Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

News: India’s exports are contracting. In the export of garments, countries such as Bangladesh and Vietnam are beating India.

How have exports fared this fiscal?

During the first seven months of FY20, both export and import growth fell in contrast with fairly high double-digit growth rates during the corresponding period of the previous fiscal. Exports contracted 2.2% and imports 8.8%. Significantly, even crude oil imports declined during April to October compared with those of preceding years because of lower prices and demand. In FY19, exports grew 12.8% and imports 17.9%. Trade parameters had earlier shown weakness in FY17, the year demonetization was implemented, when exports grew marginally by 0.1% and imports shrank 10.1%.

Is the decline in line with global trends?

The report of the high-level advisory group (HLAG) chaired by Surjit S. Bhalla submitted earlier this month to the commerce minister shows that India’s exports growth has slipped significantly more relative to 60 comparable economies. During 2003-2011 when world exports and GDP were growing well, India ranked sixth in the growth of services exports. During the slow growth period of 2012-2017, India slipped to the 23rd spot. In the growth of manufacturing exports, India slipped from the 16th to the 25th position, in merchandise from the 10th to the 38th, and in agriculture from the 11th to the 30th spot.

Is the contraction in exports due to trade tensions?

In 2017, China’s garment exports fell to $158 billion from $187 billion in 2014, according to the HLAG report. India’s garment exports fell by 4% in 2017-18, while those of Bangladesh and Vietnam increased by 8% and 10%, respectively. This shows India’s exports are getting beaten by competitive exports from smaller economies.

What’s the reason for the export slowdown?

RBI’s real effective exchange rate shows a rupee depreciation of 15% from FY05 to FY17, while inflation was more than 4% higher per year on average than in the US. The overvalued exchange rate could have handicapped export competitiveness. Pharmaceutical and biotech industries suffer from excessive and complicated regulation, found the HLAG report. Restrictive labour laws prevent larger scale of operations. Poor logistics result in turnaround time in India being over four times that in China or Turkey.
Shares of electronic items and engineering goods in total imports have grown. Domestic production indicators show a fall in capital goods production. This means imports are substituting domestic machinery. Even though imports of oil are lower than those of last year, its share in total imports has risen from 23.8% in the first six months of FY16 to 26.3% during the corresponding period of FY20. This means other imports are falling at a faster rate.