Advances in Economics and Business Management (AEBM)
p-ISSN: 2394-1545; e-ISSN: 2394-1553; Volume 4, Issue 1; January-March, 2017, pp. 32-35

http://www.krishisanskriti.org/Publication.html

# Impact of Global Financial Crisis on India's Trade with ASEAN

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**Abstract—***Foreign trade has been playing a very significant role in the economic, social, political and cultural life of nations since ancient times. In 2008, foreign trade was badly affected by the global financial crisis. It began in 2007 with a crisis in the subprime mortgage market in the USA, and developed into a full-blown international banking crisis with the collapse of the investment bank Lehman Brothers on September 15, 2008. The trading partners of India are badly hit by the global crisis which indirectly has negative impact on Indian business. The economic recession may not hit India as hard as other countries in Europe and North America; nevertheless growth is projected to drop significantly to 6.5% in 2009. The main objective of this paper is to analyze the impact of global financial crisis (2008-2009) on Indian economy in terms of export and import with ASEAN countries after the periods of global financial crisis. In this study, tabular, graphical presentations tools and t-test are used for the analysis of data. Finally, this paper conclude that the India not affected much by the 2008 financial crisis due to many reasons such as, Less dependency on housing sector, highly regulated conservative financial system of India, India followed an Expansionary fiscal policy etc. Therefore, on the basis of these reasons impact of global financial crisis 2008 on India's trade with ASEAN countries are not significant.*

**Keywords***: Global Financial Crisis, Subprime mortgage, Export, Import, ASEAN.*

## 1. INTRODUCTION

In economics, the term 'recession' means "the reduction of a country's Gross Domestic Product (GDP) for at least two quarters; or in normal terms, it is a period of reduced economic activity", The International Monetary Fund regard global recession as the period when growth is less than 3%. The financial crisis of 2007-2008, also known as the global financial crisis and the 2008 financial crisis, is considered by many economists to have been the worst financial crisis since the Great Depression of the 1930s. It began in 2007 with a crisis in the subprime mortgage market in the USA, and developed into a full-blown international banking crisis with the collapse of the investment bank Lehman Brothers on September 15, 2008. The global financial crisis started showing its effects from mid-2008. The indicators for the downturn in the economies include high oil prices which led to soaring food prices and global inflation. The economic failure of large investment banks as well as commercial banks in nations around the world in the mid 2008 added fuel to the global economic downturn. Around the world, stock markets have fallen significantly.

Large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have come up with rescue packages to bail out their respective financial systems. Many industrialized nations like US, UK, Germany have slid into recession. The World economy is in turmoil and its cascading impact is being witnessed by all countries around the globe with varying degree. IMF world economic outlook for 2009 pegs negative growth in the US, Japan and the EU. Only emerging economies like India and China will have a positive growth. India could not insulate itself from the adverse developments in the international financial markets, despite having a banking and financial system that had little to do with investments in structured financial instruments carved out of subprime mortgages, whose failure had set off the chain of events culminating in a global crisis. Economic growth decelerated in 2008-09 to 6.7 percent. This represented a decline of 2.1 percent from the average growth rate of 8.8 percent in the previous five years. The trading partners of India are badly hit by the global crisis which indirectly has negative impact on Indian business. The US has officially entered into recession and growth is projected to be negative in 2009 as against 1.6% in 2008, similar is the case with Europe and Japan. This leaves the biggest challenge for Indian exporters. These three blocks (viz. US, Japan and Europe) account for about 40% of our exports and thus the slowdown does not auger well for Indian exporters.

## 2. IMPACT ON INDIA

After a spell of sustained and enormous growth, the Indian economy is experiencing a downturn. Industrial growth is faltering, inflation remains close to double-digit levels, the current account deficit is widening, foreign exchange reserves are depleting and the rupee is depreciating. The ongoing slowdown in US economy is likely to affect the future growth in India's exports. The financial turmoil and recessionary tendencies in major economies have already impacted India's export growth, which slowed to 10.4 per cent in September 2008 as compared to 20% in March 2007. The liquidity crisis is likely to lead to lesser employment generation, job cuts as well as stagnation in salaries. This would result in low demand for handicrafts, some segments of textiles, leather products and footwear. Also, the BPOs, and other software exports contributing to about 2 per cent of India's GDP are likely to be badly affected. The economic recession may not hit India as hard as other countries in Europe and North America; nevertheless growth is projected to drop significantly to 6.5% in 2009.

## 3. STATEMENT OF THE PROBLEM

The effect of US economic crisis is seen all over the world. Indian economy will not be an exception to this. Falling sales, rising inflation, increasing costs and drying cash flow are some of the effects that India has faced from US economic crisis. In addition, this meltdown has affected the foreign trade also, because the Indian companies have major outsourcing deals with the US. India is exporting the large number of goods and services to US and other countries. Hence there is a need to verify whether there is significant effect of the global slowdown on India's foreign trade in terms of India's export and imports. The problem of the study is to know whether the global financial crisis has adversely affected the India's trade or not.

## 4. REVIEW OF LITERATURE

**[1] De, P. and Neogi, C. (2010),** in their research paper entitled "Global Financial Crisis: Implications for Trade and Industrial Restructuring in India" investigates the impact of global crisis shocks on India's trade and industry. The estimated results show that changes in trade composition are positively associated with changes in manufacturing composition in India, controlling for other variables.

**[2] Marimuthu, K.N. and Velmurugan, P.S. (2012),** in their research paper entitled "Impact of Recession on India's Export and aftermath of Global meltdown" examines the impact of global meltdown on India's foreign trade and trend and pattern of major commodities of Indian export. In this paper, they conclude that Indian economy is moving gradually and steadily increasing the growth during the meltdown and it has less impact, though it has started recovering now.

**[3] Razack, S. and Thimmaiah, N. (2014),** in their research paper entitled "Impact of Global Financial Crisis on the Indian Economy" analyses the impact of global economic slowdown on the Indian economy in terms of growth rates of real Gross Domestic Product (GDP). Finally, they conclude that the global financial crisis has negatively impacted the Indian economy and it is very much evident in the real GDP growth performance.

**[4] Walia, S. (2012),** in his research paper entitled "Impact of Global Economic Crisis on Indian Economy: An Analysis" examines the impact of global economic crisis on Indian economy. This paper confirms that various sectors of Indian economy are affected by global recession, to a certain extent.

## 5. OBJECTIVE OF THE STUDY

The main objective of the study is to analyze the impact of global financial crisis on India's trade with ASEAN countries in terms of export and import growth for a period of five years before and five years after the global financial crisis period (2008-2009).

## 6. HYPOTHESIS OF THE STUDY

The hypothesis(s) of the study are as follows:

H0: There was no significant difference between trade performance of India with ASEAN countries, before and after global financial crisis.

H1: There was a significant difference between trade performance of India with ASEAN countries, before and after global financial crisis.

## 7. RESEARCH METHODOLOGY

### 7.1. Scope of the Study

The present study is descriptive in nature which primarily aims at studying the India's trade performance with ASEAN countries before and after the 5 years of global financial crisis 2008-2009, by doing so it will highlight the various causes of global financial crisis briefly. The present study will also make an attempt to briefly examine the India's trend of exports and imports.

### 7.2. Period of the Study

The present study examines the India's trade relations with ASEAN for a period of five years before (2003-04 to 2007-08) and five years after (2009-10 to 2013-14) the global financial crisis period (2008-2009).

### 7.3. Data Collection

The study is mainly based on secondary sources of data. The data has been collected through prominent sources like various issues of Economic Survey, Handbook of Indian Statistics and the websites of Ministry of Commerce.

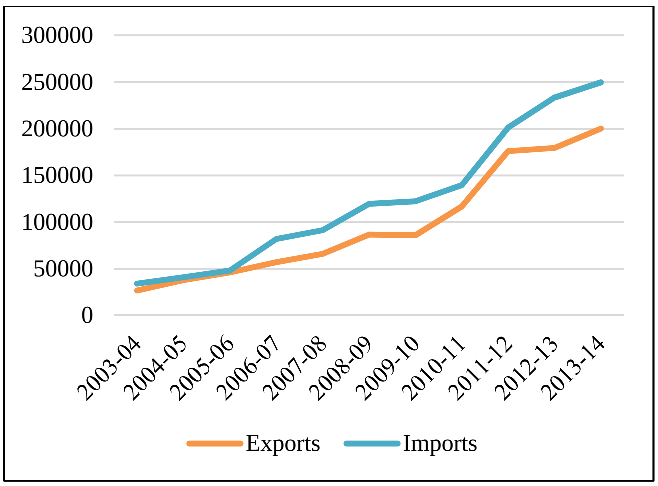
### 7.4. Tools for Data Analysis

In this study, tabular and graphical representation tools are used for the analysis of data. Using t-test (Paired samples for means), the pre-global financial crisis and post-global financial crisis trade performance was tested.

**Table 1: Trade position of India with ASEAN countries from FY 2004 to FY 2014**

| YEAR | EXPORT | % Change Over Previous Year | IMPORT | % Change Over Previous Year |
|---|---|---|---|---|
| 2003-2004 | 26751.67 | - | 34156.32 | - |
| 2004-2005 | 37858.78 | 41.52 | 40953.53 | 19.90 |
| 2005-2006 | 46094.47 | 21.75 | 48185.84 | 17.66 |
| 2006-2007 | 57076.47 | 23.82 | 81918.77 | 70.01 |
| 2007-2008 | 65931.88 | 15.51 | 91244.78 | 11.38 |
| 2008-2009 | 86525.14 | 31.23 | 119421.45 | 30.88 |
| 2009-2010 | 85902.47 | -0.72 | 122219.78 | 2.34 |
| 2010-2011 | 116657.85 | 35.80 | 139439.33 | 14.09 |
| 2011-2012 | 175926.24 | 50.81 | 201229.95 | 44.31 |
| 2012-2013 | 179419.26 | 1.99 | 233316.05 | 15.94 |
| 2013-2014 | 200179.06 | 11.57 | 249594.53 | 6.98 |

*Source*: Ministry of Commerce and Industry, Department of Commerce.




*Source*: Author's Compilation

**Fig. 1: India's trade with ASEAN**

Table-1and Graph-1presents an analytical study of India's Export and Import with ASEAN countries and also shows the percentage change over previous year respectively. Exports and Imports grew with varying rates during the period under study. In graph, values of exports and imports is showing significantly a rising trend.

## 8. ANALYSIS AND INTERPRETATION

### 8.1. Exports to ASEAN

Table-1 shows the trend in India's export to ASEAN during 2003-04 to 2013-14. In 2003-04, our exports stood at low level of 26751.67 crore which moved up to on all time high level of 200179.06 crore in 2013-14. In 2011-12, the growth of exports reached an all-time high level with 50.81 percent over the previous year to 175926.24 crore. Exports to ASEAN declined by -0.72 percent and 1.99 percent over the previous year in 2009-10 and 2012-13 respectively.

### 8.2. Imports from ASEAN

Table-1 shows the trend in India's import from ASEAN during 2003-04 to 2013-14. In 2003-04, our imports stood at low level of 34156.32 crore which moved up to on all time high level of 249594.53 crore in 2013-14. In 2006-07, the growth of imports reached an all-time high level with 70.01 percent over the previous year to 81918.77 crore. It may be noted that, imports declined by 2.34 percent and 6.98 percent over the previous year in 2009-10 and 2013-14 respectively.

**Table 2: Descriptive Statistics**

| VARIABLES | MIN | MAX | MEAN | SD |
|---|---|---|---|---|
| Export before 2008 | 26751.67 | 65931.88 | 46742.65 | 15443.42 |
| Export after 2008 | 85902.47 | 200179.06 | 151616.97 | 48121.51 |
| Import before 2008 | 34156.32 | 91244.78 | 59291.84 | 25614.44 |
| Import after 2008 | 122219.78 | 249594.53 | 189159.92 | 56349.15 |

*Source*: Author's Compilation

**Table 3: t-test for India's Import from ASEAN**

| | Particulars | Mean | Std. Dev. | t-stat. | p-value |
|---|---|---|---|---|---|
| Pair-1 | Import before and after 2008-09 | -129868.08 | 33705.76 | -8.616 | .001* |

*p<0.05

The mean value in post crisis period is more than the mean value in pre-crisis period as the value of t-statistic is negative (Table-3). Hence it can be said that on an average the import in pre-crisis period was less than the import in post crisis period. But, it is important to know that whether this differences in the mean values is significant or not. In the paired t-test results, the p value (0.001) is less than the value of significance 0.05 that indicates the difference is significant.

**TABLE-4: t-test for India's Export to ASEAN**

| | Particulars | Mean | Std. Dev. | t-stat. | p-value |
|---|---|---|---|---|---|
| Pair-2 | Export before and after 2008-09 | -104874.32 | 33768.86 | -6.944 | .002* |

*p<0.05

The mean value in post crisis period is more than the mean value in pre-crisis period (Table-4). Hence it can be said that on an average the export in pre-crisis period was less than the export in post crisis period. As per the result of paired t-test, the p value (0.002) is less than the level of significance value

0.05, indicating that the difference between the exports in pre and post crisis periods is significant.

## 9. LIMITATIONS OF THE STUDY

The study is based on secondary data which are collected from several websites. The limitations of secondary data, if any, will also influence study. The major factors have been discussed, yet there exist more issues which have not been detailed due to time constraints as well as unavailability of data in the stipulated time. The study is limited to five years before and five years after global financial crisis only.

## 10. CONCLUSION

Indian economy is moving gradually and steadily increasing the growth during the global crisis and it has less impact, though it has started recovering now. India having the opportunities and strength to escape from the global meltdown seeing that strong economy, interest rate, right decisions at right time for implementing the fiscal and monitory policy etc. On the basis of these reasons, it may be possible that India's trade has not much affected by the Global Financial Crisis. This study is done to know the impact of Global Financial Crisis on India's trade with ASEAN. In this regard pre-crisis and post crisis period trade performance are compared on the basis of its value. It is normally presumed that crisis negatively affect from developed to developing countries irrespective of the origin of crisis but the study disagree with this notion. The result show that in post crisis period on an average exports and imports were more than the exports and imports in pre-crisis period. The null hypothesis has been rejected. So, the study explored that the impact of crisis on India's trade with ASEAN was insignificant.

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