Fall in Exports

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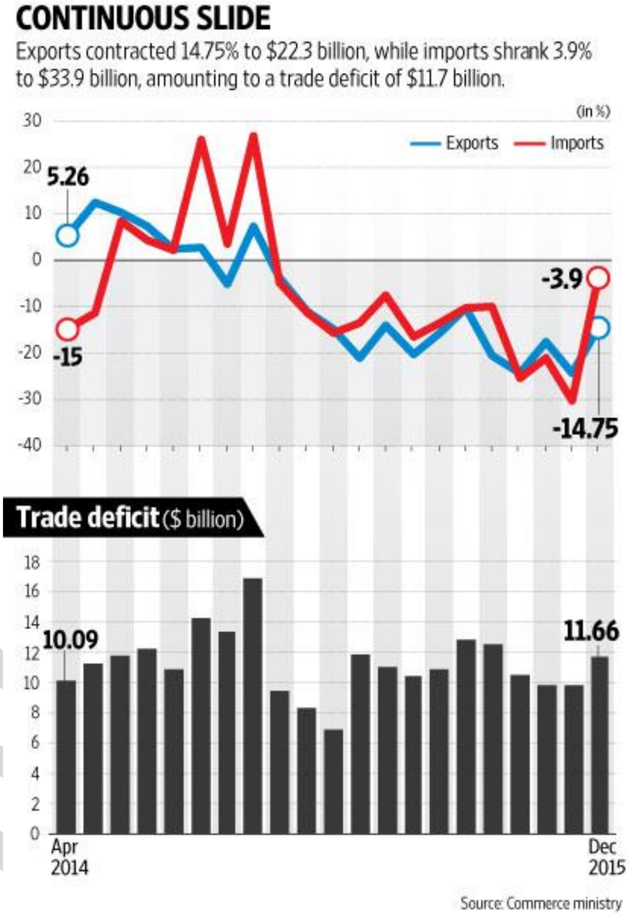
Starting from Dec 2014, the export from India have seen a continuous decline. Shipments during April-November this fiscal had shrunk (-) 18.46 per cent to $174.3 billion from $213.8 billion during the same period in 2014-15.

- This will be the second worst export performance since independence, according to official data.
- Only in 1952-53, exports had fared worse when it shrank (-) 18.7 per cent. In the 68 years since independence, the country's exports have been in the negative growth territory only on 14 other occasions.
- Since FY'12, exports have stayed above the $300 billion-mark, though it had fallen by (-) 1.8 per cent in FY'13 to $300.4 billion, then recovering slightly with a 4.7% growth in 2013-14 to $314.4 billion only to contract in 2014-15 by (-) 1.23 per cent to $310.53 billion.
- The best performance in terms of year-on-year growth has been in 2010-11 when exports grew 40.5 per cent to $251.13 billion. The other good years for export growth were 2004-05 (30.8 per cent), 1974-75 (30.1 per cent), 2007-08 (29 per cent) and 1973-74 (25.8 per cent), making the top five.
- The trend of falling exports is in tandem with other major world economies (the growth in exports have fallen for USA, European Union, China by 10.30, 10.83, 6.94 per cent respectively for October 2015 over the corresponding period previous year as per WTO statistics).



1. Reasons for Fall in Exports

- Strong rupee: A stronger rupee compared with its peers has hurt exports. The rupee has been the top performing emerging market currency in 2015, with the real effective exchange rate rising 3.7% in the April-December period.
- Fall in crude oil prices: The fall in crude prices has affected the dollar earnings from exports of refined petroleum products like diesel and petrol.
- Low price competitiveness: India's manufacturing exports are fast losing price competiveness, primarily because of poor logistics infrastructure compounded by a weak trade facilitation regime. India's over-dependence on road freight means that the cost of logistics as a percentage of GDP remains as high as 13-14 percent, compared with 7-8 percent in developed countries. Exports incentives in the range of 2 to 3 percent of export value can't fully compensate for the additional cost incurred on account of an inefficient trade infrastructure.
- Narrow base of exports: Despite all attempts at diversification, India's merchandise exports have a narrow base, with the top 20 categories accounting for 78 percent of the total. Even in top export categories like textiles, India is exporting low value commodities such as cotton yarn or apparel rather than technical textiles.
    - Rating agency Crisil has pointed out India's focus on Asia, which accounts for almost 50% of total goods exported, as the primary reason for the decline. It is more than the combined share of Europe and the US at 31.8%.
- Questionable trade pacts: The country's top exports are facing prohibitive tariff and non-tariff barriers in developing and emerging markets. In developed markets, where import tariffs are lower, India's exports are subject to all kinds of non-tariff barriers.
    - India has signed many trade pacts, more for geo-political reasons than commercial ones. The best example is the South Asian Free Trade Agreement, which has not resulted in any significant export gains

despite the obvious logistical advantage and similar consumer preferences of the South Asian population.
    - India itself has not imposed any sourcing restrictions, even for sensitive items like textiles, granting unilateral duty free market access to countries like Bangladesh when restrictions would have helped its export of textile intermediates.
    - India's ill-conceived trade pacts have also resulted in inverted duty structure – high import duties on raw materials and intermediates, and lower duties on finished goods – that discourage the production and export of value-added items. Thus, apparel can be imported into India duty free while its raw material –manmade fibres attract an import duty of 10 percent.
- Slower growth in world trade: The three major economies – European Union, China, and Japan – are unable to grow or are slowing down, which had direct impact on India's exports. Economic slowdown in Europe is one of the reasons for less demand for gems and jewellery sector.

2. Implications of Falling Exports

- The fall in exports is of concern as several employment-intensive sectors such as leather industry, gems and jewellery industry etc. are export-oriented. Also, employment in these industries is largely informal and contractual in nature. A fall in exports increases layoffs.
- A slowdown in employment will show up in falling or slowing income growth, affecting aggregate consumption in turn. The domestic economy gains from the growing economies of scale as exports expands and boosts prospects of large scale expansion. This also accelerates the integration of the Indian economy to the global markets and hastened the flow of capital and technology which further boosted the export and growth prospects.
- Exporting stresses will surface in the external balances, where India's problem is a chronic deficit of the current account.
- With exports getting affected, and domestic demand subdued, capacity utilisation levels for key sectors will take time to improve, which will delay the recovery process of companies.

3. Steps taken by the Government

- Perturbed by the continuous decline in exports, the government has raised duty drawback rates for exporters and implemented the interest stabilization scheme in November. While the increase in duty drawback rates will help exporters recover higher input tax outgo that they pay during the process of making the final product, the interest stabilization scheme will allow exporters to receive bank loans at a lower rate of interest.
- The government has asked the Reserve Bank of India to look into the currency volatility-related issues and take measures to help India's exports as several countries – some of them India's competitors and others its markets — had chosen to devalue their currency in the last one year, in turn impacting India's exports.
- Leather and leather goods sector has been made a focus area under the 'Make in India' initiative of the central government and the aim is to increase its exports to USD 15 billion by 2020 from the current USD 6 billion. The same has been done for gems and jewellery sector.
- The foreign trade policy 2015-2020 sets an export target of $900 billion by 2020. For this the trade policy provides a slew of incentives for exporters and special economic zones while doing away with the existing incentive schemes and introducing two schemes — Merchandise Exports from India Scheme (MEIS) and Services Exports from India Scheme (SEIS) — for goods and services.
- The government is also working on a slew of measures to prop up export-oriented firms including Special Economic Zones in the coming Union Budget. Separately, the Centre had called a meeting of all the State governments for the first time to expedite the notification of a separate foreign trade policy for each state and to push through infrastructure creation measures that can support exports.

4. Way Forward

- Efforts need to be made to revive exports growth by removing all roadblocks. This is a simple extension of the ease of doing business approach that the government is taking to revive investment.
- India should make sure that it is not excluded from large export markets in the ongoing restructuring of the world trade order. Successful and timely completion of pending free trade agreements is required so that India is shielded from effects of initiatives like TPP.
- To boost exports India should look to other regions such as Africa.
- The export development fund which currently has a corpus of Rs 200 crore is inadequate and should be enhanced to 0.5 to 1 per cent of export value which is anywhere between Rs 3,000 to Rs 5,000 crore.
- The gems and jewellery industry has asked to raise customs duty to 15 per cent from the current 10 per cent and abolish the excise duty from the current rate of 6 per cent on imitation jewellery. The suggestions assume significance as the popularity of Indian imitation jewellery across the globe is increasing and there is a huge demand in countries including the US and Europe.

Beating the global odds and reviving pace of growth of exports would require multipronged intervention by the government by stepping up efforts for removing the hurdles to trade by chipping away at procedural hurdles to reduce trade costs, further opening up of the investment regime to boost FDI, stepping up investments in world class infrastructure facilities and improving the skill and flexibility levels in use of labour and also boosting innovation and entrepreneurship.