Quickonomics

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Envisioning new frontiers of trade

Why Budget 2023 should plan now for when the global tide will turn

India has set a target of $400 billion for merchandise exports for the current fiscal and an ambitious $1 trillion by fiscal 2030[1]. The short-term target is in sight, given the swift recovery in trade in recent months. But the harder part will be to keep the momentum going once global growth moderates, as will be the case past 2022, when massive stimulus packages wind down.

Moreover, with the pandemic easing, services demand is expected to return, taking away from the one-off impetus to goods trade caused by the pandemic itself.

Budget 2023 would do well to keep these factors in mind and do what it takes to maintain the current momentum in trade to translate targets into reality.

How have India's exports and imports moved so far this fiscal?

Trade has turned out the fastest growing component of gross domestic product (GDP) this year, at a time private consumption remains weak and the investment cycle is contingent upon government led capital expenditure.

Both, merchandise exports and imports reached record highs in December 2021, and have moved swiftly past pre-pandemic levels in the April-December period.

The phenomenal rise took place on the back of a buoyant external demand in 2021, with high global growth, shift in demand for goods over services owing to the restrictions imposed by the pandemic, and high commodity prices that elevated trade values.

That said, imports have risen faster than exports. So net trade has been a drag on GDP, unlike last year, when it contributed positively.

Nevertheless, the rise in industrial imports (in the form of inputs or intermediates) supports domestic production in terms of onward value addition.

Diversification of trade (over and above the major ticket items such as petroleum products and gems and jewellery), visible from recent trade data, can thus help consolidate India's position in the global value chain.

Interestingly, more industrial/investment related commodities have shown an increase in share in exports and imports this fiscal, rising above their pre-pandemic average (see table below).

Among exports, these include engineering goods, electronic goods, and cotton yarn. On the imports side, are plastics, coal, coke and briquettes, and chemicals — all industrial inputs or intermediaries. This could be seen as a desirable development, but should be taken with a pinch of salt, as the rise in share could partly be attributed to the extraordinary rise in commodity prices[2] and a general surge in goods trade during the pandemic.

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[1]PIB Press Release, August 2021 (https://pib.gov.in/PressReleasePage.aspx?PRID=1747398)
[2]For details, refer to CRISIL's report "The sail ahead" (November 2021)

Top five principal commodities# that showed an increase in share in overall exports/imports in FY22*

Category	Commodity	Share in FY22 (April-December) (%)	Share in FY20 (%)	Average share in FY16-20 (%)
Exports				
Industry/Investment	1) Engineering goods	27.1	25.1	24.8
	2) Organic and inorganic chemicals	7.1	7.1	6.1
	3) Cotton yarn, fabrics, made-ups, handloom products	3.7	3.2	3.5
	4) Electronic goods	3.7	3.7	2.6
	5) Plastic and linoleum	2.4	2.4	2.3
Imports				
Consumption	1) Electronic goods	11.6	11.4	11.2
Industry/Investment	2) Organic and inorganic chemicals	5.1	4.4	4.4
Industry/Investment	3) Coal, coke and briquettes	4.9	4.7	4.5
Industry/Investment	4) Plastic and rubber articles	3.4	3.1	3.1
Consumption	5) Vegetable oils	3.2	2.0	2.4

*Note: #excludes petroleum and gems and jewellery *compared with pre-pandemic average of FY16-20*
Source: Ministry of Commerce & Industry, CEIC, CRISIL

What can Budget do to facilitate trade?

Eports in India have historically ridden the global growth wave. But when that recedes, as expected this calendar year, exports cannot rely on external demand alone to prop it up. India also needs to consolidate the recently seen increase in share of industrial/investment goods in overall merchandise trade. To tackle both these, the Budget's focus on developing infrastructure in shipping and logistics to reduce time and non-tariff costs of trading across borders will be imperative.

- An increased budgetary allocation in the form of grants-in-aid, as envisaged under the Trade Infrastructure for Exports scheme (which seeks to create first/last mile connectivity for export-oriented projects) will drive the objective of enhancing competitiveness.

- The budget is an instrument to address tariff costs. Net terms of trade in fiscal 2022 has consistently declined, implying faster increase in import prices vis-à-vis export prices. This year too, commodity prices are projected to stay elevated and volatile. The World Bank, in its latest Global Economic Prospects (January 2022), states, "global macroeconomic developments and commodity supply factors will likely continue to cause recurring commodity price swings." Hence, a reduction in tariff costs through a change in custom duties for raw materials and inputs would help bring down imported inflation and support domestic manufacturers as well.
- Facilitating finance and insurance cover for exports is another focal point. Last year, after the budget, the Ministry of Finance had announced grant-in-aid infusion of Rs 1,650 crore for the National Export Insurance Account (NEIA) to underwrite Rs 33,000 crore of project exports in the FY22-26 period. The NEIA aims to ensure the availability of credit risk cover for project exports. The progress on this front has been relatively slow this year — according to the Ministry of Commerce, the NEIA supported exports worth only Rs 91.4 crore by issuing insurance cover worth Rs 58 crore between May-August 2021 . This initiative could be expedited through announcing steps to support project exports.

- Simultaneously, opportunity comes knocking at India's doors in the form of the China-plus-one policy, propelling many economies to diversify their supply chains. Relentless focus on electronic and electric exports will be important to take advantage of this. The Production Linked Incentive (PLI) scheme is a good starting point for this.

Thus, a serious effort to reach the $1 trillion target for merchandise exports needs to begin with this Budget — by initiating measures in terms of infrastructure spending, reduction in tariff costs, and enhancement of credit risk cover to facilitate trade.

[3]Source: Source: https://commerce.gov.in/major-achievements , Information available is limited to these months

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