

ARE INDIA'S MERCHANDISE EXPORTS ENTERING A PERIOD OF SUSTAINED GOLDILOCKS?

Issue No. 34, FY22
Date: 10 Aug 2021

India's merchandise exports in Apr-July 2021-22 were \$130.53 billion, an increase of 73.51% over \$75.22 billion in Apr-July 2020-21 and an increase of 21.82% over \$107.15 billion in Apr-July 2019-20. For this fiscal the growth is broad-based and has been led by Engineering Goods, Petroleum Products, Gems & Jewellery, Textiles and Garments and Organic & Inorganic Chemicals. Over the years, the biggest contribution has been of the petroleum products. In FY97 their % share in overall exports was around 1.5% and this increased to around 21% in FY13 and FY14. However, their share declined to 9% in FY21 as crude oil prices collapsed before recovering to 14% in current fiscal with the domino impact of jump in crude prices. Thus, the impact of international crude oil prices has always been a big factor in the way India's crude oil exports. As the world slowly moves towards cleaner sources of fuel, India needs to chart a plan to gradually bring its share down. This can only be possible if other manufactured exports improve.

If we look at the compositional shift, then over the last 25 years, the top 20 HS-2 categories accounted for around 74%-80% of the total exports, thus showing that overall the export basket composition has remained fairly stable over the years. Certain agri based and labour intensive products like residues and wastes from food industries, animal fodder, coffee, tea, mate and spices, carpets and footwear have exited the export list. Meanwhile, certain items like Aluminium and articles thereof and Ships, Boats and floating structures exports have grown rapidly and are now part of the top exports. There are certain other products which have shown rapid growth but their share in overall exports is still very low as they started from a very low base. These include items like furskins and artificial fur, arms and ammunition, furniture, aircraft and space craft and zinc and its articles.

The other major manufactured products which started with a good base, like chemicals and pharmaceuticals, electrical and mechanical machinery and appliances, vehicles, articles of iron and steel, plastics have all grown fairly steadily and increased their share in the overall exports. However, there is no big segment which has shown such growth as petroleum sector had done in the past. In a bid to make exports more competitive, India has recently launched Production Led Incentive scheme for sectors such as electronics, pharmaceuticals, food products, white goods, cells, etc. The sectors are well-chosen as they display a lot of potential. However, there are a few more sectors which also display potential which include ships and boats, aircrafts and ceramics and focus on these can yield good results.

However, it has to be kept in mind that primary engine of growth for India remains domestic consumption and unless that improves it is difficult for India to achieve sustained growth. For the 18 year period ended FY21, the weighted contribution of exports was 28%, while that of consumption was 69%! For the 5 year period ended FY08, the weighted contribution of exports was 39% and that of consumption was 63%, implying that both exports and domestic consumption propelled India's growth. In contrast, for the 7 year period ended FY21, the weighted contribution of exports was 7%, while that of consumption was 71%, including the years where contribution of exports were negative and domestic consumption held center stage. Clearly, we also need to jump start domestic consumption, even as export growth shows a definitive uptick!

CURRENT MERCHANDISE EXPORT SCENARIO

- ◆ Indian merchandise exports have been witnessing a smart comeback from Jan'21 onwards even if we discount for the favorable base effects of 2020, owing to COVID-19 induced slowdown. Exports in Apr-Jul'21 were \$130.53 billion, an increase of 73.51% over Apr-Jul'20 and an increase of 21.82% over Apr-Jul'19. For this fiscal the growth has been led by Engineering Goods, Petroleum Products, Gems & Jewellery, Textiles & Garments and Organic & Inorganic Chemicals which have the highest weighted contribution in the overall growth.
- ◆ Engineering exports, which have the highest share as of now in India's exports, stood at \$ 35.38 million during Apr-Jun'21, witnessing a massive growth of 70% over Apr-Jul'20, and growth of 32% over Apr-Jul'19.

Month	Merchandise Exports growth		
	Growth over respective 2018 month	Growth over respective 2019 month	Growth over respective 2020 month
Mar-20	-26%	-34%	-
Apr-20	-60%	-60%	-
May-20	-34%	-36%	-
Jun-20	-21%	-12%	-
Jul-20	-8%	-9%	-
Aug-20	-18%	-13%	-
Sep-20	-1%	6%	-
Oct-20	-7%	-5%	-
Nov-20	-10%	-9%	-
Dec-20	-3%	0%	-
Jan-21	8%	4%	6%
Feb-21	7%	4%	1%
Mar-21	18%	5%	60%
Apr-21	18%	18%	196%
May-21	12%	8%	69%
Jun-21	17%	30%	48%
Jul-21	37%	34%	48%

Source: SBI Research

- ◆ This is a good sign. But efforts need to be done to maintain the momentum , as for entire FY21, the engineering exports had witnessed a decline vis-à-vis both FY20 and FY19.
- ◆ The other major component, petroleum products have shown a whopping increase of 185% over FY21 and 22% over FY20. As mobility increased and oil prices have followed an upward trajectory the petroleum product exports have improved.
- ◆ Gems and jewellery exports, the third biggest exports have also recovered significantly as compared to last year. However, as compared to FY19 the growth has been a tepid 2%.

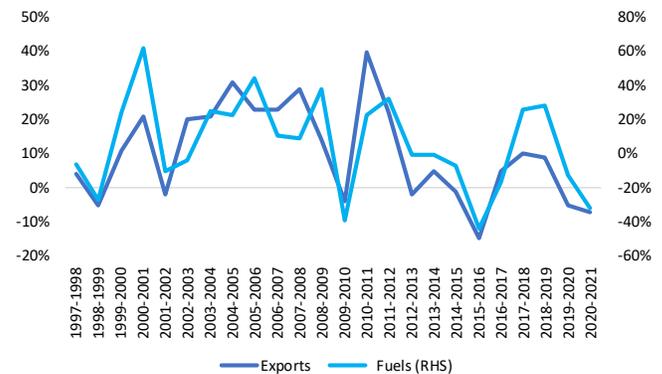
INDIA'S EXPORTS OVER THE YEARS

- ◆ If we take a detailed look at trajectory of Indian exports in the last 25 years, the biggest contribution has been of the petroleum products. In FY97 their % share in overall exports was around 1.5% and this increased to around 21% in FY13 and FY14. However, their share has come down to around 14% in FY20 and 9% in FY21 as crude oil prices followed a downward trajectory and the pandemic hit.
- ◆ The impact of international crude oil prices has been a big factor in the way India's crude oil exports perform. A simple correlation exercise between fuel price growth and India's exports for the time period FY98 –FY21 yields a figure of 0.74, thus bringing into sharp focus the dependence that Indian exports have on fuel price dynamics. This year, too, this dependence is visible as petroleum exports have been a major factor in the on-going upward trajectory of Indian exports.
- ◆ The second biggest component is the gems and jewellery sector, under which the biggest exports have been of diamonds. Gems and jewellery sector being a discretionary expenditure is impacted severely by the overall economic sentiment and with the overall global slowdown in the years after eurozone debt crisis the exports have slowed.
- ◆ **If we look at the compositional shift, then over the last 25 years, the top 20 HS-2 categories have accounted for around 74%-80% of the total exports, thus showing that overall the export basket composition has remained fairly stable over the years.**
- ◆ **Certain agri based products like residues and wastes from food industries, animal fodder, coffee, tea, mate and spices and labour intensive products like carpets and footwear have exited the top commodity export list.**

Weighted Contribution to Growth			
	Apr-Jul'19	Apr-Jul'20	Apr-Jul'21(P)
Engineering Goods	-0.44%	-5.70%	19.45%
Petroleum Products	-0.68%	-8.14%	16.02%
Gems & Jewellery	-1.21%	-7.67%	11.25%
Textiles and garments	-0.22%	-4.56%	7.56%
Others	-0.82%	-0.25%	4.62%
Organic & Inorganic Chemicals	0.65%	-0.76%	3.24%
Electronic Goods	1.01%	-1.22%	2.60%
Agri and allied products	-0.37%	0.11%	1.66%
Ores and Minerals	0.48%	0.17%	1.64%
Plastic & Linoleum	-0.02%	-0.20%	1.19%
Marine Products	-0.06%	-0.44%	1.09%
Handicrafts	0.02%	-0.44%	0.82%
Leather & leather products	-0.11%	-0.86%	0.75%
Ceramic products & glassware	0.17%	-0.24%	0.61%
Meat, dairy & poultry products	-0.12%	-0.37%	0.56%
Drugs & Pharmaceuticals	0.73%	0.76%	0.45%
Total	-0.99%	-29.80%	73.51%

Source: SBI Research

India's merchandise exports and global fuel prices growth



Source: SBI research

India's merchandise exports over the years(\$ million)					
Components	1996-97	2002-03	2008-09	2014-15	2020-21
Mineral fuels, oils and products	-	2707	28437	57620	26,881
Gems and jewellery	4772	9092	28466	41550	26,161
Pharmaceutical products	672	1401	5079	11585	19,384
Machinery and mechanical appliances	1048	1719	7993	13803	18,948
Organic chemicals	993	2106	7464	11949	17,950
Electrical machinery and equipment	858	1455	9541	8697	14,212
Vehicles other than railway	902	1123	6002	14474	13,637
Iron and steel	866	1912	7533	8684	12,124
Cereals	1104	1601	3345	9551	10,064
Plastic and articles thereof	-	1002	2543	5081	6,871
Articles of iron or steel	536	1158	5783	7592	6,593
Apparel and clothing accessories, knitted or corcheted	1034	2387	5048	7655	6,348
Cotton	2826	2202	3149	7718	6,316
Apparel and clothing accessories, not knitted or corcheted	2719	3352	5903	9192	5,942
Aluminium and articles thereof	-	-	-	-	5,771
Ores, slag and ash	579	1048	5456	-	5,243
Fish and crustaceans, aquatic invertebrates	1116	1398	-	5250	5,235
Other made up textile articles; rags	745	1270	2371	4646	5,221
Miscellaneous chemical products	-	-	1882	-	5,116
Ships, boats and floating structures	-	-	3716	5352.61	4,488
% Share of components in India's overall exports	62%	70%	75%	74%	76%

Source: SBI Research

- ◆ Meanwhile, certain components like Aluminum and articles thereof and Ships, boats and floating structures exports have grown rapidly and are now part of the top exports.
- ◆ There are certain other products which have shown rapid growth but their share in overall exports is still very low as they started from a very low base. These include items like furskins and artificial fur, arms and ammunition, furniture, aircraft and space craft and zinc.
- ◆ The other major manufactured products which started with a good base, like chemicals and pharmaceuticals, electrical and mechanical machinery and appliances, vehicles, articles of iron and steel, plastics have all grown fairly steadily and increased their share.

- ◆ However, there is no big segment which has shown such growth as petroleum sector had done in the past.
- ◆ Overall the manufactured products have displayed higher growth over the years vis-à-vis majority of the primary agri and animal and other natural product exports have.
- ◆ If we look at the pandemic months the agri and allied exports were the only ones which stayed in the green and supported overall merchandise exports.
- ◆ However, as momentum in other products has picked up their share has come down again. And India cannot rely on these products solely to become a world leader in exports.

India's merchandise exports growth at HS-2 Digit Classification (FY21-FY27)							
	Growth(>10000%)	Growth(Between 5000% and 10000%)	Growth(Between 2500% and 5000%)	Growth(Between 1000% and 2500%)	Growth(Between 500% and 1000%)	Growth(Between 250% and 500%)	Growth(Between -100% and 250%)
	Furskins and artificial fur, manufactures thereof.	Lead and articles thereof.	Works of art collectors' pieces and antiques.	Preparations of vegetables, fruit, nuts or other parts of plants.	Dairy produce; birds' eggs; natural honey; edible prod. Of animal origin, nec	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans.	Footwear, gaiters and the like; parts of such articles.
	Arms and ammunition; parts and accessories thereof.	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	Optical, photographic cinematographic measuring, checking precision, medical or surgical inst. And apparatus parts and accessories	Cork and articles of cork.	Sugars and sugar confectionery.	Toys, games and sports requisites; parts and accessories thereof.	Vegetable plaiting materials; vegetable products not elsewhere specified or included.
	Aircraft, spacecraft, and parts thereof.	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork.	Pharmaceutical products	Copper and articles thereof.	Railway or tramway locomotives, rolling-stock and parts ; railway or tramway track fixtures and fittings and parts thereof; mechanical	Miscellaneous manufactured articles.	Edible fruit and nuts; peel or citrus fruit or melons.
	Zinc and articles thereof.	Ceramic products.	Aluminium and articles thereof.	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring prep.	Other base metals; cermets; articles thereof.	Salt; sulphur; earths and stone; plastering materials, lime and cement.	Carpets and other textile floor coverings.
	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishing; lamps and lighting fittings not elsewhere specified or inc	Cocoa and cocoa preparations.	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair.	Preparations of cereals, flour, starch or milk; pastycooks products.	Rubber and articles thereof.	Natural or cultured pearls, precious or semiprecious stones, gem metals, clad with pre-metal and articles thereof,imit,jewelry,coin.	Products of the milling industry; malt; starches; inulin; wheat gluten.
	Ships, boats and floating structures.	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes.	Headgear and parts thereof.	Miscellaneous chemical products.	Cereals.	Tools implements, cutlery, spoons and forks, of base metal; parts thereof of base metal.	Musical instruments; parts and accessories of such articles.
				Paper and paperboard; articles of paper pulp, of paper or of paperboard.	Ores, slag and ash.	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips,riding-crops and parts thereof.	Articles of leather,saddlery and harness;travel goods, handbags and similar cont.articles of animal gut(othr thn silk-wrm)gut.
				Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof.	Miscellaneous edible preparations.	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn.	Clocks and watches and parts thereof.
				Organic chemicals	Animal or vegetable fats and oils and their cleavage products; pre. Edible fats	Fish and crustaceans, molluscs and other aquatic invertebrates.	Cotton.
				Wadding, felt and nonwovens; special yarns; baine, cordage, ropes and cables and articles thereof.	Miscellaneous articles of base metal.	Live animals.	Articles of apparel and clothing accessories, not knitted or crocheted.
				Plastic and articles thereof.	Articles of stone, plaster, cement, asbestos, mica or similar materials.	Coffee, tea, mate and spices.	Residues and waste from the food industries; prepared animal fodder.
				Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers,and parts.	knitted or crocheted fabrics.	Man-made filaments.	Products of animal origin, not elsewhere specified or included.
				Meat and edible meat offal.	Edible vegetables and certain roots and tubers.	Fertilisers.	Raw hides and skins (other than furskins) and leather
				Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard.	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery.	Live trees and other plants; bulbs; roots and the like; cut flowers and ornamental foliage.	Wool, fine or coarse animal hair, horsehair yarn and woven fabric.
				Vehicles other than railway or tramway rolling stock, and parts and accessories thereof.	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations.	Tobacco and manufactured tobacco substitutes.	Silk
				Albuminoidal substances; modified starches; glues; enzymes.	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, or radi. Elem. Or of isotopes.	Man-made staple fibres.	Tin and articles thereof.
				Iron and steel	Other made up textile articles; sets, worn clothing and worn textile articles; rags.	Lac; gums, resins and other vegetable saps and extracts.	Photographic or cinematographic goods.
				Glass and glassware.	Tanning or dyeing extracts; tannins and their deri. Dyes, pigments and other colouring matter; paints and ver; putty and other mastics; inks.		Miscellaneous goods.
				Essential oils and resinoids; perfumery, cosmetic or toilet preparations.	Oil seeds and olea. Fruits, misc. Grains, seeds and fruit; industrial or medicinal plants; straw and fodder.		Project goods; some special uses.
				Nickel and articles thereof.	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use.		
				Articles of iron or steel	Beverages, spirits and vinegar.		
				Wood and articles of wood; wood charcoal.	Articles of apparel and clothing accessories, knitted or corcheted.		
Total exports in FY21	8683.53	30186.69	28918.67	108059.65	48439.09	44329.01	22546.38
% Share in India's overall exports	3%	10%	10%	37%	17%	15%	8%

Source: SBI Research, commerce.gov.in

INDIA IN SEARCH OF THE GOLDEN SECTORS

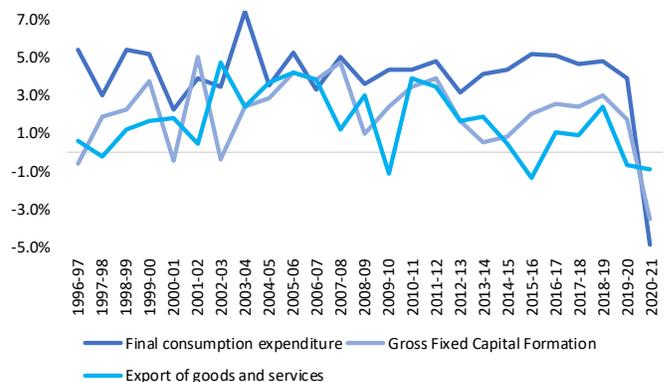
- ◆ In a bid to make exports more competitive, India has recently launched Production Led Incentive Scheme for Advance Chemistry Cell (ACC) Battery, Electronic/Technology Products, Automobiles & Auto Components, Pharmaceuticals drugs, Telecom & Networking Products, Textile Products: MMF segment and technical textiles, Food Products, High Efficiency Solar PV Modules, White Goods (ACs & LED) and Specialty Steel.
- ◆ The sectors are well-chosen as they display a lot of potential. However, there are a few more sectors which also display potential which include ships and boats, aircrafts and ceramics and focus on these can yield good results.

INDIA'S GROWTH AND CONTRIBUTION OF EXPORTS

- ◆ In the last 25 years, the weighted contribution of exports to India's real GDP growth has been in the range of -1.3% to 4.8%. FY03-FY07 period saw the maximum contribution by exports with exports even surpassing the weighted contribution by gross domestic final consumption in FY03, FY06 and FY07.
- ◆ However, as the global growth started slowing down after the sub-prime crisis, exports got impacted adversely and the weighted contribution turned negative in FY10.
- ◆ However, smart recovery happened in the ensuing years, but the contribution dwindled as world growth again progressively slowed down and export contribution was -1.3% in 2015-16. Structural factors, such as a deceleration in the speed of trade openness, the slowing of supply chain fragmentation, structural changes in Chinese trade, as well as cyclical factors, such as the weakness in the trade-oriented components of aggregate demand were all likely contributors.
- ◆ Since then the trajectory of global trade has been wobbly and for India the weighted contribution has been modest, and it again turned negative in FY20 and FY21.

- ◆ But one positive observation in FY21 is that despite COVID-19 pandemic and rapid global slow down the weighted contribution of exports to growth declined only by 0.9%, as compared to the more than 1% degrowth in previous slowdowns.
- ◆ This gives hope that exports growth will see a positive momentum in the coming years. However, it has to be kept in mind that the primary engine of growth for India remains consumption and unless that improves it is difficult for India to achieve double digit growth.
- ◆ Also, what shape trade is going to take in the future is uncertain and relying solely on this component would not be a wise thing to do.
- ◆ Meanwhile, Government has come up with the RoDTEP scheme which stands for Remission of Duties and Taxes on Export Products. It is a new scheme that is applicable with effect from January 1st, 2021, formed to replace the existing MEIS (Merchandise Exports from India Scheme). The scheme will ensure that the exporters receive the refunds on the embedded taxes and duties previously non-recoverable. The scheme was brought about with the intention to boost exports.
- ◆ Quick implementation of the scheme will help the exporters as they are still waiting for the rates in the scheme.

Weighted contribution of various components in Real GDP Growth



Source: SBI research

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