Exports poised to grow on global demand rise

SUBHAYAN CHAKRABORTY
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India's exports, which failed to capitalise on the falling rupee because of the adverse effects of demonetisation, are expected to grow this year with a rise in global demand.

The commerce ministry has suggested a revision in the export basket and focusing on labour-intensive products rather than raw materials. This is important with regard to China, India's second-largest trading partner, with which India had a $61 billion current account deficit in 2015-16.

"Sectors such as hardware, electronics, pharmaceuticals, textiles and auto components have been identified for pushing export growth," a commerce ministry official said.

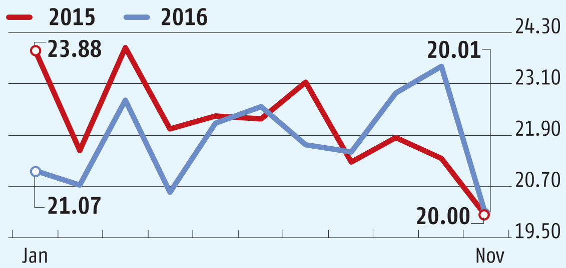
For engineering goods exports, the highest export-earning category, exploring markets like Iran and African countries and consolidating those in the United States and European Union would be important, said Bhaskar Sarkar, executive director, Engineering Exports Promotion Council.

On account of this, India's multilateral trade negotiations have become significant even while Iran and African countries such as Nigeria should be on India's radar, according to Sachin Chaturvedi, director general, Research and Information System for Developing Countries (RIS).

Apart from trade talks with Australia, the European Union and the Latin American bloc Mercosur, the most promising trade deal India is looking at will be the Regional Comprehensive Economic Partnership (RCEP).

HOW EXPORTS MEASURED UP IN 2016

Figures in $ billion



Source : Ministry of commerce and industry

The trade deal involves 12 Pacific Rim nations, including major economies like Japan, Australia, New Zealand and Canada. With a combined population of 800 million, almost double that of the European Union, the bloc accounts for 40 per cent of world trade.

Launched in 2012, the deal was supposed to be concluded by the end of 2015. However, issues such as tariff reduction as well as services exports, among others, have stretched the process.

The fall in the rupee may give India a marginal advantage over other developing economies even after factoring in a similar decline in currencies such as the Malaysian ringgit and the Indonesian rupiah. Also, the US Federal Reserve's announcement in December of an interest rate hike is expected to bring down the rupee against the dollar. But a stronger dollar may push up the cost of imports.

But factors such as Brexit and US President-elect Donald Trump's protectionist trade policies may come in the way of growth.

Trump's repeated criticism of multilateral trade pacts had given an impetus to negotiations after his decision to junk the Trans Pacific Partnership has forced major Asian economies to focus on other trade pacts.

However, the revival of exports hinges on the mitigation of the slump caused by demonetisation.

"This trend virtually wipes out all the advantages that a falling rupee might have allowed India," said Devendra Pant, chief economist, India Ratings.

India's exports for the first 11 months of the calendar year 2016 were $239.39 billion, less than the $243.63 billion in the corresponding period of 2015.

On the other hand, imports went down to $324.84 billion this year till November from $358.14 billion in the corresponding period of the preceding year. This translates into a deficit of $85.45 billion.

Raw materials such as cotton, iron ore and copper have come under scrutiny because these constitute more than 70 per cent of India's exports to China, according to Ajay Sahai, director-general of the Federation of Indian Exports Organisations.

However, for major foreign exchange-earning industries such as pharmaceuticals and textiles, addressing sectoral issues will be important, trade experts say. The government has in the past two years focused on the domestic manufacturing of APIs (active pharmaceutical ingredients), crucial to the production of medicines. However, firms are unwilling to manufacture APIs because of the large capital outlay involved.

Textile manufacturers say that the beneficial effects of the ₹6,000-crore package announced by the government in July, such as boosting production and employment, will come much later than it had been estimated.