India’s 400 Billion Dollar Exports Record

Why in news?

The value of India’s exports in the financial year 2021-22 hit 400 billion dollars which would translate into a growth of about 41% from the pandemic-hit year of 2020-21.

How significant is the attainment of India’s 400 billion dollar exports target?

- According to data from the RBI, outbound merchandise trade had clocked 330.1 billion dollars in 2018-19 before slipping to 313.4 billion dollars in 2019-20.
- India’s achievement of 400 billion dollar export target refers to exports of only the goods, and does not include services.

Reasons for achieving the 400 billion dollar exports target

- **Diversification of procurement**- The world is shifting its global procurement preferences to diversify their dependence on China- Australia, which is in trade battle with China has made way for India taking exports up 94% this year.
- **Higher prices-** The higher prices of commodities and oil helped drive up the value of exports, with petroleum products exports jumping over 141%.
- **Domestic sector growth**- Some of India’s industrial sectors performed as well, for instance, engineering exports have jumped 46.5% to cross100 billion dollars for the first time.

What about imports and the trade deficit?

- Even as exports may rise nearly 120 billion dollars this year, India’s imports have shot up to record levels and could end up nearly 200 billion dollars over 2020-21’s import.
- The trade deficit could be around 190 billion dollars, sharply higher than recorded in the pandemic year.
- At present, imports are gaining greater momentum than exports.

What does the $400 billion number hide?

- **Low levels of exports as a percentage of GDP-** In absolute terms, India’s merchandise exports had reached the 305 billion dollar mark in 2011-12 which was 17% of India’s GDP at that time.
- Since then the weakness of India’s export performance over GDP growth can be seen.
- **Low base effect-** What made this surge in exports even more relevant was the fact that it is coming after two years of contraction (in 2020 and 2021).
- The same happened in the immediate aftermath of the Global Financial Crisis of 2009.
- **An outlier in the recent trend-** In the past 10 financial years, India’s exports have

contracted on five occasions but the recovery wasn't as sharp.

- This year's sharp recovery is thus an outlier and begs the question of whether it is an outlier in the recent trend.
- **Not a broad-based recovery-** Most of the commodity groups (chemicals and products, agriculture) grew at a rate lower than the overall average.
- **Increase in value or volume-** The value of India's exports could go up for three reasons:
    - Prices of exported goods are going
    - The volume going up (or)
    - A combination of both volume and prices going up.
- The 400 billion dollar figure essentially refers to the value of exports and doesn't say anything about the contribution of volume increase.
- **Worries over global growth, inflation and demand for India's exports-** The government has asserted that this jump in exports is a result of a detailed strategy which targeted specific countries for specific exports.
- Apart from domestic policy focus, India's exports received a boost from a surge in global demand (overall economic recovery and loose monetary policy by the developed worlds).

What are the risk factors for Indian exports in the coming year?

- It is expected that the rupee will weaken over 2022-23, which in turn could be a minor perk for exporters.
- The Ukraine-Russia conflict may create some more opportunities for Indian farm produce exports, especially for crops like wheat and maize.
- But this would be compensated by a sharp rise in India's energy import bill as well as increase in costs of importing edible oils whose production is dominated by the two nations at war.
- There is a possibility for 'term-of-trade' shock, with elevated trade and current account deficits and sustained pressure on the rupee.
- The high shipping rates, container shortages and re-alignment of trade routes around the Black Sea will pose a challenge.
- **Need of the hour**- A swift conclusion of Free Trade Agreement pacts with countries like the U.K., Australia and Canada, could create easier market access in these large markets.
- Exporters are waiting for a long-overdue revision of the Foreign Trade Policy for 2015-20, that has now been extended.
- The RBI Governor has pointed out that India's foreign exchange reserves are robust and can finance higher current account deficits if needed.

References

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