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Analysis on the performance of Indian Exports and Imports

Background:

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Of late, there has been much concern expressed in business and political circles about the declining trend of Indian exports, after a period of steady growth.

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Focusing too much on fluctuations in the short run can lead to distortion; one needs to look at exports not at an arbitrary point in time but over a period of at least three to five years to gain perspective.

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Trends in Exports (2011-12 to 2015-16):

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A quick glance would show that Indian exports, which stood at $312 billion during 2011-12, dropped by 14.4 per cent to $262 billion in 2015-16. However, we need to drill down beneath the headline numbers to discern the underlying reasons. **From 2011-12 to 2015-16, Indian exports fluctuated both ways.**

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1. They dropped from $306 billion in 2011-12 to $300 billion in 2012-13;
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2. And rose 4.7 per cent to $314 billion in 2013-14;
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3. Dropped again by 1.3 per cent to $310 billion in 2014-15;
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4. Again, they dropped steeply by 15.6 per cent to $262 billion in 2015-16.
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Export scenario:

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Let us examine the apparent fall in two stages.

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- First, in the four fiscal years between 2011-12 and 2014-15, one can see that Indian exports were almost flat, hovering around the mean value of $308 billion.
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- Over the same period however, the rupee depreciated against the US dollar by 22.7 per cent, from 51.2 rupees per US dollar as on March 31, 2012, to 66.3 rupees per US dollar as on March 31, 2015.
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- The export numbers are reported in US dollars which therefore embody the element of exchange fluctuation.
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- Given that **Indian exporters are more price-takers than price-setters,** the depreciation of the rupee yields benefits to exporters in the short run but are usually eroded by cost increases as well as tough negotiating on the part of overseas buyers.
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- By contrast, the difference between the high point of $314 billion exports in 2013-14 and the low of $300 billion exports in 2012-13 is just 3.5 per cent.
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- In other words, between 2011-12 and 2014-15, export values in US dollars increased marginally by 1.3 per cent, while the rupee depreciated by 9.5 per cent over the same period.
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- Thus we can see that allowing for the appreciated dollar; Indian exports would actually have grown during the period, disguised by the exchange rate effect.
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- The relatively flat US dollar values embody higher rupee values and physical units. To conclusively state this, one would need to drill down into quantities and physical units.
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- The logic, however, is quite clear. Given that this occurred in an environment of weak global demand, Indian exporters deserve much credit.
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Steep drop in 2015-16:

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- Undoubtedly, a 15.5 per cent fall from $310 billion in 2014-15 to $262 billion in 2015-16 is no small matter.
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- To understand the reasons, we need to look at the components of the export basket and identify where exactly the drop occurred.
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- As may be seen, over 80 per cent of the five year decline in exports is accounted for by three industry sectors.
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- These are gems and jewellery, which fell by 15.1 per cent, petroleum products which fell by 46.4 per cent and agricultural products which fell by 3.7 per cent.
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Trends in Imports (2011-12 to 2015-16):

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Let us look at the import basket.

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- Indian imports rose marginally from $489 billion in 2011-12, to $491 billion in 2012-13, then dropped by 8.3 per cent to $450 billion in 2013-14, marginally further to $448 billion in 2014-15, then plunged steeply by 15.1 per cent to $380 billion in 2015-16.
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Import challenges:

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Interestingly, two industry sectors account for almost the entire drop in imports.

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1. **Crude petroleum imports** dropped by 46.5 per cent from $155 billion in 2011-12 to $83 billion in 2015-16.
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2. In parallel, **imports of gold** fell by 43.9 per cent from $57 billion in 2011-12 to $32 billion in 2015-16.
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Crude Petroleum Imports:

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- In large part, what we are seeing is a price effect in petroleum.
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- India is an **importer of crude petroleum and an exporter of refined petroleum products,** having the advanced refining capacity to tackle heavy and sour crudes (from Venezuela etc.) that challenge older refineries in other parts of the world.
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- The sustained drop in oil prices per barrel have led to a fall in the dollar value of our crude petroleum imports; however with gross refining margins remaining more or less on trend, the realized dollar value of refined petroleum product exports has also fallen in tandem.
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- If, in a thought experiment, we were to draw up a balance of trade in crude and refined petroleum alone (highly simplified), our petro trade deficit of $98 billion in 2011-12 (accounting for 53.6 per cent of the total merchandise trade deficit) dropped by 46.5 per cent to $53 billion in 2015-16 (accounting for 44.3 per cent of the total merchandise trade deficit).
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Gold Imports:

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- 2011-12 and 2012-13 were years of high inflation.
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- The headline rates of inflation in those two years were 8.3 per cent and 10.2 per cent respectively; the street rate of inflation as perceived by people was undoubtedly higher.
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- With inflation a real problem and inflation expectations hardening, the rate of return on savings became critically important.
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- The rate of interest payable on bank deposits for one year at that time was 8 per cent (State Bank of India), i.e. a materially negative real rate of return, more so after factoring in tax payable.
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- Indian savers responded to this iniquity by shifting from financial savings to

real savings with high-value low-volume gold being the option of choice.
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- Gold imports of $57 billion in 2011-12, up by 39 per cent from $41 billion in 2010-11) were an all-time record for India.
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- In the second half of 2013 however, with the rupee under pressure, the Government and the RBI took stern measures (tariff and non-tariff restrictions) in tandem to reduce the relative attraction of gold.
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- While some gold demand would surely have shifted to unofficial channels, the efficacy of the measures can be seen in that gold imports dropped to just $29 billion in 2014-15 and $32 billion in 2015-16.
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- The import compression driven by gold policy measures and the drop in crude petroleum prices outweighed the drop in refined petroleum products exports.
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- Thus leading to very material compression by 35.4 per cent in the trade deficit from $183 billion in 2011-12 to $118 billion in 2015-16.
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Conclusion:

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One may reasonably state that Indian exports have held up well in a very challenging environment of weak global demand. The **apparent fall in Indian exports is predominantly a price effect** that has also compressed the import side of the equation, leaving us with a small trade deficit.

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