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SOBERING PORTENT

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

India's merchandise exports plunged by a staggering 34.6 per cent in March as the dislocation of economic activities due to the coronavirus spread across the world. This sharper than expected fall was due to a combination of factors — the disruption of supply chains in China, which, coupled with weak global demand and lockdowns in large parts of the world, resulted in cancellation of export orders, as well as the imposition of the lockdown in India which restricted economic activity beginning in the last week of March. The situation is likely to have worsened in April on account of the extension of the lockdown in not just India, but in large parts of Europe and the US, which are among India's major trading partners.

At the aggregate level, data from the commerce ministry shows that India's merchandise exports in March stood at $21.4 billion, down from $32.7 billion in the same month last year. The decline in exports was broad-based, with all sectors barring iron ore registering a contraction: Engineering goods fell by 42.3 per cent, gems and jewellery by 41 per cent, leather products by 36.8 per cent, and readymade garments by 34.9 per cent. This stunning collapse in trade is in line with the World Trade Organisation's estimates which had projected merchandise trade to fall by 13-32 per cent in 2020 — North America and Asia are likely to be the hardest hit, and nearly all regions are expected to witness double digit falls in trade volumes as global demand collapses. Equally worrying, the trade data also showed that non-oil non-gold imports declined sharply by 30.5 per cent in March, signalling depressed domestic demand — the decline was broad-based, across both capital and consumer goods segments.

At this juncture it is difficult to gauge to what extent easing the restrictions on select economic activities after April 20, and the likely lifting of other lockdown curbs post May 3, are able to ease export growth in the near term. It is quite likely that it will take some time for exports to return to normal, in part, due to raw material and labour shortages, logistical challenges and the fall in global demand. Given this situation, it is difficult to see net exports as being a driver of growth in the near-term. And with both private consumption and investment activity likely to remain depressed, the economy will be heavily reliant on government spending. In such a scenario, the central government must clearly lay out its strategy on how it plans to support the economy during this difficult period.

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