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Chapter

INDIAN FOREIGN TRADE: UNPACKING THE CONSEQUENCES OF TWO WARS

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ABSTRACT

This chapter provides a brief examination of the consequences and implications for Indian foreign trade resulting from the armed conflicts between Russia and Ukraine, as well as between Israel and Palestine. The initial section of this chapter provides an overview of Ricardo's theory of international trade, followed by an examination of the impact of wars on the international trade of nations. This chapter provides a concise overview of Indian foreign trade. Finally, this chapter examines the impact and implications of the armed conflicts between Russia and Ukraine, as well as between Israel and Palestine, on Indian foreign trade.

Keywords: *Import, Export, Israel-Palestine War, Russia-Ukraine War, Indian Foreign Trade.*

1.1 INTRODUCTION

When considering the subject of why several countries engage in commerce with each other, the explanation can be found in the principles of international trade established by (Ricardo, 1817). In 1817, David Ricardo formulated the classical theory of comparative advantage¹, aiming to elucidate the rationale behind nations' participation in foreign trade, notwithstanding the circumstance wherein one country's workforce exhibits superior efficiency in the production of all goods compared to workers in other nations. He illustrated that in a scenario where two nations possess the ability to produce two different commodities and participate in unrestricted trade, with the caveat that capital and labour are prohibited from crossing international borders (Schumacher, 2012), each country will enhance its total consumption by exporting the commodity in which it has a comparative advantage and importing the other commodity. This outcome is contingent upon the presence of disparities in labour productivity between the two countries (O'sullivan et al., 2003). Ricardo's idea is widely acknowledged as a significant and paradoxical concept within the field of economics. It posits that comparative advantage, rather than absolute advantage, plays a substantial role in driving international trade.

According to prevailing notions in the field of economic history, it is widely believed that conflicts between nations have the potential to significantly disrupt economic activity, particularly in the realm of international trade (Martin et al., 2008). What are the genuine expenses associated with armed conflict, and what methodologies might be employed to quantify them? Various sources can be consulted in order to

¹ *Indeed, Ricardo's name is associated with a variety of trading strategies. Among these, the model known as the "Ricardo-Viner" model has acquired popularity in international trade literature. Significant debate has also centered on 'neo-Ricardian' open-economy concepts Maneschi (1992). Findlay's (1974) dynamic Ricardian model also adds more to our understanding of international trade.*

address this inquiry, including the records of statesmen, the popular press, and scholarly publications and journals. However, it is important to note that the methodologies employed to tackle this subject can differ significantly, leading to varying degrees of accuracy in the resulting responses. However, it is worth noting that the majority of assessments share a common characteristic, which is the emphasis on the immediate expenses associated with warfare (Glick & Taylor, 2010). When two nations engage in armed conflicts, their economic allies also experience adverse consequences as a result of the interconnectedness of the global economy. There exist numerous factors contributing to this phenomenon, with one notable factor being the escalating costs of coal, oil, natural gas, and various other commodities, including steel and cotton (Mansfield, 2021). A distinction exists between international trade and foreign trade. International trade encompasses the exchange of products and services on a global scale, whereas foreign trade primarily pertains to a nation's interactions with other countries in terms of economic transactions. Given the thematic focus of this chapter on India's economic interactions with other nations, it is more appropriate to using the phrase "foreign trade" rather than "international trade."

1.2 INDIAN FOREIGN TRADE

Following the attainment of independence, the international commerce of India underwent significant transformations across various aspects, namely value, design, and orientation. Throughout the pre-reform period, specifically until 1990-91, the Indian stake in global commerce remained insufficient notwithstanding several alterations. However, significant advancements were observed in Indian foreign commerce, especially during the 1990s reform period (Gupta, 2019)

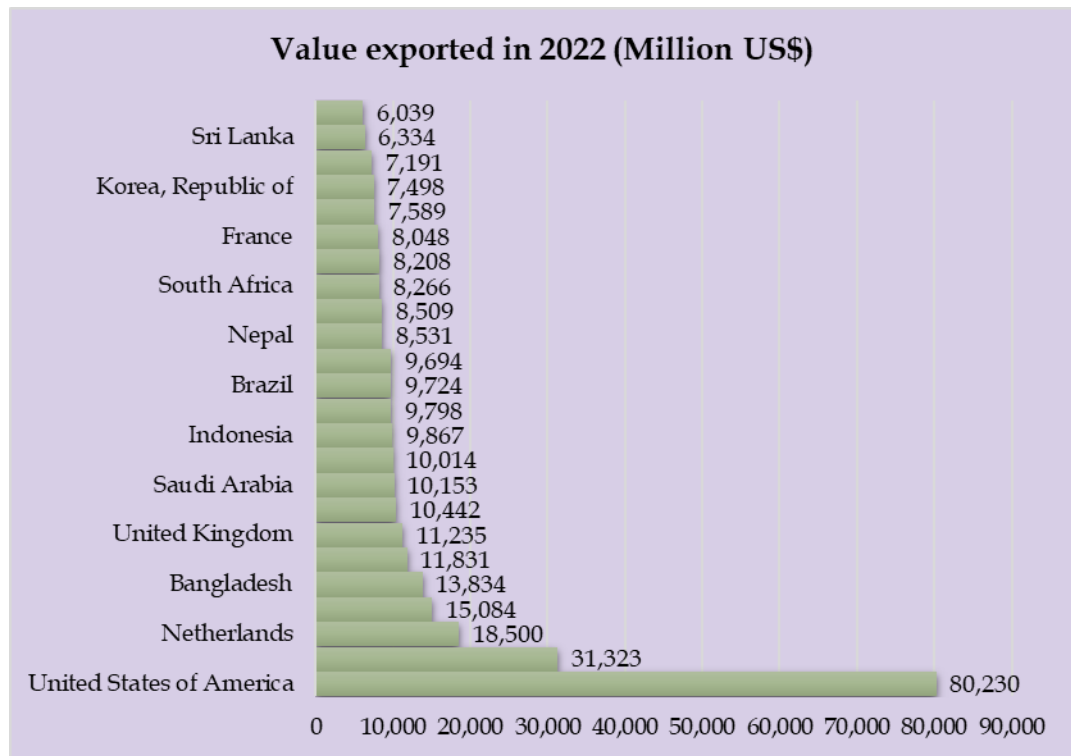


Figure 1.1: Destinations of Indian Exports (million US\$) prepared by Authors

Source: <https://comtrade.un.org/>

The Indian economy greatly depends on foreign trade, which holds significant importance. The significance of foreign commerce to a country is paramount due to the necessity of importing a wide range of items (Pillania, 2008). India engages in extensive export and import activities, wherein it exports a significant quantity of diverse products and simultaneously imports an equivalent quantity of various other products. India is engaged in the exportation of over 7500 different commodities to roughly 190 nations, while simultaneously importing around 6000 commodities from 140 different nations. According to the data presented in Figure-1.1, the primary destinations for India's exported goods are the United States, the United Arab Emirates, Netherlands, and China. Nevertheless, India has consistently maintained a negative trade balance, with the exception of the brief periods in 1972-73 and 1976-77 when it temporarily shifted to a positive trade balance (Ray, 2012).

1.3 RUSSIA-UKRAINE WAR IMPACT

The protracted Russia-Ukraine conflict has persisted since 2014, exhibiting a lack of definitive resolution. The ongoing conflict has been marked by instances of military hostilities between the two nations, leading to a progressively precarious and concerning state of affairs within the region. India, as the 2nd-largest importer of Russian commodities, has experienced immediate financial consequences as a result of the continuing war between Russia and Ukraine.

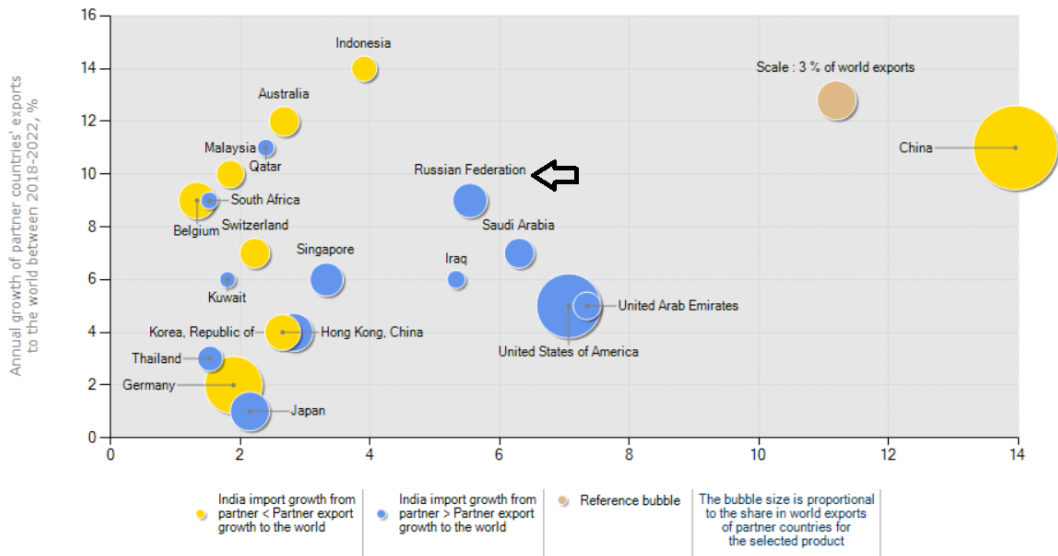


Figure 1.2: India's Top Twenty Import Partners prepared by authors using Trademap's dashboard

India serves as the primary export market for Ukraine in the Asia-Pacific region and ranks as the 5th-largest export destination globally (Samrat, 2022). Predictably, the conflict has had a significant influence on the worldwide economy, with wide-ranging consequences for the economy of India. India maintains significant business relationships with Ukraine as well as Russia, and the ongoing conflict between the two nations has resulted in considerable interruptions to these economic links. The blue colour bubbles depicted in Figure-1.2 signify that the growth rates of imports from Russia by India surpass the growth rates of export by Russia to the rest of the globe.

The ongoing violence in the region has resulted in destabilisation and a decrease in the availability of secure and efficient transportation routes. Consequently, there has been a notable rise in the trading costs between Indian enterprises and those situated in

Russia or Ukraine. The escalated expenses, in conjunction with the geopolitical uncertainties associated with conducting economic activities in a region affected by armed conflict, have acted as deterrents for Indian trade and investment in both nations. The violence has additionally resulted in the deterioration of several crucial infrastructure projects inside the region. As an illustration, India had formulated a strategic initiative to construct a natural gas pipeline connecting India and Russia, a development that held significant potential benefits for both nations (TOI, 2023). Regrettably, due to the ongoing conflict, the endeavour has been indefinitely suspended. Furthermore, India has strategically relied on profitable defence agreements with Russia as a means to enhance its own defence sector. Regrettably, due to the ongoing battle, Russia has been allocating precedence to its internal military requirements, hence compelling India to explore alternative options.

1.4 ISRAELI-PALESTINIAN WAR IMPACT

The protracted nature of the war between Israel and Palestine is well-documented. The genesis of the struggle between the two nations may be traced back to the late 19th and start of the 20th centuries, during which Jewish Zionists endeavoured to build a territorial base in Palestine, which was then governed by the Ottoman Empire. Tensions experienced a significant escalation during the mid-20th century, ultimately culminating in the formulation of the 1947 United Nations Partition Plan. This plan proposed the partition of Palestine into distinct states for both Jewish and Arab populations, while designating Jerusalem as a territory under international administration. The suggested proposal was embraced by Jewish authorities, but it was met with opposition and rejection from Arab officials, ultimately leading to the outbreak of the 1948 Arab-Israeli War. The outcome of this conflict was in the formation of the State of Israel and the subsequent displacement of a significant number of Palestinian individuals, as documented by Quigley (1990) and (Pappé, 2011). The ongoing conflict between Israel and Hamas holds significant repercussions for India's foreign trade.

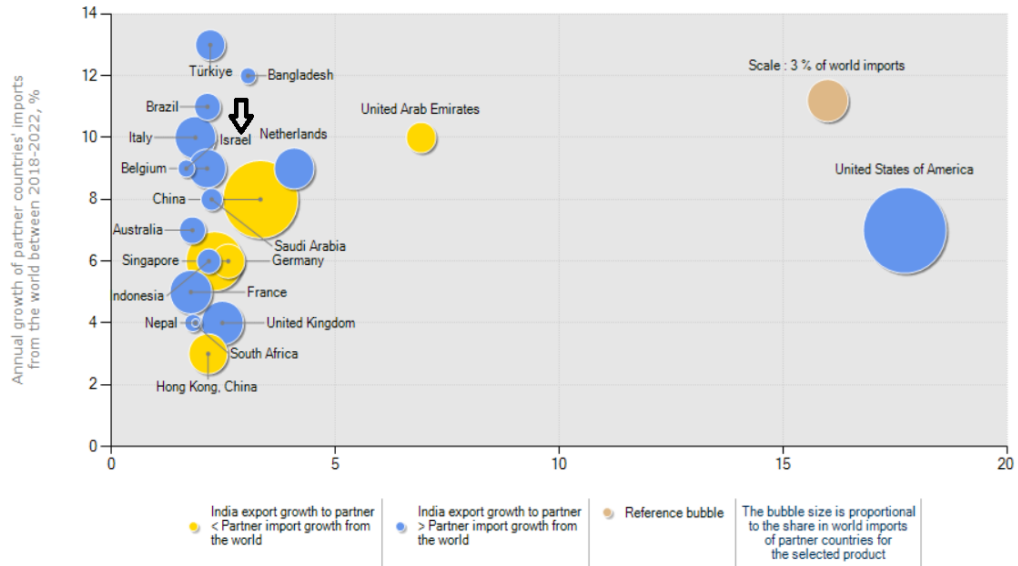


Figure 1.3: India’s Top Twenty Import Partners prepared by authors using Trademap’s dashboard

According to the Indian embassy in Israel, India has the position of being Israel's 2nd largest foreign trade partner in Asia and the 7th largest trading partner on a global scale. Israel imports approximately \$5.5 - \$6 billion worth of refined petroleum products from India. Israel's total imports from India amounted to \$8.4 billion in FY23 (Pallavi, 2023). India maintains a favourable trade balance with Israel, signifying that the value of India's exports to Israel exceeds the value of its imports from Israel. The blue colour bubbles depicted in Figure-1.3 signify that the growth rates of imports from India by these specific nations surpass the growth rates of imports from the rest of the globe. This observation suggests that India's exports to these countries exceed the growth of imports these countries get from the remaining countries globally. Israel is among the nations that have a higher volume of imports from India compared to their imports from other countries globally. According to the findings of the Global Trade Research Initiative, Indian enterprises engaged in exporting items to Israel may encounter elevated premiums and shipping expenses, so diminishing their overall profitability. Currently, there has been no notable escalation in premium expenses or shipping fees (PTI, 2023).

However, in the event of an intensification of the conflict, it is plausible that premium charges could experience weekly increments. India engages in the importation of several commodities, including machinery, pearls, diamonds, and other valuable gemstones, sourced from Israel. According to the statistics at hand, India's total imports

from Israel amounted to \$2.3 billion in the fiscal year 2023 (Gohel, 2023). In the event of an escalation of the conflict, there is a potential for the emergence of supply-side issues. In the event of potential trade disruptions, there is a likelihood of rupee depreciation, which could result in a change of the currency towards the 84 marks.

1.5 CONCLUSION

India has major business ties with both Ukraine and Russia, the armed conflict between the two countries has resulted in significant disruptions to these economic ties. The region's persistent conflict has caused destabilisation and a reduction in the availability of safe and effective travel routes. As a result, trading expenses between Indian firms and those in Russia or Ukraine have risen significantly. India's valuable strategic defence partnerships with Russia have also suffered. Furthermore, as a result of the Israeli-Palestinian conflict, India, Israel's second largest trading partner in Asia and the world's seventh largest trading partner, is experiencing a number of obstacles, including the emergence of supply-side issues and the likelihood of currency depreciation.

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