

INDIA'S MERCHANDISE EXPORTS GOING STRONG: SUSTAINING THE MOMENTUM IS KEY

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India's merchandise exports in August 2021 were USD 33.14 billion, an increase of 45.17% over USD 22.83 billion in August 2020 and an increase of 27.5% over USD 25.99 billion in August 2019. In April-August 2021 the exports were USD 163.67 billion, an increase of 66.92% over USD 98.05 billion in April-August 2020 and an increase of 22.93% over USD 133.14 billion in April-August 2019. India has set a target of \$400 billion in merchandise exports for the current fiscal year ending in March 2022, compared to \$291.2 billion in the previous fiscal year. Thus, till Aug'21, 41% of the target has been achieved.

A deep dive into the 8-digit HS level exports shows that 80 products accounted for half of the exports value in Q1 FY21-22 . Individually, Diamond exports have the largest share at 6% followed by diesel fuel at 5%. If we sort these 80 items into broad categories, they belong to Petroleum and Energy, Gems and Jewellery, Agri, Fishery, Meat and Allied, Chemicals and Pharma, Metals and products and Transport Equipment including Auto, Ships, Rail and Airplanes. At 2-digit HS category these products span across 32 2-digit classifications. **The classifications undergo revision and an accurate comparison at 8 digit level is not possible. However, if we go back to Q1 FY 2012-13, and aggregate the number of products with 50% share there are only 20 HS-2 categories. Thus, diversification has taken place over the years.** Chemicals and Pharma, Metal Products, Textiles, Machinery, Plastics and Rubber and their articles and furniture are grabbing more share in the exports. However, this is only a quarterly comparison and the yearly figures will show the complete picture. **If we look at the yearly compositional shift, then over the last 25 years, the top 20 HS-2 categories have accounted for around 74%-80% of the total exports.**

Certain agri based products like residues and wastes from food industries, animal fodder, coffee, tea, mate and spices and labour intensive products like carpets and footwear have exited the top commodity export list. Meanwhile, certain components like Aluminum and articles thereof and Ships, Boats and Floating structures exports have grown rapidly and are now part of the top exports. There are certain other products which started with a very low base but have shown rapid growth like furniture, parts of aircraft and space craft and zinc and at 8-digit level are now part of the top 50% exports.

But the core exports base has remained static with Gems and Jewellery and petroleum products being the most prominent components. Both have an inherent volatility and this subjects India's overall exports to overall volatility. By increasing the share of machinery among the Engineering Products, Electronics, Drugs and Pharmaceuticals, India can offset this volatility to an extent. However, it has to be kept in mind that the primary engine of growth for India remains consumption and unless that improves it is difficult for India to achieve higher growth on a sustained basis. For Q1FY22, in the overall GDP growth, the % share of the weighted contribution of exports was 40% while that of final consumption expenditure was 49%. However, the share of net exports was at a negative 18%, as imports had also jumped in Q1FY22.

The contribution of exports has shown volatility with weighted contribution turning negative in years of global slowdown. With global recovery on tenuous grounds, India needs to be cautious about its exports growth. Meanwhile, it can focus on building the capacity in local manufacturing. Centre has recently notified RoDTEP Scheme Guidelines and Rates (Remission of Duties and Taxes on Exported Products). Under the RoDTEP, various Central and State duties, taxes, and levies imposed on input products like taxes such as duty on power charges, VAT on fuel in transportation, farm sector, captive power generation, mandi tax, stamp duty and central excise duty on fuel used in transportation, among others, would be refunded to exporters, as a percentage of F.O.B. value of exports. The tax refund rates range from 0.5% to 4.3% for various sectors. The scheme excludes certain sectors like iron & steel, articles of Iron & Steel, Chemicals and Pharmaceuticals. There is provision for reviewing the RoDTEP rates on an annual basis which will be notified well in advance before the beginning of a financial year. The scheme is in nascent ages and is expected to incorporate the changes that are being suggested by industry bodies. This in conjunction with the PLI scheme can create a strong base for manufacturing led exports by India.

CURRENT MERCHANDISE EXPORT SCENARIO

- ◆ India’s merchandise exports in April-August 2021 were USD 163.67 billion, an increase of 66.92% over USD 98.05 billion in April-August 2020 and an increase of 22.93% over USD 133.14 billion in April-August 2019.
- ◆ India has set a target of \$400 billion in merchandise exports for the current fiscal year ending in March 2022, compared to \$291.2 billion in the previous fiscal year. Thus, till Aug’21, 41% of the target has been achieved.
- ◆ However, there is a significant impact of the increasing commodity prices in the overall growth in exports. Engineering goods include metal products, industrial machinery and equipment, auto and its components, and transport equipment. Among these base metal exports have performed the best if we take into account the growth over both 2019 and 2020, as metal prices have risen. Machinery exports are next best performers in the engineering goods category. However, over 2019, their growth is only 12% as compared to metal products growth rate of 87%. Transport equipment has in fact showed degrowth when we compare it with 2019 Q1.
- ◆ Petroleum products exports have shown good growth as crude oil prices have remained high. As the crude prices are expected to remain range bound, slowly the growth displayed by them is expected to go down.
- ◆ Coming to gems and jewellery, they have displayed remarkable turnaround in Q1 FY22 quarter, vis-à-vis Q1 FY21. But if we go back, then vis-à-vis FY20, the growth in Q1 turns negative.
- ◆ Gems and jewellery exports are dependent on the tenuous recovery in the US. as close to 40% of our gems and jewellery export shipment went there in Q1 FY22.
- ◆ Chemicals and related product which include Organic and Inorganic Chemicals and Drugs and Pharmaceuticals have been robust performers during entire COVID period and have provided solid double-digit growth in Q1FY22 vis-à-vis Q1FY21 and Q1FY20.
- ◆ India’s agri and allied products exports have done remarkably well. And they have been one of the fastest growing products. Another primary product, marine product is also doing well.
- ◆ Textiles and allied products exports has also improved. Most of the exports have been driven by Cotton Yarn/Fabrics/made-ups, Handloom Products etc. Ready Made Garments of all Textiles have yet to reach the levels that they had displayed in 2019, which is a cause of concern as their growth was already depressed.
- ◆ Similar to the case of gems and jewellery is the case of leather and leather products, which has displayed negative growth vis-à-vis Q1 FY20. Textile and leather industries with their employment intensity pose a major challenge with the declining exports share. However, it is a good thing that agri based industries are flourishing which can to some extent absorb the labour.
- ◆ One high-value area where India is building its export capacity is the electronics item, which are displaying growth of more than 15% when compared to Q1 FY20.

Export of Principal Commodities Groups Values in US\$ Million					
Commodity	Apr-Jun 2020	Apr-Jun 2021(P)	%Growth vis -a- vis 2020	% Growth vis -a- vis 2019	%Share
Total	51,452.96	95,554.79	86%	18%	100
8. CHEMICALS & RELATED PRODUCTS	10,825.94	13,239.02	22%	16%	13.85
20. PETROLEUM CRUDE & PRODUCTS	4,924.99	12,914.34	162%	16%	13.52
12. BASE METALS	5,867.32	10,333.86	76%	87%	10.81
19. TEXTILES & ALLIED PRODUCTS	3,792.71	9,542.52	152%	11%	9.99
6. GEMS & JEWELLERY	2,664.23	9,171.78	244%	-3%	9.6
2. AGRI & ALLIED PRODUCTS	6,321.12	9,104.52	44%	34%	9.53
15. MACHINERY	3,953.92	7,926.01	100%	12%	8.29
17. TRANSPORT EQUIPMENTS	3,868.65	6,934.09	79%	-7%	7.26
14. ELECTORONICS ITEMS	1,376.30	2,826.29	105%	16%	2.96
9. PLASTIC & RUBBER ARTICLES	1,913.77	2,745.93	43%	21%	2.87
4. ORES & MINERALS	1,379.36	2,250.41	63%	105%	2.36
21. OTHERS	978.82	1,824.55	86%	13%	1.91
3. MARINE PRODUCTS	1,177.40	1,770.06	50%	16%	1.85
10. ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS; CERAMIC PRODUCTS; GLASS AND GLASSWARE	790.41	1,631.10	106%	22%	1.71
11. PAPER & RELATED PRODUCTS	473.75	1,256.30	165%	40%	1.31
5. LEATHER & LEATHER MANUFACTURES	391.24	942.57	141%	-22%	0.99
13. OPTICAL, MEDICAL & SURGICAL INSTRUMENTS	368.51	628.78	71%	6%	0.66
1. PLANTATION	326.24	384.3	18%	-11%	0.4
7. SPORTS GOODS	35.35	79.26	124%	14%	0.08
16. OFFICE EQUIPMENTS	22.52	48.13	114%	-7%	0.05
18. PROJECT GOODS	0.42	0.94	127%	-69%	0

Source: SBI Research

- ◆ A deep dive into the 8-digit level exports shows that 80 products account for half of the exports value in Q1 FY21-22. Individually, Diamond exports have the largest share at 6% followed by diesel fuel at 5%.
- ◆ If we sort these 80 items into broad categories, they are Petroleum and energy, Gems and jewellery, Agri, fishery, meat and allied, Chemicals and Pharma, Metals and products and Transport equipment including auto, ships, rail and airplanes. At 2-digit category these products span across 32 2-digit classifications. The classifications undergo revision and an accurate comparison at 8 digit level is not possible. However, if we go back to Q1 FY 2012-13, and aggregate the number of products with 50% share there are only 20 HS-2 categories. Thus, diversification has taken place.
- ◆ Chemicals and pharma, metal products, textiles, machinery, plastics and rubber and their articles and furniture are grabbing more share in the exports. However, this is only a quarterly comparison and the yearly figures will show the complete picture. If we look at the yearly compositional shift, then over the last 25 years, the top 20 HS-2 categories have accounted for around 74%-80% of the total exports.
- ◆ Certain agri based products like residues and wastes from food industries, animal fodder, coffee, tea, mate and spices and labour intensive products like carpets and footwear have exited the top commodity export list. Meanwhile, certain components like Aluminum and articles thereof and Ships, boats and floating structures exports have grown rapidly and are now part of the top exports. There are certain other products which started with a very low base but have shown rapid growth like furniture, parts of aircraft and space craft and zinc and at 8-digit level are now part of the top 50% exports.
- ◆ But the core export base remains in the form of Gems and Jewelry and Petroleum products.

India's top exports at 8-digit HS Classification				
Product Category	Products at 8- Digit Classification(2021)	% Share in Total Exports Q1 FY22	% Share in Total Exports Q1 FY13	Products at 8- Digit Classification(2012)
Petroleum and energy	27101241, 27101290, 27101920, 27101939, 27101944, 27101949, 27101961	12.9%	17.7%	27101119, 27101190, 27101920, 27101930, 27101950, 27101990
Gems and jewellery	71023910, 71049010, 71131120, 71131910, 71131930, 71131940	9.0%	13.9%	71023100, 71023910, 71081200, 71131910, 71131930
Agri, fishery, meat and allied	2023000, 3061720, 9042110, 10019910, 10063010, 10063020, 10063090, 10064000, 15153090, 17011490,	6.6%	7.0%	2023000, 10063010, 10063020, 12022010, 13023230, 17011190, 17019990
Chemicals and Pharma	29022000, 29024300, 29335990, 29339990, 29420090, 30049069, 30049079, 30049099, 38089199, 38089390	5.0%	2.0%	29420090, 30049099
Metals and products	72023000, 72024100, 72071190, 72071920, 72083830, 72083930, 72083940, 72104900, 73269099, 74031100, 76011010, 76012020, 79011100	4.8%	1.1%	73051129, 74031100
Transport equipment including rail, ship, airplanes	87032120, 87032191, 87032291, 87032391, 87089900, 87112029, 88033000, 89059090, 89069000	4.6%	4.2%	85171290, 87032291, 87089900, 88033000, 89040000, 89059090
Textiles and RMG	52010015, 52052310, 52052410, 54023300, 61091000, 63023100, 63026090, 63053200, 67030010, 68022390, 69072100	3.2%	1.7%	5201001, 561091000
Ores, slag and ash	26011142, 26011210	1.5%	0.9%	26011140
Electronics	85171211, 85177010	0.8%	0.9%	
Machinery	84111200, 84834000	0.8%		
Plastics	39021000, 39076190	0.5%		
Rubber	40117000	0.3%		
Furniture	94036000	0.2%		
Project goods	99930090, 99999998		1.1%	
% share in Q1 Exports		50.2%	50.3%	

Source: SBI Research

India's merchandise exports over the years(\$ million)						
HS Code	Components	1996-97	2002-03	2008-09	2014-15	2020-21
27	Mineral fuels, oils and products	-	2707	28437	57620	26,881
71	Gems and jewellery	4772	9092	28466	41550	26,161
30	Pharmaceutical products	672	1401	5079	11585	19,384
84	Machinery and mechanical appliances	1048	1719	7993	13803	18,948
29	Organic chemicals	993	2106	7464	11949	17,950
85	Electrical machinery and equipment	858	1455	9541	8697	14,212
87	Vehicles other than railway	902	1123	6002	14474	13,637
72	Iron and steel	866	1912	7533	8684	12,124
10	Cereals	1104	1601	3345	9551	10,064
39	Plastic and articles thereof	-	1002	2543	5081	6,871
73	Articles of iron or steel	536	1158	5783	7592	6,593
61	Apparel and clothing accessories, knitted or corched	1034	2387	5048	7655	6,348
52	Cotton	2826	2202	3149	7718	6,316
62	Apparel and clothing accessories, not knitted or crocheted	2719	3352	5903	9192	5,942
76	Aluminium and articles thereof	-	-	-	-	5,771
26	Ores, slag and ash	579	1048	5456	-	5,243
3	Fish and crustaceans, aquatic invertebrates	1116	1398	-	5250	5,235
63	Other made up textile articles; rags	745	1270	2371	4646	5,221
38	Miscellaneous chemical products	-	-	1882	-	5,116
89	Ships, boats and floating structures	-	-	3716	5352.61	4,488
% Share of components in India's overall exports		62%	70%	75%	74%	76%

Source: SBI Research

GLOBAL GROWTH AND EXPORTS

- ◆ As the global growth started slowing down after the sub-prime crisis, exports got impacted adversely and the weighted contribution turned negative in FY10.
- ◆ However, smart recovery happened in the ensuing years, but the contribution dwindled as world growth again progressively slowed down. Structural factors, such as a deceleration in the speed of trade openness, the slowing of supply chain fragmentation, structural changes in Chinese trade, as well as cyclical factors, such as the weakness in the trade-oriented components of aggregate demand were all likely contributors.
- ◆ Since then the trajectory of global trade has been wobbly and for India the weighted contribution has been modest, and it again turned negative in FY20 and FY21.
- ◆ But one positive observation in FY21 is that despite COVID-19 pandemic and rapid global slow down the weighted contribution of exports to growth declined only by 0.9%, as compared to the more than 1% degrowth in previous slowdowns.
- ◆ This gives hope that exports growth will see a positive momentum in the coming years. However, it has to be kept in mind that the primary engine of growth for India remains consumption and unless that improves it is difficult for India to achieve double digit growth.
- ◆ Also, booming commodity prices have contributed to the stellar growth being displayed by the India merchandise exports. Base metals and petroleum products have been some of the major contributors to the exports registered by India.
- ◆ The commodity cycle needs to be watched carefully and diversification is needed to mitigate the risk of falling commodity prices to the \$400 billion export target in FY22.

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