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TESTING TIMES: THE HINDU EDITORIAL ON INDIA AND FAST-SHIFTING DYNAMICS IN KEY MARKETS

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

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India’s goods exports fell for the third time in five months during February. The $33.8 billion of shipments marked an 8.8% drop from a year ago. In recent times of generally exuberant export growth, the only steeper decline was recorded in October 2022. A sharp 29% collapse in oil exports, a 12% fall in chemical shipments and a 10% contraction in engineering goods outflows — accounting for almost half of India’s merchandise exports — propelled February’s decline. But the effects of faltering global demand went beyond, dragging down 13 more of India’s top 30 export items. February’s exports are still 7.3% above October’s number, but the immediate outlook is reverting to the gloom that prevailed in the last quarter of 2022 — about large parts of the world slipping into recession. Resilient economic data from major markets over the past couple of months had infused a belief that the world economy may just end up avoiding the worst that was feared in 2023. But the Ides of March dispelled those hopes — for now, at least.

Retail sales in the U.S., India’s largest export destination, soared 3% in January as a positive surprise, but slumped in February. The failures at two U.S. banks and the disclosure of vulnerabilities by European banker Credit Suisse amid the U.S. Federal Reserve’s scramble to rein in inflation, suggest this momentum may not turn around anytime soon. On Wednesday, Brent crude prices dropped almost 5% — recession risks have clearly resurfaced after the unexpectedly benign start to the year. With manufacturing already shrinking for two quarters, a sustained spell of slipping shipments could mean factory job losses and dent consumption. As it is, the 8.2% drop in February’s imports — the sharpest in a three-month contractionary streak and the lowest import bill in almost a year ($51.3 billion) — does not reflect well on domestic demand that is hoped to insulate the economy from global shocks. Some of this may be due to prices rather than volume factors (oil and edible oil prices had zoomed after the Ukraine war). The government is looking to curb inessential imports to keep the deficit in check amid weaker exports. But this is tricky territory where factors such as quality, pricing and supply chain linkages matter too, and missteps could curb consumer (and investor) choice. With the deficit already constricted sharply over January and February from the record $29.2 billion level hit last September, policy bandwidth may be better used to support exporters to tap new markets and react more nimbly to fast-shifting dynamics in key markets. The long-dithered rejig of the 2015-20 foreign trade policy must not be delayed any further, at any cost.

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