TRADE DEFICIT - ECONOMY (MAINS)

Q. India's merchandise trade deficit widened to a record high of $31.46 billion. Critically analyse the impact of trade deficit for a country in the present context of globalisation. (10 marks, 150 words)

News: *Trade deficit balloons to record high of $31.46 billion in October*

What's in the news?

- India's merchandise trade deficit widened to a record high of $31.46 billion in October from $19.37 billion in September.

Trade Deficit:

- When a country's imports surpass its exports in a fiscal year, it is considered to be a trade deficit.
- The **negative balance of trade** is another phrase for the trade deficit.
- The term "trade deficit" refers to the amount of international trade that takes place between countries throughout the world.
- Different types and categories of products and services, as well as foreign transactions such as current account, financial account and capital account, can all be used to compute trade deficits.
- When an international transaction account has a negative balance, it is said to be a trade deficit. These foreign accounts, such as the balance of payments, track all monetary transactions between residents and non-residents.

Causes:

- A trade deficit occurs when a country cannot produce what it requires and must import things from other countries while paying import taxes. The current action deficit is the term for this situation.
- It can also happen when businesses are involved in the production of goods in another country.
- The raw resources used in manufacturing are exported, whilst the final commodities brought into the country are imported.
- If the Country lacks essential goods such as crude oil, critical minerals, it has to depend on other countries. Then the trade deficit becomes inevitable.
- **Geopolitical factors** like war and resultant supply chain disruptions may also cause trade deficits due to costly imports.
- **Climate change impacts on agriculture output** may also reduce export volume and increase trade deficit.

- **Post Covid de-globalisation trends and Inward looking policies** gradually increase the duty regime to curb imports from other countries. It may also cause a trade deficit.

Impacts:

- It **raises the standard of living** at first because residents have access to a wider range of things.
- If the trade imbalance remains, the government will have to **obtain additional foreign exchange to close the gap, causing the local currency to fall.**
- To close the import-export imbalance, a larger trade deficit necessitates the recruitment of foreign investors.
- Because more imports mean fewer job prospects, a bigger trade imbalance causes jobs to be outsourced to other countries.
- Demand for imported items leads to a decrease in demand for locally produced goods, resulting in factory closures and job losses.

Advantages of Trade deficit	Disadvantages of Trade deficit
• It enables a country to consume more than it can produce. • It assists countries in avoiding any shortages of supplies. • When countries are participating in trade, it gives them a competitive advantage. It is good to boost global wealth as a whole. • It makes it possible to attract more foreign direct investment.	• More imports contribute to deflation and an increase in the fiscal imbalance, which is damaging to a developing country. • When demand for foreign goods rises, more jobs are outsourced while home industries decline with less demand. • Due to the trade deficit, the country may wind up handing over ownership of its resources and assets to the foreign country. • A higher trade deficit causes the value of the local currency to fall.

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