India’s Trade Surplus: A Warning

Why in news?

The Reserve Bank of India (RBI) has released India’s balance of payments data for the January-March quarter of 2019-20.

What does the data reveal?

- During this quarter, India has managed a **current account surplus**, which is around 0.1% of the GDP.
- This surplus is largely **driven by a lower trade deficit**.
- Data from the Commerce Ministry show that for April and May 2020, India’s trade balance has improved.
- This surplus is due to the invisibles, emanating mainly out of services exports and remittances.
- Due to this surplus, India’s substantial trade deficit turns into a moderate current account deficit.

Why does India mostly have a trade deficit?

- Inability to export more and import less can be held responsible.
- Lack of export dynamism in comparison with its East Asian neighbours.
- Large imports of oil, gold, and electronics have chronically inflated our import bills.
- Thus, any news of a reduction in trade deficit is greeted with an expectation that it may represent dynamism of the Indian economy.

What are the current trends in international trade?

- The World Trade Organisation’s (WTO) trade data show that the Covid crisis has had a severe impact on international trade.
- As the world went into a lockdown, it severely affected economic activities everywhere.
- Estimates by the WTO suggest that for the second quarter of 2020, the global trade is likely to suffer a year-on-year drop of around 18.5%.
- [Second quarter of 2020 - A period when the lockdown was in place]
- This is one of the steepest falls in international trade on record.
- Along with the lockdown, the WTO attributes this decline to the growing geopolitical and trade tensions.

What are the current trends in Indian trade?

- India’s trade also suffered. India’s merchandise trade has gone down in April 2020, before recovering in May.
- [Merchandise trade = Exports + Imports]
- Compared to May 2019, India’s total merchandise trade declined around a 45% in May 2020.
- Merchandise exports declined by around 36.3%.
- Merchandise imports suffered a decline by more than 51%.
- An improvement in trade performance is seen in May 2020, compared to April 2020.
- However, it is possible that some of the increases in May are due to the release of held-up consignments at the ports.

What is the impact on trade in services?

- The impact on trade in services is much less severe.
- After all, services trade in India is dominated by IT/ITES exports, which are less susceptible to disruptions in logistics.
- When compared with January and February 2020, the average trade in services has declined in April and May.
- As the Covid-19 crisis has led to a complete shutdown of some major service sectors like airlines, this moderate decline in services trade is a relief.

What is the warning sign?

- Overall, India’s trade balance in April and May 2020 has turned positive.
- However, this improvement in trade balance has been driven mainly by a sharper decline in imports.
- This is a warning sign for the economy, as the decline in imports points towards a contraction of demand in the real economy.
- A decline in imports (May 2020) was led by a sharp decline in imports of gold, petroleum goods, coal, electronics and machineries.
- Declining petroleum prices and rising gold prices have affected the import patterns.
- The sharp decline in imports of fuel and machinery indicate a severe demand slowdown in the economy.
- Covid-19 is going to have a heavy toll on the economy.

Source: Business Line



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