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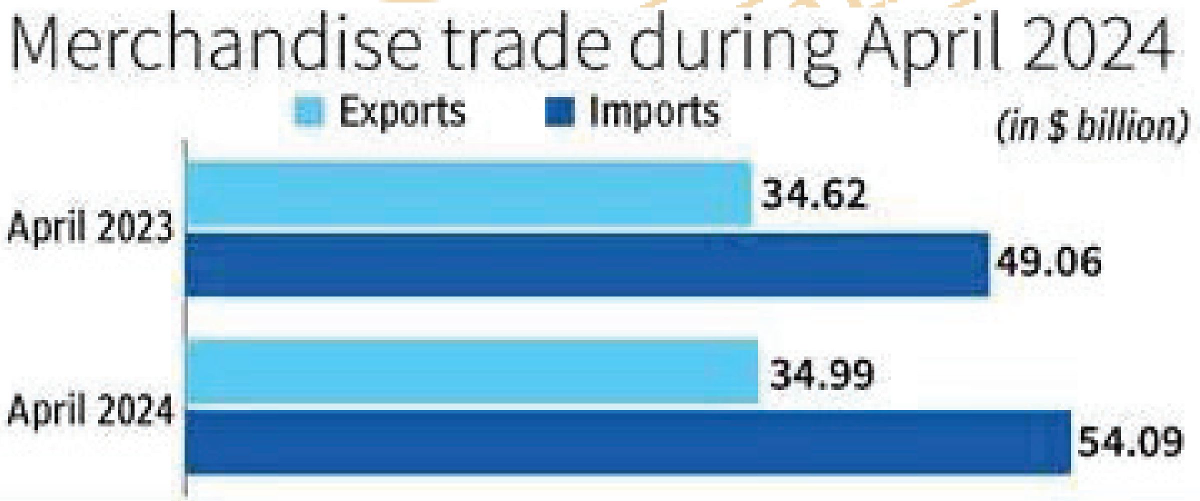
Trade imbalance: On India's merchandise exports

The Hindu

Paper - III (Indian Economy)

India's merchandise exports, which shrank over 3% in 2023-24 — a year marred by multiple geopolitical and logistical disruptions to global trade — are off to a positive start this year, but only just. This April recorded outbound shipments worth $34.99 billion, reflecting a meagre uptick of 1.07% or $370 million from a year ago. As many as 17 of India's top 30 export items reported year-on-year contractions, compared with 13 in the previous month. Significantly, these declines are over a weak base — in April 2023, goods exports had tanked 12.7% and 20 of the top 30 items had reported a fall in export values. The minor growth last month was largely driven by just four items, pharma, chemicals, electronics and, most importantly, petroleum products, which recovered from a 35% contraction in March, aided by the rise in global oil prices. On the flip side, the surge in oil and gold prices through April lifted the country's goods import bill by 10.25% to over $54 billion. As a result, last month's trade deficit was the highest in four months at $19.1 billion, and nearly 22.5% over March's gap. If the OPEC+ club, which meets in early June, decides to extend output cuts, oil prices could well hit $100 a barrel. Moreover, a persistent global savings rush to gold as a safe haven, could keep pushing India's favourite yellow metal's prices higher. Apart from the deleterious effects of such a scenario on the domestic front (through higher fuel prices, for one), the trade balance and the rupee would be under pressure.

Global trade volumes, after tanking 1.2% in 2023, are expected to rise 2.6% this year, as per the World Trade Organization. The government is hopeful that India's key markets in the western world clock lower inflation and improved growth rates, spurring a demand bounce. However, India needs to sharpen its approach to capitalise on such a bounce and ensure that any gains that may accrue will create wealth across the domestic economy. This requires addressing the challenges facing labour-intensive sectors such as garments and footwear, where the country has been losing out to rivals, including Bangladesh and Vietnam, in recent years. The downward trend for these sectors, as well as gems and jewellery, continued in April. Tackling concerns



about product quality (in spices or drugs, for example) or allegations about labour or environmental concerns (aimed at booming shrimp exports) with greater vigour, is also critical. Moreover, agricultural exports, curbed in the battle against inflation, must be reinvigorated soon, given the healthy monsoon prospects. The next government must roll up its sleeves quickly to rev up the export growth engine and ensure trade balances do not turn unwieldy.

Expected Question for Prelims

Que. Consider the following statements with reference to India's trade imbalance:

1. There has been a significant decline in outbound shipments in April this year as compared to a year ago.
2. In April 2023, there was a decline of 12.7 percent in goods exports.

Which of the statements given above is/are correct?

(a) Only 1 (b) Only 2

(c) Both 1 and 2 (d) Neither 1 nor 2

Answer : C

Mains Expected Question & Format

Que.: What are the challenges before India related to increasing goods exports and trade imbalance? Also discuss its solutions.

Answer's Approach:

- In the first part of the answer, briefly describe the data of goods exports from India. After this, discuss the challenges related to increasing goods exports and trade imbalance.
- In the second part, discuss possible solutions to these challenges.
- Finally give a conclusion giving suggestions.

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC mains examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.