India's Slowing Exports

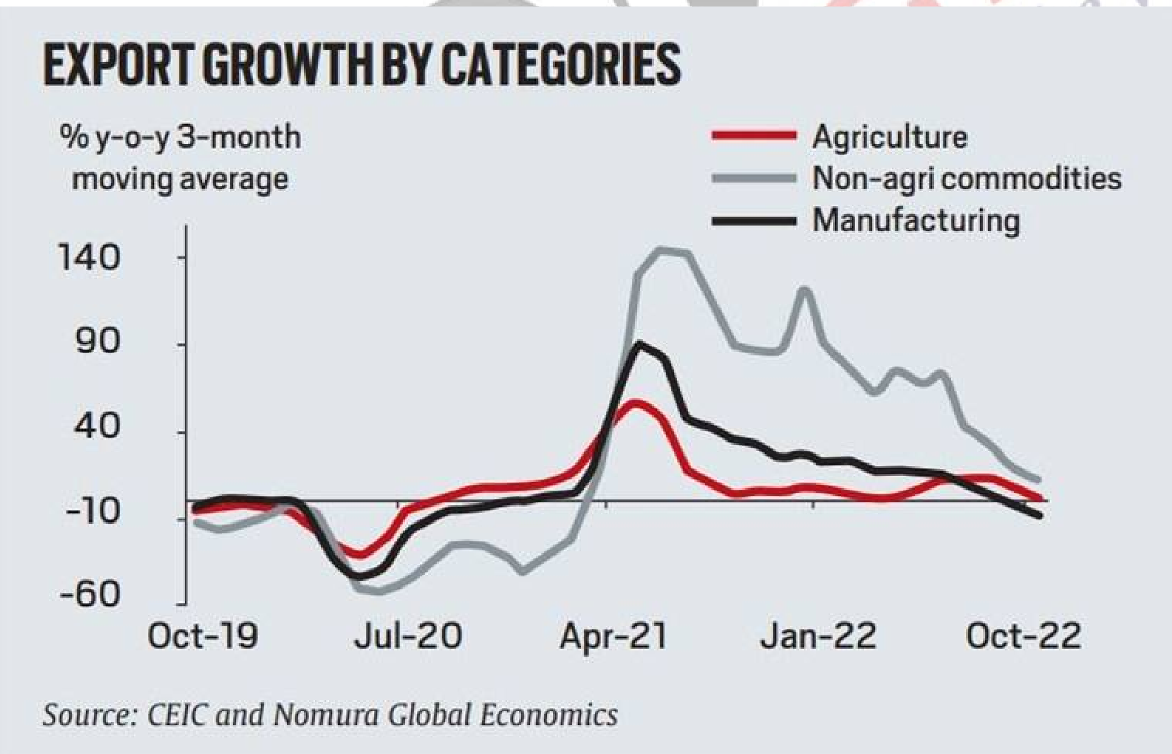
For Prelims: Status of India's Exports, Initiatives related to Export Promotion.

For Mains: Concerns over India's Slowing Exports.

Why in News?

India's exports declined about **16.7% in October 2022** compared with the same period 2021, raising concerns over slowing exports.

- For October, USD 2 billion worth of exports declining was **seen in steel and allied products.**
- Electronic goods exports remained among a handful of segments to **witness a rise in exports growing about 38% to USD 1.8 billion.**



What are the Factors of Slowing Export Demand?

- **Weaker Global Demand:**
    - The global economic growth is **decelerating sharply in the wake of persistently high inflation across developed countries** and, as a result, as sharp **tightening of** [monetary policy .]()
    - With growth contraction across the board — UK and US are set to see recession while the

euro area is likely to stall even as China struggles to grow — the demand for Indian goods has plummeted. That is why exports have contracted.

- **Inflation:**
    - Inflation has been driven up **more by local factors, including higher food prices, than imported reasons** and that those pressures are set to dampen thanks to easing international commodity prices and the arrival of Kharif crop.
    - Retail inflation has been consistently above 7% these past few months, but stood at 6.8% for October, 2022.
- **Fall in Oil and other Export:**
    - Oil export growth fell to -11.4% y-o-y from 43.0% in September 2022, partly reflecting **lower global crude oil prices,** while non-oil exports plunged -16.9% y-o-y, with the decline broad-based across iron ore, handicrafts, textiles, some agricultural goods, plastics, gems & jewellery, engineering goods, chemicals, pharmaceuticals and leather goods.
    - Engineering goods, which have lent a strong shoulder to India's goods exports in recent years, **slid 21%.**
- **Rising Global Trade Tension:**
    - Recent trade war between the US and China and other global trade wars has impacted **growth all over the world.**
    - It has impacted manufacturing and exports in **different parts of the world, including the Indian** economy too.

What are the Positive Signals to the Economy?

- Despite the slowing export scenario, it is likely that domestic demand will carry through.
- The investment cycle will be reinvigorating which will spur growth and job creation in the coming days.
- The private sector capital expenditure is on track to touch **six lakh crore this fiscal 2022-23** which would make it the highest of the past six years.
    - Private capex typically depends on credit, or loans, from the banking system.
    - And that has **seen a healthy growth in the recent past touching a high of 18%** in September, 2022.

What about other Exporting Nations?

- Vietnam, an export-dominated country, **recorded a 4.5% growth in exports from a year earlier to USD 29.18 billion** amid 'sustained foreign demand'.
- Similarly, exports by the **Philippines grew 20% in October, 2022.**
    - The government there had said that exports rose for the first time in three months in September amid what it calls 'signs of reviving foreign demand'.
- **China is an outlier in 2022** because of **stringent lockdowns that are impacting manufacturing output**, though lockdowns are being eased currently following protests against restrictions.

How has the Indian Forex Reserve been?

- For the week ended December 2, foreign exchange reserves stood at about **USD 561 billion.**
- October imports stood at USD 56.7 billion (an eight-month low) as a benchmark, and there about **9-10 months' worth of import cover which isn't as healthy** as the 14-to-15-month cover that we had seen during the pandemic.
- However, economists **feel this isn't as bad as 2013 when foreign investors began pulling out of India's financial markets.**
    - At that time, India had less than seven months' worth of import cover.
- And if anything, forex reserves have been rising in recent weeks signalling hope for the future.

Note

- **Import Cover** is a measure of how many months of imports can be covered by foreign exchange

reserves held by a country's central bank.
- It is an important indicator of the stability of the currency.

What are India's Export Promotion Schemes?

- **Merchandise Exports from India Scheme:**
  - MEIS was introduced in the Foreign Trade Policy (FTP) **2015-20**, under MEIS, the government provides duty benefits depending on product and country.
  - Rewards under the scheme are payable as percentage of realised free-on-board value **(of 2%, 3% and 5%)** and MEIS duty credit scrip can be transferred or used for payment of a number of duties including the basic customs duty.
- **Service Exports from India Scheme:**
  - It was introduced in April 2015 for 5 Years under the Foreign Trade Policy of India 2015-2020.
    - Earlier, this Scheme was named as Served from India Scheme (SFIS Scheme) for Financial Year 2009-2014.
  - Under it, incentives are given by the Ministry of Commerce and Industry to Service Exporters based in India to promote the export of services from India.
- **Remission of Duties or Taxes on Export Product (RoDTEP):**
  - It is a fully automated route for Input Tax Credit (ITC) in the **GST (Goods and Service Tax)** to help increase exports in India.
    - ITC is provided to set off tax paid on the purchase of raw materials, consumables, goods or services that were used in the manufacturing of goods or services. This helps in avoiding double taxation and the cascading effect of taxes.
  - It was started in January 2021 as a replacement for the MEIS, which was not compliant with the rules of the **World Trade Organisation**.
- **Rebate of State and Central Taxes and Levies (RoSCTL):**
  - Announced in March, 2019, RoSCTL was offered for embedded state and central duties and taxes that are not refunded through GST.
  - It was available only for garments and made ups. It was introduced by the Ministry of Textiles.
  - Previously, it was Rebate for State Levies (ROSL).

Way Forward

- The weakness in India's exports is **likely to sustain because global growth is likely to remain weak.** Weaker exports, in turn, will have a dampening effect on the growth of India's gross domestic product (GDP).
- The government urgently needs to bring out a **revised foreign policy to address both our historical trade imbalance,** and the slowing of exports, rather than wait out the tumult as it intends to, having again deferred the new policy release till April next.
- The government should take **appropriate measures to improve the credit cycle through investment and savings and promotion of foreign investment** will bring the economy from slowdown in future.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q1. Which one of the following is not the most likely measure the Government/RBI takes to stop the slide of Indian rupee? (2019)

(a) Curbing imports of non-essential goods and promoting exports
(b) Encouraging Indian borrowers to issue rupee denominated Masala Bonds
(c) Easing conditions relating to external commercial borrowing
(d) Following an expansionary monetary policy

Ans: (d)

Q2. Which of the following best describes the term ‘import cover’, sometimes seen in the news? (2016)

(a) It is the ratio of value of imports to the Gross Domestic Product of a country.
(b) It is the total value of imports of a country in a year.
(c) It is the ratio between the value of exports and that of imports between two countries.
(d) It is the number of months of imports that could be paid for by a country’s international reserves.

Ans: (d)

Mains

Q. Account for the failure of manufacturing sector in achieving the goal of labour-intensive exports. Suggest measures for more labour-intensive rather than capital-intensive exports. **(2017)**

Source: TH