Choppy waters : On shrinking exports

The Hindu

Paper - III (Economy)

India's goods exports suffered a blip last month after three months of growth that had triggered hope of a notable recovery from a patchy 2023-24 performance. July's merchandise shipments' tally of just under $34 billion marks a 1.5% drop from 2023 levels, but is also the weakest number since November 2023 and the second worst since October 2022. Although 18 of India's top 30 export items clocked growth, including electronics (up 37.3%), readymade garments (11.8%) and handicrafts (13.2%), there was a significant drag from the rest. Petroleum exports dropped 22.2%, while gems and jewellery fell 20.4%, chemicals slipped 12%, and curbs on some food exports continued to hurt. This was accompanied by a tangible 7.5% rise in the import bill, fuelled by a 17.4% surge in petroleum imports, and a significant rise in consumer demand-driven 'non-oil, non-gold' imports such as electronics, pulses and vegetable oils. Gold imports fell 10.7% in dollar terms, but have hovered in the $3 billion-$3.4 billion range since April. With the Union Budget slashing import duties, gold imports could spike further. Moreover, silver imports that have been rising exponentially, mainly due to concessional duties offered under a trade pact with the UAE, shot up almost 440% in July, and are almost 202% higher in the first four months of 2024-25.

Of course, the combination of shrinking exports and growing imports spiked the trade deficit by almost 24% to $23.5 billion — a nine month-peak. Further upside risks remain, especially with domestic demand expected to hold up relative to the global demand for India's exports. The Commerce Ministry still appears sanguine and believes India will surpass last year's record export tally, factoring in robust services exports. But the outlook is uncertain, with existing and fresh

What are the Reasons Behind India's Trade Deficit?

1. Reliance on Energy Imports:India imports more than 85% of its crude oil needs which makes the Indian economy vulnerable to the fluctuations in global oil prices, significantly impacting the trade deficit.
2. Dependence on Key Inputs:Some Indian industries, like pharmaceuticals, semiconductors etc. heavily rely on imported raw materials and intermediates. This increases the import value and contributes to the deficit. For instance, the pharmaceutical sector heavily imports Active Pharmaceutical Ingredients (APIs) from China.
3. Lower Exports of Manufactured Goods:The volume of exported manufactured goods from India, often falls short of imports due to factors like lower manufacturing capabilities and lower competitiveness in the global market compared to nations like China and the US.

What measures can be taken to control trade deficit?

1. trade agreement
2. Improving export infrastructure
3. import substitution
4. rationalizing imports
5. skilling the workforce
6. Effective management of currency and debt levels

geopolitical disruptions (Bangladesh) repeatedly flaring up, and freight cost surges making some exports unviable. A recent decline in commodity prices is another worry, especially with a decelerating Chinese economy, prompting its producers to flood global markets by undercutting prices. Global trade is expected to grow faster than 2023 but India must run harder to keep up, and actualise any gains. While the Centre's steps to tap new markets are laudable, it would do better to offer more certainty for exporters on the fate of official schemes to boost their competitiveness, before global festive orders come up for bidding. A duty remission scheme, RoDTEP, has been extended only till September 30, while an interest subsidy scheme lapsed in June for large players and ceases this month for smaller firms. Inter-ministerial parleys for their continuation and even expansion, must be expedited so that exporters have greater visibility over longer timelines to do their operational math rather than last-minute surprises.

Expected Question for Prelims

Que. Consider the following statements with reference to India's recent merchandise export data:

1. There has been a decline of 22.2 percent in the export of petroleum products.
2. India's trade deficit has increased by about 24 percent to US $ 23.5 billion.

Which of the statements given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Answer : C

Mains Expected Question & Format

Que.: Discuss the reasons for the decline in India's merchandise exports and also mention the steps necessary for its permanent solution.

Answer's Approach:

- In the first part of the answer, discuss the reasons for the decline in India's merchandise exports.
- In the second part, discuss the steps necessary for its permanent solution.
- Finally give a way forward.

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC mains examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.