seen an inclination towards capitalism in policies as well as practices. This has become evident from the growing relationship with the USA and the emergence of India as a big global marketplace by the western world. One striking example of this close bonding was the labelling of the Indian prime minister by US President as, "one of America's most loyal friend".

In spite of the inclination towards capitalism, India has been reasonably successful in maintaining the balance with the conflicting powers as ties with Russia have been intact. The prime example of this "balancing act" has been the warm relationship of India with middle eastern countries such as U.A.E and Saudi Arabia even after being closely aligned with their arch-rival Israel (Singh, 2017)<sup>12</sup>. As a result, India is involved in a trade relationship with a wide range of countries and its trade and tactical requirements are not subject to a specific group of countries which was the case before 1991. The observation of International Yoga Day by the United Nations and the listing of Masood Azhar as a global terrorist the U.N. are some of the examples of the increasing diplomatic success of India.

## **III. OBJECTIVES AND METHODOLOGY**

The authors of this paper have made an attempt to analyze the relation of India's foreign policy to its trade. A special focus has been given to the period after 2014 when the country witnessed a change in government. An assessment has been made about the impact of policies on trade. To derive a conclusion, the authors have analyzed the trade data which is publically available by the ministry of commerce under the export and import data bank. To derive a greater picture, an analysis has been done for trade relations with USA, China, Russia, France and the United Kingdom has been conducted as these countries are strategically very important for economic as well as geopolitical scenario since they are the permanent members of the united nations security council. The reason behind taking these countries as the sample of trade data is their global supremacy in trade negotiations and decision-making process as UNSC is considered as the apex global decision-making body (Niemann, 2018)<sup>13</sup>.

## **IV. ANALYSIS**

The office of the Directorate General of foreign trade of India, under the ministry of commerce and trade publishes the data regarding the foreign trade of India. The following analysis is based on the data accessed by the Export and Import data bank under the Aegis of the government of India.

**IV.I TRADE RELATIONS WITH THE U.S.A.**

Over the last few years, the trade between India and the USA has increased significantly. U.S.A which once considered India as a “basket case” is now one of the major trade partners of India(Gould and Ganguly,2019)<sup>14</sup>. It is evident from the fact that more than trade with the USA constitutes more than 10% of the total trade of India in 2018-19. As depicted in table 1, the trade between India and USA has grown from 39,284,811.83 lakhs in 2014-15 to 61,503,416.73 in 2018-19 which is a massive growth of more than 56%. However, one area of concern is the growth of imports from the USA and the resultant decline in favourability of the balance of trade as the USA import grew at more than 44 % for the year 2018-19. This may indicate the rising pressure of the USA government to improve the terms of trade with India as they are looking for a free trade agreement.

**Table 1: India’s Trade with USA (In Rs.Lakhs)**

Year	Export	Import	Total Trade	Trade Balance	Share In Total Trade (In %)
2014-15	25,942,751.55	13,342,060.28	39,284,811.83	12,600,691.27	8.48
2015-16	26,386,048.73	14,267,820.18	40,653,868.90	12,118,228.55	9.66
2016-17	28,300,800.88	14,965,539.59	43,266,340.47	13,335,261.29	9.77
2017-18	30,860,269.10	17,156,448.30	48,016,717.39	13,703,820.80	9.69
2018-19	36,648,039.35	24,855,377.39	61,503,416.73	11,792,661.96	10.42

Source: EXIM DATA BANK, MINISTRY OF COMMERCE

**IV.II TRADE RELATIONS WITH CHINA**

Indo-Chinese relations have always been full of suspicions and disbelief. The main reason is the border dispute which resulted in the war of 1962 in which India suffered heavy losses. The dispute between these countries has been termed as the “Clash of civilizations” by some scholars(Guha, 2007)<sup>15</sup>. However, the manufacturing advantage of china and India’s inability to produce low-cost manufacturing goods has resulted in a significant increase in imports from China. The rise of consumerism in India due to increased liquidity has also been a reason for this growth. To counter this threat, the government of India launched “Make in India” initiative which has yet to display the desired result as the manufacturing sector is currently facing contraction.

Another challenge from the Chinese side has been its ambitious belt & road initiative as a part of which it has already signed trade agreements with Myanmar and Pakistan and has improved its relations with the neighbouring countries of India such as Nepal, Srilanka etc in order to gain geopolitical supremacy. However, the problem of trade deficit has been increased to an alarming level as in 2018-19 India was at a trade deficit of 37,479,017.44 Lakhs with China.

**Table 2: India’s Trade with China (In Rs.Lakhs)**

Year	Export	Import	Total Trade	Trade Balance	Share in Total Trade (in %)
2014-15	7,303,043.30	36,956,536.01	44,259,579.31	-29,653,492.7	9.55
2015-16	5,893,941.16	40,405,084.15	46,299,025.31	-34,511,142.99	11.01
2016-17	6,825,091.98	41,110,329.33	47,935,421.31	-33,579,992.67	10.83
2017-18	8,599,429.96	49,223,616.54	57,823,046.51	-40,624,186.58	11.66
2018-19	11,728,910.90	49,207,928.34	60,936,839.24	-37,479,017.44	10.32

Source: EXIM DATA BANK, MINISTRY OF COMMERCE

**IV.III Trade Relations With The United Kingdom**

India is having an old relationship with the United Kingdom. As pre-independent India was a colony of Britain with parts of the country being under Portugal as well as France. The European Union has been facing a significant crisis after the decision of Britain to exit the arrangement, which has been popularly termed as “Brexit”. In the matter of this context, it is imperative to have an understanding of trade between India and the U.K. since 2014.

**Table 3: India’s Trade with the United Kingdom (In Rs.Lakhs)**

Year	Export	Import	Total Trade	Trade Balance	Share in total trade (in %)
2014-15	5,696,907.25	3,073,280.13	8,770,187.38	2,623,627.11	1.89
2015-16	5,776,986.12	3,393,630.88	9,170,617.00	2,383,355.24	2.18
2016-17	5,718,181.76	2,458,350.56	8,176,532.32	3,259,831.20	1.85
2017-18	6,243,140.13	3,098,947.19	9,342,087.31	3,144,192.94	1.88
2018-19	6,510,479.78	5,274,420.52	11,784,900.30	1,236,059.26	2.00

Source: EXIM DATA BANK, MINISTRY OF COMMERCE

From Table 3, we can analyze that the trade growth between the two countries has been significantly slow with the growth rate being only 2% for 2018-19. The focus of the U.K. government on Brexit along with a growing sense of de-globalization might have contributed in this regard.

**IV.IV TRADE RELATIONS WITH RUSSIA**

There was a time when Russia (under erstwhile USSR) used to be the largest trade and strategic partner of India. However since the economic reforms of 1991, and the subsequent destruction of USSR, the trade partnership between Russia and India has been taken aback. The same is evident from the fact that trade with Russia has been less than 1% of the total trade of India for the financial year 2018-19. India is a nett importer of Russian goods with major import items being Pitch or pitch-coke obtained from coal-tar. One major reason for lack of trade between these two countries with India opening its economy whereas Russia still persisting with socialism and trade protectionism and is considered as anti-thesis for free trade(Heing,2017)<sup>16</sup>.

**Table 4: India’s Trade with Russia (In Rs.Lakhs)**

Year	Export	Import	Total Trade	Trade Balance	Share in Total Trade (In %)
2014-15	1,282,356.22	2,592,365.75	3,874,721.97	-1,310,009.53	0.84
2015-16	1,040,893.51	2,998,646.79	4,039,540.31	-1,957,753.28	0.96
2016-17	1,298,532.46	3,718,033.65	5,016,566.11	-2,419,501.19	1.13
2017-18	1,362,201.92	5,528,709.05	6,890,910.97	-4,166,507.13	1.39
2018-19	1,672,679.44	4,081,679.07	5,754,358.51	-2,408,999.63	0.97

Source: EXIM DATA BANK, MINISTRY OF COMMERCE

**IV.V TRADE RELATIONS WITH FRANCE**

Strategic relationship with France has been gathering momentum ever since 2014. The defence agreement with Dassault regarding the purchase of Rafale fighter air crafts is one of the indicators of the growing partnership between the two governments. However, if we analyze the overall trade data, there has been stagnation. In fact, since 2016-17 the trade balance between the two countries has been unfavourable to India with trade deficit for 2018-19 being -1,002,385.97. The share of trade with France of the overall trade of India has also been less than 2% continuously. The massive trade deficit has resulted because of the increased purchase of aircraft from France. Therefore, although, India is in the trade deficit, the increased purchase of aircraft has been significant for the country in civil as well as defence front.

**Table 5: India’s Trade with France (In Rs.Lakhs)**

Year	Export	Import	Total Trade	Trade Balance	Share in Total Trade (In %)
2014-15	3,032,342.22	2,703,005.36	5,735,347.58	329,336.86	1.24
2015-16	3,032,612.40	2,442,014.05	5,474,626.45	590,598.35	1.30
2016-17	3,517,869.78	3,826,374.09	7,344,243.87	-308,504.31	1.66

2017-18	3,158,610.39	4,203,232.80	7,361,843.19	-1,044,622.41	1.48
2018-19	3,657,423.29	4,659,809.26	8,317,232.55	-1,002,385.97	1.41

Source: EXIM DATA BANK, MINISTRY OF COMMERCE

#### IV.VI COMPOSITE TRADE OF INDIA

The composite trade scenario of India has been a matter of “work in progress” since 2014. The global trade environment has hit the country’s trade also. Currently, India is expecting a trade agreement with the USA as well as European Union. However, the country is negotiating hard for better terms of trade and has recently opted out of RCEP due to the fear of agriculture dumping. In 2014, the country launched “Make in India” and has recently emphasized on “Assemble in India”. However, presently the problem of huge trade deficit remains unsolved. The sanctions on Iran and Venezuela have also increased the import bills. Although the total trade of India has increased from 463,343,499.59 Lakhs in 2014-15 to 590,240,080.57 Lakhs in 2018-19, the phenomenon is import driven as imports have risen from 273,708,657.84 Lakhs in 2014-15 to 359,467,461.19 Lakhs in 2018-19. As a result, the trade deficit has increased from -84,073,816.08 Lakhs to -128,694,841.81 Lakhs for the same duration (Table 6).

**Table 6: Composite trade data of India**

Year	Total Export	Total Import	Total Trade	Trade Balance
2014-15	189,634,841.76	273,708,657.84	463,343,499.59	-84,073,816.08
2015-16	171,638,440.44	249,030,553.78	420,668,994.22	-77,392,113.34
2016-17	184,943,355.34	257,767,536.68	442,710,892.02	-72,824,181.34
2017-18	195,651,452.80	300,103,343.35	495,754,796.15	-104,451,890.54
2018-19	230,772,619.38	359,467,461.19	590,240,080.57	-128,694,841.81

Source: EXIM DATA BANK, MINISTRY OF COMMERCE

#### V. CONCLUSION

It is evident from the analysis that the Indian foreign policy, as well as the trade pattern, has shifted heavily towards the United States of America which has resulted in greater bilateral relations and increased involvement of India in global decision making. However, primarily due to heavy inflow of Chinese products, the country is facing a huge trade disbalance. To ensure the sustainability of the trade and economy, it is imperative that the government of India take further measures to boost trade. Also, inclination towards one country shall not result in a visible tilt from the other countries. To ensure autonomy and sovereignty in the decision-making process, India must continue its practices of neutrality. It has to be remembered by the policy-makers that it was lack of dependence on the USA that saved the Indian economy during the sub-prime crisis of 2007-08. With the growing fears of a slowdown in the economy with reduced GDP forecast and decreased export growth, India should opt for measures supporting free trade which will boost Investor sentiments as well as consumption.

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