

Exports: Still a long way to go

The jury is out on whether the March performance can be sustained

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India's exports made a smart recovery in March by growing in double digits to touch a new high of \$331 billion in 2018-19, and almost all of India's value-added product segments showed impressive growth. This is creditable as it comes amidst a slowdown in global trade and fragile world economy.

The March performance, however, can't hide the fact that Indian exports have underperformed the commerce department's internal target of \$350 billion for the full year. This performance has, at least, the dubious virtue of consistency. Exports have consistently been unable to meet the commerce department's annual trade growth forecast. In the last fiscal year, total exports stood at \$302.84 billion, below the government's target of \$310 billion, and \$275.85 billion the year before, when the target was \$300 billion.

What's causing this slowdown? A combination of externalities such as global trade wars and slowing growth, continuing glitches in accessing offsets under the goods and services tax (GST) regime, which has created a liquidity crunch for smaller exporters, and the growing competitiveness of smaller countries.

At the same time, the government's move to control burgeoning imports by repeatedly raising import tariffs throughout 2018 have in certain cases raised the cost of raw materials. New Delhi has put restrictive measures on inbound goods six times over the year

covering more than 500 goods across textiles, telecom equipment and components as well as electronics.

"We have received complaints from user industries that the import duty hikes have affected them negatively. But overall, our priorities lie with the plan to cut down on non-essential exports by the end of the year," a senior commerce department official said.

Almost no major sector has been untouched by one or several of these factors. Prime among these was engineering goods. Despite earning one-fourth of total foreign exchange, engineering exports have stagnated for the past two years. In 2017-18, this segment earned \$92 billion in foreign exchange, but only managed to rake in \$83 billion in the current financial year.

"Apart from a severe liquidity crunch impacting small and medium firms, the rising cost of domestic steel and rubber has also impacted the sector," Ravi Sehgal, chairman of the Engineering Exports Promotion Council, said.

Higher prices charged by domestic steel producers have hit the manufacturing capabilities of user industries. Competition has forced Indian steelmakers to lower prices of prime steel in world markets but, hedged by anti-dumping duties, they have not felt the need to do the same in the domestic market, Sehgal pointed out. India's engineering exports have also suffered collateral damage of the global trade war between the US and China, which has affected global trade growth.

Trade growth slowed down to about 4 per cent in 2018 from 5.25 per cent in

EXPORT GROWTH RATE DIPS IN 2018-19



Source : Commerce Department

MAJOR SECTORS SEE VOLATILITY

Largest forex earning sectors	Total exports in '18-19 (Apr-Feb) \$ Bn
Mineral fuels and processed petrochemicals	43.08
Gems and Jewellery	36.66
Textiles and allied products	33.21
Machinery	26.09
Agricultural items	25.11
Base metals	23.05
Transport Equipment	22.07
Pharmaceutical products	12.92
Organic Chemicals	8.43
Electronics	7.51

* Sectoral data for entire year expected to be released in May

2017, according to the Organization for Economic Co-operation and Development. On the other hand, trade experts pointed out that India managed to little inroads into Chinese markets despite sanctions against the US since barriers to trade remain high, especially those of a non-tariff nature. India has rights to export rice and fruit to China, but the offtake hasn't increased much.

The second-largest export category of gems and jewellery has been hobbled with increased scrutiny in the wake of multi-million dollar scams involving diamondaire Nirav Modi, his uncle Mehul Choksi and a leading government-owned bank. Gems and jewellery exports returned to the growth charts in June after months of contraction. The primary reason for the slowdown was volatility in gold imports, which had remained in negative territory for six consecutive months till June.

But it is apparel exports, the third largest forex earner, that is the cause of critical concern. This sector has been the

victim of a decline in overseas demand, particularly from major markets such as the United Arab Emirates. The sharp decline has been greater than the increase in exports to the US and European Union, India's largest markets.

In 2018-19, total apparel exports stood at \$16.15 billion, virtually unchanged from \$16.72 billion in 2017-18. After starting the calendar year on a high, both export values as well as shipments have consistently fallen in this labour-intensive sector. Indeed, the slowdown in demand from the major markets of West Asia had been highlighted by an ICRA report in March. The investment information agency had warned of a contraction in the sector, which it said was expected to continue into the next financial year as well.

The principal cause of this is the rise of price warrior exporters Bangladesh and Vietnam. Both countries have now established themselves as the next largest nations for exporting apparel, according to the World Trade

Organization. Bangladesh, in particular, responded swiftly after the introduction of the GST regime in India. "A substantial drop in the import duty was observed after implementation of the GST that has encouraged cheaper imports. For Bangladesh, there is a full exemption of basic customs duty, so Chinese fabric is easily coming to India duty-free through Bangladesh in the form of garments," explains Sanjay Jain, chairman, Confederation of Indian Textile Industries. For example, the domestic fabric industry based in Surat has seen massive job losses after an estimated 400,000 of the 650,000 powerloom machines closed as Chinese fabrics, more than 50 per cent cheaper, flooded the market.

India's tried and tested fallback option to boost export figures and counter trade deficits has also been under strain. Outbound shipments of processed petroleum have remained muted for the better part of the year as a global crash in crude oil prices wiped off India's receipts from the sales of petrochemicals and refined crude. Global crude prices started falling from early November and a supply glut is expected to stay in place as both the United States and Russia announced plans earlier this month of ramping up production in coming months.

Exporters remain cautious about prospects for the next year. "Economies across Asia, especially China and South East Asia, have been showing signs of sluggishness with contraction in manufacturing owing to to slowdown in the global trade and fragile world economy. But almost all value-added product segment of exports have shown impressive growth," Federation of Indian Export Organisations President Ganesh Kumar Gupta, says.

But he warns that government support on the issue of augmenting credit flows, an outright exemption from GST and budgetary support for marketing and exports related infrastructure are just some of the urgent measures that are needed to sustain even current levels of growth.

