



MERCHANDISE TRADE DEFICIT: ECONOMY

NEWS: Exports dipped 1% in December, trade gap eased from November's record high

WHAT'S IN THE NEWS?

India's merchandise trade deficit reduced to a three-month low of \$21.94 billion in December 2024, reflecting policy efforts to improve trade dynamics, while the total trade deficit for FY 2023-24 showed a significant 35.77% decline compared to FY 2022-23.

1. Trade Deficit and Merchandise Trade Deficit: Key Differences

Aspect	Trade Deficit	Merchandise Trade Deficit
Definition	The total imports (goods + services) exceed total exports.	Focuses exclusively on imports and exports of goods (merchandise).
Scope	Broader, includes goods and services.	Narrower, excludes services, focusing only on goods.
Policy Implications	Requires broader economic policy adjustments.	Focuses on policies related to physical goods (e.g., tariffs, trade barriers).

2. Current Trends in India's Trade Deficit

- **December 2024:** Merchandise trade deficit dropped to \$21.94 billion (three-month low).
- **FY 2023-24 (April-March):**
 - **Total Trade Deficit:** \$78.12 billion (-35.77% YoY).
 - **Merchandise Trade Deficit:** \$240.17 billion (-9.33% YoY).

3. Reasons for India's Trade Deficit

- **High Import Dependency:** Crude oil, gold, electronics, and machinery.
- **Global Conditions:** Economic trends in key markets like the US and EU.
- **Limited Export Growth:** Merchandise exports lag behind service exports.
- **Rupee Depreciation:** Increases import costs.
- **Manufacturing Challenges:** Domestic industries lack global competitiveness.

4. Challenges of a High Trade Deficit

- **Foreign Exchange Reserves Pressure:** Declines due to high import payments.
- **Currency Depreciation:** Affects the rupee's value, increasing inflation.
- **Fiscal Deficit Impact:** Greater need for government borrowing.
- **Growth Concerns:** Strains long-term economic stability.

5. Measures to Address Trade Deficit



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- **Boost Exports:** Sector-specific incentives and trade agreements.
- **Make in India:** Reduce import reliance by strengthening manufacturing.
- **Diversify Trade Partners:** Focus on Africa, Latin America, and Southeast Asia.
- **Promote FDI:** Encourage foreign investments to reduce technology gaps.
- **Enhance Infrastructure:** Improve logistics, ports, and transportation networks.

6. Way Ahead

- Strengthen domestic manufacturing.
- Enhance export competitiveness.
- Reduce crude oil dependence by promoting renewable energy.
- Expand trade partnerships beyond traditional markets.

Source: <https://www.thehindu.com/business/Economy/exports-dipped-1-in-december-trade-gap-eased-from-novembers-record-high/article69101596.ece>

