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GLOBAL RECESSION AND ITS IMPACT ON INDIA & INTERNATIONAL TRADE

Ivleen

[1]Student,

[1]Sacred Heart Sr. Sec. School,

Chandigarh, India

Abstract: An international trade in any country plays a very crucial role in the growth of an economy specifically when there is recession. There was a drastic slowdown during the recession of 2008. The result of the slowdown is recession in advanced as well as emerging market economies. The emerging market economies have suffered from the recession already but there is even a greater impact on growth due to external factors. The slowdown in the United States impacted highly on the Indian economy wherein the trade was mainly due to financial linkages and trade linkages. The research paper has mainly discussed about the analysis of Indian trade and impact on Indian import and export during the global recession. The research paper shows the challenges and contribution of the economies towards Gross Domestic Product.

***Index Terms* - International Trade, recession, financial linkages, trade linkages, Gross Domestic Product.**

Definitions:

Recession: A period of decline in economic activity. Very short period of decline are not considered in recession.[1]

Economic Trade Cycle: It refers to the economic fluctuations between expansion and contraction. There are fluctuations in he factors like employment, consumer spending, interest rates and gross domestic product (GDP).[2]

International Trade: These are the economic transactions that are made between the countries.[3]

I.INTRODUCTION

The economic cycle is a boom-bust pattern that the economy inevitably endures. It means, a significant downturn in the economy. A country's recession could be the result of its own actions or the actions of another country with which it trades. A recession can be identified as a situation where aggregate demand in the economy is too low to match the aggregate supply.

Recession results into, economy’s resources being under-utilised & laying idle, this further causes unemployment and a low capacity utilisation rate. Recessions are short-term in nature — eventually, markets adjust and bring spending and output back in line, even in the absence of policy intervention, (Marc Labonte).

A recession has many elements that can occur concurrently and includes declines in component measures of gross domestic product (GDP) such as consumption expenditure, investment expenditure, government spending, and net exports.

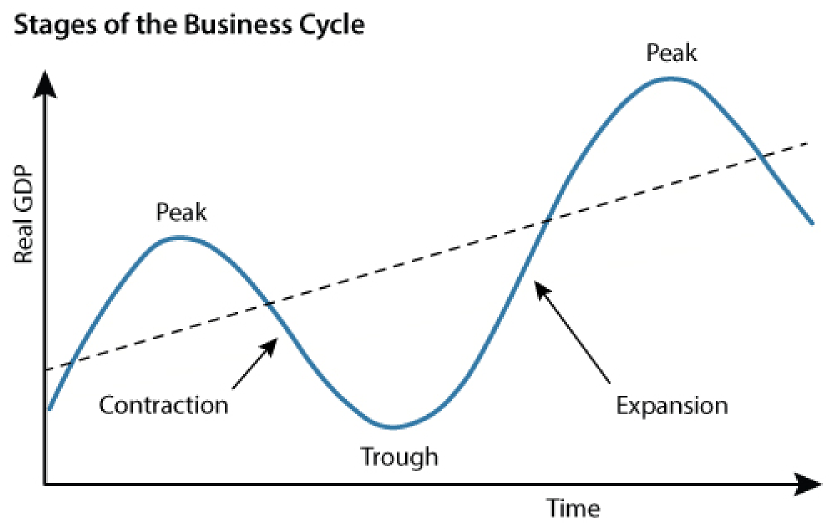
International trade is the buying and selling of commodities and services between businesses in other nations. International trade has played a key role in the rise of the global economy.Through international trade, nations may obtain commodities and services that might not otherwise be accessible domestically and grow their markets. Market competition has grown as a result of global commerce. This ultimately leads to more competitive pricing, which lowers the price of the final product for the customer. In the global economy, demand prices and supply prices both impact as well as are impacted by global events.

Political economists like Adam Smith and David Ricardo were among the first to acknowledge the significance of international commerce. International trade plays a vital role in raising standards of living and bring down the poverty levels. The main motive of trade is not only to earn foreign exchange but it also comes with the experience and knowledge to accelerate greater economic activity. During the time of recession, these economic activities decelerate.

Every economy has to face a typical business cycle.The business cycle is divided into four phases:

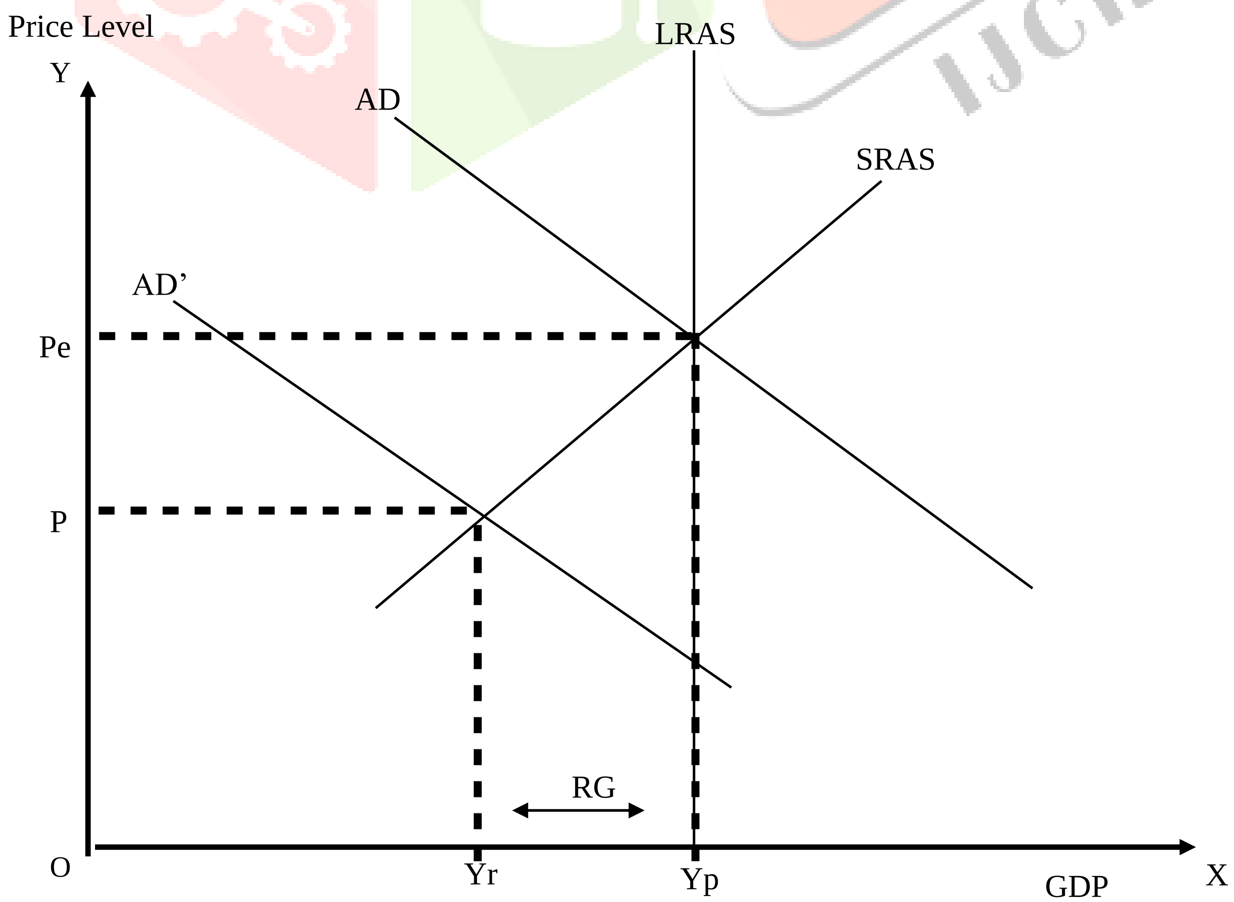
1. Expansion: It is the upward slope of the business cycle where the output (GDP) of the economy increases which means there is more production resulting into creating employment in the economy. The further result of this in increased purchasing power.
2. Peak: The extended expansion in any economy gives rise to peak phase in the economy. The money supply in this phase is more and the economy runs at its best.

3. Contraction: That specific period where the real GDP declines which means less economic outputs produced. In this phase of economic cycle there are lay off of workers and employees which creates unemployment in the economy. Recessions are the continuity of the contraction faced by the economy, where



people are unemployed for a longer duration.
4. Trough: Extended contractions are termed as trough where economy can go in the worst stage which could even result into recession.

II.RECESSION GRAPHS



- Pe - Equilibrium Price Level
- P - Decreased Price Level
- Yr - Real GDP
- Yp - Potential GDP
- LRAS - Long Run Aggregate Supply
- SRAS - Short Run Aggregate Supply
- AD - Aggregate Demand
- AD' - Decreased Aggregate Demand
- RG - Recession Gap

During the period of recession in the economy, the aggregate demand falls to AD' from AD. The equilibrium price of the economy which is Pe, is the result of intersection of AD and SRAS where real output is Yp, which determines the potential output of the economy. But, due to fall in aggregate demand to AD' the output of the economy also decreased to Yr. This difference between potential output (Yp) and real output (Yr) is the recession gap.

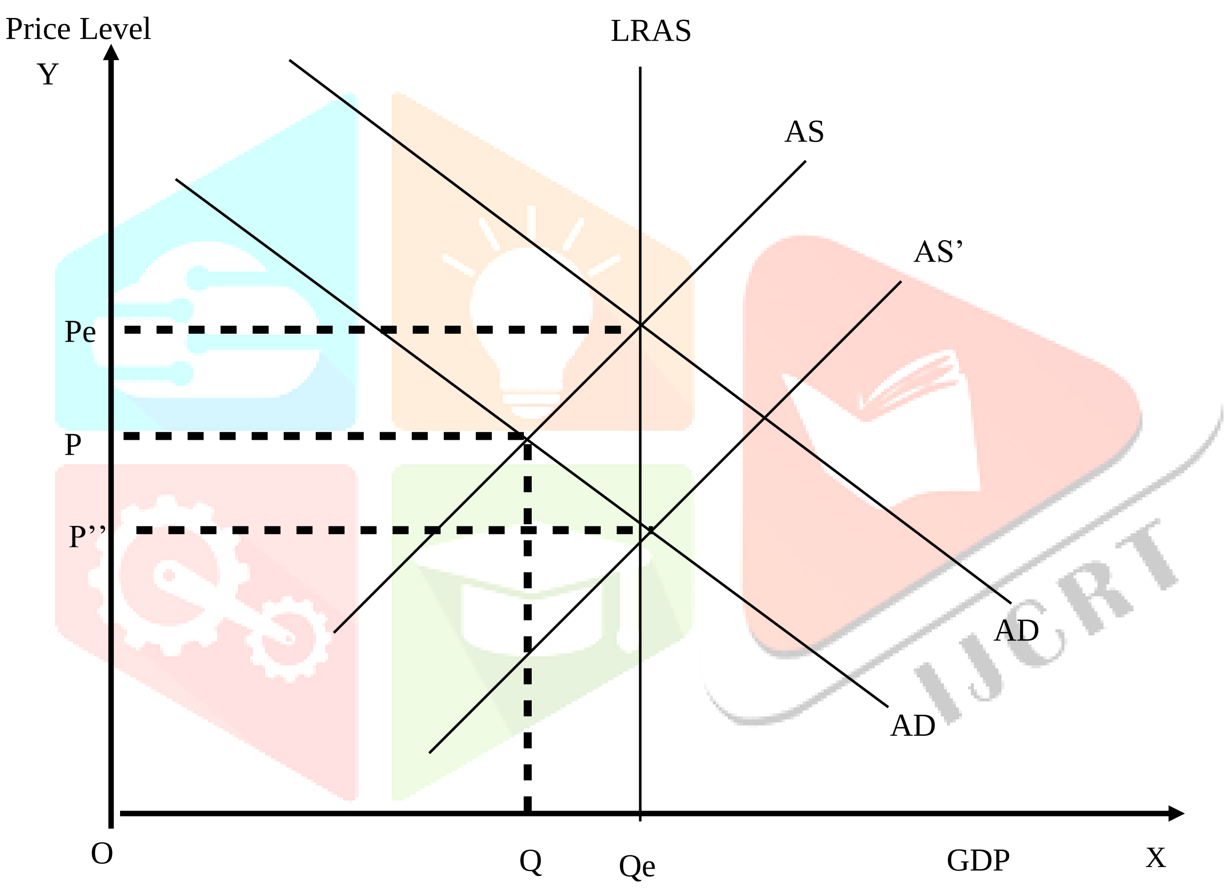


Figure : 2 - Recession in Long Run
Source : Author

Pe - Equilibrium Price Level
P - Price Level after recession
Qe - Equilibrium GDP
Q - GDP after recession
LRAS - Long Run Aggregate Supply
AS - Aggregate Supply
AS' - Aggregate Supply shifted
AD - Aggregate Demand
AD' - Aggregate Demand shifted

In the long run during recession, government resort the problem by taking policy measures like fiscal and monetary policy. The labour wages will fall resulting into decline in the price from Pe to P. The decline in the cost of labor will shift the aggregate supply curve towards right from AS to AS'. This will bring back the economy in full employment level of Qe from Q.

In some situations, wages are sticky so there is a need of government intervention. But in the long run everything gets adjusted thereby increasing the aggregate supply and closing the gap of recession.

III.OBJECTIVE

The main objective of the study is to understand the impact of global recession on Indian and International trade. The downturn of the economy has a rapid effect on poverty, employment and trade.

IV.RESEARCH METHODOLOGY

This data collected for this paper is secondary data collected from annual report published by Reserve Bank of India. Statistical tools are used to calculate percentage growth of exports and imports. The research design of the paper is descriptive and is quantitative in nature.

V. RESEARCH FINDINGS

India is willing to become a major player in global trade. In International trade, exports and imports hold an equal value. Exports are very important in an economy to create employment, increase the foreign exchange reserves and make expand the market. In a view of exports, imports cannot be ignored as they restore the economy and to keep a stability in trade and other economic trade policies which are important for maximising the contribution of such policies for development.

International Trade in India has played an analytical role during the stage of liberalisation and globalisation to escalate the economic gr

Table 1 : Export - Import and growth

Year	Export (US million $)	Import (US million $)	Balanced Trade (US million $)	Growth of export (%)	Growth of import (%)
2000 - 01	44.6	50.5	5.9	21.0	1.7
2001 - 02	43.8	51.4	7.6	(-) 1.6	1.7
2002 - 03	52.7	61.4	8.7	20.3	19.4
2003 - 04	63.8	78.1	14.3	21.1	27.3
2004 - 05	83.5	111.5	28.0	30.8	42.7
2005 - 06	103.1	149.2	46.1	23.4	33.8
2006 - 07	126.4	185.7	59.3	22.6	24.5
2007 - 08	163.1	251.7	88.6	28.9	35.4
2008 - 09	185.3	303.7	118.4	13.6	20.7
Average	**96.3**	**138.1**	**41.9**	**20.01**	**23.02**
2009 - 2010 (Apr - Dec)	125.2	199.6	74.5	(-) 32.5	(-) 34.3
Average	**99.15**	**144.3**	**45.1**	**14.8**	**17.3**

owth. In the concern of international trade there are different perspective of economists and non-economists. There are three basic principal difference. First, non economists are of the view that it is more important to trade with the members of others nations, where as economists believe that all trade is good if it is evenly distributed globally.

Second, non-economists perceive that there should be only exports in the country, whereas economists see that all import is also as important as exports. Third, non-economists understands that a nation's balance of payment is ruled by the competitiveness of its tariffs, wage rates and few other factors, whereas economists believe that balance of payments of a nation is ruled by tariffs and wage rate but also differences in national investment and national savings have an important place.

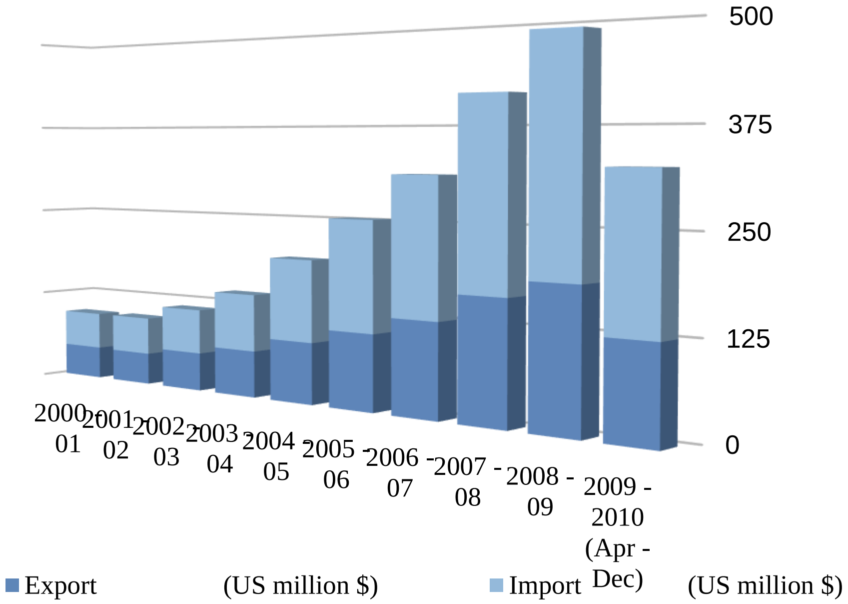
International Trade in India has played an analytical role during the stages of liberalisation and globalisation to escalate the economic growth. There are two directions of international trade for export diversification - extensive composition of trade and intensive composition of trade. Export composition of trade refers to the growth of export in new products and intensive composition is the growth n exports of the existing products which are being exported.

Figure 1 : Export and Import of India

Figure 2 : Export and Import Growth of India

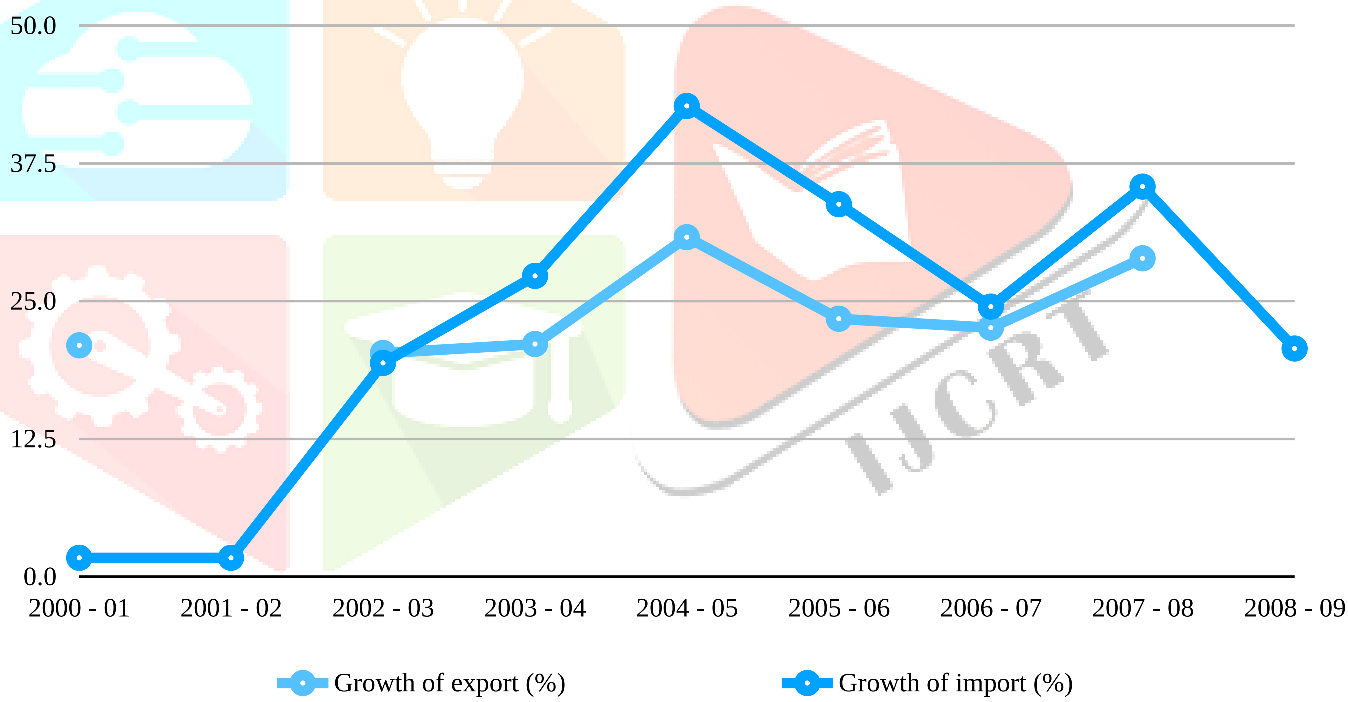
Recession affects Indian export and import activities, and also foreign trade plays a very important role in growth of the country. India exports more than 8000 commodities to nearly 190 countries, and imports more than 6200 commodities from 140 countries.

Exports sagged during the period of recession from October 2008 and imports drooped from January 2009.



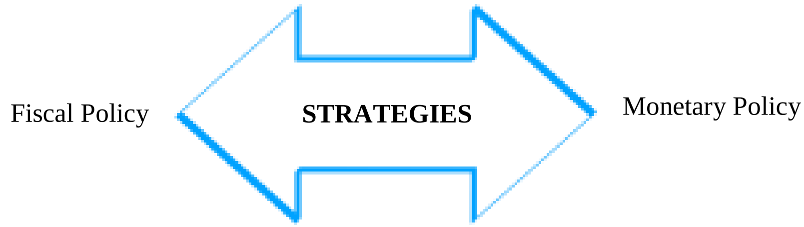
In 2008-09 exports increased by 13.6% only while imports jumped by 20.7%.

In April - December 2009-10, there was a negative growth in export and import by 32.5% and 34.3% respectively. The average growth of India's export from 2000-01 to 2008-09 is 20.01% while that of imports in the



same period is 23.02%. The average of growth when including April - December 2009-10 declined to 14.8% for exports and 17.3% for imports. This fall happened due to negative growth of export and import.

VI. POLICIES EXECUTED



Monetary Policy:

It is the set of tools used by a nation's central bank to control the overall money supply and promote economic growth and employ strategies such as revising interest rates and changing bank reserve requirements. Central bank imposes expansionary policy during the recession. In this type of monetary policy, central banks decreases interest rates to increase money supply. This results into increase in aggregate demand.

Fiscal Policy:

It refers to the use of government spending and tax policies to influence economic conditions. Government implements expansionary policy during recession. Government decreases tax rates and increases government spending. This further increases aggregate demand.

VII. CONCLUSION

Globalisation brought quite a number of challenges for the economy. The recession is a negative shock of financial crisis. The recession in United States also affected India's economy as there is a global trade.The great recession in United States has affected many other economies which were emerging as The United States was the biggest importer of consumer goods . As the US economy slowed down it had an impact on financial linkages as it was the main source of foreign exchange in the market and even trade linkages. Economies which were largely dependent on US for trade were mostly affected in terms of financial growth, there was a negative growth as The US economy showed a sign of recession. India was not severely affected by the recession, but was affected marginally by the recession in United States because India's exports were not majorly affected as our economy is driven majorly by domestic factors.[5]

Many economies like Bhutan, Nepal, Sri Lanka, Bangladesh etc., are depended on India for trade, since India was not affected so these countries were saved. So, one side of the coin shows that globalisation is good for the growth of economy as it creates employment, contributes more towards the Gross Domestic Product and increases the national income of the country, the other side of the coin shows the challenges to upgrade and improve the physical and social infrastructure and implementation of effective policies by the government.

During this phase, the firms declines their investments especially on physical capital. Basically, the start of recession happens with decreased business investment spending as it the most vital part of gross domestic product (GDP). This effects the employment level in the economy thereby reducing consumer spending. As there is a fall in consumer spending, firms start to produce less and thereby affecting the supply of the economy. This further leads to unemployment and more decline in spending. This shifts the aggregate demand curve. Economy is constantly falling, so banks start to lower the rate of interest, this in turn encourages the firms to make investments, creating employment, increasing production and increasing consumer spending. All this again reflects towards the end of recession and beginning of expansion.

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