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Indo-German trade and its impact

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Abstract

International trade between India and Germany includes export and import as a key aspect. Import-export is the backbone of the economy. The country's financial system is dominantly dependent on its perspective and adoption of exports and imports from other countries. Both India and Germany create an array of opportunities. This paper examines the trade of both economies from global and bilateral perspectives. The purpose of this paper is to analyze the trade value from the last two decades to the present period and to examine the composition of trade across the period.

Keywords: International trade, import-export, bilateral trade

Introduction

India - Germany relationship is deeply rooted in long-standing history and cultural connections marked by friendship and cooperation. The relationship between both countries is founded on democratic principles and is marked by a high degree of trust and mutual respect. With time diplomatic relations developed rapidly. The two countries share strong business and economic ties which date back to the 16th century, it strengthens in the 1990s with India's strategic step towards economic liberalization, globalization, and privatization. In 2015, Prime Minister Narendra Modi's initiative to create and improve the business environment boosted the trade between the two countries. This step helps to build a platform to perform the trade with ease.

The impact of liberalization, globalization, and privatization opens up a new dimension of trade to the Indian economy. The government of India announced a New Economic Policy on July 24, 1991. This new model of economic reform is commonly known as the LPG model. A new policy introduced various changes regarding industrial licensing, elimination of controls and restrictions, rationalizing and simplifying the system, greater scope to import-export policy, etc.

India and Germany have 'strategic partnership' since 2000 which has been further strengthened with intergovernmental consultations (IGC) between the two governments. The two countries have several institutionalized arrangements to discuss bilateral and global issues of interest.

According to the data given above, we can see a gradual increase in trade volume with time. Within a given period major Indian exports to Germany are textiles, metal and metal products, electro technology, leather and leather goods, food and beverages, machinery, pharmaceuticals, auto components, chemicals, and rubber products. Major Indian imports from Germany are machinery, metal and metal products, chemicals, auto components, measurement and control equipment, plastic, pharmaceuticals, paper and printing materials, etc.

Objectives

1. Analyse the trade value from 1991 to the present between India and Germany.
2. Examine the composition of trade across the period.

Literature review

Basu, S. and Datta, D. (2007) ^[1] - This paper analyses the reason behind the persistent bilateral trade deficit of Bangladesh with India.

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It finds that Bangladesh has export similarities with India and hence faces high export competitiveness. The lack of match between Bangladesh exports and Indian imports also generates a constant complement. The paper suggests that Bangladesh should put some pressure on appropriate exchange rate policy and aim at increasing diversification in its export structure, it will help them to reduce the bilateral trade deficit.

Sharma, M. and Dr. Mittal, R. (2015) ^[2] - The study shows international trade which includes export and import as key aspects in the backbone of the economy. The country's financial system is majorly dependent on its perspective and adoption of exports and imports from other countries. This research paper helps to understand various facets of the policy of India in diverse points and future predictions.

Lardy, N., (2006) ^[3] - The book discusses the expansion of China's trade that has outpaced the growth of its domestic economy and exceeded the growth of its domestic economy for almost 3 decades. Chapter 5 in this book analyses two issues: China's bilateral trade with the U.S. and China's exchange rate policy.

Salvatore, D., (1991) ^[4] - Book discusses about how to solve U.S. - Japan trade problem. The trade deficit of the U.S. with Japan has grown large with time. During the past decade, the U.S. has lost competitiveness for Japan. The U.S. remains undisputed leadership over Japan. The U.S.-Japan trade has 2 problems; one, the bilateral deficit with Japan is disproportionately large in part. Second, the changing composition of U.S. Japan trade reflects a growing loss of U.S. technological competitiveness at the microeconomic level.

Rasoulinezhad, E., and Jabalameli, F., (2018) ^[5] - It explores the similarities of trade ingredients in BRICS member countries. Using time series data from 2001 to 2015 and employing the gravity trade model. This paper utilized separate trade data of manufactured goods and raw materials of each BRICS member. A challenge is how we can measure or analyze the trade integration pattern between countries.

Yu, T., (1987) ^[6] - This paper reviews the progress achieved in technological cooperation and bilateral trade, examines the problems China and Japan have encountered since 1978, and based on previous analysis, makes projections of the development of Sino-Japanese economic relations soon. An examination of problems involved in the development of Sino-Japanese economic relations while significant by itself can also provide insights into problems that have been faced by market economies when trading with command economies.

Nayyar, D., and Sen, A., (1994) ^[7] - This paper analyzes the impact on Indian agriculture of trade policy reforms and multilateral trade liberalization reforms in India. The rationale and structure of India's trade with policy regime for agriculture over the last three decades are outlined to highlight the fundamental changes in recent trade policy reforms. The analysis is developed further to cover the implications and consequences of trade policy reforms in India for the agricultural sector in particular. With shifting attaining in an international context, the status of trade in agriculture in a multilateral trading system so far is outlined to bring out the fundamental changes in it.

Minyue, H., (2006) ^[9] - It has displayed two countries, China and Australia with steady growth in value and complementary commodity trade. This article is viewed

largely from a Chinese perspective, this article aims to undertake a depth study to reveal the genuine trade relationship between the two countries. While elaborating on the flow and complimentary of trade, this article focuses on investigating the fundamental factors in shaping their trade relationship. It examines the relationship in merchandise trade between China and Australia since the implementation of China's modernization strategy in 1978.

Roy, A., and Mathur, K., (2016) ^[10] - when the U.K. decides to exit from the European Union i.e. BREXIT, the bilateral cost between the U.K. and E.U. will increase both from newly applicable tariff and non-tariff barriers, which have a direct impact on trade flow between these two trading partners and indirect impact on these two trading partners. This study attempts to analyze the effect of trade liberalization on the bilateral trade structure between India and the E.U. due to BREXIT, India examines the decline of GDP growth rate from 1.1% to 0.5% and the European Union from 0.1% to 0.5%.

Bahmani, M., and A. Ratha (2004) ^[11] - A study has investigated the phenomenon between the U.S. and the six largest trading partners. Given that developing countries constitute almost half of U.S. trade. In this paper, the author tests the short-run and long-run effects of depreciation on the dollar on the bilateral trade balance between the U.S. and 13 developing countries.

Authukorala, P. (2017) ^[12] - China's rapid increase in trade led to the view that East Asia was becoming a self-contained economic entity with the potential for maintaining dynamic growth independent of the economic outlook for traditional development market economies.

Methodology

1. Analyse existing literature on trade between India and Germany.
2. Fetching live datasets from live sources of government, reports, research papers, banks, journals, etc.
3. Generate graphs for analysis and conclusion.

Data interpretation

International trade has been constructed as an engine of international growth which must lead to balanced improvement in human status by expanding the range of people stranded and preferences. Since no country has grown without trade, international trade plays a very important role in reconstructing the economic and social attributes of countries around the world. In the past years, international trade has been tremendously grown, since it has offered several advantages to different countries across the world. It plays a significant role in the gross domestic product of the country (GDP). Owing to the latest production techniques, advanced transportation systems, outsourcing of manufactured goods and services, and fast industrialization, international trade is rising and spreading rapidly.

During the 1990s, Indian Economy underwent significant reform, popularly known as LPG reforms. It was liberalization, privatization, and globalization of the economy, simplifying regulations, giving more role to the private sector, and opening up of economy to competition. The import substitution and import restriction policies were abandoned and instead, the country introduced import liberalization and export promotion policies. The abolition of the MRTP Act was also a strategic step towards

introducing competitive practices in the economy. The key highlights of LPG policy are given below:

- Foreign technology agreement.
- Foreign investment.
- Abolishment of MRTP Act 1969.
- Deregulation.
- Beginning of privatization opportunities for overseas trade.
- Tax reforms.

Due to such reforms, Indo-German trade volume has increased by 180% from 2.7Bn EUR to 7.6Bn EUR in 2005, with German exports to India having recorded an increase of 135%. During this period Indo-German Chamber of Commerce and Industry also play a major role in the promotion of Indo-German relations.

The framework of bilateral trade relations between Germany and India was delineated in the Agenda for German Indian Partnership between the two countries in May 2000. This agreement was meant to give a structure to deepening

relations between the two nations. Germany is amongst India's most important partners for trade, investment, and technology. Economic and commercial relations between India and Germany date back to the early 16th century when well-known German trading companies from Augsburg and Nuremberg, with the help of the Portuguese, developed a new sea route around Africa, as they sailed in search of precious stones and spices for trading purposes. Thereafter in the 16th and 18th centuries, several German companies were established with the express purpose of trading with Indian and other East Asian countries. In 1867, Siemens built the first telegraph connection between Kolkata and London. In 1896, Bayer started its operations in India. In 2011-2013, we celebrated 60 years of diplomatic relations between India and Germany. Bilateral trade has been healthy in recent years. From USD 15 billion in 2007, it almost doubled to around Rs. 1106.10 billion in 2011. Trade of around Rs. 1590.57 billion was registered in the financial year 2012-13 decreasing by more than 8% as compared to 2011-12.

Table 1: Export- Import data (1996 - 2017) India's Export (Rs. In lakhs)

Year	Export	India's Total Export	% Share of total export
1996-1997	6,72,035.79	1,18,81,797.38	5.66%
1997-1998	7,13,971.24	1,29,27,770.02	5.52%
1998-1999	7,79,123.81	1,39,75,315.65	5.57%
1999-2000	7,53,292.11	1,59,56,177.56	4.72%
2000-2001	8,71,460.16	2,03,57,101.09	4.28%
2001-2002	8,52,900.61	2,09,01,797.34	4.08%
2002-2003	10,19,534.47	2,55,13,727.66	4.00%
2003-2004	11,69,261.49	2,93,36,674.75	3.99%
2004-2005	12,69,875.33	3,75,33,952.62	3.38%
2005-2006	15,87,701.77	4,56,41,786.15	3.48%
2006-2007	18,00,723.12	5,71,77,928.52	3.15%
2007-2008	20,59,892.83	6,55,86,352.18	3.14%
2008-2009	29,19,475.35	8,40,75,505.87	3.47%
2009-2010	25,63,293.28	8,45,53,364.38	3.03%
2010-2011	30,71,853.52	11,36,96,426.38	2.70%
2011-2012	37,96,531.89	14,65,95,939.96	2.59%
2012-2013	39,40,810.59	16,34,31,828.96	2.41%
2013-2014	45,51,943.87	19,05,01,108.86	2.39%
2014-2015	46,06,196.79	18,96,34,841.76	2.43%
2015-2016	46,45,663.46	17,16,38,440.44	2.71%
2016-2017	48,15,370.00	18,49,43,355.34	2.60%

Table 2: India's Import (Rs. In lakhs)

Year	Import	India's Total Import	% Share of total Import
1996-1997	10,04,757.68	1,38,91,966.47	7.23%
1997-1998	9,39,637.59	1,54,17,628.82	6.09%
1998-1999	9,00,598.21	1,78,33,185.44	5.05%
1999-2000	7,97,751.99	2,15,52,843.89	3.70%
2000-2001	8,03,857.32	2,30,87,276.04	3.48%
2001-2002	9,67,238.31	2,45,19,971.86	3.94%
2002-2003	11,63,677.29	2,97,20,587.40	3.92%
2003-2004	13,41,124.14	3,59,10,766.37	3.73%
2004-2005	18,04,156.35	5,01,06,454.03	3.60%
2005-2006	26,66,872.86	6,60,40,890.33	4.04%
2006-2007	34,14,674.94	8,40,50,631.33	4.06%
2007-2008	39,73,603.74	10,12,31,169.93	3.93%
2008-2009	54,92,241.61	13,74,43,555.45	4.00%
2009-2010	48,88,575.63	13,63,73,554.76	3.58%
2010-2011	54,13,601.64	16,83,46,695.57	3.22%
2011-2012	74,84,059.50	23,45,46,324.45	3.19%
2012-2013	77,93,366.10	26,69,16,195.69	2.92%
2013-2014	78,20,963.81	27,15,43,390.74	2.88%

2014-2015	78,18,109.63	27,37,08,657.84	2.86%
2015-2016	79,09,817.69	24,90,30,553.78	3.18%
2016-2017	77,70,441.21	25,77,67,536.68	3.01%

Source: Ministry of commerce website.

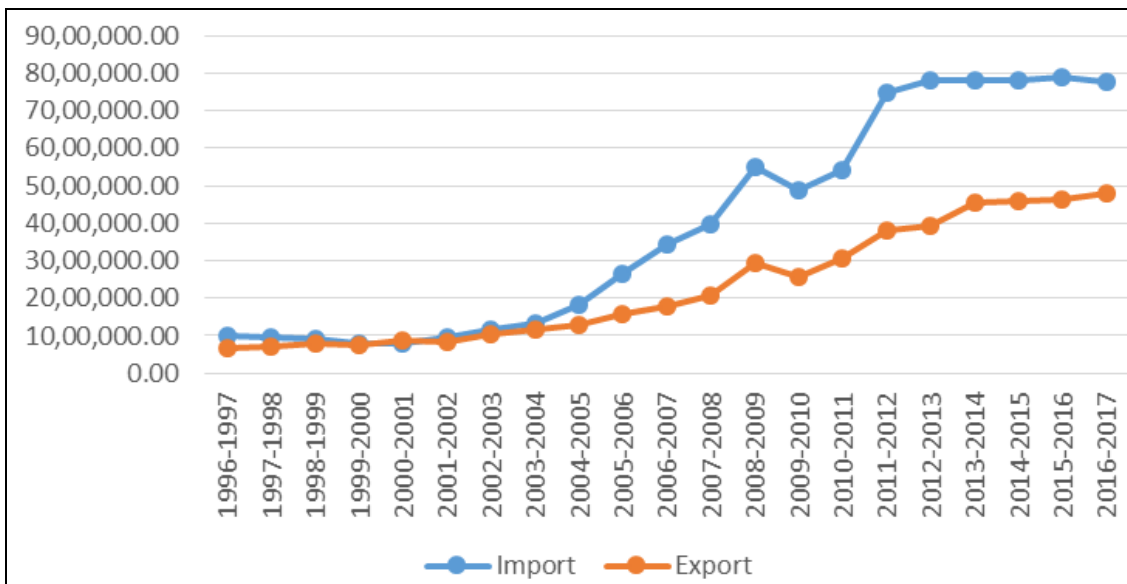


Fig 1: India's import export

During 1996 -97 we exported Rs. 6,72,035.79 lakhs value of goods and services contributing 5.66% to total export and imported Rs. 10,04,757.68 lakhs value of goods and services contribution 7.23% of total import from Germany. During 2016-17 we exported Rs. 48,15,370.00 lakhs value of goods and services contributing 2.60% to total export and imported Rs. 77,70,441.21 lakh value of goods and services contribution 3.01% to total import from Germany. According to this data, trade between two countries rises with time. The trade growth has been double in digits. Since 1996 percentage of the share of total imports and total exports to total trade has fallen. The trade is rising between

the two countries but the trade gap between import and export is also rising between the two countries. India is facing a trade deficit. Germany is still a dominant partner in trade with India. To improve further trade with Germany in upcoming years India must take strong policy measures to promote trade.

Top 5 import export commodities

To analyse the trade composition between two countries in this paper we take top five import export commodities from 1996 to 2007.

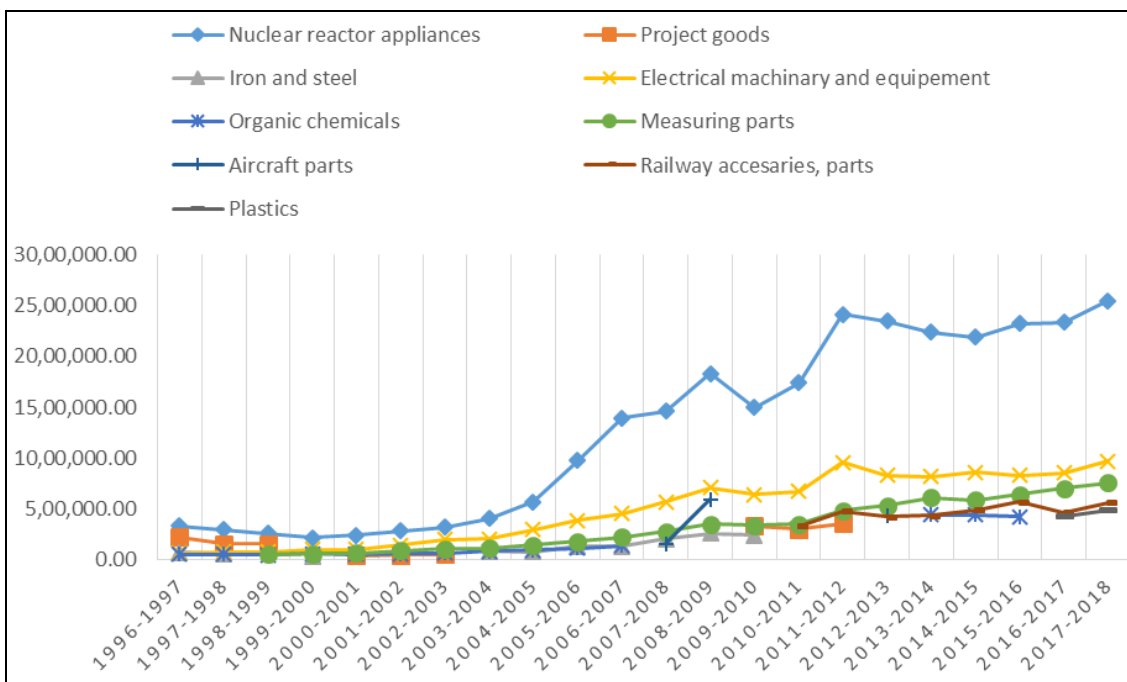


Fig 2: India's import

Among these top five goods each year, there are some common goods India imports from Germany which are: Nuclear reactor appliances project goods, iron and steel electrical machinery and equipment, organic chemicals, measuring parts, aircraft parts, railway accessories, its parts, plastics, etc.

In 1996-97 India imported nuclear reactors, boilers, machinery, and mechanical parts amounted to Rs. 3,32,582.44 lakhs. According to the above line diagram nuclear reactor appliance import is grater then rest of imports. As trade between the two nations grows, the import of nuclear reactor appliances also grows which became the dominant import commodity over the years. In 2017-18 India imports Rs. 25,50,079.78 lakh amount of nuclear reactor appliances, which rises to 8 times as compared to 1996-97. As Germany is a developed nation, we import electrical machinery and equipment and parts, sound

recorders, television, etc. there is a gradual increase from 1996 Rs. 68,210.94 lakhs to 2017 Rs. 8,57,926.49 lakhs. From 1998 India started importing measuring parts in 1998-99, which increased up to Rs. 7,56,254.68 lakhs in 2017. Commodities mentioned above are continuous in nature and demand for it is rising every year. Commodities that are not continuously imported are also there in the top five imports. We imported iron and still only for 4 years, which amounted to around Rs. 80,000.00 lakhs. Just like this, we are importing organic chemicals from Germany, its value is rising but not continuous. We imported aircraft parts for a few number of years. We started importing railway components from 2010-11 amounted to Rs. 3.34.817.17 lakhs which are rising slowly with period. From 2016-17 we started importing plastic articles amounted to Rs. 4,28,487.93 lakhs.

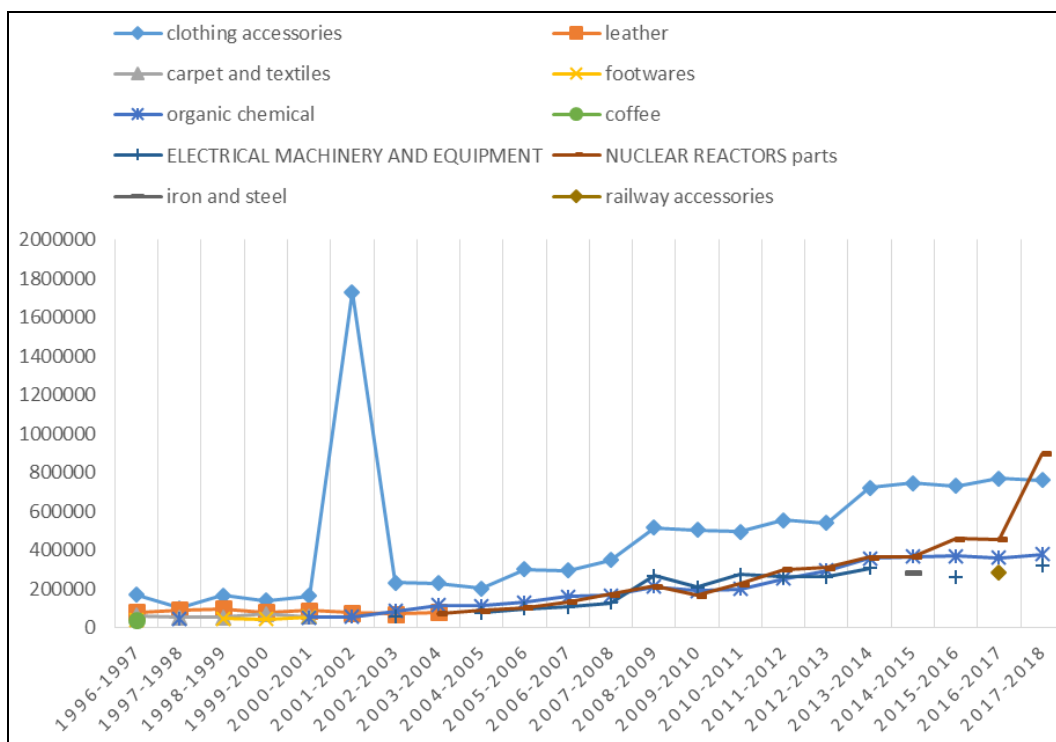


Fig 1: India's export

Under the top 5 commodities, there are some common comedies across all years namely: articles of apparel and clothing accessories, carpet and textiles, organic chemical, electrical machinery and equipment, iron and steel, leather, foot wares, coffee, nuclear reactor parts, railway accessories. India is an agriculture-based economy, which mostly produces primary goods. With the help of the bar diagram, we can observe that the volume of articles of apparel clothing accessories is greater than other commodities, in 1996-97 India exported amounted to Rs. 170265.46 lakhs, there was a hike in exports in 2001-02 Rs. 17,29,663.22 lakhs. India started exporting organic chemicals in 2001-02, In 2017-18 export reached Rs. 3, 76,869.27 lakhs. India also exports nuclear reactor parts to Germany, which can be observed since 2003-04. Among these comedies, exports of clothing accessories, organic chemicals, and electrical machinery and equipment are continuous. There is a steady growth of trade in these commodities. But comedies like lather, carpet and textiles, foot wares, iron and steel, and railway accessories are non-

continuous. Major trade of lather commodities can only be traced between 1996 to 2004.

Conclusion

The bilateral trade in goods and Services between the two countries has been increasing since 1990. In the past 10 years, India's trade basket with Germany has not changed much and is still very restricted to selected products. A trade pact between India and Germany can enhance the trade volume and help in diversifying the trade basket. There is a need of a Trade Partnership Agreement between the two nations.

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