India’s Trade Surplus

GS-Paper- 3 Economy TRADE

The Reserve Bank of India (RBI) has released India’s balance of payments data for the January-March quarter of 2019-20.

During this quarter, India has managed a current account surplus, which is around 0.1% of the GDP. This surplus is largely driven by a lower trade deficit.

Data from the Commerce Ministry show that for April and May 2020, India’s trade balance has improved. This surplus is due to the invisibles, emanating mainly out of services exports and remittances. Due to this surplus, India’s substantial trade deficit turns into a moderate current account deficit.

Why does India mostly have a trade deficit?

- Inability to export more and import less can be held responsible. Lack of export dynamism in comparison with its East Asian neighbours.
- Large imports of oil, gold, and electronics have chronically inflated our import bills. Thus, any news of a reduction in trade deficit is greeted with an expectation that it may represent dynamism of the Indian economy.

Current trends:

The World Trade Organisation’s (WTO) trade data show that the Covid crisis has had a severe impact on international trade. As the world went into a lockdown, it severely affected economic activities everywhere.

Estimates by the WTO suggest that for the second quarter of 2020, the global trade is likely to suffer a year-on-year drop of around 18.5%. [Second quarter of 2020 - A period when the lockdown was in place]

This is one of the steepest falls in international trade on record. Along with the lockdown, the WTO attributes this decline to the growing geopolitical and trade tensions.

What are the current trends in Indian trade?

- India’s trade also suffered. India’s merchandise trade has gone down in April 2020, before recovering in May. [Merchandise trade = Exports + Imports]
- Compared to May 2019, India’s total merchandise trade declined around a 45% in May 2020. Merchandise exports declined by around
36.3%. Merchandise imports suffered a decline by more than 51%.

- An improvement in trade performance is seen in May 2020, compared to April 2020. However, it is possible that some of the increases in May are due to the release of held-up consignments at the ports.

What is the impact on trade in services?

- The impact on trade in services is much less severe. After all, services trade in India is dominated by **IT/ITES exports, which are less susceptible to disruptions in logistics.**
- When compared with January and February 2020, the average trade in services has declined in April and May. As the Covid-19 crisis has led to a complete shutdown of some major service sectors like airlines, this moderate decline in services trade is a relief.

Overall, India’s trade balance in April and May 2020 has turned positive. However, this improvement in trade balance has been driven mainly by a sharper decline in imports. This is a warning sign for the economy, as the decline in imports points towards a contraction of demand in the real economy.

A decline in imports (May 2020) was led by a sharp decline in imports of gold, petroleum goods, coal, electronics and machineries. Declining petroleum prices and rising gold prices have affected the import patterns. The sharp decline in imports of fuel and machinery indicate a severe demand slowdown in the economy. Covid-19 is going to have a heavy toll on the economy.