Economy Insight:

Trends in India's Foreign Trade

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Over the last 25 years since India's liberalisation, its foreign trade has expanded multifold and seen significant structural shifts in product as well as geographic composition. The easing of quantitative restrictions as well as significant reduction in tariff levels across product lines has aided the growth of foreign trade in the first two decades post liberalisation. In-fact, the share of foreign trade (both exports and imports) in India's GDP stood at over 43 percent during 2011-13 as against 13 -15 percent during early nineties.

However, over the last few years there has been a marked deceleration in India's foreign trade, both exports as well as imports, primarily on account of subdued global demand and dip in global commodity prices. This article presents a detailed analysis of India's foreign trade trends, assessing the performance of key export commodities in current challenging global environment.

Significant expansion in trade over two and a half decades

During the last 25 years, India's exports have increased more than 17 times, from US$ 18.1 billion in 1990-91 to US$ 309 billion in 2014-15, and India's imports have increased 19 times, from US$ 23.5 billion in 1990-91 to US$ 447 billion in 2014-15. India's share in global exports has moved up from mere 0.6 percent in early nineties to 1.7 percent currently. Likewise, India's share in global imports has increased from around 0.6 percent during early nineties to 2.4 percent currently.

In the first decade of this period (1990-91 to 1999-2000), India's exports grew at a CAGR of 8.1 percent and imports at 8.7 percent. The real surge was witnessed in the next decade (2000-01 to 2009-10), when exports grew at 16.8 percent and imports at 21.5 percent annually. This trend continued until 2011-12, after which there has been a steady decline in trade owing to global slowdown. In 2014-15, exports dipped by 1.8 percent while imports dipped by 0.4 percent.

For the first 11 months in financial year 2015-16, exports as well as imports have seen a sharp decline. While exports are lower by 16.7 percent y-o-y, imports have declined by 14.8 percent y-o-y.

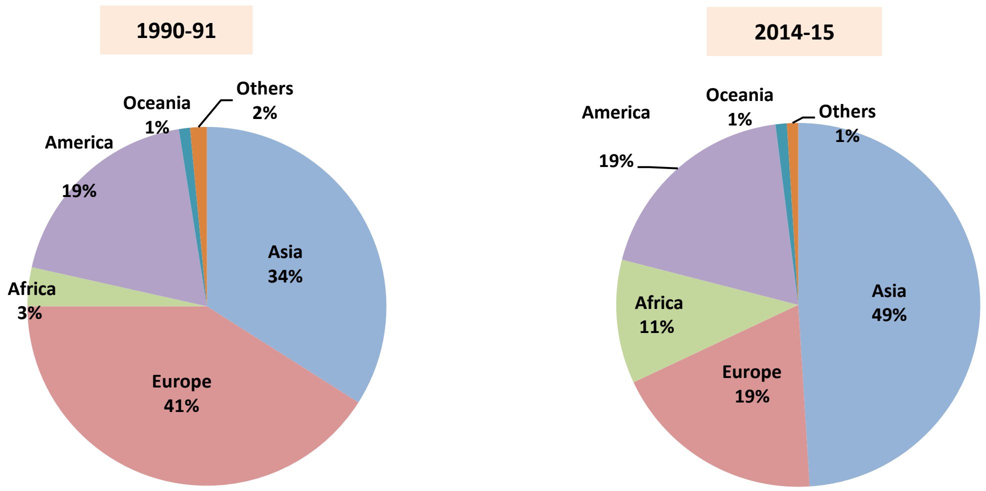
Exports are now more diversified geographically

During the initial period of liberalisation, India's exports were less diversified, with top 20 countries accounting for more than 80 percent of India's total exports. During 1991-92, USA was the largest export destination (16.4% share), followed by Japan (9.2%), Russia (9.2%) and some European countries. Today, top 20 export destinations for India account for 67 percent of total exports, reflecting greater diversification. While USA remains the largest export destination, its share has come down to 13.7 percent. UAE has emerged as second largest export destination accounting for 10.7 percent share, while

Hong Kong is the third largest destination with a share of 4.4 percent. In-fact, besides the top 10 export destinations, rest of the countries (individually) contribute only 2 percent or less in India's total exports.

The most significant change in the direction of India's exports during post-liberalisation era has been the increasing share of developing countries and falling share of advanced and developed economies. Between 1990-91 and 2014-15, the share of Asia has increased from 34 percent to 49 percent and that of Africa from 3 percent to 11 percent. On the other hand, share of Europe has come down from 41 percent to 19 percent during this period.

Chart 1: India's Exports- By Region

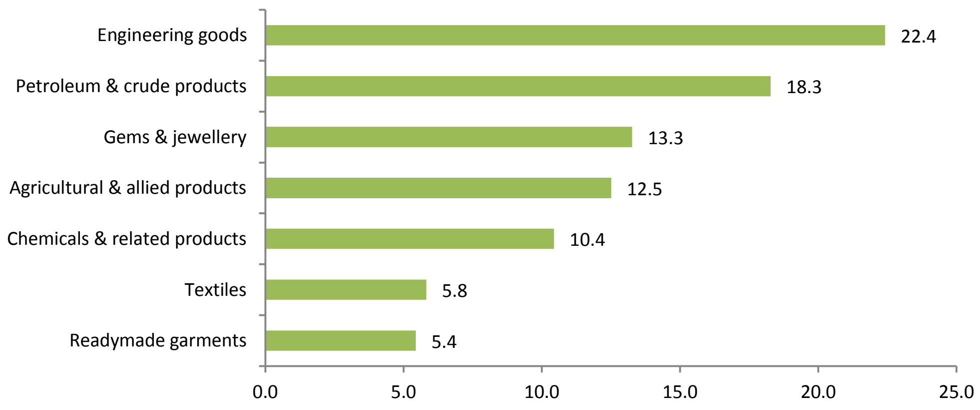


Source: CMIE, Economic Outlook

Structural shift seen in exports basket with greater contribution of value-added products

The composition of exports has gone substantial changes since liberalization. There is a structural shift in India's exports, away from primary, agricultural and traditional exports like textiles towards more value added manufactured and technology-based items such as engineering goods, refinery products, pharmaceuticals, etc. Overall, India's export basket is now diversified with non-traditional items and differential products are also gaining importance.

Chart 2: India's Principal Exports (Percentage share in Total Exports in 2014-15)



Source: CMIE, Economic Outlook

Recent export trends for major commodities

Engineering Goods: India's top export item is Engineering goods, accounting for 22.5 percent in India's total exports in 2014-15. Within this category, some of the prominent export items are Transport Equipment (including Automobiles and Auto components), Iron and Steel and Machinery & Instruments. During the five year period 2010-11 to 2014-15, exports of transport equipment have grown at a CAGR of 11.5 percent, from US$ 16 billion to US$ 24.8 billion.

Table 1: India's Top Three Transport Equipment Exports Destination

	2010-11 (USD mn)	2014-15 (USD mn)	CAGR (FY11-FY14)	y-o-y % (FY15)	% share of country FY15
Sri Lanka	881.9	3,228.1	22.7%	98.0%	13.0
UAE	644.7	2,702.4	56.2%	10.1%	10.9
USA	1,382.3	1,531.1	-2.9%	21.2%	6.2

This was led primarily by exports to Sri Lanka and UAE, which recorded CAGR of 38.3 percent and 43.1 percent, respectively. While Dubai has emerged as an international automotive hub, Sri Lanka's automotive market has been one of the fastest growing vehicle markets in the world. India in fact dominates the Sri Lankan market for vehicle imports. However in the last fiscal, exports of transport equipment from India to Sri Lanka have seen a significant dip of 36 percent y-o-y (Apr-Feb 2015-16). In September 2015, Sri Lanka changed the basis on which customs calculates the value of certain motor vehicles, due to which imported vehicles are expected to become costly. It has been estimated that Sri Lanka's vehicle imports could drop by 90 percent, implying significant reduction in India's vehicle exports to Sri Lanka going ahead. Clearly, Indian exporters of transport equipment would have to rework their strategy and focus more on other markets.

Petroleum products: India's refining capacity increased significantly since 2001-02, due to which India turned a net exporter of petroleum refinery products and this category has lately emerged as the largest item in India's export basket. Petroleum products had a share of 4.3 percent in India's total exports in 2000-01, which then rose steadily to a high of 20.1 percent in 2013-14, before falling to 18.3 percent in 2014-15. The decline in global oil prices has severely affected India's exports of petroleum products. In 2014-15, petroleum products' exports declined by 10.7 percent and during the 11 month period from Apr-Feb 2015-16, exports of petroleum products have further declined by half. However, the exports decline is primarily in terms of value due to lower oil prices, while in terms of volume, exports of petroleum products rose by 6 percent y-o-y in 2014-15. Global oil prices are expected to remain low in 2016 as well as 2017 making it difficult and challenging for India's exports of petroleum products.

Table 2: India's Top Three Petroleum Products Exports Destination

	2010-11 (USD mn)	2014-15 (USD mn)	CAGR (FY11-FY14)	y-o-y % (FY15)	% share of country FY15
UAE	4,667.1	6,192.1	-3.5%	47.5%	10.9
Saudi Arabia	675.4	5,524.5	115.9%	-18.8%	9.8
Singapore	5,437.4	5,495.1	10.2%	-24.4%	9.7

Chemicals and chemical products: An important export item that has performed reasonably well over the last two years is Chemicals and chemical products, which account for 10.4 percent share in India's total exports (2014-15). Under Chemicals sector, drugs and pharmaceuticals are the largest export category accounting for 47.7 percent share. Exports of this sector have performed well during the last two years, especially in the US market, which is the largest export destination for this item accounting for about 28 percent of India's exports. In-fact, exports of drugs and pharmaceuticals to USA recorded CAGR of 14.7 percent during 2010-11 to 2014-15 and rose by almost 31 percent y-o-y in the last fiscal (Apr-Jan 2015-16).

Other promising market for this export item is South Africa, where Indian exporters have seen significant growth during the last five-six years. For the last fiscal, during Apr-Jan 2016, India's exports of drugs and pharmaceuticals to South Africa rose by 17.7 percent y-o-y.

This is one sector where India is highly competitive on both quality and pricing front and has emerged as a global hub for pharma production. However, recently the US government has made it mandatory for Active Pharmaceutical Ingredients (APIs) to be manufactured locally, which will hurt Indian exporters significantly. The Indian government should thus take up this issue with US authorities and resolve it at the earliest.

Table 3: India's Top Three Chemicals & Related Products Exports Destination

	2010-11 (USD mn)	2014-15 (USD mn)	CAGR (FY11-FY14)	y-o-y % (FY15)	% share of country FY15
USA	3,693.5	6,438.4	17.3%	7.9%	19.9%
China	841.3	1,216.3	8.2%	14.1%	3.8%
Germany	836.0	1,163.1	12.6%	-2.5%	3.6%

Gems & Jewellery: Gems and jewellery is one of the major contributors of export earnings for India, having a share of 13.3 percent in India's merchandise exports in 2014-15. Geographically, the exports of gems and jewellery are highly concentrated, with top 3 markets viz. UAE, Hong Kong and USA together accounting for almost 80 percent of total exports.

Table 4: India's Top Three Gems' and Jewellery Exports Destination

	2010-11 (USD mn)	2014-15 (USD mn)	CAGR (FY11-FY14)	y-o-y % (FY15)	% share of country FY15
UAE	16,613.7	12,262.4	-8.5%	-3.8%	29.9%
Hong Kong	8,662.3	12,108.0	8.9%	8.4%	29.5%
USA	5,269.7	8,306.0	13.8%	7.0%	20.2%

Over the last few years, gems and jewellery exports of India have been adversely affected by the global slowdown as luxury demand in overseas market has seen a sharp decline. Additionally, Indian exporters of gems & jewellery have been facing stiff competition from Chinese exporters in these markets. In the last fiscal, during Apr-Jan 2015-16, India's exports of gems and jewellery declined by 6.2 percent y-o-y. Given the global economic uncertainties, gems & jewellery exporters could continue to face challenging times. Hence, the government should take special measures to make the sector more competitive in the global market. For instance, government could consider industry's demand of including gems & jewellery under the Interest Subvention Scheme and Merchandize Exports from India Scheme (MEIS).

Textiles and Readymade Garments: Textiles and garments exports together account for 11.3 percent of India's exports (2014-15). In-fact, India is one of the leading exporting countries of textiles and garments in the world. The US remains the single largest export destination, contributing to 18.7 percent of India's textiles exports and 21.5 percent of India's readymade garments exports. In case of textiles, other prominent countries are China and Bangladesh, while in case of Readymade garments UAE, UK and Germany are other prominent export destinations. The exports of both textiles and garments witnessed good performance between 2010-11 and 2014-15, rising steadily at a CAGR of 9.3 percent and 9.8 percent, respectively. However, the muted global demand last year has led to a marked slowdown in exports growth of both textiles and garments. During Apr-Jan 2015-16, India's textiles exports have declined by 5.4 percent y-o-y and garments' exports have grown at a slow pace of 1.4 percent. Given the subdued global growth outlook, Indian textiles and garments exporters would need to improve their competitiveness and also look at diversifying the export markets.

Table 5: India's Top Three Textiles & Readymade Garments Exports Destination

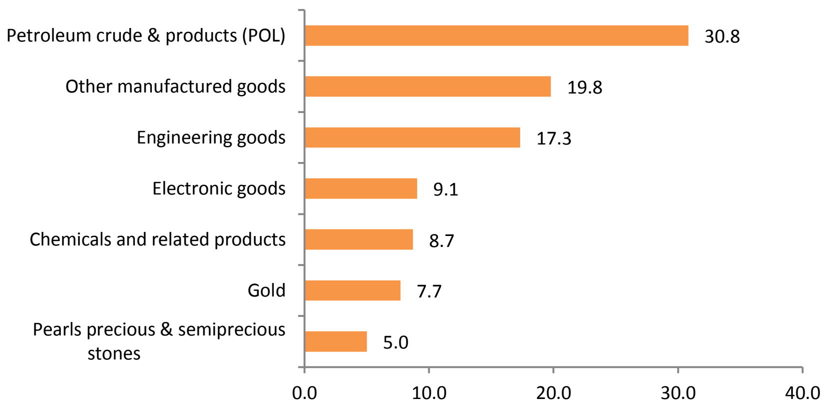
Textiles	2010-11 (USD mn)	2014-15 (USD mn)	CAGR (FY11-FY14)	y-o-y % (FY15)	% share of country FY15
USA	1,749.9	3,360.6	20.1%	10.8%	18.7%
China	443.8	1,772.1	67.9%	-15.6%	9.8%
Bangladesh	786.1	1,338.9	14.8%	12.7%	7.4%

Garments	2010-11 (USD mn)	2014-15 (USD mn)	CAGR (FY11-FY14)	y-o-y % (FY15)	% share of country FY15
USA	2,951.0	3,617.5	5.1%	5.7%	21.5%
UAE	1,100.6	2,651.0	16.4%	52.9%	15.7%
UK	1,314.6	1,857.9	8.1%	11.8%	11.0%

Trends in imports

POL (petroleum) has always remained the most important item of import in India's trade in the pre as well as post reform period. It had a share of 27 percent in total imports in 1991-92, which currently stands at around 31 percent (2014-15). With a sharp decline in global crude prices, India's imports (in value terms) of POL have come down significantly (growth declined by 16.7 percent in 2014-15 and by 41 percent during Apr-Feb 2015-16). This has helped India in narrowing the trade deficit and also kept current account deficit largely under control. Gold is the second most important import item after crude oil. The data shows that significant drop was observed in gold imports in 2013-14, when gold imports declined from US$ 56.3 billion and US$ 53.7 billion in 2011-12 and 2012-13 respectively to US$ 27.5 billion in 2013-14, primarily due to fall in the international gold prices and various policy measures taken by the government to curb gold imports.

Chart 3: India's Principal Imports (Percentage share in Total Imports in 2014-15)



Source: CMIE, Economic Outlook

The government had increased customs duty on gold to 10 percent and banned import of gold coins and medallions to reduce its ballooning current account deficit. However, a slight jump was again observed in gold imports in 2014-15 to USD 34.4 billion, due to relaxation in curbs on gold imports provided by RBI. For the cumulative period Apr-Feb 2015-16, Gold imports have moderated, registering growth of 4.7 percent y-o-y, owing to weak consumer demand for gems and jewellery, both domestic as well as international.

Trade outlook

WTO, in its latest release said that growth in the volume of world trade was likely to remain sluggish in 2016 at 2.8 percent, unchanged from levels recorded in 2015, which was the fourth consecutive year when growth in world merchandise trade remained below 3 percent. For 2017, global trade is expected to grow at 3.6 percent, but it is below the yearly average of 5 percent since 1990.

With such muted growth prospects, recovery in India's exports becomes extremely challenging. The way forward is to strive towards greater competitiveness, which in turn would require a strong policy push.

Additionally, under the various Free Trade Agreements that are currently being negotiated, the government should aim at achieving significant market access for Indian exporters.

In the recent Board of Trade meeting held by the government, some of the thrust areas identified to push exports include reviving SEZs and according priority sector status to export credit, promoting organic produce, MSMEs, involving missions and embassies to promote trade and removing issues of EXIM bank and Export Credit Guarantee Corporation (ECGC).