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CURRENT STATUS OF INDIA

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Abstract: In the context of building consensus on bilateral trade, the political aspects of India and China are the cornerstone of diplomatic and political ties between the two countries. The rapid spread of the Coronavirus has hampered the economic development of India, wreaking destruction on the situation of people working in the informal sector, particularly in India. There were repercussions from several factors, i.e., inflation, trade imbalance, unemployment, depreciation, etc., which were increasing in a terrifically drastic manner. For this purpose, vector autocorrelation and Granger causality Wald tests of variables are utilized, in which GDP is the dependent variable, and inflation, imports, and exports are the explanatory variables. The result highlighted that export, import, and inflation are inversely related to the GDP of India.

IndexTerms-GDP, India, export, import, inflation, India

1. Introduction

Historical evidence shows that the impact of COVID-19 badly affected economic growth as well as economic development in the long run. The absence of infrastructure, limited fiscal response, and low public health expenditures, all suggested that scaling up the COVID-19 response and management will present significant obstacles (Siddiqui et al. 2020). The main aim of this study is to evaluate the current status of India in terms of economic growth, inflation, exports, and imports. The first section of the report will provide a brief discussion of the scenario in India. The second section will focus on analyzing the various factors that affect economic development and growth. The final section of the report will provide a possible recommendation for the current status of India.

2. Factors affecting the economy of India

The current status of India can be concluded by various factors that showed the economic growth and economic development of the country. The gross domestic product (GDP) is the annual market value of all goods and services generated in a nation, and it is the main indicator of economic growth. Moody's economic growth forecast for India for 2022 is reduced from 7.7% to 7.0% because of a downturn in the worldwide economy and the result of COVID-19, which are affecting the nation and raising domestic interest rates, which will depress economic growth (Karunakar 2022). There is a rise in domestic interest rates, tighter monetary policy, and fiscal concerns that are not good for India because higher interest rates make borrowing more expensive, allow less money for other uses, and hence constrain the expansion of consumer expenditure. So, aggregate demand will decline as a result of this. Poorer AD will often result in more unemployment and lower (or even negative) economic growth (recession). Firms will manufacture fewer items and hence need fewer employees if output declines. Taking a comprehensive analysis into account, the decline in domestic interest rates also reduces economic growth in India.

The economic structure of India is a combination of three sectors: primary, secondary, and tertiary, which are exceedingly critical due to rising inflation and unemployment. The general definition of inflation is the rise in the prices of commodities over a specific duration. When someone actively looks for a job but is unable to secure it, they are said to be unemployed, and economic structure is described as the changing trade, income, and employment drawn from different economic sectors. In 2022, the consumer price inflation rate in India was 6.7%, a 0.3% decrease from the previous month (Globaldata, 2022). Whereas, the unemployment rate in India increased from 6.8% in July 2022 to 8.2% in August 2022, the highest level since August 2021 (Globaldata, 2022). People in India are hopeless because the unemployment rate is speedily increasing while the inflation rate is decreasing at a very low rate that may be negligible, and this situation disproves the theory of Phillips that there is a negative relationship between inflation and unemployment. In light of the overall analysis, economic growth is restricted if unemployment increases and the inflation rate is high.

After the pandemic, trade of India with other countries was badly affected, which increased the GDP of the country as a result of the decline in its trade deficit. Selling products and services to a foreign country is referred to as "exporting." Contrarily, importing is the act of acquiring goods from outside and bringing them into one's nation. The income surplus of India (1.3% of GDP) and surplus in services trade (3.3% of GDP each) somewhat offset the country's larger goods trade deficit with an 8% GDP rise for the entire year 2021 (Economic Times, 2022). The effects of the pandemic are felt all over the world, affecting international trade; however, a decrease in exports and imports reduces the trade deficit. Therefore, taking a comprehensive analysis into account, international trade with the country has declined, which also creates other issues and decreases the GDP.

The exports and imports of the country are entirely dependent on its trading partners, which aid in economic development. Exports are products and services that a nation manufactures at home and sells to clients or corporations abroad. Imports are the products and services that a company or client buys from another nation. Because India has a long-term trade deficit with China while maintaining a trade surplus with the US, it always tries to reduce its trade with China. Due to the pandemic and India's efforts to "disassociate" from China, trade relations between the US and India have been steadily improving. As a result, India's largest trading partner is now the United States, from which India imports more than it exports. It helps to decrease imports from other countries (Economic Times, 2022). Previously, India relied heavily on Chinese products due to their low prices and low production costs. The United States is assisting in the emerging information field, which improves the efficiency of a wide range of high-demand goods production. Consequently, considering in-depth analysis, India should trade freely with nations that support maintaining a trade balance, much like the US.

The value of the Indian rupee is now constant in comparison to other emerging economies, even if it is quite low when compared to the US dollar because the US is Importing more, as mentioned above, as there is depreciation in India post-COVID-19. According to the study by Shravan (2022), the value of the Indian rupee significantly declined the time after COVID-19 because of a decrease in FDI and an increase in imports, which harms capital flow. This caused an increase in the current account deficit, the decline of foreign capital, and inflation. It is happening because of the financial crisis in the lockdown, where the production of output is closed because the supply of goods is low compared to the demand for the goods. It increases imports while decreasing FDI in India, resulting in relatively less demand for the country's currency, which depreciates or loses value. According to the Marshall-Lerner condition, where the sum of the export and import elasticity of a country is greater than one, it can increase its trade surplus after some time. As a result, with careful consideration, India is currently experiencing difficulties due to currency depreciation, but it will have a trade surplus in the long run.

International trade contributes to economic development by raising the gross domestic product (GDP) per capita of nations and helping in the equal distribution of resources. GDP per capita is calculated as the total value created by all producers who are residents of the nation, plus any product taxes (fewer incentives), divided by the mid-year demographic. Resources are a service or other resource that is employed in the production of products and services that meet the requirements and desires of people. Trade relations between China and India have a significant long-term influence on both countries' increases in GDP per capita, with China benefiting more, so China is India's second-largest trader (Kumar, 2022). It can be seen that if there are trade balances between two countries, both will benefit, and there is an increment in the GDP per capita, which also indirectly improves the economic development of both countries. When a nation can produce an item or service at a lower opportunity cost than another nation, it is said to have a comparative advantage. As a result, it shows that we can do trade with those countries whose cost of production is very low as compared to our country, according to comparative advantage.

3. Data source and analysis

Data for the period 1970–2021 were obtained from the World Bank for GDP growth rate and from Statista for export (percentage of GDP), import (percentage of GDP), and inflation rate.

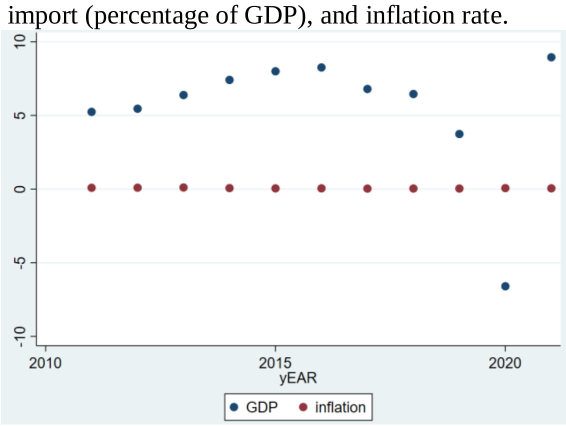

Figure1. Relation between GDP and Inflation (world bank, 2022)

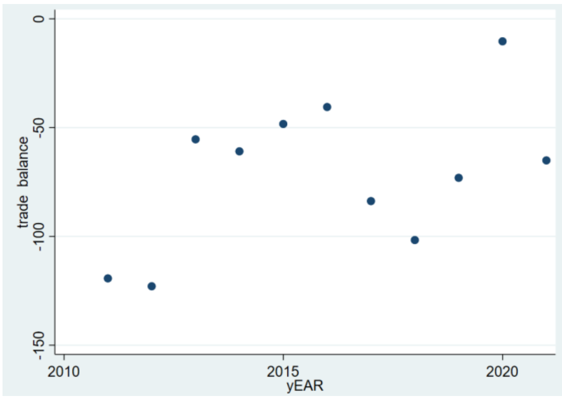

Figure2. Trade balance trends (World Bank, 2022)

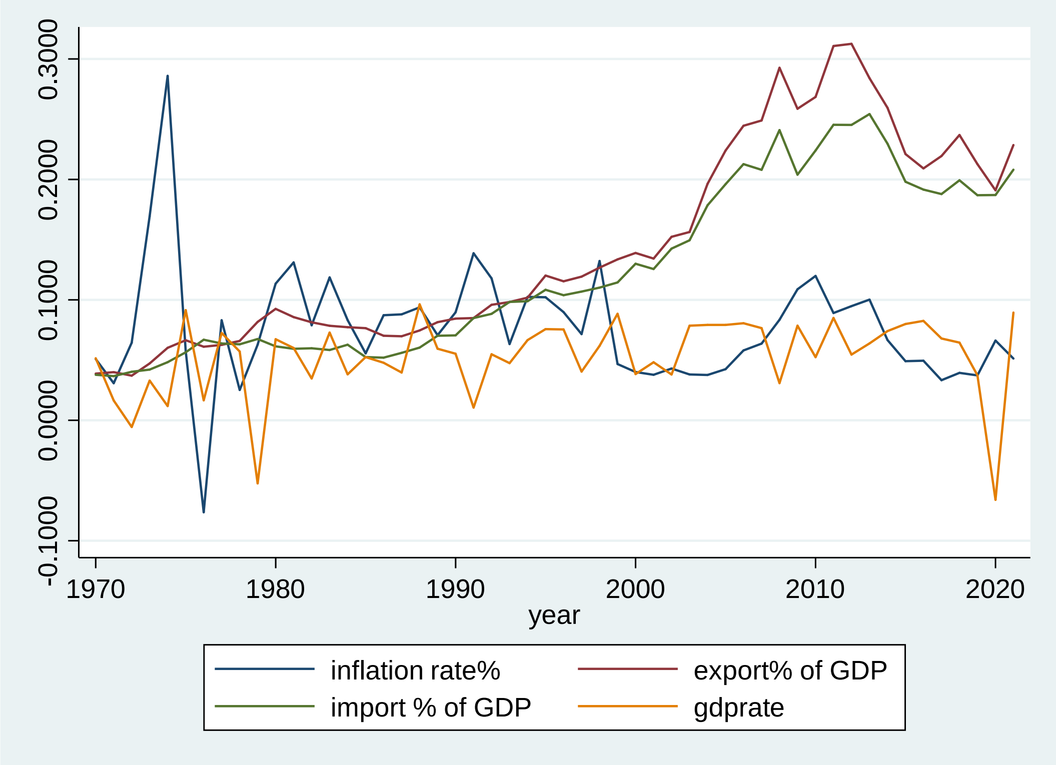

Figure3: trends of the inflation rate, import, export, and growth rate of GDP (world bank, 2022)

Here, in 2020, GDP became negative because of COVID-19, but after that, it recovered (Figure 1). Next, the trade balance shows that it improved in 2020 because of the lockdown, and there is a restriction on the movement of goods and services, but after that, it has become negative, which means that imports are higher than exports (Figure 2). At last, figure 3 shows the trends of import, export, inflation rate, and GDP growth rate, in which we can see that in the pandemic all variables declined.

The skewness of imports (as a percentage of GDP) in Table 1 is 0.5 to 0.5, indicating that the distribution is nearly symmetrical. The inflation rate and export percentage of GDP are between 0.5 and 1, so they are positively skewed and GDP is negatively skewed. The value of import and export rates is less than 3, so their graphs are platykurtic, and the value of GDP growth rate and export rates is greater than 3, so these are leptokurtic.

table 1. descriptive analysis (world bank, 2022)

variables	mean	Standard deviation	observation	kurtosis	skewness
GDP growth rate	.0529392	.0323165	52	6.605241	-1.67588
import (% of GDP)	.1239731	.0699836	52	. 1.674302	.4268176
export (% of GDP)	.1429173	.0824732	52	1.963802	. .5822964
Inflation rate	.076525	.0485814	52	9.426233	1.126845

Table 2. vector autocorrelation

Vector autoregression

Sample:	1971 - 2021	Number of obs	= 51
Log likelihood =	519.896	AIC	= -19.60376
FPE =	3.61e-14	HQIC	= -19.31427
Det(Sigma_ml) =	1.64e-14	SBIC	= -18.84618

Equation	Parms	RMSE	R-sq	chi2	P>chi2
gdprate	5	.031093	0.1650	10.08032	0.0391
inflationrate	5	.044417	0.2418	16.26549	0.0027
exportofgdp	5	.017118	0.9599	1219.654	0.0000
importofgdp	5	.013249	0.9667	1478.755	0.0000

table 3. **granger causality wald tests**

	Coef.
gdprate	
gdprate L1.	-.0571398
inflationrate L1.	.1957433
exportofgdp L1.	-.4700541
importofgdp L1.	.7097561
_cons	.0204433

HERE, THE STUDY APPLIED VECTOR AUTOCORRELATION AFTER TESTING THE STATIONARITY OF THE VARIABLES, AND ALL VARIABLES ARE HIGHLY SIGNIFICANT AT 1^{ST} CO-INTEGRATION, AND THE INFLATION RATE, EXPORT RATE, AND IMPORT RATE AFFECT THE GDP GROWTH RATE AT 19 %,47%, AND 3%, RESPECTIVELY.

4. CONCLUSION

The purpose of this research is to highlight the many issues that India has, that can have an impact on its performance in the areas of GDP, GDP per capita, international trade, currency value, inflation, unemployment, relationship with trading partners, export minus import, and currency value. The research also highlighted how COVID-19 harmed the economy's growth through the declaration of a lockdown, which exacerbated unemployment, and the suspension of production in the face of strong demand and ongoing inflation. It raises the risk of stagflation in India, which would harm the country's poor. In addition, in the current environment, the bulk of the poor are affected by this issue. In light of this, one of the potential recommendations of the report is that the condition of India may be stabilized with the support of strong government policies that are perfectly suited for the poor.

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