Exports surge, but...

Need to remove sector-specific bottlenecks to sustain growth

Trade data released on Tuesday had some encouraging numbers. Merchandise exports registered growth for the second consecutive month in October. At 9.59 per cent, it was also the fastest growth in the past six months. Exports rose to $23.51 billion from $21.45 billion in the same month last year. The October performance builds on the 4.6 per cent growth notched up in September. This is in sharp contrast to monthly figures since December 2014, during which Indian exports saw a chronic fall. Though the current pickup was also bolstered by the low base month numbers when exports declined by 16 per cent and 24 per cent, respectively, cumulative exports for the April to October period this year ($154.9 billion) have almost caught up with the $155.2-billion figure for the corresponding period a year ago.

Two aspects stand out about the export performance. One, the details suggest the growth is well diversified. In terms of volumes, exports of both non-oil goods, as well as non-oil non-jewellery goods, went up. In all, 18 categories of goods out of 30 showed growth. Two, exports of engineering goods, a more specialised category, went up by over 13 per cent and some of the employment generating commodities such as carpets (up by 27 per cent), gems and jewellery (up by 22 per cent) and textile goods (up by 10 per cent) led the way. Imports, too, rose by 8.11 per cent but cumulative imports in the current financial year still trail the previous year. These are encouraging figures for an economy that is trying hard to buck the global trend and revive its growth story.

But the irony is that the news of this export jump comes at a time when the government's demonetisation move seems to have upset all calculations. The unexpected and sharp reduction in liquidity will extract its cost in terms of growth across the board, including in exports, where there is a sudden drought of funds to continue operations. For instance, exporters in the textile and leather industries, both of which are labour-intensive, have requested the central government to allow them higher money withdrawals, based on the average amount they have been regularly withdrawing from banks for the past six months, as it is the only way they can pay salaries and meet sundry expenses. Similarly, demonetisation has had a sobering effect on the prices of several agricultural commodities.

In essence, while the export performance provides hope, events of the last one week and the outlook on liquidity suggest that this happy trend may not be sustainable unless the government makes it a top priority. This is all the more important because, as experts have pointed out, for the most part India's share in global exports has plateaued. Longer term data show that despite rising during the 2000s, India's exports have actually lagged their emerging market cousins. And the solution, now relevant more than ever, suggested in an HSBC research report in October, is to focus on removing sector-specific bottlenecks such as the one textile exporters are facing as a result of demonetisation. That is because, as the study showed, while global demand and a high exchange rate account for 33 per cent and 20 per cent, respectively, in terms of influencing exports, domestic bottlenecks, accounting for 50 per cent, are the prime reasons holding back growth of Indian exports.