

EXTERNAL WOES: ON INDIA'S FOREIGN TRADE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign Capital, Foreign Trade & BOP

The estimates for foreign trade showing a sharp slowdown in merchandise export growth in April, to 0.64% from a year earlier, ought to add to concerns about the economy. If one were to strip away the 31% surge in shipments of petroleum products to overseas markets, India's export of goods actually contracted by over 3% in dollar terms last month. In contrast, overall merchandise exports had expanded 11% year-on-year in March, with the growth in shipments excluding petroleum products exceeding that pace by about 50 basis points. The slump in exports was fairly widespread, with 16 of the 30 major product groups listed by the Commerce Ministry reflecting contractions, compared with the 10 categories that had shrunk in March. Worryingly, shipments of engineering goods declined by over 7% after having expanded by 16.3% in March, while the traditionally strong export sectors — gem and jewellery, leather and leather products, textiles and garments and drugs and pharmaceuticals — all weakened. These are all key providers of jobs and any protracted pain across these industries will impact jobs, wages and consumption demand in the domestic market. While the contraction in gem and jewellery exports widened to 13.4% in April, from 0.4% in March, the slump in the leather segment broadened to 15.3% from 6.4%. And the pace of growth of garment exports decelerated to 4.4% from 15.1% in March.

Imports grew by 4.5% to \$41.4 billion in April, accelerating from March's 1.4% pace as purchases of crude oil and gold continued to increase. While the 9.3% jump in the oil import bill, from March's 5.6%, can partly be explained by the rise in international crude prices (Brent crude futures, for instance, advanced 6.4% in April), India's insatiable appetite for gold, as reflected in the 54% surge in imports last month, must give policymakers cause for reflection. Excluding oil and gold, however, imports shrank by more than 2% last month, signalling that import demand in the real productive sectors is largely becalmed. As a result of merchandise imports outpacing exports, the trade deficit widened to a five-month high of \$15.3 billion. The widening trade shortfall will add pressure on India's burgeoning current account deficit, which at a provisional \$51.9 billion in the first nine months of fiscal 2018-19 had already surpassed the preceding financial year's 12-month shortfall of \$48.7 billion. With stronger headwinds ahead in the form of an escalating trade war between the U.S. and China, and its knock-on impact on global growth, the outlook for export demand is far from reassuring. Add the rising military tensions in West Asia and its potential to further push up oil prices, and the scope to contain the trade and current account deficits seems significantly challenging. Clearly, this would be one more pressing concern for the new government to address.

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With Masood Azhar listed as a terrorist, India must work to ensure the mandated sanctions

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