

# **India's Export Outlook**

For Prelims: India's Export Outlook, <u>Gross Domestic Product</u>, <u>World Trade Organization</u>, <u>Foreign Trade Policy</u>, Trade Infrastructure for Export Scheme (TIES).

For Mains: India's Export Outlook, challenges and Way forward.

#### **Source: TH**

#### Why in News?

The Ministry of Commerce and Industry, Government of India has decided to adopt a **Target Range Approach** in announcing **Export Goals for FY 2023-24** instead of a single number due to ongoing global uncertainties.

 Despite achieving a record USD 450 billion in merchandise exports during 2022-23, India's outbound shipments have faced significant challenges in the first quarter of 2023-2024.

# What is the Target Range Approach Adopted by the Government?

- Targets Based on Four Key Parametres:
  - Overall Target of USD 2 Trillion by 2030:
    - As per India's new <u>Foreign Trade Policy (FTP) 2023</u>, it aims to achieve a total export of USD 2 trillion with services and goods exports accounting for a trillion dollars each by 2030.
    - This long-term objective will be considered while setting the current year's targets.
  - Import to GDP Ratio of Importing Countries:
    - The targets will take into account the import to <a href="GDP">GDP (Gross Domestic Product)</a> ratio of the countries that are major importers of Indian goods.
    - This ratio will provide insights into the potential demand for Indian products in various international markets.
  - Export to GDP Ratio of India:
    - The export to GDP ratio of India itself will be assessed to gauge the country's export potential and capacity.
  - Trend Growth of Past Years:
    - The past growth trends in exports will be analyzed to understand the trajectory of India's trade performance and consider it in setting achievable targets.
- Target Range:
  - In FY 202-23, exports amounted to USD 450 billion. Based on this figure and assuming a
    conservative growth rate of 10%, trade experts suggest the following potential target
    range:
    - Lower End of Range: USD 451 billion (Slightly above the previous year's exports)
    - **Upper End of Range:** USD 495 billion (Assuming a 10% growth rate).
- Monitoring Mechanism:

- The Department of Commerce will use a fixed number to track export performance every month, which could be a **mid-value or an average.**
- This monitoring mechanism will provide timely **insights into progress and help make** necessary adjustments if required.

### What is the Current Scenario of Indian Export?

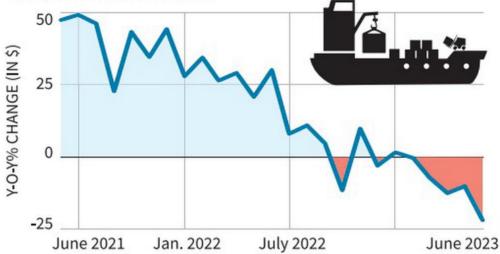
#### Export Performance:

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- Goods exports have experienced a series of deceleration in recent months, with a 22% drop in June 2023, marking the steepest fall in 37 months.
  - The USD 32.7 billion export tally for June 2023 was the lowest since **October 2022.**
- Exported services have also witnessed a slowdown, with forex earnings from intangible exports growing by only 5.2% to USD 80 billion in the first quarter of 2023-24, compared to about 28% growth in the previous year 2022-23, where earnings reached USD 325 billion.

# Declining exports

Exports in India shrank by 22.03% in June 2023 compared with the year-ago period. A look at the year-on-year % change in total exports (in \$)





#### Factors Influencing Exports:

- Global Oil Prices:
  - Petroleum exports saw a sharp plunge of 33.2% in the first quarter, primarily driven by reduced global oil prices.
  - Additionally, price cap sanctions on Russian oil shipments have also contributed to a moderation in demand.
- External Factors:
  - The <u>World Trade Organisation's (WTO)</u> forecast of slower global trade growth in 2023 is influencing India's export outlook, prompting the need for a more cautious approach.

#### Government's Broader Target:

• India's broader target for exports, as per the new **Foreign Trade Policy**, is to achieve USD 2 trillion by 2030, with services and goods exports each accounting for a trillion dollars.

## What is the Status of the Export Sector in India?

Status of Trade:

- The merchandise trade deficit, which is the gap between exports and imports, increased by over 39% in 2022-23 to record USD 266.78 billion, as compared to USD 191 billion in 2021-22.
- Merchandise imports increased by 16.51% in 2022-23, while merchandise exports rose by 6.03%.
  - Overall trade deficit, however, stood at USD 122 billion in 2022-23, as compared to USD 83.53 billion in the 2022, gaining support from trade surplus in services.

#### India's Major Export Arenas:

- **Engineering Goods:** They registered a 50% growth in exports, at USD 101 bn in FY22.
- Agriculture Products: Agricultural exports were buoyed by the government's push to meet global demand for food amid the pandemic. India exports rice worth USD 9.65 bn, the highest among agricultural commodities.
- **Textile and Apparels:** India's **textile and apparel exports** (including handicrafts) stood at USD 44.4 billion in FY22, a 41% increase on a YoY basis.
  - Government's scheme like <u>Mega Integrated Textile Region and Apparel</u> (<u>MITRA</u>) <u>Park</u> are giving a strong boost to this sector.
- Pharmaceuticals and Drugs: India is the <u>third-largest producer of medicines</u> by volume and the biggest supplier of generic drugs.
  - India supplies over 50% of Africa's requirement for generics, around 40% of generic demand in the US and 25% of all medicine in the UK.

# What are the Challenges Related to the Export Sector in India?

- Challenges in Access to Finance:
  - Access to affordable and timely finance is crucial for exporters.
  - However, many Indian exporters face challenges in obtaining finance due to high interest rates, collateral requirements, and lack of credit availability from financial institutions, particularly for small and medium-sized enterprises (SMEs).
- Limited Diversification:
  - India's export basket is concentrated in a few sectors, such as engineering goods, textiles and pharmaceuticals, which makes it vulnerable to global demand fluctuations and market risks.
  - Limited diversification of exports poses a challenge to India's export sector as it can limit its resilience to changing global trade dynamics.
- Rising Protectionism and Deglobalisation:
  - Countries around the globe are moving towards protectionist trade policies due to disrupted global political order (Russia-Ukraine War) and weaponization of supply chain, that is in way shrinking India's export capacities.

#### What are the Major Government Initiatives to Promote Export Growth?

- Trade Infrastructure for Export Scheme (TIES)
- PM Gati Shakti National Master Plan (NMP)
- Duty Drawback Scheme
- Remission of Duties or Taxes on Export Product (RoDTEP)
- Rebate of State and Central Taxes and Levies

#### **Way Forward**

Improved infrastructure and logistics are critical for enhancing export competitiveness.

- India should prioritise investments in transportation networks, ports, customs clearance processes, and export-oriented infrastructure such as export promotion zones and specialised manufacturing zones.
- Skill development programs **should be implemented to enhance the availability** of skilled labour in export-oriented industries.
- Additionally, incentivizing and promoting technology adoption, such as automation, digitization, and Industry 4.0 technologies, can boost productivity, competitiveness, and innovation in the export sector.

